KGI SECURITIES CO. LTD.

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2017 and 2016

With Independent Auditors’ 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, 2017 and 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, 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, 2017 and 2016, and their consolidated financial performance and cash flows for the years ended December 31, 2017 and 2016, 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, Interpretations developed by International Financial Reporting Committee, or the former Standing Interpretations Committee as endorsed and became effective 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 2017 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.

Goodwill impairment assessment

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, 2017 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. We also assessed the adequacy of disclosures for goodwill in Note V and Note VI.17.

Valuation of derivative instruments

The Company and its subsidiaries invest in different types of financial assets and liabilities. As of December 31, 2017, 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.We also assessed the adequacy of disclosures for valuation of derivative instruments in Note V and Note XII.

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 11,000,672 thousand dollars (3.97% of consolidated total assets) and NT 11,000,124 thousand dollars (4.01% of consolidated total assets) of total assets as of December 31, 2017 and 2016, respectively; and NT 76,353 thousand dollars (0.90% of consolidated income before income tax) and NT 89,444 thousand dollars (3.21% of consolidated income before income tax) of income before income tax for the years ended December 31, 2017 and 2016, respectively; and NT 17,636 thousand dollars loss (0.51% of consolidated other comprehensive income and losses) and NT 5,696 thousand dollars loss (0.52% of consolidated other comprehensive income and losses) of the other comprehensive loss for the years ended December 31, 2017 and 2016, 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, Interpretations developed by International Financial Reporting Committee, or the former Standing Interpretations Committee as endorsed and became effective 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.

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9F, No. 333, Sec. 1, Keelung Road
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Fax: 886 2 2757 6050
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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.

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.

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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 2017 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, 2017 and 2016.

Huang, Chien-Che

Hsu, Jung-Huang

Ernst & Young, Taiwan

March 23, 2018

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, 2017 and 2016

(Expressed in New Taiwan Thousand Dollars)

ASSETS	12/31/2017	12/31/2016
CURRENT ASSETS		
Cash and cash equivalents (Notes IV, VI.1 and VII)	$15,701,224	$16,450,220
Financial assets measured at fair value through profit or loss-current (Notes IV, VI.2, VI.21, VII and VIII)	66,383,709	61,107,195
Financial assets measured at cost-current (Notes IV and VI.3)	464,219	1,090,749
Available-for-sale financial assets-current (Notes IV, VI.4, VII and VIII)	3,369,019	9,246,926
Bonds purchased under resale agreements (Notes IV and VI.6)	21,129,128	29,087,308
Margin loans receivable (Notes IV, VI.7 and VII)	34,508,138	28,676,088
Refinancing margin	723	5,145
Refinancing deposits receivable	648	4,269
Trading securities receivable (Notes VI.8)	7,459,278	6,896,157
Customers' margin accounts (Notes IV, VI.9 and VII)	23,061,445	37,066,541
Futures commission merchant receivable (Notes VI.10)	11	-
Stock borrowing collateral price	198,581	189,722
Stock borrowing margin	2,330,427	2,810,965
Notes receivable	769	1,939
Accounts receivable (Notes IV, VI.11 and VII)	21,127,503	25,263,244
Prepayments	157,542	104,409
Other financial assets-current (Notes IV, VI.1 and VII)	2,620,785	2,527,870
Current tax assets (Notes IV and VII)	577,240	453,719
Other current assets (Notes VII and VIII)	43,790,374	30,477,056
Total Current Assets	242,880,763	251,459,522
NON-CURRENT ASSETS		
Financial assets measured at fair value through profit or loss-non-current (Notes IV, VI.2 and VIII)	49,998	50,033
Financial assets measured at cost-non-current (Notes IV and VI.3)	987,613	918,314
Available-for-sale financial assets-non-current (Notes IV and VI.4)	793,554	425,559
Held to maturity financial assets-non-current (Notes IV and VI.5)	500,000	300,000
Investments accounted for using the equity method (Notes IV, VI.12 and VIII)	13,535,865	2,186,633
Property and equipment (Notes IV, VI.13, VII and VIII)	5,893,880	6,029,167
Investment property (Notes IV, VI.14, VII and VIII)	502,507	506,333
Intangible assets (Notes IV, VI.15 , VI.17 and VI.32)	8,171,951	8,601,811
Deferred tax assets (Notes IV and VI.30)	297,436	334,175
Other non-current assets (Notes VI.16 and VIII)	3,274,927	3,582,361
Total Non-current Assets	34,007,731	22,934,386
TOTAL ASSETS	$276,888,494	$274,393,908

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

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English Translation of Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2017 and 2016

(Expressed in New Taiwan Thousand Dollars)

LIABILITIES AND EQUITY	12/31/2017	12/31/2016
CURRENT LIABILITIES		
Short-term borrowings (Notes VI.18 and VII)	$20,036,492	$12,777,858
Commercial papers payable (Note VI.19)	8,625,804	10,293,033
Financial liabilities measured at fair value through profit or loss-current (Notes IV, VI.20, VI.21 and VII)	12,062,577	12,175,215
Bonds sold under repurchase agreements (Notes IV, VI.22 and VII)	54,732,813	57,422,129
Deposits for short sales (Notes VI.7 and VII)	3,129,677	2,681,255
Short sales proceeds payable (Notes VI.7 and VII)	12,510,125	10,869,488
Securities lending refundable deposits	12,429,101	11,335,953
Futures customers' equity (Notes IV and VII)	23,041,948	36,084,937
Accounts payable (Notes VI.23 and VII)	50,229,621	39,187,188
Amounts received in advance	1,750	732
Amounts collected for other parties	1,713,862	1,808,278
Other payable	2,891,563	2,061,867
Other financial liabilities-current (Notes IV and VI.21)	4,099,601	4,423,975
Current tax liabilities (Notes IV and VII)	697,262	698,437
Current portion of long-term borrowings (Note VI.24)	2,200,000	-
Other current liabilities	65,048	42,948
Total Current Liabilities	208,467,244	201,863,293
NON-CURRENT LIABILITIES		
Bonds payable (Notes VI.24)	4,800,000	7,000,000
Liabilities reserve-non-current (Note IV and VI.26)	220,583	224,908
Deferred tax liabilities (Note IV and VI.30)	1,076,918	1,031,742
Other non-current liabilities (Note IV and VI.25)	862,884	713,394
Total Non-Current Liabilities	6,960,385	8,970,044
Total Liabilities	215,427,629	210,833,337
EQUITY		
Capital stock abstract (Note VI.27)		
Common stock	29,988,123	34,988,123
Capital reserve (Notes IV and VI.27)	8,646,690	8,644,122
Retained earnings (Note VI.27)		
Legal reserve	4,088,294	3,843,376
Special reserve	8,566,395	8,064,313
Unappropriated earnings	8,003,162	2,449,179
Other equity		
Exchange differences resulting from translating the financial statements of a foreign operation	(950,756)	(60,957)
Unrealized gain or loss on available-for-sale financial assets	(181,133)	2,315,891
Equity attributable to owners of the parent company	58,160,775	60,244,047
Non-controlling interests (Note VI.27 and VI.33)	3,300,090	3,316,524
Total Equity	61,460,865	63,560,571
TOTAL LIABILITIES AND EQUITY	$276,888,494	$274,393,908

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 2017 and 2016

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

	For the Years Ended	
	2017	2016
REVENUES		
Brokerage handling fee revenue (Notes IV, VI.28 and VII)	$8,460,382	$7,072,066
Revenue from borrowed securities (Notes IV)	559,872	404,304
Revenue from underwriting business (Notes IV, VI.28 and VII)	758,242	885,815
Revenue from wealth management services-net	70,968	54,560
Gains/(losses) on disposal of trading securities-net(Notes IV, VI.28)	9,422,341	1,108,963
Revenue from providing agency service for stock affairs (Notes IV and VII)	161,361	154,760
Interest income (Notes IV and VI.28)	2,939,527	2,753,294
Dividend income (Notes IV and VII)	708,312	723,870
Gains/(losses) on trading securities measured at fair value through profit or loss-net (Note VI.28)	(1,814,527)	1,309,154
Gains/(losses) on covering of borrowed securities and bonds with resale agreements-net (Notes IV and VI.28)	(458,436)	(354,482)
Gains/(losses) on borrowed securities and bonds with resale agreements at fair value through profit or loss-net	(42,507)	(43,417)
Gains/(losses) on warrants issued-net (Notes IV and VI.21)	167,705	486,426
Gains/(losses) on derivative financial product-futures-net (Notes IV and VI.21)	(156,470)	226,126
Gains/(losses) on derivative financial product-GTSM-net (Notes IV and VI.21)	(912,513)	170,311
Other operating revenue (Notes IV, VI.28 and VII)	1,713,376	1,087,826
Total Revenues	21,577,633	16,039,576
COSTS AND EXPENSES		
Brokerage handling fee expenses (Notes IV)	1,013,836	977,145
Dealing handling fee expenses (Notes IV)	54,549	71,308
Refinancing handling fee expenses	295	693
Financial costs (Notes IV, VI.28 and VII)	1,070,116	854,540
Losses on trading of borrowed securities	160,057	187,460
Futures commission expenses	93,569	94,976
Settlement and clearing service expenditures	251,017	250,569
Other operating costs	104,277	110,897
Employee benefits expenses (Notes IV, VI.25, VI.28 and VII)	7,439,114	6,514,989
Depreciation and amortization (Notes IV and VI.28)	556,139	566,937
Other operating expenses (Notes IV, VI.28 and VII)	4,281,857	4,828,783
Total Costs and Expenses	15,024,826	14,458,297
INCOME (LOSS) FROM OPERATIONS	6,552,807	1,581,279
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)	355,594	311,266
Other income and costs (Notes IV, VI.14, VI.28 and VII)	1,601,799	893,117
Total Non-operating Income or Costs	1,957,393	1,204,383
INCOME BEFORE INCOME TAX	8,510,200	2,785,662
INCOME TAX EXPENSES (Notes IV and VI.30)	(400,902)	(250,695)
NET INCOME	8,109,298	2,534,967
OTHER COMPREHENSIVE INCOME (Note VI.29)		
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of defined benefit plans (Notes IV and VI.25)	(79,417)	(25,072)
Share of the other comprehensive income of associates and joint ventures accounting for using the equity method	(2,233)	-
Income tax relating to components that will not be reclassified (Notes IV and VI.30)	7,138	(9,304)
Items that may be reclassified subsequently to profit or loss		
Exchange differences resulting from translating the financial statements of a foreign operation	(882,789)	(351,881)
Unrealized gain or loss on available-for-sale financial assets	(2,977,010)	1,490,103
Share of the other comprehensive income of associates and joint ventures accounting for using the equity method	456,425	(4,479)
Income tax relating to components that will be reclassified (Notes IV and VI.30)	1,637	(3,805)
Current other comprehensive income-net of tax	(3,476,249)	1,095,562
CURRENT COMPREHENSIVE INCOME (LOSS)	$4,633,049	$3,630,529
NET INCOME ATTRIBUTABLE TO:		
Owners of the parent company	$8,077,685	$2,483,546
Non-controlling interests (Note VI.27 and VI.33)	$31,613	$51,421
CURRENT COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:		
Owners of the parent company	$4,616,339	$3,583,390
Non-controlling interests (Note VI.27 and VI.33)	$16,710	$47,139
EARNINGS PER SHARE (Note VI.31)		
Net income attributable to owners of the parent company	$2.45	$0.68

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 2017 and 2016

(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, 2016	$37,988,123	$8,639,723	$3,611,026	$7,599,614	$2,323,499	$291,607	$829,116	$61,282,708	$3,309,175	$64,591,883
Appropriations and distribution of 2015 retained earnings :										
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
Total comprehensive income (loss)	-	-	-	-	2,449,179	(352,564)	1,486,775	3,583,390	47,139	3,630,529
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
Appropriation and distribution of 2016 retained earnings :										
Legal reserve	-	-	244,918	-	(244,918)	-	-	-	-	-
Special reserve	-	-	-	502,082	(502,082)	-	-	-	-	-
Cash dividends	-	-	-	-	(1,702,179)	-	-	(1,702,179)	-	(1,702,179)
Net income for the year ended 2017	-	-	-	-	8,077,685	-	-	8,077,685	31,613	8,109,298
Other comprehensive income for the year ended 2017	-	-	-	-	(74,523)	(889,799)	(2,497,024)	(3,461,346)	(14,903)	(3,476,249)
Total comprehensive income (loss)	-	-	-	-	8,003,162	(889,799)	(2,497,024)	4,616,339	16,710	4,633,049
Capital reduction	(5,000,000)	-	-	-	-	-	-	(5,000,000)	-	(5,000,000)
Changes in non-controlling interests	-	-	-	-	-	-	-	-	(33,144)	(33,144)
Shared-based payment transaction	-	2,568	-	-	-	-	-	2,568	-	2,568
Balance, December 31, 2017	$29,988,123	$8,646,690	$4,088,294	$8,566,395	$8,003,162	$(950,756)	$(181,133)	$58,160,775	$3,300,090	$61,460,865

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 2017 and 2016

(Expressed in New Taiwan Thousand Dollars)

	For the Years Ended	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income before income tax expenses	$8,510,200	$2,785,662
Adjustments to reconcile income before income tax expenses to net cash (used in)/provided by operating activities:		
Depreciation	298,898	309,698
Amortization	257,241	257,239
Allowance for bad debts	153,712	535,491
Interest expenses	1,070,116	854,540
Net loss (gain) of financial assets reclassified	(3,833,802)	-
Interest income	(3,669,171)	(3,320,548)
Dividend income	(966,108)	(955,914)
Share-based payment transactions	2,568	4,399
Share of the profit or loss of associates and joint ventures accounting for using the equity method	(355,594)	(311,266)
(Gains)/losses on disposal of property and equipment	3,035	3,527
(Gains)/losses on disposal of financial assets measured at cost	(1,817)	-
(Gains)/losses on disposal of investments	(175,137)	(113,592)
Impairment loss on non-financial assets	194,850	12,502
Changes in operating assets and liabilities:		
Changes in operating assets:		
Financial assets measured at fair value through profit or loss-current	(9,493,440)	17,489,510
Financial assets measured at cost-current	343,353	(424,870)
Available-for-sale financial assets-current	429,617	(429,617)
Bonds purchased under resale agreements	7,958,180	(12,641,879)
Margin loans receivable	(5,832,050)	7,750,974
Refinancing margin	4,422	1,418
Refinancing deposits receivable	3,621	1,193
Trading securities receivable	(563,121)	(4,169,573)
Customers' margin accounts	14,005,096	(5,382,432)
Futures commission merchant receivable	(11)	-
Stock borrowing collateral price	(8,859)	256,705
Stock borrowing margin	480,538	3,752,314
Notes receivable	1,170	(1,232)
Accounts receivable	4,248,758	(8,000,003)
Prepayments	(53,133)	186,004
Other financial assets-current	(92,915)	2,038,934
Other current assets	(13,525,711)	4,239,993
Financial assets measured at fair value through profit or loss-non-current	35	410
Changes in operating liabilities:		
Financial liabilities measured at fair value through profit or loss-current	(112,638)	(1,546,007)
Bonds sold under repurchase agreements	(2,689,316)	(1,179,709)
Deposits for short sales	448,422	(695,959)
Short sales proceeds payable	1,640,637	(2,910,931)
Securities lending refundable deposits	1,093,148	4,672,441
Futures customers' equity	(13,042,989)	5,368,434
Accounts payable	11,007,412	7,476,864
Amounts received in advance	1,018	(118)
Amounts collected for other parties	(94,416)	(2,840,576)
Other payable	824,997	(678,673)
Other financial liabilities-current	(324,374)	(7,650,933)
Other current liabilities	22,100	(80,077)
Liabilities reserve-non-current	(4,325)	69,334
Other non-current liabilities-others	70,073	(7,002)
Cash provided by/(used in) operating activities	(1,765,710)	4,726,675
Interest received	3,616,021	3,509,140
Dividend received	707,363	723,870
Interest paid	(1,030,396)	(814,458)
Income tax paid	(434,897)	(420,448)
Net cash used in operating activities	1,092,381	7,724,779

(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 2017 and 2016

(Expressed in New Taiwan Thousand Dollars)

	For the Years Ended	
	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of available-for-sale financial assets	(628,179)	(196,304)
Disposal of available-for-sale financial assets	327,179	227,222
Purchase of financial assets measured at cost	(268,730)	(189,742)
Disposal of financial assets measured at cost	31,105	115,300
Liquidation Refunding of financial assets measured at cost	4,392	262
Refunding of financial assets measured at cost	25,791	40,506
Purchase of held to maturity financial assets-non-current	(200,000)	-
Refunding of investments accounted for using the equity method	-	567
Purchase of property and equipment	(138,913)	(239,038)
Disposal of property and equipment	1,783	3,460
Operation bond	(9,307)	30,684
Settlement/clearance fund	(15,550)	33,431
Guarantee deposits-out	261,671	38,756
Purchase of intangible assets	(69,375)	(70,396)
Other non-current assets	29,831	(20,140)
Acquisition of subsidiaries (deduct cash received)	-	(149,740)
Dividends received	759,814	411,166
Net cash provided by investing activities	111,512	35,994
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term borrowings	7,258,634	(3,046,387)
Commercial papers payable	(1,667,229)	5,190,680
Increase/(decrease) in long-term borrowings	-	(1,006,520)
Cash dividends	(1,736,430)	(1,667,454)
Cash reduction of capital	(5,000,000)	(3,000,000)
Changes in non-controlling interests	1,107	-
Net cash provided by financing activities	(1,143,918)	(3,529,681)
EFFECTS OF EXCHANGE RATE CHANGES	(808,971)	(232,449)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(748,996)	3,998,643
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	16,450,220	12,451,577
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	$15,701,224	$16,450,220

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

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, 2017, the Company had 80 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 23, 2018.

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

1. Changes in accounting policies resulting from applying for the first time certain standards and amendments.

   The Company and its subsidiaries applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are endorsed by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after January 1, 2017. The adoption of new standards and amendments do not have a material effect on the Company.

2. Standards or interpretations issued, revised or amended, which are endorsed by FSC, but not yet adopted by the Company as at the end of the reporting period 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
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
Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” — Amendments to IFRS 4	January 1, 2018
Transfers of Investment Property — Amendments to IAS 40 “Investment Property”	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. Except for those dated, newly issued standards or interpretations mentioned above go into effect in the following years of each respective date.
2. The amendment was decided to defer going into effect, but allowed to apply in advance.

The potential effects of the standards or interpretations on the Company’s financial statements are summarized as below:

<u>IFRS 15 “Revenue from Contracts with Customers”</u>

The core principle of the new Standard is for companies to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:
Step 1: Identify the contract(s) with a 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 contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The new Standard includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's 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.

Consequential amendments on the related disclosures also become effective.

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

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.

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.

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 abovementioned standards and interpretations issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after 1 January 2018. Apart from the potential impact of the standards and interpretations described below, all other standards and interpretations have no material impact on the Group:

(1) IFRS 9 "Financial Instruments"

The Company elects not to restate prior periods in accordance with the requirements of IFRS 9 at the date of initial application (1 January 2018). The adoption of IFRS 9 has the following impacts on the Company:

A. Classification and measurement of financial assets

Available-for-sale financial assets

Available-for-sale financial assets in accordance with IAS 39 include funds, equity instrument investments and debt instruments. The classification and other related information are described as follow:

a. Funds

As the cash flow characteristics for funds are not solely payments of principal and interest on the principal amount outstanding, funds are classified as financial assets mandatorily measured at fair value through profit or loss in accordance with IFRS 9.

As at the date of initial application, changes in fair value previously recognized in other equity will be reclassified to retained earnings.

b. Equity instruments investments

For the equity instruments currently measuread at cost and held-for-trading, in accordance with IFRS 9, the Company elects to classify them as financial assets measured at fair value through profit or loss and measures them at fair value from the date of initial application.

For the equity instruments currently measuread at cost but not held-for-trading, the Company and its subsidiaries do not electe to designate them as financial assets measured at fair value through other comprehensive income. Instead, the Company will reclassify financial assets measured at cost to financial assets measured at fair value through profit or loss and measures them at fair value from the date of initial application.

The equity instruments currently measured at fair value are not held-for-trading. As at the date of initial application, the Company and its subsidiaries electe to designate certain equity investments as financial assets measured at fair value through other comprehensive income and reclassifies the remaining to financial assets measured at fair value through profit or loss. Except for the reclassification to financial assets measured at fair value through other comprehensive income and other equity accounts, no other difference will incur. For those reclassified to financial assets measured at fair value through profit or loss, changes in fair value previously recognized in other equity will be reclassified to retained earnings.

Upon de-recognition of equity investments currently classified as available-for-sale measured at fair value, the accumulated gains or losses previously recognized in other comprehensive income was recycled to profit or loss from equity in accordance with IAS 39. However, under IFRS 9, subsequent fair value changes of the aforementioned equity investments are recognized in other comprehensive income and cannot be recycled to profit or loss. Upon de-recognition, the accumulated amounts in other component of equity is reclassified to retained earnings (reclassification to profit or loss is not allowed).

c. Debt instruments

The debt instruments held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets will be reclassified available-for-sale financial assets to financial assets measured at fair value through other comprehensive income.

Held to maturity financial assets

The Company's subsidiaries reclassified held to maturity financial assets under IAS 39 to financial assets measured at amortized cost, as the cash flow characteristics for held to maturity financial assets are totally payments of principal and interest on the principal amount outstanding and the business model is to receive the cash flow.

B. Impairment of financial assets

This is applicable to financial assets not measured at fair value through profit or loss. In accordance with IFRS 9, a loss allowance for debt instruments is measured using the expected credit loss model, whereas trade receivables or contract assets that result from transactions that are within the scope of IFRS 15 is measured using the simplified approach. The aforementioned requirements on impairment is different from the current incurred loss model. Besides, under IFRS 9, impairment assessment is not required for equity instruments.

The adoption of IFRS 9 will increase assets by 1,478,364 thousand dollars, liabilities by 16,473 thousand dollars, retained earnings by 1,365,896 thousand dollars, other equities by 97,672 thousand dollars, and decrease non-controlling interests by 1,677 thousand dollars respectively on the date of initial application.

C. Other

Consequential amendments on the related disclosures in IFRS 7 were also made as a result of the application of IFRS 9, which include the disclosure requirements related to the initial application of IFRS 9. Therefore more extensive disclosure would have to be made.

3. Standards or interpretations issued, revised or amended by IASB but not yet endorsed by FSC at the date of issuance of the Company's financial statements are listed below:

Standards or interpretations	Effective date (Note 1)
IFRS 16 "Leases" (Note 3)	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
IAS 28 "Investment in Associates and Joint Ventures" — Amendments to IAS 28	January 1, 2019
Prepayment Features with Negative Compensation — Amendments to IFRS 9 (Note 2)	January 1, 2019
Improvements to International Financial Reporting Standards (2015-2017 cycle):	
IFRS 3 "Business Combinations"	January 1, 2019
IFRS 11 "Joint Arrangements"	January 1, 2019
IAS 12 "Income Taxes"	January 1, 2019
IAS 23 "Borrowing Costs"	January 1, 2019
Plan Amendment, Curtailment or Settlement— Amendments to IAS 19	January 1, 2019

Note:

1. Except for those dated, newly issued standards or interpretations mentioned above go into effect in the following years of each respective date.
2. This amendment was allowed to apply in advance from 1 January 2018 by FSC.
3. FSC announced on 19 December 2017 that company should apply to IFRS 16 from 1 January 2019.

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

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.

IFRS 23 "Uncertainty Over Income Tax Treatments"
The Interpretation clarifies application of recognition and measurement requirements in IAS 12 "Income Taxes" when there is uncertainty over income tax treatments.

IFRS 28 "Investment In Associates And Joint Ventures"
The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28.

Prepayment Features With Negative Compensation— Amendements to IFRS 9
The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income.

Improvements to International Financial Reporting Standards (2015-2017 cycle):

IAS 12 "Income Taxes"
The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

IAS 23 "Borrowing Costs"
The amendments clarify that an entity should treats as part of general borrowings any borrowing made specifically to obtain an asset when the asset is ready for its intended use or sale.

Plan Amendment, Curtailment or Settlement— Amendments to IAS 19
The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its net defined benefit liability or asset.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Company's financial statements were authorized for issue, the local effective dates are to be determined by FSC. As the Company is still currently determining the potential impact of the standards and interpretations , it is not practicable to estimate their impact on the Company at this point in time.

IV. Summary Of 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, Interpretations developed by International Financial Reporting Committee, or the former Standing Interpretations Committee as endorsed and became effective 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

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

(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	12/31/17	12/31/16
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
KGI International Holdings Limited	KG Investments Asset Management (International) Limited	Investment services	-	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
KGI Limited	KGI Securities (Hong Kong) Limited	Securities investment services	-	100.00
〃	KGI Futures (Hong Kong) Limited	Futures brokerage and settlement services	100.00	100.00
〃	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

Investor	Name of subsidiaries	Primary business	Percentage of ownership 12/31/17	12/31/16
〃	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
〃	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
〃	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	99.00
KGI Asia 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
〃	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: Please refer to attachment 2 to 2.5 in Note XIII

(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.

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

(1) The Company and subsidiaries' 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>

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. Investments accounted for the Equity Method

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. **<u>Impairment of Non-Financial Assets</u>**

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. **<u>Provisions</u>**

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.

If the obligation is formed during a period, the provisions should be recognised by time.

<u>Provision for decommissioning, restoration and rehabilitation costs</u>

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. Shared-Based Payment Transaction

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. Income Taxes

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.

Current income tax

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. <u>Business Combinations and Goodwill</u>

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. **<u>Significant Accounting Judgments, Estimates and Assumptions</u>**

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. <u>The Fair Value of Financial Instruments</u>

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 market approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to Note XII.5.

2. <u>Goodwill</u>

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. Please refer to Note VI.17 for the assessment of goodwill impairment test.

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

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. <u>Taxes</u>

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

	12/31/17	12/31/16
Cash on hand	$3,278	$3,436
Cash in banks	13,355,826	14,167,670
Cash equivalents		
Short-term commercial papers and bonds	1,253,183	1,381,465
Excess Margin	1,088,937	897,649
Total	$15,701,224	$16,450,220

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

	12/31/17	12/31/16
Interest rates	0.35%-0.42%	0.36%-0.52%

(2) As of December 31, 2017 and 2016, the certificate of deposits over three months from the original due date are classified as other financial assets-current, and the amounts are 2,620,785 thousand dollars and 2,527,870 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

	12/31/17	12/31/16
Current		
Financial assets held for trading		
Lent securities	$153,986	$46,749
Open-ended funds, monetary market instruments and other securities	1,501,494	2,522,042
Trading securities-dealing-net	53,510,822	49,612,823
Trading securities-underwriting-net	886,490	1,668,809
Trading securities-hedging-net	7,450,626	4,471,325
Long options	155,141	103,039
Futures trading margins-proprietary funds	466,513	519,165
Derivative financial product assets	2,258,637	2,163,243
Total	$66,383,709	$61,107,195
Non-current		
Financial assets held for trading	$49,998	$50,033

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

(1) Lent securities

	12/31/17	12/31/16
Listed/OTC company stock	$160,902	$48,723
Valuation adjustments	(6,916)	(1,974)
Market value	$153,986	$46,749

(2) Open-ended, funds-monetary market instruments and other securities

	12/31/17	12/31/16
Funds	$-	$32,000
Others	1,501,494	2,490,433
Subtotal	1,501,494	2,522,433
Valuation adjustments	-	(391)
Market value	$1,501,494	$2,522,042

(3) Trading securities-dealing-net

	12/31/17	12/31/16
Listed/OTC/ESM company stock	$1,755,239	$2,630,463
Exchange Traded Funds	1,959,627	2,196,557
Listed/OTC company warrants	61,946	20,879
Listed/OTC company corporate bonds and government bonds	20,826,469	19,865,107
Foreign securities	27,887,701	22,588,029
Others	12,499	52
Subtotal	52,503,481	47,301,087
Valuation adjustments	1,007,341	2,311,736
Market value	$53,510,822	$49,612,823

(4) Trading securities-underwriting-net

	12/31/17	12/31/16
Listed/OTC company stock	$359,197	$604,470
Listed/OTC company corporate bonds and convertible bonds	547,415	281,638
Others	-	149,705
Subtotal	906,612	1,035,813
Valuation adjustments	(20,122)	632,996
Market value	$886,490	$1,668,809

(5) Trading securities-hedging-net

	12/31/17	12/31/16
Listed/OTC company stock	$6,185,143	$3,679,100
Exchange Traded Funds	435,725	218,409
Listed/OTC company warrants	36,867	3,789
Foreign securities	258,705	592,084
Beneficiary certificate	693,063	-
Subtotal	7,609,503	4,493,382
Valuation adjustments	(158,877)	(22,057)
Market value	$7,450,626	$4,471,325

(6) Long options

	12/31/17	12/31/16
Index options	$109,149	$86,395
Stock options	7,581	9,007
Subtotal	116,730	95,402
Open interest	38,411	7,637
Market value	$155,141	$103,039

(7) Futures trading margins-proprietary funds

	12/31/17	12/31/16
Account balance	$511,411	$516,691
Open interest	(44,898)	2,474
Account value	$466,513	$519,165

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

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

	12/31/17	12/31/16
Government bonds	$49,940	$50,175
Valuation adjustments	58	(142)
Market value	$49,998	$50,033

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

	12/31/17	12/31/16
Current		
Stock		
ESM company stock	$464,219	$1,090,749
Non-current		
Stock		
Taiwan Depository & Clearing Corp.	$74,932	$74,932
Taiwan Futures Exchange Corp.	263,808	151,125
Taiwan Stock Exchange Corp.	369,199	369,199
Others	279,674	323,058
Total	$987,613	$918,314

(1) De Xing Venture Capital Investment Corporation invested by the Company has completed liquidation for the year ended December 31, 2017.

(2) Zuen Ping Venture Capital Investment Corporation invested by the Company's subsidiary has completed liquidation for the year ended December 31, 2016.

(3) Recoverable amounts of Dragon Investment Fund I Co., Ltd. invested by the company's subsidiary was assessed and impairment loss of 27,152 thousand dollars and 29,364 thousand dollars were recognized on December 31, 2017 and 2016 respectively.

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

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

	12/31/17	12/31/16
Current		
Listed/OTC company stock	$3,357,565	$9,235,619
Foreign securities	11,454	11,307
Total	$3,369,019	$9,246,926
Non-current		
Listed/OTC/ESM company stock	$295,346	$255,801
Beneficiary certificate	336,654	-
Foreign securities	161,554	169,758
Total	$793,554	$425,559

(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**

	12/31/17	12/31/16
Non-current		
Bank Debentures	$500,000	$300,000

(1) The subsidiary held subordinated debentures of Sunny Bank, HuaTai Bank and BanXin Bank on December 31, 2017 with the face value 200,000 thousand dollars, 100,000 thousand dollars and 200,000 thousand dollars respectively; all of the coupon rate are 2.50%.

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

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

6. **Bonds Purchased under Resale Agreements**

	12/31/17	12/31/16
Government bonds	$12,971,999	$9,085,141
Corporate bonds	3,043,619	4,851,085
Bank Debentures	5,113,510	15,151,082
Total	$21,129,128	$29,087,308
Resold amount as specified in respective agreements plus accrued interest	$21,145,230	$29,114,724
Resold date as specified in respective agreements	107.1.2-107.2.20	106.1.3-106.2.22

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, 2017 and 2016.

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, 2017 and 2016.

8. Trading securities receivable

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% and 140% respectively.

9. Customers' Margin Accounts

	12/31/17	12/31/16
Cash in banks	$15,582,201	$15,465,349
Marking to market from the clearing house	2,385,310	2,073,183
Marking to market from the other futures brokers	1,224,231	1,014,202
Securities	361	103
Foreign customers' margin accounts	3,869,342	18,513,704
Total	$23,061,445	$37,066,541

10. Futures Commission Merchant Receivable

	12/31/17	12/31/16
Futures commission merchant receivable	$92,569	$93,003
Less: Allowance for bad debt	(92,558)	(93,003)
Net	$11	$-

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, 2017 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

	12/31/17	12/31/16
Exchange clearing receivable	$3,997,006	$6,798,639
Accounts receivable for settlement- brokerage	12,536,515	8,385,692
Accounts receivable for settlement- non-brokerage	3,137,861	8,394,997
Interest receivable	690,633	639,799
Others	765,488	1,044,117
Total	$21,127,503	$25,263,244

12. Investments Accounted for Using The Equity Method

Investee	12/31/17 Amount	12/31/17 Ratio	12/31/16 Amount	12/31/16 Ratio
Investments in associates				
KGI Securities (Thailand) Public Company Limited	$2,190,859	34.97	$2,159,059	34.97
Trinitus Asset Management Limited	10,318	40.00	24,270	40.00
CDIB BioScience Ventures Management	2,783	1.20	3,304	1.20
China Life Insurance Company Limited.	11,331,905	9.63	-	-
合　　計	$13,535,865		$2,186,633	

(1) Information on associate significant to the Company

A: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. Its fair value is categorized as level 1. The fair values of the Company's investment measured under the equity method are 2,830,066 thousand dollars and 2,448,105 thousand dollars as of December 31, 2017 and 2016 respectively.

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

	12/31/17	12/31/16
Current assets	$12,934,277	$8,952,221
Non-current assets	925,828	1,446,307
Current liabilities	(8,580,943)	(5,320,352)
Non-current liabilities	(152,922)	(136,330)
Non-controlling interests	(3,262)	(2,817)
Attributed to controlling interests	$5,122,978	$4,939,029
Ownership ratio	34.97%	34.97%
Proportion of ownership	$1,791,505	$1,727,179
Goodwill	399,354	431,880
Book value	$2,190,859	$2,159,059

	For the years ended December 31	
	2017	2016
Operating revenue	$2,683,072	$2,899,318
Profit or loss from continuing operations	$799,064	$934,550
Other comprehensive income	(15,828)	(12,691)
Total comprehensive income	$783,236	$921,859
Dividends received from associate	$234,522	$179,122

B:Name of associate: China Life Insurance Company Limited

Nature of activities: the associate engages in insurance related businesses

Principal place of business: Taiwan

Fair value from quoted market price: China Life Insurance Company Limited is listed on the Stock Exchange of Taiwan. Its fair value is categorized as level 1. The fair value of the Company's investment measured under the equity method is 10,915,693 thousand dollars as of December 31, 2017.

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

	12/31/17
Toatal assets	$1,465,734,184
Total liabilities	(1,370,396,437)
Attributed to controlling interests	$95,337,747
Ownership ratio	9.63%
Proportion of ownership	$9,176,837
Difference between investment cost and equity	2,155,066
Book value	$11,331,905

	For the year ended December 31 2017
Operating revenue	$255,328,334
Profit or loss from continuing operations	$9,083,972
Other comprehensive income	7,960,686
Total comprehensive income	$17,044,658
Dividends received from associate	$267,496

(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 13,101 thousand dollars and 27,574 thousand dollars as of December 31, 2017 and 2016 respectively, and the proportionate aggregate financial information of investments is as follow:

	For the years ended December 31	
	2017	2016
Profit or loss from continuing operations	$(12,861)	$(15,547)
Other comprehensive income	296	(41)
Total comprehensive income	$(12,565)	$(15,588)

(3) Since the shares of CDIB BioScience Venture Management held by Company and affiliate company, China Development Venture Capital, is over 20%, the investment is measured under the equity method.

(4) Since the shares of China Life Insurance Company held by Company and parent company, China Development Financial Holding Corp., is over 20%, the investment is measured under the equity method.

(5) No pledged was made for investments accounted for using the equity method mentioned above. Please refer to Note VIII.

13. Property and Equipment

(1) Change in property and equipment are as follow:

	Land	Buildings	Equipment	Leasehold improvement	Total
Cost:					
January 1, 2017	$3,954,044	$2,102,086	$2,698,506	$451,536	$9,206,172
Additions	-	-	125,116	13,797	138,913
Disposals	-	-	(168,590)	(27,573)	(196,163)
Transfers	-	-	58,683	(23,625)	35,058
Exchange differences	-	-	(54,982)	(19,238)	(74,220)
December 31,2017	$3,954,044	$2,102,086	$2,658,733	$394,897	$9,109,760
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
Depreciation and Impairment:					
January 1, 2017	$-	$746,089	$2,111,136	$319,780	$3,177,005
Depreciation	-	38,951	210,316	45,805	295,072
Disposals	-	-	(164,579)	(26,766)	(191,345)
Exchange differences	-	-	(46,580)	(18,272)	(64,852)
December 31, 2017	$-	$785,040	$2,110,293	$320,547	$3,215,880
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
Net carrying amount as of:					
December 31, 2017	$3,954,044	$1,317,046	$548,440	$74,350	$5,893,880
December 31, 2016	$3,954,044	$1,355,997	$587,370	$131,756	$6,029,167

(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, 2017	$378,497	$191,806	$570,303
Transfers	-	-	-
December 31, 2017	$378,497	$191,806	$570,303
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

	Land	Buildings	Total
Depreciation and Impairment:			
January 1, 2017	$-	$63,970	$63,970
Depreciation	-	3,826	3,826
December 31, 2017	$-	$67,796	$67,796
January 1, 2016	$-	$34,644	$34,644
Depreciation	-	2,181	2,181
Transfers	-	27,145	27,145
December 31, 2016	$	$63,970	$63,970
Net carrying amount as of:			
December 31, 2017	$378,497	$124,010	$502,507
December 31, 2016	$378,497	$127,836	$506,333

	For the years ended December 31	
	2017	2016
Rental income from the lease of the investment property	$20,769	$16,720

(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 1,015,068 thousand dollars and 904,205 thousand dollars on December 31, 2017 and 2016, respectively. The Company used comparison approach and income approach to evaluate the fair value which has been evaluated by the external independent expert. The subsidiaries' fair value has not been evaluated by the external independent expert. Instead, the management refers outside appraisal report and adopts the market evaluation 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 follow:

	Goodwill	Other intangible assets	Software	Total
January 1, 2017	$7,000,554	$1,447,334	$153,923	$8,601,811
Additions	-	-	69,375	69,375
Transfers	-	-	4,760	4,760
Exchange differences	(52,173)	-	-	(52,173)
Amortizations	-	(189,015)	(67,957)	(256,972)
Impairment	(194,850)	-	-	(194,850)
December 31, 2017	$6,753,531	$1,258,319	$160,101	$8,171,951
January 1, 2016	$6,997,437	$1,639,972	$139,939	$8,777,348
Additions	76,975	-	70,396	147,371
Impairment	(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

(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

	12/31/17	12/31/16
Operation bond	$1,426,363	$1,417,056
Settlement/clearance fund	542,843	527,293
Guarantee deposits-out	1,074,524	1,336,195
Collaterals assumed	-	34,201
Others	231,197	267,616
Total	$3,274,927	$3,582,361

(1) After assessed by the Company as unrecoverable, margin loans receivable and trading securities receivable of the subsidiaries were reclassified as overdue receivable and full amount of allowance for bad debt has been recognized.

(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 recoverable amount of the Company's subsidiary, KGI Securities (Singapore) Pte Ltd, was below the carrying amount after assessment. Accordingly, an impairment loss of 194,850 thousand dollars was recognised on December 31, 2017. For other cash generated units, there is no impairment loss was recognised due to the recoverable amount of the respective discounted cash flows is in excess of its carrying amount.

(1) 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:

(a) Market trading volume
(b) 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.

For the years ended December 31	The Company	Subsidiaries
2017		
Growth rate	1.66%	2.63%-5.54%
Discount rate	11.51%	10.92%-12.55%
For the years ended December 31		
2016		
Growth rate	1.68%	3.00%
Discount rate	11.17%	11.58%

(2)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.

(3)The details of reconition of goodwill impairment as of December 31, 2017 are as follows:

Upon acquisition of KGI Securities (Singapore) Pte. Ltd. (KSSPL) (Note 1) , the stock value analysis information, which the Company used to decide the acquisition price, is based on the company's financial forecast from 2014 to 2019. Since the average stock trading volume for Singapore and the revenue of KSSPL do not meet the expectation, per the evaluation, the recoverable amount as of December 31, 2017 is 3,158,332 thousand dollars. The recoverable amount has been determined based on a value in use calculation using cash flow projections from financial budgets approved by management covering a five-year period. The projected cash flows have been updated to reflect the change in demand for products and services. The pre-tax discount rate applied to cash flow projections is 12.04% (2016: 11.58%) and cash flows beyond the five-year period are extrapolated using a 2.63% growth rate (2016: 3.0%) that is the same as the long-term average growth rate for Singapore's GDP. As a result of this analysis, management has recognized an impairment loss of 194,850 thousand dollars.

Note 1: On October 2, 2017, KGI Securities (Singapore) Pte. Ltd. was merged with KGI Futures (Singapore) Pte .Ltd. and the KGI Asia (Holdings) Pte. Ltd. is the surving company.

18. Short-Term Borrowings

	12/31/17	12/31/16
Interbank loans	$537,264	$161,395
Credit loans	14,818,176	7,761,972
Secured loans	4,681,052	4,821,020
Bank overdraft	-	33,471
Total	$20,036,492	$12,777,858
Interest rate	0.65%-3.41%	0.65%-9.45%

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

19. Commercial Papers Payable-Net

	12/31/17	12/31/16
Commercial papers payable	$8,628,799	$10,300,460
Less: Discount	(2,995)	(7,427)
Net	$8,625,804	$10,293,033
Interest rate	0.41%-1.52%	0.48%-1.15%

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

	12/31/17	12/31/16
Current		
Financial liabilities held for trading		
Bonds sold under repurchase agreements -short sale	$151,093	$2,211,581
Liabilities for warrants issued	11,820,861	9,438,441
Repurchase warrants	(10,608,101)	(9,118,906)
Liability for purchase of government bonds	-	150,000
Short options	109,852	60,203
Liabilities for securities and bonds borrowed	4,343,645	5,484,802
Derivative financial product liabilities	5,259,084	2,845,225
Financial liabilities designated initially at fair value through profit or loss	986,143	1,103,869
Total	$12,062,577	$12,175,215

(1) Bonds sold under repurchase agreements-short sale

	12/31/17	12/31/16
Government bonds	$151,102	$2,233,754
Valuation adjustments	(9)	(22,173)
Market value	$151,093	$2,211,581

(2) Liabilities for warrants issued and repurchase warrants

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

	12/31/17	12/31/16
Warrants issued	$16,025,027	$14,780,272
Gains/(losses) on value change	(4,204,166)	(5,341,831)
Market value	11,820,861	9,438,441
Repurchased warrants	12,997,426	13,208,142
Gains/(losses) on value change	(2,389,325)	(4,089,236)
Market value	10,608,601	9,118,906
Net value	$1,212,760	$319,535

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

	12/31/17	12/31/16
Liability for purchase of government bonds	$-	$149,675
Valuation adjustments	-	325
Market value	$-	$150,000

(4) Short options

	12/31/17	12/31/16
Index options	$129,110	$67,916
Stock options	22,006	10,268
Subtotal	151,116	78,184
Open interest	(41,264)	(17,981)
Market value	$109,852	$60,203

(5) Liabilities for securities and bonds borrowed

	12/31/17	12/31/16
Listed/OTC company stock	$1,068,359	$2,616,718
Foreign securities	3,268,405	2,882,468
Subtotal	4,336,764	5,499,186
Valuation adjustments	6,881	(14,384)
Market value	$4,343,645	$5,484,802

(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	12/31/17	12/31/16
Options and futures contract	$24,269,206	$18,290,118
Foreign futures and options	18,632,866	28,689,035
Interest rate swap (IRS)	143,869,965	192,469,165
Convertible bond asset swap (CBAS)-interest	10,524,800	10,429,800
CBAS-long option	10,430,900	10,229,100
CBAS-short option	12,693,200	12,993,700
Structured notes	15,265,526	11,537,615
Equity derivative instruments	217,776	21,471
Credit derivative instruments	5,203,007	5,679,224
Exchange rate derivative instruments	28,220,369	90,230,667
Others	9,430	25,821
Total	$269,337,045	$380,595,716

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

Financial Instruments	12/31/17	12/31/16
Derivative instrument assets		
Contract value		
IRS	$391,888	$606,240
CBAS-interest	22,969	12,422
Long options		
CBAS	1,128,581	610,676
Structured notes	20,408	63,517
Equity derivative instruments	40	-

Financial Instruments	12/31/17	12/31/16
Credit derivative instruments	7,969	26,624
Exchange rate derivative instruments	102,782	673,262
Foreign futures and options	583,914	170,352
Others	86	150
Total	$2,258,637	$2,163,243
Derivative instrument liabilities		
Contract value		
IRS	$452,424	$528,765
CBAS-interest	191,544	200,103
Short options		
CBAS	1,466,355	827,138
Structured notes	2,187,923	451,452
Equity derivative instruments	72,594	7,672
Credit derivative instruments	14,402	6,558
Exchange rate derivative instruments	278,871	475,442
Foreign futures and options	594,886	347,945
Others	85	150
Total	$5,259,084	$2,845,225
Financial liabilities designated initially at fair value through profit or loss		
Structured notes	$986,143	$1,103,869

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	
	2017	2016
Liabilities for warrants issued:		
Gains on value change	$27,066,811	$28,795,419
Gains on exercising warrants before maturity	7,085	3,437
Repurchase of issued warrants:		
Losses on resale of warrants	(2,758,389)	(4,237,489)
Losses on value change	(24,032,749)	(23,977,728)
Expense for warrant	(115,053)	(97,213)
Gains/(losses) on warrants issued	$167,705	$486,426

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

	For the years ended December 31	
	2017	2016
Futures contracts	$(301,178)	$257,184
Options	144,708	(31,058)
Total	$(156,470)	$226,126

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

	For the years ended December 31	
	2017	2016
IRS	$(222,474)	$70,081
CBAS	(230,800)	(66,670)
Options	226,807	(9,975)
Structured notes	(30,873)	(195,880)
Equity derivative instruments	(129,204)	72,692
Credit derivative instruments	(39,656)	(18,033)
Exchange rate derivative instruments	(486,313)	318,096
Total	$(912,513)	$170,311

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

12/31/17

Item	Type of trading	Open interest position		Contract Amount/ Premium Paid (received)	Fair Value	Note
		Long/ Short	Lots			
Futures Contracts	GreTai Futures	Long	24	$13,850	$14,170	
Futures Contracts	Elec-Sector Index Futures	Long	28	49,312	49,407	
Futures Contracts	Elec-Sector Index Futures	Short	16	28,007	28,237	
Futures Contracts	Finance Sector Index Futures	Long	9	10,692	10,689	
Futures Contracts	Finance Sector Index Futures	Short	6	7,127	7,132	
Futures Contracts	Non-Fin Non-Elec Sub-Index Futures	Long	7	8,580	8,685	
Futures Contracts	Non-Fin Non-Elec Sub-Index Futures	Short	13	15,860	16,142	
Futures Contracts	Gold Futures	Short	104	39,443	40,367	
Futures Contracts	TaifEx NT Dollar Gold Futures	Long	75	34,959	34,975	
Futures Contracts	TaiEx Futures	Long	3,005	6,304,537	6,342,841	
Futures Contracts	TaiEx Futures	Short	2,887	6,062,118	6,112,160	
Futures Contracts	Mini TaiEx Futures	Long	261	136,312	138,576	
Futures Contracts	Mini TaiEx Futures	Short	6,248	3,275,254	3,315,397	
Futures Contracts	Weekly-Mature Mini-TaiEx Futures	Long	4	2,128	2,128	
Futures Contracts	Stock Futures	Long	4,316	581,138	574,888	
Futures Contracts	Stock Futures	Short	16,253	2,636,139	2,623,172	
Futures Contracts	Foreign Futures	Long	799	415,073	406,850	
Futures Contracts	Foreign Futures	Short	1,886	3,336,569	3,332,171	
Futures Contracts	USD/CNH FX Futures	Long	66	200,262	198,201	
Futures Contracts	USD/CNH FX Futures	Short	6	18,645	18,287	
Futures Contracts	USD/CNT FX Futures	Long	56	33,885	33,479	
Futures Contracts	USD/CNT FX Futures	Short	519	319,997	314,463	
Futures Contracts	S&P 500 Index Futures	Long	28	15,056	15,063	
Futures Contracts	TOPIX Futures	Long	623	227,225	226,826	
Futures Contracts	Taiwan 50 Index	Short	13	10,178	10,362	
Futures Contracts	Dow Jones Futures	Long	112	55,568	55,648	
Futures Contracts	Dow Jones Futures	Short	169	83,855	83,932	

Item	Type of trading	Open interest position		Contract Amount/ Premium Paid (received)	Fair Value	Note
		Long/ Short	Lots			
Futures Contracts	USD/JPY FX Futures	Long	34	20,271	20,176	
Futures Contracts	Hong Kong Hang Seng Index Futures	Long	2	11,445	11,437	
Futures Contracts	Mini Hong Kong Hang Seng Index Futures	Short	10	11,441	11,437	
Futures Contracts	Indian Nifty Index Futures	Long	69	36,434	36,416	
Options Contracts	Index Options-Call	Long	19,755	61,225	102,732	
Options Contracts	Index Options-Put	Long	13,475	47,924	42,697	
Options Contracts	Index Options-Call	Short	23,999	(33,915)	35,911	
Options Contracts	Index Options-Put	Short	45,365	(95,195)	54,203	
Options Contracts	Stock Options-Call	Long	1,381	3,497	3,702	
Options Contracts	Stock Options-Put	Long	1,539	4,084	6,010	
Options Contracts	Stock Options-Call	Short	1,582	(12,409)	9,315	
Options Contracts	Stock Options-Put	Short	1,180	(9,597)	10,423	

<u>12/31/16</u>

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	
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	

Item	Type of trading	Open interest position		Contract Amount/ Premium Paid (received)	Fair Value	Note
		Long/ Short	Lots			
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	

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

	12/31/17	12/31/16
Government bonds	$21,012,660	$12,851,916
Bank Debentures	21,510,883	26,374,646
Convertible bonds	655,154	279,492
Corporate bonds	11,554,116	17,916,075
Total	$54,732,813	$57,422,129
Repurchased amount as specified in respective agreements plus accrued interest	$54,764,877	$57,598,541
Repurchased date as specified in respective agreements	107.1.2-107.2.9	106.1.3-106.3.27

23. Accounts Payable

	12/31/17	12/31/16
Exchange clearing payable	$4,577,576	$2,875,364
Accounts payable for settlement- brokerage	42,457,824	28,340,417
Accounts payable for settlement- non-brokerage	2,456,317	7,632,206
Others	737,904	339,201
Total	$50,229,621	$39,187,188

24. Bonds Payable

	12/31/17	12/31/16
104-1 Unsecured Corporation Bonds Payable	$7,000,000	$7,000,000
Less: Due within in one year	(2,200,000)	-
Net amount	$4,800,000	$7,000,000

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. Post-Employment Benefits

(1) Description of labor pension:

Defined contribution plan

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

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

Defined benefit plan

The Company and its domestic subsidiaries adopt a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company and its domestic subsidiaries contribute an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. In addition, the Company and 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, 2017, the defined benefit plan of the Company and its domestic subsidiaries plan to contribute 22,419 thousand dollars in the following year.

The defined benefit plan for the Company's subsidiary, PT KGI Sekuritas Indonesia, is performed in accordance with local regulation of Indonesia. The remeasurement of defined benefit plan recognized under other comprehensive income for the years ended December 31, 2017 and 2016 is 103 thousand dollars and 0 thousand dollars respectively.

(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	
	2017	2016
Pension incurred on defined contribution	$227,350	$237,125
Pension incurred on defined benefit	22,003	22,282
Total	$249,353	$259,407

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

	For the years ended December 31	
	2017	2016
Current service cost	$11,566	$12,007
Net interest on net defined benefit obligation (assets)	10,437	10,275
Total	$22,003	$22,282

(3) The duration of defined benefit obligation is as following:

	12/31/17	12/31/16
Average duration of defined benefit obligation	14-16 years	13-16 years

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

	12/31/17	12/31/16
Present value of the defined benefit obligation	$1,199,583	$1,213,132
Plans assets at fair value	(427,081)	(519,731)
Carrying amount of net defined benefit obligation	$772,502	$693,401

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, 2017	$1,213,132	$(519,731)	$693,401
Current service cost	11,566	-	11,566
Interest expense (revenue)	18,243	(7,806)	10,437
Recognized in profit or loss	29,809	(7,806)	22,003
Remeasurement of defined benefit obligation/ asset			
The actuarial gain/loss on the change of mortality assumptions	13,183	-	13,183
The actuarial gain/loss on the change of financial assumptions	16,490	-	16,490
Adjustment based on experience	46,818	3,029	49,847
Recognized in OCI	76,491	3,029	79,520
Benefit paid	(119,849)	119,849	-
Employer contribution	-	(22,422)	(22,422)
December 31, 2017	$1,199,583	$(427,081)	$772,502
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
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

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

	12/31/17	12/31/16
Discount rate	1.39%-1.44%	1.50%-1.60%
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:

	12/31/17	12/31/16
Discount rate		
+0.5%	$(70,665)	$(77,768)
- 0.5%	$92,558	$93,174
Expected Salary Growth Rate		
+0.5%	$91,479	$92,159
-0.5%	$(70,592)	$(77,771)

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

	12/31/17	12/31/16
Litigation provision	$136,334	$130,727
Decommissioning liabilities	84,249	94,181
Total	$220,583	$224,908

27. Equity

(1) Common stock

	12/31/17	12/31/16
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 29,988,123 thousand dollars and 34,988,123 thousand dollars as of December 31, 2017 and 2016, respectively, each at a par value of NT$10. The Company has issued 2,998,812 thousand and 3,498,812 thousand common shares as at December 31, 2017 and 2016 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 5,000,000 thousand dollars and 3,000,000 thousand dollars for the years ended December 31, 2017 and 2016 respectively. The case of capital reduction was approved by the authorities on July 14, 2017 and June 7, 2016 respectively. The record date was August 4, 2017 and June 17, 2016 respectively.

(2) Capital reserve

	12/31/17	12/31/16
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	13,035	10,570
Employee share options expired	103	-
Total	$8,646,690	$8,644,122

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

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.

B. The Company held the annual meeting of shareholders (represented by the board of directors) on June 9, 2017 and May 10, 2016 respectively and resolved the distribution of annual net income for 2016 and 2015 as follows:

	Distribution of earnings		Dividend per share (dollar)	
	2016	2015	2016	2015
Legal reserve	$244,918	$232,350	-	-
Special reserve	502,082	464,699	-	-
Cash dividends	1,702,179	1,626,450	0.487	0.428
Total	$2,449,179	$2,323,499		

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	
	2017	2016
Beginning balance	$3,316,524	$3,309,175
Profit attributable to non-controlling interests	31,613	51,421
Other comprehensive income, attributable to non-controlling interests, net of tax:		
Unrealized gains (losses) from available-for-sale financial assets	(14,789)	(4,295)
Net actuarial gains (losses) on defined benefit plan	12	(8)
Exchange differences resulting from translating the financial statements of a foreign operation	(126)	21
Merge	-	1,214
Capital injection of Subsidiary	1,107	-
Cash dividend issued from subsidiaries	(34,251)	(41,004)
Ending balance	$3,300,090	$3,316,524

28. The Detail of Comprehensive Net Income

(1) Brokerage handling fee revenues

	For the years ended December 31	
	2017	2016
Brokerage handling fee revenues	$5,334,557	$4,242,862
Foreign brokerage fee	2,830,239	2,599,401
Handling revenue of short sale	53,771	65,606
Handling fee revenue of securities borrowed	44,963	27,778
Foreign sub-brokerage revenues	196,852	136,419
Total	$8,460,382	$7,072,066

(2) Revenue from underwriting business

	For the years ended December 31	
	2017	2016
Revenue from underwriting of securities	$245,850	$375,852
Revenue from underwriting proceeding fee	214,055	335,653
Revenue from underwriting and counseling	33,725	54,071
Others	264,612	120,239
Total	$758,242	$885,815

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

	For the years ended December 31	
	2017	2016
Dealing		
Revenue	$677,263,200	$933,247,584
Cost	(670,113,375)	(932,093,337)
Subtotal	7,149,825	1,154,247
Underwriting		
Revenue	3,817,908	2,947,481

	For the years ended December 31	
	2017	2016
Cost	(2,611,692)	(2,856,600)
Subtotal	1,206,216	90,881
Hedging		
Revenue	120,464,264	77,466,333
Cost	(119,397,964)	(77,602,498)
Subtotal	1,066,300	(136,165)
Total	$9,422,341	$1,108,963

(4) Interest income

	For the years ended December 31	
	2017	2016
Margin loans	$1,920,384	$1,829,655
Bonds	832,948	816,890
Securities	157,010	100,349
Others	29,185	6,400
Total	$2,939,527	$2,753,294

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

	For the years ended December 31	
	2017	2016
Dealing-net	$(1,033,734)	$877,331
Underwriting-net	(653,118)	219,156
Hedging-net	(128,000)	212,992
Liability for purchase of government bonds	325	(325)
Total	$(1,814,527)	$1,309,154

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

	For the years ended December 31	
	2017	2016
Gains	$140,282	$339,246
Losses	(598,718)	(693,728)
Total	$(458,436)	$(354,482)

(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	
	2017	2016
Exercising warrants before maturity- purchased from others	$17,137	$(877)
Other service fee income	14,587	13,049
Investment advisory income	95,045	188,307
Commission income	425,299	491,501
Investment trust and fund management income	142,116	133,341

	For the years ended December 31	
	2017	2016
Other operating income	313,648	343,090
Error accounts	(5,850)	(7,413)
Exchange gain or loss	711,394	(73,172)
Total	$1,713,376	$1,087,826

(9) Financial costs

	For the years ended December 31	
	2017	2016
Bills and bonds payable under repurchase agreements	$561,563	$380,838
Bank borrowing	285,791	244,295
Short-term notes and bills	68,219	23,234
Bonds	94,560	123,942
Others	59,983	82,231
Total	$1,070,116	$854,540

(10) Employee benefits expenses, depreciation and amortization

	For the years ended December 31	
Item	2017	2016
Employee benefit expenses		
Salary expenses	$6,720,643	$5,788,092
Insurance expenses	321,382	327,194
Pension expenses	249,353	259,407
Others	147,736	140,296
Total	$7,439,114	$6,514,989
Depreciations and amortizations		
Depreciations	$298,898	$309,698
Amortizations	257,241	257,239
Total	$556,139	$566,937

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. The Company appropriates at least 0.1% of income before tax and before distributing earnings to employees as employees' bonus income. The Company held the annual meeting of shareholders (represented by the board of directors) on March 23, 2018 and resolved the distribution of employee's bounus of 57,000 thousand dollars for the year ended December 31,2017.

C. The Company held the annual meeting of shareholders (represented by the board of directors) on March 24, 2017 and resolved the distribution of employees' bonus of 18,000 thousand dollars for the years ended December 31, 2016, which is not different from the expenses recognized in the financial reports of 2016.

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	
	2017	2016
Postage and telephone expenses	$240,157	$232,093
Tax	900,386	808,277
Rental expenses	698,856	731,790
Computer information expenses	484,904	514,326
Bad debt expense	264,229	553,041
Professional expenses	184,627	289,175
Securities borrowed expenses	306,417	291,190
Handling fee	241,376	398,361
Other expenses	960,905	1,010,530
Total	$4,281,857	$4,828,783

(12) Other income and costs

	For the years ended December 31	
	2017	2016
Interest income	$728,498	$567,254
Rental income	21,059	17,014
Disposal of property and equipment	(3,035)	(3,527)
Disposal of investment	216,837	(296,848)
Non-operating financial product at fair value through profit and loss	60,913	(142,058)
Dividend income	257,796	232,044
Management service income	348,410	346,728
Impairment loss	(194,850)	(12,502)
Others	166,171	185,012
Total	$1,601,799	$893,117

29. Components of Other Comprehensive Income

For the year ended December 31, 2017

	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	$(79,417)	$-	$(79,417)	$7,138	$(72,279)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(2,233)	-	(2,233)	-	(2,233)
Items that may be reclassified to profit or loss subsequently:					
Exchange differences	(882,789)	-	(882,789)	-	(882,789)

	Arising	Reclassification	Other comprehensive income, before tax	Income tax (expense) income	Other comprehensive income, net of tax
resulting from translating the financial statements of a foreign operation					
Unrealized gains (losses) from available-for-sale financial assets	927,438	(3,904,448)	(2,977,010)	1,637	(2,975,373)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	456,425	-	456,425	-	456,425
Total	$419,424	$(3,904,448)	$(3,485,024)	$8,775	$(3,476,249)

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

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	
	2017	2016
Current income tax expense (income)		
Current period	$356,631	$184,407
Adjustments of prior periods	(46,419)	4,531
Deferred income tax expense (income)		
Current period	90,690	61,757
Income tax expense (income)	$400,902	$250,695

Income tax relating to components of other comprehensive income

	For the years ended December 31	
	2017	2016
Deferred income tax expense (income)		
Unrealized gains (losses) from available-for-sale financial assets	$(1,637)	$3,805
Net gains (losses) on remeasurement of defined benefit plan	(7,138)	9,304
Income tax relating to components of other comprehensive income	$(8,775)	$13,109

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

	For the years ended December 31	
	2017	2016
Income before income tax	$8,510,200	$2,785,662
Income tax expense	$1,446,734	$473,563
Tax exempted income	(1,022,170)	(455,834)
Non tax-deductible expenses	32,102	18,893
Tax effect of deferred income tax assets/liabilities	33,144	13,637
Tax effect of different tax rate for subsidiaries	(114,226)	125,907
Others	(14,396)	2,168
Alternative minimum tax expense	86,133	67,830
Adjustments of prior periods	(46,419)	4,531
Total income tax expense	$400,902	$250,695

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

	12/31/17	12/31/16
Deferred income tax assets		
Bad debts	$42,792	$8,534
Unrealized exchange loss	2,856	30,727
Unrealized loss of warrants issued and repurchase warrants	-	25,004
Net actuarial gain or loss and pension	24,122	-

	12/31/17	12/31/16
Others	131,442	124,441
Unused tax losses	1,987	1,527
Total	94,237	143,942
Deferred income tax assets	297,436	334,175
Deferred income tax liabilities		
Unrealized gain of available-for-sale financial assets	(9,664)	(11,301)
Unrealized exchange gain	(82,907)	-
Unrealized gain of company warrants	(64,213)	-
Unrealized gain of derivative instruments	-	(100,001)
Goodwill	(909,342)	(909,342)
Land value increment tax liabilities	(9,252)	(9,252)
Others	(1,540)	(1,846)
Total	(1,076,918)	(1,031,742)
Net amount of deferred income tax assets (liabilities)	$(779,482)	$(697,567)

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

	For the years ended December 31	
	2017	2016
Beginning balance	$(697,567)	$(622,701)
Recognized in profit or loss	(90,690)	(61,757)
Recognized in other comprehensive income	8,775	(13,109)
Ending balance	$(779,482)	$(697,567)

(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:

	12/31/17	12/31/16
The Company	NA (NOTE)	$755,244
KGI Securities Investment Advisory Co. Ltd.	NA (NOTE)	2,867
KGI Insurance Brokers Co. Ltd.	NA (NOTE)	17,217
KGI Venture Capital Co. Ltd.	NA (NOTE)	1,025
KGI Securities Investment Trust Co. Ltd.	NA (NOTE)	888
KGI Futures	NA (NOTE)	68,321
GSFC	NA (NOTE)	57,422
KGI Information Technology Co. Ltd.	NA (NOTE)	-

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

	For the years ended December 31	
	2017(Expected)	2016(Actual)
The Company	NA (NOTE)	20.92%
KGI Securities Investment Advisory Co. Ltd.	NA (NOTE)	20.48%
KGI Insurance Brokers Co. Ltd.	NA (NOTE)	20.48%
KGI Venture Capital Co. Ltd.	NA (NOTE)	13.76%
KGI Securities Investment Trust Co. Ltd.	NA (NOTE)	-
KGI Futures	NA (NOTE)	20.87%
GSFC	NA (NOTE)	20.48%
KGI Information Technology Co. Ltd.	NA (NOTE)	-

Note: The amendments to the Income Tax Act that abolished the imputation tax scheme under the integrated income tax system was passed the Legislative Yuan and announced by the president on January 18, 2018 and Febuary 7, 2018, repectively.

(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	As of December 31, 2013, the Company's income tax returns have been assessed by the Tax Bureau. The income tax returns of GCSC has been assessed through 2013.
KGI Securities Investment Advisory Co. Ltd.	Assessed through 2016
KGI Insurance Brokers Co. Ltd.	Assessed through 2016.
KGI Venture Capital Co. Ltd.	Assessed through 2015.
KGI Securities Investment Trust Co. Ltd.	Assessed through 2015.
KGI Futures	Assessed through 2015.
GSFC	Assessed through 2015.
KGI Information Technology Co. Ltd.	Assessed through 2016.

(10) Administrative remedy

For the years from 2009 through 2013, the Company was assessed for additional income tax of 841,054 thousand dollars by the Tax Bureau. GCSC was assessed for additional income tax of 22,663 thousand dollars for 2011 and 2013 respectively. 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	
	2017	2016
Basic EPS		
Profit attributable to ordinary equity holders of the Company	$8,077,685	$2,483,546
Weighted average number of ordinary shares outstanding for basic earnings per share	3,293,332,868 shares	3,636,517,238 shares
Basic EPS (NT$)	$2.45	$0.68

After the reporting date, there was no significant transaction which would change the number of shares outstanding or dilutive respectively until the financial statement was issued.

32. Business Combination

Acquisition of PT KGI Sekuritas Indonesia

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

(1) 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

(2) 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 and minus the fair value of identifiable net assets 121,429 thousand dollars.

33. Subsidiaries with significant non-controlling interests

The non-controlling interests of the Company are 3,300,090 thousand dollars and 3,316,524 thousand dollars as of December 31, 2017 and 2016, respectively. Proportions held by non-controlling interests are as follows:

Subsidiary Company	Country	12/31/17	12/31/16
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%	1.00%

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

Subsidiary Company	12/31/17	12/31/16
GSFC	$3,287,669	$3,304,592

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	
	2017	2016
Revenue	$304,769	$238,336
Net profit from continuing operations	$38,620	$63,722
Other comprehensive income	(18,917)	(5,599)
Comprehensive income	$19,703	$58,123
Net profit allocated to non-controlling interests	$30,127	$49,710
Dividends paid to non-controlling interests	$32,292	$39,664

(2) Summarized information of financial position for GSFC

	12/31/17	12/31/16
Current assets	$8,825,799	$9,125,264
Non-current assets	1,839,143	1,545,921
Current liabilities	6,449,613	6,434,194
Non-current liabilities	930	900

(3) Summarized cash flow information for GSFC

	For the years ended December 31	
	2017	2016
Operating activities	$137,307	$(3,730,449)
Investing activities	(426,364)	(199,590)
Financing activities	98,974	4,157,082
Net increase/(decrease) in cash and cash equivalents	(190,083)	227,043

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

VII. **Significant Related-Party Transaction**

The following is summary of transactions between the Company and its subsidiaries and related parties during the financial reporting periods:

1. Related parties and their relationships with the Company and its subsidiaries

Name of related parties	Relationships with the Company and its subsidiaries
China Development Financial Holding Corp. (CDFH)	The Company's parent company (the parent company)
KGI Securities (Thailand) Public Company Limited (KGI TH)	Invested by the subsidiary and accounted for using the equity method (associate)
Trinitus Asset Management Limited(Trinitus)	Invested by the subsidiary and accounted for using the equity method (associate)
CDIB Capital Group (CDIB Capital)	Sister company (other related party)
KGI Bank Co., Ltd. (KGI Bank)	Sister company (other related party)
China Life Insurance Co., Ltd. (China Life)	Sister company (other related party) (Note)
Fund managed by KGI Securities Investment Trust Co. Ltd. (KGI Investment Trust Fund)	Investment trust fund managed by the subsidiary (other related party)
China Development Industrial Bank Foundation	The sister company is the main donor (other related party)
KGI Charity Foundation	The Company is the main donor (other related party)
Bank of Taiwan Co., Ltd. (Bank of Taiwan)	The parent company's board of director (other related party)
XinWen Investment Co., Ltd.	The parent company's board of director (other related party)
GuoHen Chemistry Co., Ltd	The parent company's board of director (other related party)
CDIB Capital Investment I Ltd.	Invested by the sister company and accounted for using the equity method (other related party)
CDIB Capital Investment II Ltd.	Invested by the sister company and accounted for using the equity method (other related party)
CDIB & Partners Investment Holding Pte.Ltd	Invested by the sister company and accounted for using the equity method (other related party)
CDIB Partners Investment Holding Corp.	Invested by the sister company and accounted for using the equity method (other related party)
CDC Finance & Leasing Corp.	Invested by the sister company and accounted for using the equity method (other related party)
Tuntex Gas Corp.	Invested by the sister company and accounted for using the equity method (other related party) (Note I)
Others	Other related-parties

Note: After the parent company acquires the stock in the form of public acquisition, it becomes the related party.

Note I: Tuntex Gas Corp. was not related from March 1, 2017.

2. Significant transactions with related parties

(1) Operating revenue and cost:

	For the years ended December 31	
	2017	2016
A. Brokerage handling fee revenue		
Parent company		
CDFH	$-	$440
Associates	-	1
Other related parties		
China Life	11,992	-
KGI Investment Trust Fund	12,324	14,378
KGI Bank	14,433	3,143

	For the years ended December 31	
	2017	2016
Others	7,767	6,311
Total	$46,516	$24,273

B. Revenue from underwriting business

	2017	2016
Parent company		
CDFH	$10,500	$-
Other related parties		
KGI Bank	4,715	8,066
Total	$15,215	$8,066

C. Revenue from providing agency service for stock affairs

	2017	2016
Parent company		
CDFH	$17,434	$15,971
Other related parties	258	397
Total	$17,692	$16,368

D. Dividend income

	2017	2016
Other related parties		
China Life	$805	$-

E. Other operating revenue

	2017	2016
Parent company		
CDFH	$9,486	$9,229
Associates	147	715
Other related parties		
KGI Bank	92	9,318
China Life	69,024	-
Total	$78,749	$19,262

F. Finance costs

	2017	2016
Other related parties		
Bank of Taiwan	$5,687	$4,218
KGI Bank	14,695	2,436
KGI Investment Trust Fund	920	1,508
Others	6	6
Total	$21,308	$8,168

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):

	12/31/17	12/31/16
Other related parties		
KGI Bank	$4,552,617	$2,706,110
Bank of Taiwan	7,105	9,927
Total	$4,559,722	$2,716,037

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

	12/31/17	12/31/16
A. Open-ended funds and monetary market instruments		
Other related parties		
KGI Investment Trust Fund	$-	$31,609

	12/31/17 Notional Amount	12/31/16 Notional Amount
B. Outstanding derivative financial instruments		
A.IRS		
Other related parties		
KGI Bank	$955,136	$710,138
B.CBAS-interest		
Other related parties		
KGI Bank	$508,220	$114,000
C.CBAS -long option		
Other related parties		
KGI Bank	$508,220	$114,000

(4) Available-for-sale financial assets- current:

	12/31/17	12/31/16
Stocks		
Parent company		
CDFH	$3,063,126	$2,438,842

(5) Margin loans receivable:

	12/31/17	12/31/16
Other related parties	$23,919	$12,245

(6) Customers' margin accounts:

	12/31/17	12/31/16
Other related parties		
KGI Bank	$2,042,540	$846,673

(7) Accounts Receivable:

	12/31/17	12/31/16
Associates		
KGI TH	$45,894	$2,272
Other related parties		
China Life	18,582	-
Bank of Taiwan	74,866	-
Others	5,076	134
Total	$144,418	$2,406

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

	12/31/17	12/31/16
Associates		
KGI TH	$1,912	$-

	12/31/17	12/31/16
Others	19	106
Other related parties		
KGI Bank	9,466	11,943
Others	3	3
Total	$11,400	$12,052

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

	12/31/17	12/31/16
Other related parties		
KGI Bank	$1,036,153	$1,427,905

(10) Short-term borrowings:

	12/31/17	12/31/16
Other related parties		
Bank of Taiwan	$298,480	$-

(11) Deposits for short sales:

	12/31/17	12/31/16
Other related parties		
KGI Investment Trust Fund	$5,451	$43,406
Others	835	3,780
Total	$6,286	$47,186

(12) Short sales proceeds payable:

	12/31/17	12/31/16
Other related parties		
KGI Investment Trust Fund	$6,027	$47,993
Others	875	4,180
Total	$6,902	$52,173

(13) Futures customers' equity:

	12/31/17	12/31/16
Other related parties		
KGI Investment Trust Fund	$42,647	$45,184
KGI Bank	362,052	18,005
Total	$404,699	$63,189

(14) Accounts Payable:

	12/31/17	12/31/16
Associates		
KGI TH	$43,581	$730
Other related parties		
KGI Bank	158,640	5
China Life	54,110	-
CDIB Capital Investment I Ltd.	-	22,104
CDIB Capital	10,352	11,194
Others	16,444	1,504
Total	$283,127	$35,537

(15) Current income tax liabilities:

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

	12/31/17	12/31/16
Due to CDFH (the parent company)	$340,456	$275,787

(16) Bonds transactions with related parties as follows:

A. Repurchase or resale agreement-Bonds sold under repurchase agreement

	12/31/17	
	Face amount	Maturity amount
Other related parties		
KGI Investment Trust Fund	$61,219	$61,239

	12/31/16	
	Face amount	Maturity amount
Other related parties		
KGI Investment Trust Fund	$715,372	$715,443

B. Purchase and sale of bonds

	For the year ended December 31, 2017	
	Purchase of bonds	Sale of bonds
Other related parties		
KGI Bank	$6,632,791	$2,847,280
Bank of Taiwan	650,453	249,960
China Life	-	3,960,592
Total	$7,283,244	$7,057,832

	For the year ended December 31, 2016	
	Purchase of bonds	Sale of bonds
Other related parties		
KGI Bank	$1,523,921	$6,674,878
Bank of Taiwan	97,143	1,689,580
Total	$1,621,064	$8,364,458

C. Short sale of bonds

	For the year ended December 31, 2017	
	Purchase of bonds	Sale of bonds
Other related parties		
Bank of Taiwan	$50,591	$49,936

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

(17) Other operating expenses

	For the years ended December 31	
	2017	2016
Associates	$-	$1,488
Other related parties		
KGI Bank	8,419	7,174
Bank of Taiwan	4,196	5,327

	For the years ended December 31	
	2017	2016
KGI Charity Foundation	10,001	10,000
China Development Industrial Bank Foundation	-	17,000
China Life	2,577	-
Others	239	-
Total	$25,432	$40,989

(18) Other income and costs

	For the years ended December 31	
	2017	2016
Parent company		
CDFH	$151,293	$151,293
Associates	10,970	10,185
Other related parties		
KGI Bank	142,519	70,329
Others	455	3,776
Total	$305,237	$235,583

(19) Information about key management personnel compensation as follows:

	For the years ended December 31	
	2017	2016
Short-term employee benefit	$157,991	$133,381
Post-employment benefits	3,156	3,173
Share-based payment transaction	1,756	2,353
Total	$162,903	$138,907

(20) Stocks transactions with related parties as following:

	For the year ended December 31, 2017	
	Purchase of stocks	Sale of stocks
Other related parties		
CDIB Capital	$112,345	$-

For the year ended December 31, 2016: None

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

	12/31/17	12/31/16
Other related parties		
Bank of Taiwan	$860,000	$1,050,000

(22) The following assets serve as guarantee for short-term loan to KGI Bank (other related parties):

	12/31/17	12/31/16
Property and equipment and investment property	$273,119	$275,188

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	12/31/17	12/31/16
Financial assets measured at fair value through profit or loss-current-trading securities-dealing	$301,288	$201,914
Available-for-sale financial assets- current	-	2,836,425
Other current assets- restricted	2,171,117	2,268,396
Financial assets measured at fair value through profit or loss-non-current	49,998	50,033
Investment for using the equity method	2,751,465	-
Property and equipment	4,643,495	4,677,647
Investment property	478,014	481,839
Non-current assets-guarantee deposits-out	1,074,524	1,336,195
Total	$11,469,901	$11,852,449

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. The Supreme Court then discarded the verdict on Febuary 1, 2018, and remanded this case to the High Court.
3. Securities and Futures Investors Protection Center sued the Company and claimed that due to the fact that the Company was the lead underwriter of Taiwan Kolin Co., Ltd. 2nd convertible bonds, the Company must have but not performed sufficient audits on the contents disclosed in the prospectus of Taiwan Kolin Co., Ltd. 2nd convertible corporate bonds. Against the article 20 and 32 of Securities and Exchange Act and the article 184 and 185 of Civil Code. The plaintiffs sued the Company and Taiwan Kolin Co., Ltd. with jointly liability amounted to 133,308 thousand dollars plus 5% interest. The lawsuit is currently proceeded by the Taipei District Court. However, Taiwan Kolin Co., Ltd. is under the procedure of reorganization, this lawsuit is withdrawn now.

4. The subsidiary, KGI Futures followed the article 56 of Regulations Governing Futures Commission Merchants. In the event that a futures commission merchant experiences bankruptcy, dissolution, suspension of business operations or circumstances under which acts or regulations require suspension of the acceptance of orders from futures traders, the Financial Supervisory Commission may order it to transfer all the accounts related to its futures traders to another futures commission merchant which has entered into a succession contract with it. The subsidiary had signed the succession contracts with Cathay Futures Corporation, Jihsun Futures Corporation, and CTBC Securities Co., Ltd..

5. For the need of securities borrowing margin, the Company requested the bank guarantees for 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. **<u>Significant Disaster Losses</u>**

Not applicable.

XI. **<u>Significant Subsequent Events</u>**

Not applicable.

XII. **<u>Others</u>**

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

12/31/17

Financial assets	Positions that are neither past due nor impaired				Past due but unimpaired	Impaired	Impaired reserve	Total
	Low	Medium-Low	Medium	High				
Cash and cash equivalents	$15,701,224	$-	$-	$-	$-	$-	$-	$15,701,224
Financial assets measured at fair value through profit or loss-current	47,977,185	914,741	4,518,462	-	-	-	-	53,410,388
Available-for-sale financial assets-current	11,454	-	-	-	-	-	-	11,454
Bonds purchased under resale agreements	13,644,197	7,384,243	100,688	-	-	-	-	21,129,128
Receivables	50,122,706	11,984,186	986,950	3,228	-	-	-	63,097,070
Customers' margin accounts	23,061,445	-	-	-	-	-	-	23,061,445
Stock borrowing collateral price and stock borrowing margin	2,044,464	484,544	-	-	-	-	-	2,529,008
Other financial assets-current	2,620,785	-	-	-	-	-	-	2,620,785
Other current assets	43,790,374	-	-	-	-	-	-	43,790,374
Financial assets measured at fair value through profit or loss-non-current	49,998	-	-	-	-	-	-	49,998
Held to maturity financial assets-non-current	-	-	500,000	-	-	-	-	500,000
Other non-current assets	3,122,448	40,299	50,000	-	-	-	-	3,212,747
Total	$202,146,280	$20,808,013	$6,156,100	$3,228	$-	$-	$-	$229,113,621
Percentage	88.23%	9.08%	2.69%	0.00%	-	-	-	100.00%

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

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

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

12/31/17

Financial Assets	Collection period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Cash and cash equivalents	$6,197,630	$9,503,594	$-	$-	$-	$15,701,224
Financial assets measured at fair value through profit or loss-current	52,603,579	1,680,289	11,839,587	298,687	105,692	66,527,834
Financial assets measured at cost-current	464,219	-	-	-	-	464,219
Available-for-sale financial assets-current	3,074,580	-	294,439	-	-	3,369,019
Bonds purchased under resale agreements	-	21,145,230	-	-	-	21,145,230
Receivables	32,683,905	5,802,279	21,436,030	3,174,856	-	63,097,070
Customers' margin accounts	23,061,445	-	-	-	-	23,061,445
Stock borrowing collateral price and stock borrowing margin	642,043	781,381	1,105,584	-	-	2,529,008
Other financial assets-current	-	-	2,620,785	-	-	2,620,785
Income tax assets	-	-	5,428	2,188	569,624	577,240
Other current assets	42,812,176	516,276	461,922	-	-	43,790,374
Financial assets measured at fair value through profit or loss-non-current	-	-	50,188	-	-	50,188
Financial assets measured at cost-non-current	-	-	-	-	987,613	987,613
Available-for-sale financial assets-non-current	-	-	-	336,654	456,900	793,554
Held to maturity financial assets-non-current	-	-	-	-	500,000	500,000
Investments accounted for using the equity method	-	-	-	-	13,535,865	13,535,865
Others non-current assets	-	100,000	-	469,402	2,683,642	3,253,044
Total	$161,539,577	$39,529,049	$37,813,963	$4,281,787	$18,839,336	$262,003,712
Percentage	61.66%	15.09%	14.43%	1.63%	7.19%	100.00%

Statement of cash flow analysis for financial liabilities

12/31/17

Financial Liabilities	Collection period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Short-term borrowings	$-	$20,036,492	$-	$-	$-	$20,036,492
Commercial papers payable-net	-	8,625,804	-	-	-	8,625,804
Financial liabilities measured at fair value through profit or loss-current	2,763,476	1,687,810	6,535,931	1,149,735	105,692	12,242,644
Bonds sold under repurchase agreements	-	54,764,877	-	-	-	54,764,877
Payables	59,132,885	1,190,292	5,390,025	156,221	-	65,869,423
Securities lending refundable deposits	-	4,781,100	7,648,001	-	-	12,429,101
Futures customers' equity	23,041,948	-	-	-	-	23,041,948
Other current liabilities	831,705	1,182,278	2,656,192	298	-	4,670,473
Other financial liabilities-current	-	4,101,044	-	231,030	-	4,332,074
Income tax liabilities	-	-	123,071	-	574,191	697,262
Current portion of long-term borrowings	-	-	2,200,000	-	-	2,200,000
Bonds payable	-	-	-	4,800,000	-	4,800,000
Liabilities reserve-non-current	-	-	-	22,878	197,705	220,583
Other non-current liabilities	-	-	-	729,102	133,782	862,884
Total	$85,770,014	$96,369,697	$24,553,220	$7,089,264	$1,011,370	$214,793,565
Percentage	39.93%	44.87%	11.43%	3.30%	0.47%	100.00%

Statement of capital liquidation gap

12/31/17

	Collection period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Cash inflow	$161,539,577	$39,529,049	$37,813,963	$4,281,787	$18,839,336	$262,003,712
Cash outflow	85,770,014	96,369,697	24,553,220	7,089,264	1,011,370	214,793,565
Amount of cash flow gap	$75,769,563	$(56,840,648)	$13,260,743	$(2,807,477)	$17,827,966	$47,210,147

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
Available-for-sale financial assets-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 assets	29,675,416	163,028	638,612	-	-	30,477,056
Financial assets measured at fair 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	Payment 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 deposit	-	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

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, 2017 and 2016, shows that the sums from deducting cash outflow from cash inflow are 47,210,147 thousand dollars and 48,799,408 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 61.66% 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, 2017 and 2016, net cash inflow calculated from net spot financial assets are respectively 75,769,563 thousand dollars and 83,846,528 thousand dollars, which are sufficient to cover the net cash outflows of 59,648,125 thousand dollars and 49,996,349 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	12/31/17	12/31/16
Interest rate risk	$4,820	$2,321
Equity securities risk	9,081,111	18,656,595
Exchange rate risk	199,480	1,416,056
Commodity risk sensitivity	95,944	(2,051)

(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, 2017			12/31/17
	Average VAR	Minimum VAR	Maximum VAR	Ending VAR
Equity securities	286,226	101,239	629,367	185,196
Interest Rate	84,874	43,376	164,328	98,072
Exchange Rate	7,031	3,002	16,488	5,553
Commodity	6,517	59	33,934	4,240

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

(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	12/31/17	12/31/16
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	$153,986	$46,749
Open-ended funds and monetary market instruments	1,501,494	2,522,042
Trading securities	61,847,938	55,752,957
Derivative financial instruments		
Long options	155,141	103,039
Futures trading margins-proprietary funds	466,513	519,065
Derivative instrument assets	2,258,637	2,163,243
Financial assets measured at fair value through profit or loss-non-current	49,998	50,033
Available-for-sale financial assets:		
Available-for-sale financial assets-current	3,369,019	9,246,926
Available-for-sale financial assets-non-current	793,554	425,559
Financial assets measured at cost:		
Financial assets measured at cost-current	464,219	1,090,749
Financial assets measured at cost-non-current	987,612	918,314
Held to maturity financial assets:		
Held to maturity financial assets-non-current	500,000	300,000
Loans and receivables:		
Cash and cash equivalents (Cash on hand excluded)	15,697,946	16,446,784
Bonds purchased under resale agreements	21,129,128	29,087,308
Receivables-net	63,097,070	60,846,842
Customers' margin accounts	23,061,445	37,066,541
Stock borrowing collateral price and stock borrowing margin	2,529,008	3,000,687
Other financial assets-current	2,620,785	2,527,870
Other current assets	43,790,374	30,477,056
Other non-current assets		
Operating bond	1,426,363	1,417,056
Settlement/clearance fund	542,843	527,293
Guarantee deposits-out	1,074,524	1,336,195

Financial instruments	12/31/17	12/31/16
Collaterals assumed	-	34,201
Other non-current assets- others	231,197	702
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 sale	151,093	2,211,581
Liability for purchase of government bonds	-	150,000
Liabilities for securities and bonds borrowed	4,343,645	5,484,802
Derivative financial instruments		
Liabilities for warrants issued	11,820,861	9,438,441
Repurchase of issued warrants	(10,608,601)	(9,118,906)
Short options	109,852	60,203
Derivative instruments liabilities	5,259,084	2,845,225
Financial liabilities are designated initially at fair value through profit or loss	986,143	1,103,869
Financial liabilities at amortized cost:		
Short-term borrowings	20,036,492	12,777,858
Commercial papers payable-net	8,625,804	10,293,033
Bonds sold under repurchase agreements	54,732,813	57,422,129
Payables	65,869,423	52,737,931
Collection for others	1,713,862	1,808,278
Other payables	2,891,563	2,061,867
Stock borrowing margin- deposit in	12,429,101	11,335,953
Other current liabilities		
Customers' equity in their own accounts	62,402	36,091
Futures customers' equity	23,041,948	36,084,937
Other financial liabilities- current	4,099,601	4,423,975
Current portion of long-term borrowings	2,200,000	-
Bonds payable	4,800,000	7,000,000
Other financial liabilities-non-current		
Guarantee deposits-in	89,000	19,287

(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, collection for others, other payables, other current liabilities 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:

12/31/17

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	$12,665,292	$12,665,292	$-	$-
Bonds	39,633,415	19,703,346	19,930,069	-
Others	11,254,709	785,808	10,468,901	-
Available-for-sale financial assets				
Stocks	3,814,465	3,739,847	-	74,618
Bonds	11,454	11,454	-	-
Others	336,654	336,654	-	-
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Stocks	1,179,942	1,179,900	42	-
Bonds	3,314,796	151,093	3,163,703	-
Derivative instruments				
Assets				
Financial assets measured at fair value through profit or loss	2,880,291	623,613	2,250,673	6,005
Liabilities				
Financial liabilities measured at fair value through profit or loss	7,567,839	1,349,139	5,910,153	308,547

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	-	-

12/31/16

Financial instruments measured at fair value	Total	Level 1	Level 2	Level 3
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

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

There was no transfer between Level 1 and Level 2 between current and prior periods as of December 31, 2017 and 2016.

(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, 2017

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	$53,855	$(11,260)	$-	$77,220	$-	$(113,810)	$-	$6,005
Available-for-sale financial assets-non-current	58,150	-	16,468	-	-	-	-	74,618

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

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

For the year ended December 31, 2017

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	$8,514	$126,731	$-	$1,049,780	$-	$(876,478)	$-	$308,547

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

c. Total gains or losses from financial assets and liabilities still held by the Company for the years ended December 31, 2017 and 2016 are as follows:

	For the years ended December 31	
	2017	2016
Total gains or losses		
Recognized in profit or loss	$(21,623)	$(29,990)

d. 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, 2017 and 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.

12/31/17

	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	13.42%-69.92%	Depending on contract terms.
Equity derivative instruments-long option	Martingale Pricing Technique	History Volatility	19.70%-19.70%	
Financial liabilities:				
Derivatives				
Structured notes-options	Martingale Pricing Technique	History Volatility	2.13%-56.98%	Depending on contract terms.
Equity derivative instruments-short option	Martingale Pricing Technique	History Volatility	13.93%-59.80%	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;

Note: Fair value is from third-party quotations

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;

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value
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

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.

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

12/31/2017

	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%	$1,217	$1,135
Equity derivative instruments －long option	Historical volatility	+25% / -25%	4	4
Total			$1,221	$1,139
Financial liabilities:				
Derivatives				
Structured notes- options	Historical volatility	-25% / +25%	$(210)	$(175)
Equity derivative instruments －short option	Historical volatility	-25% / +25%	971	1,103
Total			$761	$928

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%	$0	$0
Equity derivative instruments －short option	Historical volatility	-25% / +25%	0	0
Total			$0	$0

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

12/31/17

	Level 1	Level 2	Level 3	Total
Investments accounted for using the equity method	$13,745,759	$-	$-	$13,745,759
Investment properties	-	-	1,015,068	1,015,068

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

Investments accounted for using the equity method are the significant investments in associates. 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:

12/31/17					
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	$55,612,999	$54,732,813	$55,612,999	$54,732,813	$880,186
Securities borrowing transactions	153,986	215,580	153,986	215,580	(61,594)

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)

(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 assets measured at fair value through profit or loss	Assets	Liabilities	
12/31/17	Long call option	$10,430,900	$1,128,581	$1,128,581	$-	$1,128,581
12/31/16	Long call option	$10,229,100	$610,676	$610,676	$-	$610,676

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
12/31/17	Long call option	$-	$437,400	$2,807,800	$7,185,700	$-	$10,430,900
12/31/16	Long call option	$4,568,600	$990,100	$3,106,700	$1,563,700	$-	$10,229,100

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
12/31/17	Long call option	$(2,167)	$210,551	$208,384
12/31/16	Long call option	$(41,236)	$611,220	$569,984

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:

12/31/17						
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	$2,258,637	$-	$2,258,637	$-	$70,133	$2,188,504
Resell agreement	21,129,128	-	21,129,128	21,129,128	-	-
Total	$23,387,765	$-	$23,387,765	$21,129,128	$70,133	$2,188,504

12/31/17						
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 provided	
Derivative	$5,259,084	$-	$5,259,084	$-	$453,886	$4,805,198
Repurchase agreement	54,732,813	-	54,732,813	54,732,813	-	-
Total	$59,991,897	$-	$59,991,897	$54,732,813	$453,886	$4,805,198

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 provided	
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

(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, 2017 and 2016 are disclosed as follows:

(1) Capital Adequacy Ratio

Item	12/31/17	12/31/16
Qualified net equity capital	$18,167,949	$17,895,797
Equivalnet amount of operating risk	6,158,251	5,434,116
Capital adequacy ratio	295%	329%

Item	2017	2016
Average	300%	290%
Maximum	340%	329%
Minimum	248%	248%

(2) Equivalent amounts and percentages of operating risks

	12/31/17		12/31/16	
Item	Amount	Percentage	Amount	Percentage
Market risk	$2,550,252	41.41%	$2,333,574	42.94%
Credit risk	2,097,460	34.06%	1,541,798	28.37%
Operational risk	1,510,539	24.53%	1,558,744	28.69%
Total	$6,158,251	100.00%	$5,434,116	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:

	12/31/17	
	Book value	Fair value
Available-for-sale financial assets-current	$1,405,997	$1,405,997

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 2017	$(412,054)	$97,442
For the year ended December 31, 2017	291,203	(1,228)
Total	$(120,851)	$96,214

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	12/31/17		12/31/16		Standard	Execution
		Calculation	Ratio	Calculation	Ratio		
17	Stock holders' equity / (Total liabilities－Futures customers' equity)	1,855,943 / 633,222	2.93	1,784,471 / 394,084	4.53	≧1	Satisfied
17	Current assets / Current liabilities	2,443,795 / 322,389	7.58	2,133,932 / 166,579	12.81	≧1	〃
22	Stockholders' equity / Minimum paid-in capital	1,855,943 / 400,000	463.99%	1,784,471 / 400,000	446.12%	≧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	1,327,438 / 340,935	389.35%	1,322,873 / 281,618	469.74%	≧20% ≧15%	〃

KGI Futures

Article #	Calculation Formula	12/31/17 Calculation	12/31/17 Ratio	12/31/16 Calculation	12/31/16 Ratio	Standard	Execution
17	Stock holders' equity / (Total liabilities－Futures customers' equity)	2,609,695 / 315,167	8.28	2,735,161 / 298,763	9.15	≧1	Satisfied
17	Current assets / Current liabilities	23,777,258 / 21,871,639	1.09	22,820,898 / 20,694,894	1.10	≧1	〃
22	Stockholders' equity / Minimum paid-in capital	2,609,695 / 760,000	343.38%	2,735,161 / 760,000	359.89%	≧60% ≧40%	〃
22	Net capital amount afte adjustment / The total amount of customer's margin required by the non-offset position for the futures dealer	2,387,412 / 4,433,304	53.85%	2,338,562 / 3,376,756	69.25%	≧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

	12/31/17	12/31/16
Cash in bank	$1,136,142	$809,142
Financial assets	26,411,297	22,988,241
Receivables	127,032	72,988
Total trusted assets	$27,674,471	$23,870,371

	12/31/17	12/31/16
Payables	$59,962	$16,097
Trust capital	25,510,294	23,786,620
Reserves and retained earnings	2,104,215	67,654
Total trusted liabilities	$27,674,471	$23,870,371

B. Income statement of trust business

	For the years ended December 31 2017	2016
Revenues	$3,230,873	$2,077,401
Expenses	(2,184,859)	(2,712,400)
Income before tax	1,046,014	(634,999)
Income tax	-	-
Net income	$1,046,014	$(634,999)

C. Trust Property catalog

	12/31/17	12/31/16
Cash in bank	$1,136,142	$809,142
Stocks	14,493,874	13,755,119
Funds	11,532,078	9,227,067
Structured notes	385,345	6,055
Total	$27,547,439	$23,797,383

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, 2017 and 2016 are USD 2,091 thousand dollars and USD 1,118 thousand dollars respectively.

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

	12/31/17			12/31/16		
Financial Instruments	Foreign currency (thousand dollars)	Exchange rate	NTD	Foreign currency (thousand dollars)	Exchange rate	NTD
Financial assets						
Monetary Items						
USD	$1,533,281	29.83	$45,733,639	$2,336,758	32.21	$75,259,143
HKD	130,431	3.81	497,062	127,231	4.16	529,229
GBP	331	40.17	13,314	426	39.61	16,876
JPY	10,660,054	0.26	2,822,099	8,724,871	0.28	2,404,829
EUR	1,843	35.63	65,645	33,751	33.92	1,144,684
CNY	181,517	4.58	831,136	244,837	4.62	1,131,607
AUD	1,567	23.26	36,446	4,373	23.30	101,903
SGD	360	22.30	8,027	9,014	22.31	201,095
Non-monetary Items						
USD	948,179	29.85	28,301,257	761,214	32.28	24,571,228
HKD	24,475	3.82	93,471	10,013	4.16	41,674
CNY	332,660	4.58	1,523,219	412,573	4.62	1,906,873
AUD	30,770	23.26	715,714	4,529	23.30	105,539
JPY	106,325	0.26	28,165	188,576	0.28	51,990
NZD	-	-	-	1,935	22.42	43,364
EUR	978	35.67	34,888	524	33.92	17,788
Investments accounted for using the equity method						
USD	73,746	29.85	2,201,177	67,639	32.28	2,183,329
Financial liabilities						
Monetary Items						
USD	3,737,065	29.84	111,512,461	3,678,462	32.28	118,729,246
HKD	99,931	3.81	380,589	79,633	4.16	331,116

Financial Instruments	12/31/17 Foreign currency (thousand dollars)	12/31/17 Exchange rate	12/31/17 NTD	12/31/16 Foreign currency (thousand dollars)	12/31/16 Exchange rate	12/31/16 NTD
GBP	82	40.11	3,301	273	39.61	10,797
JPY	10,364,108	0.26	2,744,556	8,413,574	0.28	2,319,492
EUR	785	35.57	27,935	31,848	33.92	1,080,125
CNY	13,746	4.58	62,928	300,806	4.62	1,390,287
AUD	24,696	23.26	574,426	4,100	23.30	95,538
SGD	99	22.26	2,210	8,768	22.31	195,616
Non-monetary Items						
USD	212,777	29.85	6,350,974	196,950	32.28	6,357,340
JPY	106,325	0.26	28,165	160,416	0.28	44,227
CNY	31,864	4.58	145,903	39,941	4.62	184,602
AUD	4,220	23.26	98,167	4,529	23.30	105,539
NZD	-	-	-	1,935	22.42	43,364
EUR	223	35.67	7,962	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 (inclueding realized and unrealized) are 711,394 thousand dollars and 73,172 thousand dollars for the year ended on December 31, 2017 and 2016, respectively.