KGI SECURITIES CO. LTD.

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

With Independent Auditors' Report

The reader is advised that these consolidated 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.

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English Translation of a Report Originally Issued in Chinese

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, 2018 and 2017, and the related consolidated statements of comprehensive income, statements for changes in equity and cash flows for the years ended December 31, 2018 and 2017, 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, 2018 and 2017, and their consolidated financial performance and cash flows for the years ended December 31, 2018 and 2017, 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 consolidated financial statements for the year ended December 31, 2018. 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.

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Assessment of Goodwill Impairment

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, 2018 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.19.

Valuation of Derivative Instruments

The Company and its subsidiaries invest in different types of financial assets and liabilities. As of December 31, 2018, 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.

Emphasis of matter – Apply for New Accounting Standards

We draw attention to Note III of the consolidated financial statements, which describes the Company and its subsidiaries applied for the International Fiancial Reporting Standard (IFRS) 9, "Financial instruments" and IFRS 15, "Revenue from Contracts with Customers" starting from January 1, 2018 and elected not to restate the consolidated financial statements for prior periods. Our conclusion is not modified in respect of this matter.

Other Matter – Making Reference to the Audits of Component Auditors

We did not audit the financial statements of certain consolidated subsidiaries, which statements reflect total assets of NT 7,724,443 thousand dollar and NT 11,000,672 thousand dollars, constituting 2.78% and 3.97% of consolidated total assets as of December 31, 2018 and 2017, respectively; income before income tax of NT 39,830 thousand dollars and NT 76,353 thousand dollars, constituting 0.92% and 0.90% of consolidated income before income tax for the years ended December 31, 2018 and 2017, respectively; and other comprehensive income of NT 140 thousand dollars and NT (17,636) thousand dollars, constituting 0.01% and 0.51% of consolidated other comprehensive income for the years ended December, 2018 and 2017, 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.

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.

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 consolidated financial statements for the year ended December 31, 2018 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 including an Other Matter Paragraph on the parent company only financial statements of the Company as of and for the years ended December 31, 2018 and 2017.

Others

We have audited and expressed an unqualified opinion including the Other Matter paragraph on the parent company only financial statements of the Company as of and for the years ended December 31, 2018 and 2017.

Huang, Chien-Che
Fuh, Wen-Fun
Ernst & Young, Taiwan
March 22, 2019

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2018 and 2017

(Expressed in New Taiwan Thousand Dollars)

ASSETS	12/31/2018	12/31/2017
CURRENT ASSETS		
Cash and cash equivalents (Notes IV, VI.1, VI.30 and VII)	$13,848,536	$15,701,224
Financial assets measured at fair value through profit or loss-current (Notes IV, VI.2, VI.23, VII and VIII)	56,507,312	66,383,709
Financial assets measured at cost-current (Notes IV and VI.3)	-	464,219
Financial assets measured at fair value through other comprehensive income-current (Notes IV, VI.4, VI.30 and VII)	14,371,372	-
Available-for-sale financial assets-current (Notes IV, VI.6 and VII)	-	3,369,019
Bond investments under resale agreements (Notes IV, VI.8 and VI.30)	19,448,822	21,129,128
Margin loans receivable (Notes IV, VI.9, VI.30 and VII)	21,179,631	34,508,138
Refinancing margin	-	723
Refinancing deposits receivable	-	648
Trading securities receivable (Notes VI.10 and VI.30)	8,029,932	7,459,278
Customer margin accounts (Notes IV, VI.11, VI.30 and VII)	21,810,475	23,061,445
Futures commission merchant receivable (Notes IV, VI.12 and VI.30)	12,618	11
Stock borrowing collateral price	1,157,582	198,581
Stock borrowing margin	10,778,769	2,330,427
Notes receivable	1,168	769
Accounts receivable (Notes VI.13, VI.30 and VII)	22,258,374	21,127,503
Prepayments	107,241	157,542
Other financial assets-current (Notes VI.1 and VII)	3,387,927	2,620,785
Current tax assets	571,927	577,240
Other current assets (Notes VI.30, VII and VIII)	47,579,789	43,790,374
Total Current Assets	241,051,475	242,880,763
NON-CURRENT ASSETS		
Financial assets measured at fair value through profit or loss-non-current (Notes IV, VI.2 and VIII)	2,782,424	49,998
Financial assets measured at cost-non-current (Notes IV and VI.3)	-	987,613
Financial assets measured at fair value through other comprehensive income-non current (Notes IV ,VI.4 and VI.30)	4,218,151	-
Financial assets measured at amortized cost-non-current (Notes IV, VI.5 and VI.30)	496,707	-
Available-for-sale financial assets-non-current (Notes IV and VI.6)	-	793,554
Held to maturity financial assets-non-current (Notes IV and VI.7)	-	500,000
Investments accounted for using equity method (Notes IV, VI.14 and VIII)	11,170,844	13,535,865
Property and equipment (Notes IV, VI.15, VII and VIII)	5,696,497	5,893,880
Investment property (Notes IV, VI.16, VII and VIII)	499,674	502,507
Intangible assets (Notes IV, VI.17 and VI.19)	7,985,194	8,171,951
Deferred tax assets	348,416	297,436
Other non-current assets (Notes VI.18, VI.30 and VIII)	3,272,204	3,274,927
Total Non-current Assets	36,470,111	34,007,731
TOTAL ASSETS	$277,521,586	$276,888,494

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

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English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2018 and 2017

(Expressed in New Taiwan Thousand Dollars)

LIABILITIES AND EQUITY	12/31/2018	12/31/2017
CURRENT LIABILITIES		
Short-term borrowings (Notes VI.20 and VII)	$14,782,223	$20,036,492
Commercial papers payable (Note VI.21)	2,457,752	8,625,804
Financial liabilities measured at fair value through profit or loss-current (Notes IV, VI.22, VI.23 and VII)	11,541,518	12,062,577
Liabilities for bonds with attached repurchase agreements (Notes IV, VI.24 and VII)	65,175,218	54,732,813
Securities financing refundable deposits (Notes VI.9 and VII)	2,705,335	3,129,677
Deposits payable for securities financing (Notes VI.9 and VII)	14,465,995	12,510,125
Securities lending refundable deposits	17,818,460	12,429,101
Futures customers' equity (Notes IV and VII)	21,792,908	23,041,948
Accounts payable (Notes VI.25 and VII)	50,528,840	50,229,621
Amounts received in advance	156,239	1,750
Amounts collected for other parties	1,405,617	1,713,862
Other payables (Notes IV and VII)	2,650,442	2,891,563
Other financial liabilities-current	2,233,719	4,099,601
Current tax liabilities (Notes IV and VII)	913,851	697,262
Long-term liabilities-current portion (Note VI.26)	-	2,200,000
Other current liabilities	71,803	65,048
Total Current Liabilities	208,699,920	208,467,244
NON-CURRENT LIABILITIES		
Bonds payable (Notes IV and VI.26)	4,800,000	4,800,000
Liabilities reserve-non-current (Note IV and VI.28)	227,068	220,583
Deferred tax liabilities (Note IV and VI.32)	1,258,095	1,076,918
Other non-current liabilities (Note IV and VI.27)	762,221	862,884
Total Non-Current Liabilities	7,047,384	6,960,385
Total Liabilities	215,747,304	215,427,629
EQUITY		
Capital stock abstract (Note VI.29)		
Common stock	32,418,432	29,988,123
Capital reserve (Notes IV and VI.29)	8,648,158	8,646,690
Retained earnings (Note VI.29)		
Legal reserve	4,888,610	4,088,294
Special reserve	11,338,931	8,566,395
Unappropriated earnings	5,016,370	8,003,162
Other equity		
Exchange differences resulting from translating the financial statements of a foreign operation	(588,187)	(950,756)
Unrealized gain or loss on financial assets measured at fair value through other comprehensive income	(3,303,578)	-
Unrealized gain or loss on available-for-sale financial assets	-	(181,133)
Equity attributable to owners of the parent company	58,418,736	58,160,775
Non-controlling interests (Note VI.29 and VI.34)	3,355,546	3,300,090
Total Equity	61,774,282	61,460,865
TOTAL LIABILITIES AND EQUITY	$277,521,586	$276,888,494

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

For the Years Ended December 31, 2018 and 2017

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

	For the Years Ended December 31	
	2018	2017
REVENUES (Note IV)		
Brokerage handling fee revenue (Notes VI.30 and VII)	$9,116,022	$8,460,382
Revenue from borrowed securities	708,736	559,872
Revenue from underwriting business (Notes VI.30 and VII)	556,453	758,242
Revenue from wealth management services-net	94,883	70,968
Gains/(losses) on disposal of trading securities-net (Note VI.30)	(1,402,989)	9,422,341
Revenue from providing agency service for stock affairs (Note VII)	171,266	161,361
Interest income (Note VI.30)	3,384,789	2,939,527
Dividend income (Note VII)	352,933	708,312
Gains/(losses) on trading securities measured at fair value through profit or loss-net (Note VI.30)	(672,611)	(1,814,527)
Gains/(losses) on covering of borrowed securities and bonds with resale agreements-net (Note VI.30)	219,157	(458,436)
Gains/(losses) on borrowed securities and bonds with resale agreements at fair value through profit or loss-net	481,100	(42,507)
Realised gains/(losses) on financial assets measured at fair value through other comprehensive income-bonds	29,009	-
Gains/(losses) on warrants issued-net (Note VI.23)	880,444	167,705
Gains/(losses) on derivative financial product-futures-net (Note VI.23)	1,377,473	(156,470)
Gains/(losses) on derivative financial product-GTSM-net (Notes VI.23 and VII)	550,439	(912,513)
Expected credit losses/(gains) (Note VI.30 and XII)	(111,815)	-
Other operating revenue (Notes VI.30 and VII)	858,749	1,713,376
Total Revenues	16,594,038	21,577,633
COSTS AND EXPENSES (Note IV)		
Brokerage handling fee expenses	957,710	1,013,836
Dealing handling fee expenses	62,090	54,549
Refinancing handling fee expenses	165	295
Financial costs (Notes VI.30 and VII)	1,548,398	1,070,116
Losses on trading of borrowed securities	19,804	160,057
Futures commission expenses	94,268	93,569
Settlement and clearing service expenditures	311,183	251,017
Other operating costs	253,515	104,277
Employee benefits expenses (Notes VI.27, VI.30 and VII)	7,195,285	7,439,114
Depreciation and amortization (Notes VI.30)	552,234	556,139
Other operating expenses (Notes VI.30 and VII)	4,457,047	4,281,857
Total Costs and Expenses	15,451,699	15,024,826
INCOME FROM OPERATIONS	1,142,339	6,552,807
NON-OPERATING INCOME OR COSTS		
Share of the profit or loss of associates and joint ventures accounted for using equity method (Note IV and VI.14)	1,110,137	355,594
Other income and costs (Notes IV, VI.16, VI.30 and VII)	2,088,806	1,601,799
Total Non-operating Income or Costs	3,198,943	1,957,393
INCOME BEFORE INCOME TAX	4,341,282	8,510,200
INCOME TAX EXPENSES (Notes IV and VI.32)	(511,862)	(400,902)
NET INCOME	3,829,420	8,109,298
OTHER COMPREHENSIVE INCOME (Note IV and VI.31)		
Not to be reclassified subsequently to profit or loss		
Remeasurements of defined benefit plans	(42,027)	(79,417)
Unrealized losses from investments in equity instruments measured at fair value through other comprehensive income	(93,046)	-
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(396,176)	(2,233)
Income tax relating to components that will not be reclassified (Note VI.32)	21,736	7,138
To be reclassified subsequently to profit or loss		
Exchange differences resulting from translating the financial statements of a foreign operation	363,055	(882,789)
Unrealized gains from investments in debt instruments measured at fair value through other comprehensive income	80,607	-
Unrealized losses on available-for-sale financial assets	-	(2,977,010)
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(2,916,209)	456,425
Income tax relating to components that will be reclassified (Note VI.32)	-	1,637
Current other comprehensive income-net of tax	(2,982,060)	(3,476,249)
CURRENT COMPREHENSIVE INCOME	$847,360	$4,633,049
NET INCOME ATTRIBUTABLE TO:		
Owners of the parent company	$3,764,825	$8,077,685
Non-controlling interests (Note VI.29 and Note VI.34)	$64,595	$31,613
CURRENT COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the parent company	$782,831	$4,616,339
Non-controlling interests (Note VI.29 and Note VI.34)	$64,529	$16,710
EARNINGS PER SHARE (Note VI.33)		
Net income attributable to owners of the parent company	$1.16	$2.28

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2018 and 2017

(Expressed in New Taiwan Thousand Dollars)

	Equity Attributed to Owners of the Parent Company										
			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	Unrealised Gains /(Losses) on Financial Assets Measured at Fair value through Other Comprehensive Income	Unrealized Gains /(Losses) on Available-For-Sale Financial Assets	Total	Non-controlling Interests	Total Equity
Balance, January 1, 2017	$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
Appropriations 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 December 31, 2017	-	-	-	-	8,077,685	-	-	-	8,077,685	31,613	8,109,298
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	(74,523)	(889,799)	-	(2,497,024)	(3,461,346)	(14,903)	(3,476,249)
Total comprehensive income	-	-	-	-	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)
Shared-based payment transaction	-	2,568	-	-	-	-	-	-	2,568	-	2,568
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(33,144)	(33,144)
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
Effect of retrospective application	-	-	-	-	1,365,896	-	(83,461)	181,133	1,463,568	(1,677)	1,461,891
Adjusted Balance, January 1, 2018	29,988,123	8,646,690	4,088,294	8,566,395	9,369,058	(950,756)	(83,461)	-	59,624,343	3,298,413	62,922,756
Appropriations and distribution of 2017 retained earnings:											
Legal reserve	-	-	800,316	-	(800,316)	-	-	-	-	-	-
Special reserve	-	-	-	2,772,536	(2,772,536)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(2,000,000)	-	-	-	(2,000,000)	-	(2,000,000)
Stock dividends	2,430,309	-	-	-	(2,430,309)	-	-	-	-	-	-
Net income for the year ended December 31, 2018	-	-	-	-	3,764,825	-	-	-	3,764,825	64,595	3,829,420
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	(21,928)	362,569	(3,322,635)	-	(2,981,994)	(66)	(2,982,060)
Total comprehensive income	-	-	-	-	3,742,897	362,569	(3,322,635)	-	782,831	64,529	847,360
Purchase of subsidiary stock	-	-	-	-	-	-	-	-	-	(20)	(20)
Shared-based payment transaction	-	1,468	-	-	-	-	-	-	1,468	-	1,468
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(7,376)	(7,376)
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	(102,518)	-	102,518	-	-	-	-
Other	-	-	-	-	10,094	-	-	-	10,094	-	10,094
Balance, December 31, 2018	$32,418,432	$8,648,158	$4,888,610	$11,338,931	$5,016,370	$(588,187)	$(3,303,578)	$-	$58,418,736	$3,355,546	$61,774,282

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

(Expressed in New Taiwan Thousand Dollars)

	For the Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income before income tax expenses	$4,341,282	$8,510,200
Adjustments to reconcile income before income tax expenses to net cash (used in)/provided by operating activities:		
Depreciation	292,686	298,898
Amortization	259,548	257,241
Allowance for bad debts	-	153,712
Expected credit losses/(gains)	111,815	-
Interest expense	1,548,398	1,070,116
Net losses/(gains) of financial assests reclassified	-	(3,833,802)
Interest income	(4,467,948)	(3,669,171)
Dividend income	(649,117)	(966,108)
Share-based payment transactions	1,468	2,568
Share of the profit or loss of associates and joint ventures accounted for using equity method	(1,110,137)	(355,594)
(Gains)/losses on disposal of property and equipment	(62,391)	3,035
(Gains)/losses on disposal of financial assets measured at cost	-	(1,817)
(Gains)/losses on disposal of investments	-	(175,137)
Impairment loss on non-financial assets	-	194,850
Others	(523)	-
Changes in operating assets and liabilities:		
Changes in operating assets:		
Financial assets measured at fair value through profit or loss-current	10,955,092	(9,493,440)
Financial assets measured at fair value through other comprehensive income-current	(11,831,641)	-
Financial assets measured at cost-current	-	343,353
Available-for-sale financial assets-current	-	429,617
Bond investments under resale agreements	1,680,290	7,958,180
Margin loans receivable	13,326,793	(5,832,050)
Refinancing margin	723	4,422
Refinancing deposits receivable	648	3,621
Trading securities receivable	(571,220)	(563,121)
Customer margin accounts	1,250,944	14,005,096
Futures commission merchant receivable	(102,473)	(11)
Stock borrowing collateral price	(959,001)	(8,859)
Stock borrowing margin	(8,448,342)	480,538
Notes receivable	(399)	1,170
Accounts receivable	(889,870)	4,248,758
Prepayments	50,301	(53,133)
Other financial assets-current	(767,142)	(92,915)
Other current assets	(3,796,555)	(13,525,711)
Financial assets measured at fair value through profit or loss-non-current	(36,972)	35
Financial assets measured at fair value through other comprehensive income-non-current	(4,172,717)	-
Changes in operating liabilities:		
Financial liabilities measured at fair value through profit or loss-current	(521,059)	(112,638)
Liabilities for bonds with attached repurchase agreements	10,442,405	(2,689,316)
Securities financing refundable deposits	(424,342)	448,422
Deposits payable for securities financing	1,955,870	1,640,637
Securities lending refundable deposits	5,389,359	1,093,148
Futures customers' equity	(1,249,040)	(13,042,989)
Accounts payable	185,612	11,007,412
Amounts received in advance	154,489	1,018
Amounts collected for other parties	(308,245)	(94,416)
Other payables	(224,841)	824,997
Other financial liabilities-current	(1,865,882)	(324,374)
Other current liabilities	6,755	22,100
Liabilities reserve-non-current	6,485	(4,325)
Other non-current liabilities	(142,690)	70,073
Cash provided by/(used in) operating activities	9,358,416	(1,765,710)
Interest received	4,212,535	3,616,021
Dividend received	353,809	707,363
Interest paid	(1,451,071)	(1,030,396)
Income tax paid	(154,462)	(434,897)
Net cash provided by operating activities	12,319,227	1,092,381

(Continue on next page)

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

(Continue from previous page)

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

(Expressed in New Taiwan Thousand Dollars)

	For the Years Ended December 31	
	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disposal of financial assets measured at fair value through other comprehensive income	570,393	-
Purchase of available-for-sale financial assets	-	(628,179)
Disposal of available-for-sale financial assets	-	327,179
Purchase of financial assets measured at cost-non-current	-	(268,730)
Disposal of financial assets measured at cost	-	31,105
Liquidation refunding of financial assets measured at cost	-	4,392
Capital reduction of financial assets measured at cost	-	25,791
Purchase of held-to-maturity financial assets-non-current	-	(200,000)
Disposal of investments accounted for using equity method	7,994	-
Purchase of property and equipment	(117,196)	(138,913)
Disposal of property and equipment	108,632	1,783
Operation gurantee deposits	683	(9,307)
Clearing and settlement fund	(12,633)	(15,550)
Guarantee deposits paid	28,476	261,671
Purchase of intangible assets	(50,575)	(69,375)
Other non-current assets	(41,440)	29,831
Dividends received	793,154	759,814
Net cash provided by investing activities	1,287,488	111,512
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term borrowings	(5,254,269)	7,258,634
Commercial papers payable	(6,168,052)	(1,667,229)
Redemption of bonds	(2,200,000)	-
Cash dividends	(2,007,377)	(1,736,430)
Cash reduction of capital	-	(5,000,000)
Purchase of subsidiary stock	(20)	-
Changes in non-controlling interests	-	1,107
Net cash used in financing activities	(15,629,718)	(1,143,918)
EFFECTS OF EXCHANGE RATE CHANGES	170,315	(808,971)
DECREASE IN CASH AND CASH EQUIVALENTS	(1,852,688)	(748,996)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	15,701,224	16,450,220
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	$13,848,536	$15,701,224

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 was formerly named Zhong-Xin Securities Co., Ltd., and was renamed KGI Securities Co. Ltd. on July 21, 2008.

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 Holding 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 as 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 was 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, 2018, the Company had 78 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 22, 2019.

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, 2018. The first-time adoption has no material effect on the Company and its subsidiaries except the following:

   IFRS 9 "Financial Instruments"

   IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement". In accordance with the transition provision in IFRS 9, the Company and its subsidiaries elected not to restate prior periods at the date of initial application (January 1, 2018). The adoption of IFRS 9 has the following impacts on the Company and its subsidiaries:

   A. The Company and its subsidiaries adopted IFRS 9 since January 1, 2018 and adopted IAS 39 before January 1, 2018. Please refer to Note 4 for more details on accounting policies.

   B. In accordance with the transition provision in IFRS 9, the assessment of the business model and classification of financial assets into the appropriate categories are based on the facts and circumstances that existed as at January 1, 2018. The classifications of financial assets and its carrying amounts as at January 1, 2018 are as follow:

IAS 39		IFRS 9	
Measurement categories	Carrying amounts	Measurement categories	Carrying amounts
Financial assets		**Financial assets**	
Cash and cash equivalent	$15,701,224	At amortized cost	$15,701,187
Financial assets measured at FVTPL-current	66,383,709	Fair value through profit or loss	66,382,404
Financial assets measured at FVTPL-non-current	49,998	Fair value through profit or loss	49,998
Financial assets measured at cost-current	464,219	Fair value through profit or loss	448,907
Financial assets measured at cost-non-current	987,613	Fair value through profit or loss	2,238,217
		Fair value through other comprehensive income	2,237
Bond investments under resale agreements	21,129,128	At amortized cost	21,129,128
Recievables (Note 1)	63,097,070	At amortized cost	63,092,000
Available for sale financial assets-current	3,369,019	Fair value through profit or loss	294,439
		Fair value through other comprehensive income	3,074,580
Available for sale financial assets-non-current	793,554	Fair value through profit or loss	793,554
Held-to-maturity financial assets-net-non-current	500,000	At amortized cost	496,602
Others (Note 2)	75,068,461	At amortized cost	75,060,912
Total	$247,543,995	Total	$248,764,165

Notes :

1. Accounts receivable include margin loans receivable, refinancing margin, refinancing deposit receivable, trading securities receivable, futures commission merchant receivable, notes receivable and accounts receivable, etc.
2. Others include customer margin accounts, stock borrowing collateral price, stock borrowing margin, other financial assets-current, other current assets and other non-current assets, etc.

C. Further disclosure of the changes in the classifications of financial assets and financial liabilities on the transition from IAS 39 to IFRS 9 as at January 1, 2018 are as follows:

	Carrying Amount as of December 31, 2017 (IAS 39)	Reclassifi-cations	Remea-surements	Carrying Amount as of January 1, 2018 (IFRS 9)	Retained Earnings Effect on January 1, 2018 (Note 8)	Other Equity Effect on January 1, 2018 (Note 8)	Note
FVTPL							
Fair value through profit or loss-current (IAS 39)	$66,383,709	$-	$(1,305)	$66,382,404	$(1,305)	$-	1
Fair value through profit or loss-non-current (IAS 39)	49,998	-	-	49,998	-	-	
At cost-current (IAS 39)	464,219	-	(15,312)	448,907	(15,312)	-	4
Add:							
Available for sale-current (IAS 39)	-	294,439	-	294,439	(12,479)	12,479	2
Available for sale-non-current (IAS 39)	-	793,554	-	793,554	162,327	(162,327)	3
At cost-non-current (IAS 39)	-	985,339	1,252,878	2,238,217	1,252,878	-	5
Subtotal	66,897,926	2,073,332	1,236,261	70,207,519	1,386,109	(149,848)	
FVOCI							
Debt instruments							
Available for sale-current (IAS 39)	11,454	-	-	11,454	(293)	293	2
Equity instruments							
Available for sale-current (IAS 39)	3,357,565	(294,439)	-	3,063,126	-	-	2
Available for sale-non-current (IAS 39)	456,900	(456,900)	-	-	-	-	3
At cost-non-current (IAS 39)	987,613	(985,339)	(37)	2,237	-	(37)	5
Other instruments							
Available for sale-non-current (IAS 39)	336,654	(336,654)	-	-	-	-	3
Subtotal	5,150,186	(2,073,332)	(37)	3,076,817	(293)	256	
At amortized cost							
At amortized cost (including cash and cash equivalents, held to maturity financial assets (IAS 39), bond investments under resale agreements, receivables and other assets.)	175,495,883	-	(16,054)	175,479,829	(16,054)	-	6
Subtotal	175,495,883	-	(16,054)	175,479,829	(16,054)	-	
Total amount of financial assets, reclassifications and remeasurements as of January 1, 2018	247,543,995	-	1,220,170	248,764,165	1,369,762	(149,592)	
Investments accounted for using equity method	13,535,865	-	258,194	13,794,059	(6,149)	264,343	7
Total amount of assets, reclassifications and remeasurements as of January 1, 2018	$261,079,860	$-	$1,478,364	$262,558,224	$1,363,613	$114,751	

Note :

1. As equity investments that were previously measured at fair value through profit or loss under IAS 39 are held for trading, the Company and its subsidiaries elected to designate all of these investments as financial assets mandatorily measured at FVTPL under IFRS 9. Considering the existing facts and circumstances assessment on January 1, 2018, the adjustment would result in a decrease in financial assets measured at FVTPL and retained earnings of 1,305 thousand dollars.

2. In accordance with of IAS 39, available-for-sale financial assets-current include investments in stocks and bonds. Details of reclassification are described as below:

   A. Stocks

      Considering the existing facts and circumstances assessment on January 1, 2018, these stocks investments are not held-for-trading, the Company and its subsidiaries elected to reclassify parts of them to financial assets measured at FVOCI of 3,063,126 thousand dollars and the other to financial assets measured at FVTPL of 294,439 thousand dollars. The reclassification didn't result any difference in the carrying amount. Only for those financial assets measured at FVTPL, the unrealized loss on financial assets of 12,479 thousand dollars previously recognized in other equity was reclassified in retained earnings.

   B. Bonds

      The cash flow characteristics for bonds investments are solely payments of principal and interest on the principal amount outstanding. In accordance with IFRS 9, the assessment of the business model is based on the facts and circumstances that existed as at January 1, 2018. These financial assets are managed to achieve the business model's objective by both collecting contractual cash flows and selling financial assets, they should be reclassified to financial assets measured at FVOCI. This reclassification did not result any difference in the carrying amount. Besides, in accordance with IFRS 9, there was adjustment arisen from the assessment of impairment losses for the aforementioned assets as at January 1, 2018, resulting in a decrease in retained earnings of 293 thousand dollars and an increase in other equity of 293 thousand dollars.

3. In accordance with of IAS 39, available-for-sale financial assets-non-current include investments in funds and stocks. Details of reclassification are described as below:

   A. Funds

      As cash flow characteristics for funds investments are not solely payments of principal and interest on the principal amount outstanding, in accordance with IFRS 9, they should be reclassified to financial assets measured at FVTPL of 336,654 thousand dollars. This reclassification did not result any difference in the carrying amount. Only for those financial assets measured at FVTPL, the unrealized loss on financial assets of 9,649 thousand dollars previously recognized in other equity was reclassified in retained earnings.

B. Stocks

Considering existing facts and circumstances assessment on January 1, 2018, because these stocks investments are not held-for-trading, the Company and its subsidiaries chosed to reclassify those financial assets of 456,900 thousand dollars as financial assets measured at FVTPL instead of financial assets designated at FVOCI. The reclassification didn’t result any difference in the carrying amount. Only for those financial assets measured at FVTPL, the unrealized loss on financial assets of 171,976 thousand dollars previously recognized in other equity reclassified in retained earnings. After considering the impact of income tax, deferred tax liabilities were increased by 16,473 thousand dollars with retained earnings decreased by the same amount.

4. Considering existing facts and circumstances assessment on January 1, 2018, because these ESM company stocks of 464,219 thousand dollars that were previously measured at cost under IAS 39 are held-for-trading, the Company and its subsidiaries elected to reclassify those as financial assets measured at FVTPL of 448,907 thousand dollars. Therefore, retained earnings were decreased by 15,312 thousand dollars.

5. Considering the existing facts and circumstances assessment on January 1, 2018, because the unlisted company stocks of 987,613 thousand dollars that were previously measured at cost under IAS 39 were not held-for-trading, in accordance with IFRS 9, the Company and its subsidiaries elected to reclassify parts of them that were not held-for-trading as financial assets measured at FVOCI of 2,237 thousand dollars and the other as financial assets measured at FVTPL of 2,238,217 thousand dollars. The cost of them are 2,274 thousand dollars and 985,339 thousand dollars respectively. Therefore, retained earnings were increased by 1,252,878 thousand dollars and other equity was decreased by 37 thousand dollars.

   Previously, parts of unlisted stocks measured at cost under IAS 39 had recognized impairment loss of 27,152 thousand dollars. However, in accordance with IFRS 9, unlisted company stocks must be measured at fair value but are not required to be assessed for impairment. As a result, the Company and its subsidiaries decided to reverse the accumulated impairment loss that was recognized in prior years and remeasure these stocks at fair value.

6. In accordance with IAS 39, the cash flow characteristics for held-to-maturity investments and loans and receivables are solely payments of principal and interest on the principal amount outstanding. The assessment of the business model is based on the facts and circumstances that exited as at January 1, 2018. These financial assets were measured at amortized cost as they were held within a business model whose objective was to hold financial assets in order to collect contractual cash flows. As a result of the impairment evaluation required under IFRS 9 on the aforementioned assets on January 1, 2018, retained earnings were decreased by 16,054 thousand dollars for the impact on the carrying amount.

7. With the retrospective adoption of IFRS 9 by associates accounted for using equity method, the corresponding adjustments made by the Company and its subsidiaries would result in an increase in investments accounted for using equity method of 258,194 thousand dollars, a decrease in retained earnings of 6,149 thousand dollars and an increase in other equity of 264,343 thousand dollars.

8. The adjustment amount of retained earnings and other equity out of non-controlling interests is (1,677) thousand dollars.

D. The impairment adjustments from the current incurred loss model under IAS 39 as of December 31, 2017 to the expected credit loss model under IFRS 9 as of January 1, 2018 are as follows:

Measurement categories	Impairment loss allowance under IAS39	Reclassification	Remeasurements	Impairment loss allowance under IFRS 9
Financial assets measured at FVOCI-current	$-	$-	$293	$293
Financial assets measured at amortized cost				
Margin loans receivable	148	-	2,718	2,866
Trading securities receivable	657	-	717	1,374
Futures commission merchant receivable	92,558	-	-	92,558
Accounts receivable	-	-	1,634	1,634
Cash and cash equivalents	-	-	37	37
Customer margin accounts	-	-	454	454
Other current assets	1,614	-	6,754	8,368
Financial assets measured at amortized cost-non-current	-	-	3,398	3,398
Other non-current assets	1,747,967	-	342	1,748,309
Subtotal	1,842,944	-	16,054	1,858,998
Total	$1,842,944	$-	$16,347	$1,859,291

E. Please refer to Note IV, Note V, Note VI and Note XII for the related disclosures required by IFRS 7 and IFRS 9.

2. Standards or interpretations issued, revised or amended, by International Accounting Standards Board ("IASB") which are endorsed by FSC, but not yet adopted by the Company and its subsidiaries are listed below:

New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
IFRS 16 "Leases"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019
Amendments to IAS 28 "Investment in Associates and Joint Ventures"	January 1, 2019
Amendments to IFRS 9 "Financial Instruments" (Prepayment Features with Negative Compensation)	January 1, 2019
Improvements to International Financial Reporting Standards (2015-2017 cycle)	January 1, 2019
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
Amendments to IAS 19 "Employee Benefits" (Plan Amendment, Curtailment or Settlement)	January 1, 2019

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

(1) IFRS 16 "Leases"

The new standard requires lessees to account for all leases under one single accounting model (except for short-term or low-value asset lease exemptions), which is for lessees to recognize right-of-use assets and lease liabilities on the balance sheet and the depreciation expense and interest expense associated with those leases in the consolidated statements of comprehensive income. Besides, lessors' classification remains unchanged as operating or finance leases, but additional disclosure information is required.

(2) IFRIC 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.

(3) IAS 28"Investment in Associates and Joint Ventures" — Amendments to IAS 28

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.

(4) Prepayment Features with Negative Compensation — Amendments 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.

(5) 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 any borrowing made specifically to obtain an asset as part of general borrowings when the asset is ready for its intended use or sale.

(6) 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 were issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after January 1, 2019. Apart from item(1) explained below, the remaining standards and interpretations have no material impact on the Company and its subsidiaries.

IFRS 16 “Leases” replaces IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC-15 “Operating Leases - Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. The impact arising from the adoption of IFRS 16 on the Company and its subsidiaries are summarized as follows:

(1) For the definition of a lease, the Company and its subsidiaries elect not to reassess whether a contract is, or contains, a lease at the date of initial application (January 1, 2019) in accordance with the transition provision in IFRS 16. Instead, the Company and its subsidiaries are permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

    The Company and its subsidiaries are lessees and elect not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the Company and its subsidiaries recognize right-of use assets and lease liabilities as of January 1, 2019. For leases that were classified as operating leases applying IAS 17, the Company and its subsidiaries expect to measure and recognize those leases as lease liabilities as of January 1, 2019 at the present value of the remaining lease payments discounted using the lessee’s incremental borrowing rate, and choose to recognize the right-of-use assets equal to lease liabilities.

    The Company and its subsidiaries expect the right-of-use assets will increase by 1,553,129 thousand dollars and the lease liabilities will increase by 1,553,129 thousand dollars as of January 1, 2019.

(2) The additional disclosures of lessee and lessor required by IFRS 16 will be disclosed in relevant notes.

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

New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
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	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Definition of a Business (Amendments to IFRS 3 "Business Combinations")	January 1, 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	January 1, 2020

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

(1) 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.

(2) Definition of a Business (Amendments to IFRS 3)

The amendments clarify the definition of a business in IFRS 3 "Business Combinations". The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business or not. The amendments clarify the minimum requirements for a business, provide more guidance to help entities assess whether an acquired process is substantive, and narrow the definitions of a business and of outputs, etc.

(3) Definition of Material (Amendments to IAS 1 and IAS 8)

The main amendment is to clarify new definition of material. It states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC, the local effective dates are to be determined by FSC. As the Company and its subsidiaries are still currently determining the potential impact of the standards and interpretations listed above, it is not practicable to estimate their impact on the Company and its subsidiaries at this point in time.

IV. 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 measured at fair value.

3. General Description of Reporting Entities

Preparation principle of consolidated financial statement

Control is achieved when the Company 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 Company controls an investee if and only if the Company 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	12/31/18	12/31/17
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	100.00	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
KGI International Holdings Limited	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

			Percentage of ownership	
Investor	Name of subsidiaries	Primary business	12/31/18	12/31/17
KGI Limited	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
〃	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
〃	KGI Asset Management Limited	Asset management	100.00	100.00
〃	TG Holborn (HK) Limited	Insurance brokerage	100.00	100.00
〃	KGI Nominees (Hong Kong) Limited	Trust agent	100.00	100.00
Supersonic Services Inc.	KGI Korea Limited	Investments holdings	100.00	100.00
KGI International Limited	KGI Asia (Holdings) Pte. Ltd.	Investments holdings	100.00	100.00
〃	KGI Capital (Singapore) Pte. Ltd.	Futures investment services	100.00	100.00
KGI Capital Asia Limited	KGI Alliance Corporation	Investment services	100.00	100.00
〃	KGI International (Hong Kong) Limited	Derivative product services	100.00	100.00
〃	KGI Finance Limited	Investment and financing services	100.00	100.00
〃	PT KGI Sekuritas Indonesia	Securities investment services	99.00	99.00
KGI Asia Limited	Grand Cathay Capital (Hong Kong) Limited	Investment services	-	100.00
KGI Asia (Holdings) Pte. Ltd.	KGI Securities (Singapore) Pte. Ltd.	Securities and futures 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) The detail information of the scope of subsidiaries:

A. ANEW Holdings Limited was dissolved on May 2, 2017.
B. KG Investments Asset Management (International) Limited was dissolved on May 1, 2017.
C. Grand Cathay Securities (Hong Kong) Limited, KGI Securities (Hong Kong) Limited and KGI Wealth Management Limited were dissolved due to mergering with KGI Asia Limited on October 3, 2017.
D. KGI Futures (Singapore) Pte. Ltd. was dissolved due to mergering with KGI Securities (Singapore) Pte. Ltd. on October 2, 2017.
E. Grand Cathy Capital (Hong Kong) Limited was dissolved on October 23, 2018.

(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 or 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 financial liabilities are recognized when the Company and its subsidiaries become a party to the contractual provisions of the instrument.

Financial assets and financial liabilities within the scope of IFRS 9 Financial Instruments (Before January 1, 2018: "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: Recognition and Measurement

The accounting policies from January 1, 2018 are as follows:

The Company and its subsidiaries account for regular way purchase or sales of financial assets on the trade date.

The Company and its subsidiaries classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

A. the Company and its subsidiaries' business model for managing the financial assets; and
B. the contractual cash flow characteristics of the financial assets.

Financial assets measured at amortized cost

A financial asset shall be measured at amortized cost if both of the following conditions are met and presented as trade receivables, accounts receivable, financial assets measured at amortized cost and other receivables, etc., on balance sheet as at the reporting date:

A. The Company and its subsidiaries' business model for managing the financial assets: the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
B. The contractual cash flow characteristics of financial assets: the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are measured at amortized cost, the carrying amount of which are determined by the effecive interest method and minus any impairment loss after initial recognition.

Interest revenue calculated by using the effective interest method is recognized as profit or loss. Besides, interest revenue calculated by the below methods is also recognized in profit or loss:

A. purchased or originated credit-impaired financial assets. For those financial assets, the Company and its subsidiaries apply the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
B. financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company and its subsidiaries apply the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Financial assets measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

A. The Company and its subsidiaries' business model for managing the financial assets: the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
B. The contractual cash flow characteristics of financial assets: the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income are described as below:

A. A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
B. When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
C. Interest revenue calculated by using the effective interest method is recognized as profit or loss. Besides, interest revenue calculated by the below methods is also recognized in profit or loss:

(a) purchased or originated credit-impaired financial assets. For those financial assets, the Company and its subsidiaries apply the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
(b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company and its subsidiaries apply the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Besides, at initial recognition, the Company and its subsidiaries make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies. Amounts presented in other comprehensive income are not be subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings) and should be recorded as financial assets measured at fair value through other comprehensive income on the balance sheet. Dividends on such investment are recognized in profit or loss unless the dividends clearly represents a recovery of part of the cost of investment.

Financial assets measured at fair value through profit or loss

Except for the amortized cost measurement or measured at fair value through other comprehensive income which are accordance with the aforementioned specific conditions, financial assets are measured at fair value through profit or loss, and recognized as financial assets measured at FVTPL to present on the balance sheet.

This kind of financial assets are measured at fair value, and the benefit or loss which also includes any dividend or interest received on the financial assets should be recognized as profit or loss.

Impairment of financial assets

The Company and its subsidiaries recognize a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and not reduce the carrying amount in the statement of financial position.

The Company and its subsidiaries measure expected credit losses of a financial instrument in a way that reflects:

A. an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
B. the time value of money; and
C. reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measures as follows:

A. At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Company and its subsidiaries measure the loss allowance for a financial asset at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that condition is no longer met.
B. At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
C. For trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Company and its subsidiaries measure the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Company and its subsidiaries need to assess whether the credit risk on a financial asset has been increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note XII for the information about credit risk.

Derecognition of financial assets

A financial asset is derecognized when:

A. the rights to receive cash flows from the asset have expired;
B. transferred assets and substantially all the risks and rewards of the assets have been transferred; or
C. the Company and its subsidiaries have neither transferred nor retained substantially all the risks and rewards of the asset, but have 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 and its subsidiaries allocate the previous carrying amount in two parts based on the relative fair values on the date of the 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 relative fair values.

The accounting policies before January 1, 2018 are as follows:

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

Financial assets of the Company and its subsidiaries 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 and its subsidiaries determine 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 are measured at fair value, and the benefit or loss which also includes any dividend or interest received on the financial asset should recognize in profit or loss.

If financial assets do not have quoted prices in an 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 investments 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.

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-forsale financial assets measured at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

If equity instrument investments do not have quoted prices in an active market and their fair 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 and fixed maturities are classified as held-to-maturity when the Company and its 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 meet the definition of loans and receivables.

After initial measurement, held-to-maturity financial assets are measured at amortized cost using the effective interest 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market other than those that initial recognition designates as available-for-sale, classified as financial assets measured 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. The calculation of amortized cost takes the discount or premium along with the transaction cost at acquisition into consideration. The amortization of effective interest rate method 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 assess 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 investments 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 investment previously recognized in profit or loss – is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments 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 investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used 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 in profit or loss, the impairment loss is reversed through profit or loss.

Derecognition of financial assets

A financial asset is derecognized when:

A. the rights to receive cash flows from the asset have expired;
B. transferred assets and substantially all the risks and rewards of the assets have been transferred; or
C. the Company and its subsidiaries have 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 and its subsidiaries allocate the previous carrying amount in two parts based on the relative fair values on the date of the 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 relative fair values.

(2) Financial liabilities and equtiy instruments

Classification between liabilities or equity investments

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 instruments

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 IFRS 9 Financial Instruments (before January 1, 2018: IAS 39) 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 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).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability measured at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

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 company is provided internally on the fair value basis to the key management personnel.

Gains or losses on the remeasurement of this kind of financial liabilities including interest paid are recognized in profit or loss.

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.

Before January 1, 2018, if the financial liabilities measured 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. Warrants liabilities and warrents redeemed

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. Settlement coverage bonds payable of short sale

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 instrument

Derivative 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. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss.

Before January 1, 2018, 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. From January 1, 2018, the above mentioned regular still qualify when host contracts are financial liabilities or non-financial assets.

(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 investments under resale agreements" or "Liabilities for bonds with attached 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 investments under resale agreements-short sales", 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-net".

10.Customer Margin Accounts and Future Customer's 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 on sale of borrowed securities", 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 on sale of borrowed securities" is recorded as "Gains/(losses) on covering of borrowed securities and bonds with resale agreements".

12.Futures Transactions

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 equivalents".

13. Investments accounted for using Equity Method

The Company and its subsidiaries' investment in their associate is accounted for using 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 the associate or an investment in a joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Company and its subsidiaries' share of net assets of the associate or joint venture. After the interest in the associate or 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 joint venture. Unrealized gains and losses resulting from transactions between the Company and its subsidiaries and the associate or joint venture are eliminated to the extent of the Company and its subsidiaries' related interest in the associate or joint venture.

When changes in the net assets of an associate or a joint venture occur and not those that are recognized in profit or loss or other comprehensive income and do not affects the Company and its subsidiaries' percentage of ownership interests in the associate or joint venture, the Company and its subsidiaries recognize such changes in equity based on their percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate or joint venture on a pro rata basis.

When the associate or joint venture issues new stock, and the Company and its subsidiaries' interest in an associate or a joint venture is reduced or increased as the Company and its subsidiaries fail to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in Additional Paid in Capital and Investment accounted for using equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Company and its subsidiaries dispose the associate or joint venture.

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

The Company and its subsidiaries determine at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 28 Investments in Associates and Joint Ventures (before January 1, 2018: IAS 39 "Financial Instruments: Recognition and Measurement"). If this is the case 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' 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 Company and its subsidiaries' investment in an associate switches to investment in a joint venture, the Company and its subsidiaries continue applying the equity method and do not revalue their 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 55 years, and others are 4 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 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.Lease

The Company and its subsidiaries as lessees

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

The Company and its subsidiaries as lessors

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 Asset

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

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

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

18.Impairment of non-Financial Asset

The Company and its subsidiaries assess regularly 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. Provision

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 a obligation happens during a period, the provisions should be recognised gradually.

Provision for decommissioning, restoration and rehabilitation costs

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

20.Revenue Recognition

The Company and its subsidiaries' recognition criteria of revenues are as follows:

(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's right to receive the payment is established.

21.Post-employment Benefit Plan

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 Tax

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 on undistributed earnings should then be recognized.

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

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

Deferred tax

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

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

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

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

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

24. Business Combinations and Goodwill

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 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 EITF 95-141 and EITF 101-301, the prior years' consolidated financial statements were restated. Additionally, the prior interest in the dissolved company held by parent company was presented as "prior interest under joint control" in the consolidated financial statements.

V. Significant Accounting Judgments, Estimates and Assumptions

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

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

1. The Fair Value of Financial Instruments

Where the fair value of financial assets and liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including income approach (for example: the discounted cash flows model) or 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. Goodwill

The Company and its subsidiaries evaluate whether the goodwill impairs annually. Adopting appropriate discount rate to estimate the CGU's recoverable value of goodwill, and execute the impaired evaluation tests for goodwill. Please refer to Note VI.19.

3. Post-Employment Benefits

The cost of post-employment benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the change of discount rate and expected future salaries. Please refer to Note VI.27.

4. Taxes

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

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

VI. Contents of Significant Accounts

The Company and its subsidiaries adopted IFRS 9 since January 1, 2018. The Company and its subsidiaries elected not to restate prior period in accordance with the transition provision in IFRS 9.

1. Cash and Cash Equivalents

	12/31/18	12/31/17
Cash on hand	$3,942	$3,278
Cash in banks	11,236,986	13,355,826
Cash equivalents		
Short-term commercial papers and bonds	1,271,282	1,253,183
Excess Margin	1,336,326	1,088,937
Total	$13,848,536	$15,701,224

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

	12/31/18	12/31/17
Interest rates	0.42%-0.65%	0.35%-0.42%

(2) As of December 31, 2018 and 2017, the certificate of deposits over three months from the original due date are classified as other financial assets-current, the amount of which are 3,387,927 thousand dollars and 2,620,785 thousand dollars, respectively.

(3) Please refer to Note VI.30 for information related to impairment of cash and cash equivalents and Note XII for information related to credit risk management.

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

2. Financial Assets Measured at Fair Value through Profit or Loss

	12/31/18
Current	
Mandatorily measured at FVTPL	
Lent securities	$826,971
Open-ended funds, monetary market instruments and other securities	1,760,478
Trading securities-dealing-net	46,163,288
Trading securities-underwriting-net	533,279
Trading securities-hedging-net	4,431,749
Long options	76,617
Futures trading margins-proprietary funds	541,956
Derivative financial product assets	2,164,742
Others	8,232
Total	$56,507,312
Non-current	
Mandatorily measured at FVTPL	
Other	$2,782,424

	12/31/17
Current	
Financial assets held for trading	
Lent securities	$153,986
Open-ended funds, monetary market instruments and other securities	1,501,494
Trading securities-dealing-net	53,510,822
Trading securities-underwriting-net	886,490
Trading securities-hedging-net	7,450,626
Long options	155,141
Futures trading margins-proprietary funds	466,513
Derivative financial product assets	2,258,637
Total	$66,383,709
Non-current	
Financial assets held for trading	$49,998

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

(1) Lent securities

	12/31/18	12/31/17
Listed/OTC company stock	$1,479,975	$160,902
Valuation adjustments	(653,004)	(6,916)
Market value	$826,971	$153,986

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

	12/31/18	12/31/17
Funds	$465,000	$-
Others	1,294,521	1,501,494
Subtotal	1,759,521	1,501,494
Valuation adjustments	957	-
Market value	$1,760,478	$1,501,494

(3) Trading securities-dealing-net

	12/31/18	12/31/17
Listed/OTC/ESM company stock	$2,213,555	$1,755,239
Index Fund	1,344,821	1,959,627
Listed/OTC company warrants	12,220	61,946
Listed/OTC company corporate bonds and government bonds	16,522,985	20,826,469
Foreign securities	26,130,061	27,887,701
Others	5,085	12,499
Subtotal	46,228,727	52,503,481
Valuation adjustments	(65,439)	1,007,341
Market value	$46,163,288	$53,510,822

(4) Trading securities-underwriting-net

	12/31/18	12/31/17
Listed/OTC company stock	$43,718	$359,197
Listed/OTC company corporate bonds and convertible bonds	472,107	547,415
Subtotal	515,825	906,612
Valuation adjustments	17,454	(20,122)
Market value	$533,279	$886,490

(5) Trading securities-hedging-net

	12/31/18	12/31/17
Listed/OTC company stock	$2,249,013	$6,185,143
Index Fund	5,093	435,725
Listed/OTC company warrants	230,712	36,867
Foreign securities	14,691	258,705
Beneficiary certificate	2,217,928	693,063
Subtotal	4,717,437	7,609,503
Valuation adjustments	(285,688)	(158,877)
Market value	$4,431,749	$7,450,626

(6) Long options

	12/31/18	12/31/17
Index options	$67,631	$109,149
Stock options	9,303	7,581
Subtotal	76,934	116,730
Open interest	(317)	38,411
Market value	$76,617	$155,141

(7) Futures trading margins-proprietary funds

	12/31/18	12/31/17
Account balance	$515,593	$511,411
Open interest	26,363	(44,898)
Account value	$541,956	$466,513

(8) Please refer to Note VI.23 for details of derivative instruments.

(9) Others

	12/31/18	12/31/17
Other financial assets	$8,956	$-
Valuation adjustments	(724)	-
Market value	$8,232	$-

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

	12/31/18	12/31/17
Government bonds	$-	$49,940
Listed/OTC/ESM company stock	338,361	-
Foreign securities	31,145	-
Non-Listed/OTC/ESM company stock	954,731	-
Subtotal	1,324,237	49,940
Valuation adjustments	1,458,187	58
Market value	$2,782,424	$49,998

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

3. Financial Assets Measured at Cost

	12/31/17
Current	
Stock	
ESM company stock	$464,219
Non-current	
Stock	
Taiwan Depository & Clearing Corp.	$74,932
Taiwan Futures Exchange Corp.	263,808
Taiwan Stock Exchange Corp.	369,199
Others	279,674
Total	$987,613

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

4. Financial Assets Measured at Fair Value through Other Comprehensive Income

	12/31/18
Current	
Debt instrument investment	
Government bonds	$2,296,818
Foreign securities	9,674,678
Subtotal	11,971,496
Equity instrument investment-current	
Listed/OTC company stock	2,399,876
Total	$14,371,372
Non-current	
Debt instrument investment-Non-current	
Foreign securities	$4,216,102
Equity instrument investment-Non-current	
Non-Listed/OTC company stock	2,049
Total	$4,218,151

(1) Please refer to Note VI.30 for details on accumulated impairment of debt instrument investments measured at fair value through other comprehensive income and Note XII for details on credit risk.

(2) The Company entered into a trust agreement with CTBC bank in September 2018. All the CDFH (the parent company) shares the Company held were entrusted to CTBC bank. CTBC bank will dispose of the shares pursuant to the terms and conditions of the trust agreement.

(3) According to requests from the authorities, all the stocks of CDFH should be sold before expiry date. For the year ended December 31, 2018, the Company sold 54,855 thousand shares of stocks of CDFH (recognized in financial assets measured at fair value through other comprehensive income-equity instruments). Upon derecognition, the fair value of that sold shares was 570,393 thousand dollars. The Company transferred the cumulative disposal loss of 133,782 thousand dollars from other equity to retained earnings.

(4) The Company recognized CDFH dividend income in the amount of 169,551 thousand dollars, and 148,140 thousand dollars were related to investment held as of the reporting date. The remaining amount were related to investment derecognized for the year ended December 31, 2018.

(5) No pledged was made for financial assets measured at fair value through other comprehensive income mentioned above.

5. Financial Assets Measured at Amortized Cost

	12/31/18
Non-Current	
Bank Debentures	$500,000
Less: Loss Allowance	(3,293)
Total	$496,707

(1) The subsidiary held subordinated debentures of Sunny Bank, HuaTai Bank and BanXin Bank on December 31, 2018 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) Please refer to Note VI.30 for details on accumulated impairment and Note XII for details on credit risk.

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

6. Available-for-Sale Financial Assets

	12/31/17
Current	
Listed/OTC company stock	$3,357,565
Foreign securities	11,454
Total	$3,369,019
Non-current	
Listed/OTC company stock	$295,346
Beneficiary Certificate	336,654
Foreign securities	161,554
Total	$793,554

No pledged was made for available-for sale financial assets mentioned above.

7. Held-to-Maturity Financial Assets

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

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

8. Bond investments under Resale Agreements

	12/31/18	12/31/17
Government bonds	$5,389,163	$12,971,999
Corporate bonds	7,569,712	3,043,619
Bank Debentures	6,489,947	5,113,510
Total	$19,448,822	$21,129,128
Resold amount as specified in respective agreements plus accrued interest	$19,494,037	$21,145,230
Resold date as specified in respective agreements	1/3/19-1/29/19	1/2/18-2/20/18

Please refer to Note VI.30 for details on accumulated impairment and Note XII for details on credit risk.

9. Margin Loans Receivable, Securities Financing Refundable Deposits and Deposits Payable for Securities Financing

Margin loans receivable are stocks pledged as collaterals that clients purchased by loans. Annual interest rates on the loans for general investors as of December 31, 2018 and 2017 are as follows:

	12/31/18	12/31/17
The Company	6.45%	6.45%
Subsidiaries	6.30%	6.30%

The Company and its subsidiaries collect securities financing refundable deposits or equivalent collaterals proportionally in accordance with the regulations from the Securities and Future Bureau when providing the service of securities financing, and the interest accrued from deposits payable for securities financing and securities financing refundable deposits as of December 31, 2018 and 2017 is calculated by the following annual interest rates:

	12/31/18	12/31/17
The Company	0.20%	0.20%
Subsidiaries	0.10%	0.10%

Please refer to Note VI.30 for details on accumulated impairment and Note XII for details on credit risk.

10. 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%.

Please refer to Note VI.30 for details on accumulated impairment and Note XII for details on credit risk.

11. Customer Margin Accounts

	12/31/18	12/31/17
Cash in banks	$14,064,494	$15,582,201
Marking to market from the clearing house	1,996,295	2,385,310
Marking to market from the other futures brokers	1,668,667	1,224,231
Securities	114	361
Foreign customer margin accounts	4,080,905	3,869,342
Total	$21,810,475	$23,061,445

Please refer to Note VI.30 for details on accumulated impairment and Note XII for details on credit risk.

12. Futures Commission Merchant Receivable

	12/31/18	12/31/17
Futures commission merchant receivable	$188,951	$92,569
Less: Loss Allowance	(176,333)	(92,558)
Net	$12,618	$11

Please refer to Note VI.30 for details on accumulated impairment and Note XII for details on credit risk.

13.Accounts Receivable

	12/31/18	12/31/17
Exchange clearing receivable	$6,308,741	$3,997,006
Accounts receivable for settlement-brokerage	10,516,134	12,536,515
Accounts receivable for settlement-non-brokerage	3,539,421	3,137,861
Interest receivable	933,635	690,633
Others	961,556	765,488
Subtotal	22,259,487	21,127,503
Less: Loss Allowance	(1,113)	-
Total	$22,258,374	$21,127,503

(1) Aging analysis of trade receivables are as follows:

	12/31/18	12/31/17
Non-past due	$22,150,079	$21,127,503
Past due		
Less than 30 days	99,369	-
30 to 60 days	3,849	-
61 to 120 days	1,433	-
More than 121 days	4,757	-
Total	$22,259,487	$21,127,503

(2) Please refer to Note VI.30 for details on accumulated impairment and Note XII for details on credit risk.

14.Investments Accounted for Using Equity Method

	12/31/18		12/31/17	
Investee	Amount	Percentage	Amount	Percentage
Investments in associates				
KGI Securities (Thailand) Public Company Limited	$2,414,682	34.97	$2,190,859	34.97
Trinitus Asset Management Limited	-		10,318	40.00
CDIB Bioscience Ventures I, Inc.	2,029	1.20	2,783	1.20
China Life Insurance Co., Ltd.	8,754,133	9.63	11,331,905	9.63
Total	$11,170,844		$13,535,865	

(1) Information on associates 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 within the fair value hierarchy. The fair values of the Company's investment accounted for using equity method are 2,803,009 thousand dollars and 2,830,066 thousand dollars as of December 31, 2018 and 2017, respectively.

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

	12/31/18	12/31/17
Current assets	$10,849,424	$12,934,277
Non-current assets	902,515	925,828
Current liabilities	(5,815,738)	(8,580,943)
Non-current liabilities	(203,953)	(152,922)
Non-controlling interests	(3,089)	(3,262)
Attributed to controlling interests	$5,729,159	$5,122,978
Ownership ratio	34.97%	34.97%
Proportion of ownership	$2,003,487	$1,791,505
Goodwill	411,195	399,354
Carrying amount	$2,414,682	$2,190,859

	For the years ended December 31	
	2018	2017
Operating revenue	$3,205,906	$2,683,072
Profit or loss from continuing operations	$1,012,240	$799,064
Other comprehensive income	3,798	(15,828)
Total comprehensive income	$1,016,038	$783,236
Dividends received from associate	$205,399	$234,522

B. Name of associate: China Life Insurance Co., Ltd.

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 accounted for using equity method are 10,759,338 thousand dollars and 10,915,693 thousand dollars as of December 31, 2018 and 2017, respectively.

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

	12/31/18	12/31/17
Total assets	$1,711,355,336	$1,465,734,184
Total liabilities	(1,638,260,952)	(1,370,396,437)
Attributed to controlling interests	$73,094,384	$95,337,747
Ownership ratio	9.63%	9.63%
Proportion of ownership	$7,035,773	$9,176,837
Net stock equity difference	1,718,360	2,155,066
Carrying amount	$8,754,133	$11,331,905

	For the years ended December 31	
	2018	2017
Revenue	$338,495,113	$255,328,334
Profit or loss from continuing operations	$10,177,987	$9,083,972
Other comprehensive income	(35,428,214)	7,960,686
Total comprehensive income	$(25,250,227)	$17,044,658
Dividends received from associate	$291,571	$267,496

(2) The Company's investments in Trinitus Asset Management Limited and CDIB Bioscience Ventures I, Inc. are not material. The carrying amounts of the investment are 2,029 thousand dollars and 13,101 thousand dollars as of December 31, 2018 and 2017 respectively, and the proportionate aggregate financial information of investments is as follows:

	For the years ended December 31	
	2018	2017
Profit or loss from continuing operations	$(3,073)	$(12,861)
Other comprehensive income	5	296
Total comprehensive income	$(3,068)	$(12,565)

(3) Since the shares of CDIB Bioscience Venture I, Inc held by the Company and its affiliate company, CDIB Capital Group, is over 20%, the investment is measured under the equity method

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

(5) The Company's subsidiary sold out the investment in associate,Trinitus Asset Management Limited, at the price of HKD 2,051 thousand dollars as of July 29, 2018, and the delivery was completed as of July 31, 2018.

(6) Please refer to Note VIII for investments accounted for using equity method pledged as collaterals.

15. Property and Equipment

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

	Land	Buildings	Equipment	Leasehold improvement	Total
Cost:					
January 1, 2018	$3,954,044	$2,102,086	$2,658,733	$394,897	$9,109,760
Additions	-	-	96,690	20,506	117,196
Disposals	(27,093)	(25,620)	(287,068)	(22,268)	(362,049)
Transfers	(949)	93	12,834	1,781	13,759
Exchange differences	-	-	22,072	7,072	29,144
December 31, 2018	$3,926,002	$2,076,559	$2,503,261	$401,988	$8,907,810
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
Depreciation and Impairment:					
January 1, 2018	$-	$785,040	$2,110,293	$320,547	$3,215,880
Depreciation	-	38,848	207,177	42,826	288,851
Disposals	-	(7,156)	(286,463)	(22,189)	(315,808)
Transfers	-	146	-	-	146
Exchange differences	-	-	18,596	3,648	22,244
December 31, 2018	$-	$816,878	$2,049,603	$344,832	$3,211,313
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
Net carrying amount as of:					
December 31, 2018	$3,926,002	$1,259,681	$453,658	$57,156	$5,696,497
December 31, 2017	$3,954,044	$1,317,046	$548,440	$74,350	$5,893,880

(2) The above items of property and equipment are depreciated on a straight line basis over their estimated useful lives; the estimated useful lives of buildings are 55 years, while the others are 4 to 10 years.

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

16. Investment Property

(1) Changes in investment property are as follows

	Land	Buildings	Total
Cost:			
January 1, 2018	$378,497	$191,806	$570,303
Transfers	949	(93)	856
December 31, 2018	$379,446	$191,713	$571,159
January 1, 2017	$378,497	$191,806	$570,303
Transfers	-	-	-
December 31, 2017	$378,497	$191,806	$570,303
Depreciation and Impairment:			
January 1, 2018	$-	$67,796	$67,796
Depreciation	-	3,835	3,835
Transfers	-	(146)	(146)
December 31, 2018	$-	$71,485	$71,485
January 1, 2017	$-	$63,970	$63,970
Depreciation	-	3,826	3,826
December 31, 2017	$-	$67,796	$67,796
Net carrying amount as of:			
December 31, 2018	$379,446	$120,228	$499,674
December 31, 2017	$378,497	$124,010	$502,507

	For the years ended December 31	
Investee	2018	2017
Rental income from the lease of the investment property	$21,014	$20,769

(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 of investment property held by the Company and its subsidiaries is 1,008,628 thousand dollars and 1,015,068 thousand dollars as of December 31, 2018 and 2017, respectively. The management refers outside appraisal report and adopts the market evaluated model to evaluate the fair value.

(3) The investment properties are depreciated on a straight-line basis over estimated 55 years useful life.

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

17.Intangible Assets

(1) Changes in intangible assets are as follows:

	Goodwill	Other intangible assets	Software	Total
January 1, 2018	$6,753,531	$1,258,319	$160,101	$8,171,951
Additions	-	-	50,575	50,575
Amortizations	-	(189,015)	(69,761)	(258,776)
Exchange differences	21,444	-	-	21,444
December 31, 2018	$6,774,975	$1,069,304	$140,915	$7,985,194
January 1, 2017	$7,000,554	$1,447,334	$153,923	$8,601,811
Additions	-	-	69,375	69,375
Transfers	-	-	4,760	4,760
Amortizations	-	(189,015)	(67,957)	(256,972)
Exchange differences	(52,173)	-	-	(52,173)
Impairment losses	(194,850)	-	-	(194,850)
December 31, 2017	$6,753,531	$1,258,319	$160,101	$8,171,951

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

18.Other Non-Current Assets

	12/31/18	12/31/17
Operation guarantee deposits	$1,425,680	$1,426,363
Clearing and settlement fund	555,476	542,843
Guarantee deposits paid	1,045,827	1,074,524
Others	245,221	231,197
Total	$3,272,204	$3,274,927

(1) Please refer to Note VI.30 for details on accumulated impairment and Note XII for details on credit risk.

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

19. 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.

(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.

	The Company	Subsidiaries
2018		
Growth rate	1.68%	2.73%-5.10%
Discount rate	10.41%	8.26%-12.50%
2017		
Growth rate	1.66%	2.63%-5.54%
Discount rate	11.51%	10.92%-12.55%

(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 recognition 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% and cash flows beyond the five-year period are extrapolated using a 2.63% growth rate 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 surviving company.

(4) According to the result of the Company and subsidiaries' impairment test of goodwill for the year ended December 31, 2018, because the recoverable amount is higher than the carrying amount, there is no need to recognize impairment.

20. Short-Term Borrowings

	12/31/18	12/31/17
Interbank loans	$1,075,655	$537,264
Credit loans	9,549,360	14,818,176
Secured loans	4,114,666	4,681,052
Bank overdraft	42,542	-
Total	$14,782,223	$20,036,492
Interest rate	1.70%-8.55%	0.65%-3.41%

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

21.Commercial Papers Payable

	12/31/18	12/31/17
Commercial papers payable	$2,459,859	$8,628,799
Less: Discount	(2,107)	(2,995)
Net	$2,457,752	$8,625,804
Interest rate	0.60%-2.59%	0.41%-1.52%

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

	12/31/18	12/31/17
Financial liabilities held for trading		
Bond investments under resale agreements -short sale	$323,429	$151,093
Warrants liabilities	13,218,370	11,820,861
Warrants redeemed	(12,546,289)	(10,608,101)
Settlement coverage bonds payable of short sale	78,856	-
Short options	73,275	109,852
Liabilities for securities and bonds borrowed	4,339,043	4,343,645
Derivative instruments liabilities	2,899,593	5,259,084
Financial liabilities designated initially at fair value through profit or loss	3,155,241	986,143
Total	$11,541,518	$12,062,577

(1) Bond investments under resale agreements-short sale

	12/31/18	12/31/17
Government bonds	$234,994	$151,093
Overseas securities and bonds	88,435	-
Total	$323,429	$151,093

(2) Warrants liabilities and warrants redeemed

A. Details on Liabilities for warrants issued and warrants redeemed are as follows:

	12/31/18	12/31/17
Warrants liabilities	$24,615,441	$16,025,027
Gains/(losses) on value change	(11,397,071)	(4,204,166)
Market value	13,218,370	11,820,861
Warrants redeemed	19,902,475	12,997,426
Gains/(losses) on value change	(7,356,186)	(2,389,325)
Market value	12,546,289	10,608,101
Net value	$672,081	$1,212,760

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) Settlement coverage bonds payable of short sale

	12/31/18	12/31/17
Overseas securities and bonds	$78,856	$-

(4) Short options

	12/31/18	12/31/17
Index options	$103,999	$129,110
Stock options	8,819	22,006
Subtotal	112,818	151,116
Open interest	(39,543)	(41,264)
Market value	$73,275	$109,852

(5) Liabilities for securities and bonds borrowed

	12/31/18	12/31/17
Listed/OTC company stock	$2,321,453	$518,494
Index funds	1,016,551	549,865
Foreign securities	1,524,845	3,268,405
Subtotal	4,862,849	4,336,764
Valuation adjustments	(523,806)	6,881
Market value	$4,339,043	$4,343,645

(6) Please refer to Note VI.23 for details on derivative instruments liabilities and financial liabilities designated as at fair value through profit or loss.

23.Derivative Instruments

(1) Nominal amounts

Financial Instruments	12/31/18	12/31/17
Options and futures contract	$18,778,795	$24,269,206
Foreign futures and options	29,606,039	18,632,866
Interest rate swap (IRS)	154,961,856	143,869,965
Convertible bond asset swap (CBAS)-interest	27,130,627	10,524,800
CBAS-long option	19,536,843	10,430,900
CBAS-short option	12,114,300	12,693,200
Structured notes	7,205,434	15,265,526
Equity derivative instruments	123,291	217,776
Credit derivative instruments	2,959,775	5,203,007
Exchange rate derivative instruments	46,101,595	28,220,369
Others	7,739	9,430
Total	$318,526,294	$269,337,045

(2) Derivative instruments assets/liabilities

Financial Instruments	12/31/18	12/31/17
Derivative instrument assets		
Contract value		
IRS	$501,685	$391,888
CBAS-interest	92,473	22,969
Long options		
CBAS	797,602	1,128,581
Structured notes	52,401	20,408
Equity derivative instruments	-	40
Credit derivative instruments	7,409	7,969
Exchange rate derivative instruments	393,799	102,782
Foreign futures and options	318,089	583,914
Others	1,284	86
Total	$2,164,742	$2,258,637
Derivative instrument liabilities		
Contract value		
IRS	$460,399	$452,424
CBAS-interest	484,491	191,544
Short options		
CBAS	778,760	1,466,355
Structured notes	594,924	2,187,923
Equity derivative instruments	31,870	72,594
Credit derivative instruments	52,795	14,402
Exchange rate derivative instruments	159,554	278,871
Foreign futures and options	335,516	594,886
Others	1,284	85
Total	$2,899,593	$5,259,084
Financial liabilities designated initially at fair value through profit or loss		
Structured notes	$3,155,241	$986,143

Please refer to Note VI.2 and Note VI.22 for 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	
	2018	2017
Warrants liabilities:		
Gains on value change	$45,657,449	$27,066,811
Gains on exercising warrants before maturity	18,705	7,085
Warrants redeemed:		
Losses on resale of warrants	(8,281,459)	(2,758,389)
Losses on value change	(36,346,830)	(24,032,749)
Expense for warrant	(167,421)	(115,053)
Gains/(losses) on warrants issued	$880,444	$167,705

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

	For the years ended December 31	
	2018	2017
Futures contracts	$1,161,799	$(301,178)
Options	215,674	144,708
Total	$1,377,473	$(156,470)

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

	For the years ended December 31	
	2018	2017
IRS	$9,640	$(222,474)
CBAS	(637,318)	(230,800)
Options	465,909	226,807
Structured notes	44,877	(30,873)
Equity derivative instruments	58,711	(129,204)
Credit derivative instruments	(19,699)	(39,656)
Exchange rate derivative instruments	628,319	(486,313)
Total	$550,439	$(912,513)

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

12/31/18

Item	Type of trading	Open interest position		Contract Amount/ Premium Paid (received)	Fair Value	Note
		Long/ Short	Lots			
Futures Contracts	Elec-Sector Index Futures	Long	53	$81,015	$81,567	
Futures Contracts	Elec-Sector Index Futures	Short	335	511,414	515,458	
Futures Contracts	Foreign Futures	Long	1,759	654,733	655,877	
Futures Contracts	Foreign Futures	Short	313	510,141	515,519	
Futures Contracts	Finance Sector Index Futures	Long	44	52,627	51,553	
Futures Contracts	Finance Sector Index Futures	Short	6	7,723	7,064	
Futures Contracts	Gold Futures	Long	255	98,164	100,470	
Futures Contracts	GreTai Futures	Long	127	62,367	62,738	
Futures Contracts	GreTai Futures	Short	6	2,947	2,967	
Futures Contracts	Indian Nifty Index Futures	Long	4	2,187	2,182	
Futures Contracts	Indian Nifty Index Futures	Short	2	1,097	1,096	
Futures Contracts	Mini-TaiEx Futures	Long	467	224,268	225,078	
Futures Contracts	Mini-TaiEx Futures	Short	3,430	1,652,145	1,656,019	
Futures Contracts	Weekly-Mature Mini-TaiEx Futures	Long	13	6,242	6,297	
Futures Contracts	USD/CNH FX Futures	Long	13	40,169	40,004	
Futures Contracts	USD/CNH FX Futures	Short	68	210,569	209,173	
Futures Contracts	USD/CNT FX Futures	Long	263	162,975	161,884	
Futures Contracts	USD/CNT FX Futures	Short	112	69,140	68,893	
Futures Contracts	USA S&P 500 Futures	Long	7	3,464	3,496	
Futures Contracts	USA S&P 500 Futures	Short	7	3,288	3,502	
Futures Contracts	Stock Futures	Long	9,035	1,450,985	1,413,897	
Futures Contracts	Stock Futures	Short	9,304	1,796,884	1,760,475	
Futures Contracts	TWD/Gold Futures	Long	15	7,093	7,132	
Futures Contracts	TOPIX Futures	Long	22	6,562	6,531	
Futures Contracts	TOPIX Futures	Short	16	4,773	4,754	
Futures Contracts	TaiEx Futures	Long	3,100	5,936,026	5,989,798	
Futures Contracts	TaiEx Futures	Short	2,459	4,735,159	4,753,341	
Futures Contracts	Taiwan 50 Index futures	Long	60	43,361	44,238	
Futures Contracts	Taiwan 50 Index futures	Short	10	7,183	7,380	
Futures Contracts	Dow Jones Futures	Long	2	912	927	
Futures Contracts	Dow Jones Futures	Short	2	911	927	
Futures Contracts	AUD/USD FX Futures	Long	20	10,946	10,844	
Futures Contracts	AUD/USD FX Futures	Short	20	10,958	10,858	
Futures Contracts	EUR/USD FX Futures	Long	1	705	709	
Futures Contracts	Non-Fin Non-Elec Sub-Index Futures	Long	26	30,176	30,306	
Futures Contracts	Non-Fin Non-Elec Sub-Index Futures	Short	12	13,917	13,967	
Futures Contracts	USD/JPY FX Futures	Long	48	29,364	29,332	
Futures Contracts	Brent Oil Futures	Long	94	31,082	30,840	
Futures Contracts	Brent Oil Futures	Short	1	321	333	
Futures Contracts	Yuanta ETF Futures	Short	154	115,050	115,808	
Options Contracts	Index Options-Call	Long	15,960	28,060	28,631	
Options Contracts	Index Options-Put	Long	3,575	39,571	35,618	
Options Contracts	Index Options-Call	Short	21,863	(63,210)	32,322	
Options Contracts	Index Options-Put	Short	9,399	(40,789)	33,830	
Options Contracts	Stock Options-Call	Long	797	2,557	1,461	
Options Contracts	Stock Options-Put	Long	415	6,746	10,907	
Options Contracts	Stock Options-Call	Short	1,414	(4,993)	3,340	
Options Contracts	Stock Options-Put	Short	819	(3,826)	3,783	

12/31/17

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

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.

24. Liabilities for bonds with attached Repurchase Agreements

	12/31/18	12/31/17
Government bonds	$14,595,805	$21,012,660
Bank debentures	21,488,240	21,510,883
Convertible bonds	288,043	655,154
Corporate bonds	28,803,130	11,554,116
Total	$65,175,218	$54,732,813
Repurchased amount as specified in respective agreements plus accrued interest	$65,299,255	$54,764,877
Repurchased date as specified in respective agreements	108.1.2-108.3.6	107.1.2-107.2.9

25. Accounts Payable

	12/31/18	12/31/17
Exchange clearing payable	$4,838,810	$4,577,576
Accounts payable for settlement-brokerage	39,777,105	42,457,824
Accounts payable for settlement-non-brokerage	4,893,523	2,456,317
Others	1,019,402	737,904
Total	$50,528,840	$50,229,621

26.Bonds Payable

	12/31/18	12/31/17
104-1 Unsecured Corporation Bonds Payable	$4,800,000	$7,000,000
Less: Due within one year	-	(2,200,000)
Net amount	$4,800,000	$4,800,000

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.

27.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, 2018, the defined benefit plan of the Company and its domestic subsidiaries plan to contribute 108,172 thousand dollars in the following year.

For the years ended December 31, 2018 and 2017, the defined benefit plan of 257 thousand dollars and 103 thousand dollars, were recognised in other comprehensive income by the Company's subsidiary, PT KGI Sekuritas Indonesia, in compliance with local regulation in Indonesia.

(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	
	2018	2017
Defines contribution plan	$226,085	$227,350
Defined benefit plan	31,702	22,003
Total	$257,787	$249,353

The expenses recognized defined benefet plans in profit or loss are as follows:

	For the years ended December 31	
	2018	2017
Current service cost	$11,340	$11,566
Net interest on net defined benefit liability (assets)	10,789	10,437
Past service cost and settlement	9,573	-
Total	$31,702	$22,003

(3) The maturities of defined benefit obligation are as follows:

	12/31/18	12/31/17
Average maturities of defined benefit obligation	13-16 years	11-16 years

(4) Reconciliation of present value of defined benefit obligation and plan assets at fair value are as follows:

	12/31/18	12/31/17
Present value of the defined benefit obiligation	$1,117,437	$1,199,583
Plans assets at fair value	(377,714)	(427,081)
Carrying amount of net defined benefit obligation	$739,723	$772,502

Reconciliation of net defined benefit liability (asset) are as follows:

	Present value of defined benefit obligation	Plans assets at fair value	Net defined benefit libility (asset)
Januray 1, 2018	$1,199,583	$(427,081)	$772,502
Current service cost	11,340	-	11,340
Interest expense(revenue)	16,728	(5,939)	10,789
Past service cost and settlement	9,573	-	9,573
Recognized in profit or loss	37,641	(5,939)	31,702
Remeasurement of defined liability/asset:			
The actuarial gain/loss on the change of demographic assumptions	2,007	-	2,007
The actuarial gain/loss on the change of financial assumptions	31,254	-	31,254
Adjustment based on experience	18,535	(9,663)	8,872
Exchange difference	(106)	-	(106)
Recognized in OCI	51,690	(9,663)	42,027
Benefit paid	(172,262)	172,262	-
Employer contributions	-	(107,293)	(107,293)
Exchange difference	110	-	110
Others	675	-	675
December 31, 2018	$1,117,437	$(377,714)	$739,723

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit libility (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 liability/asset:			
The actuarial gain/loss on the change of demographic 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 contributions	-	(22,422)	(22,422)
December 31, 2017	$1,199,583	$(427,081)	$772,502

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

	12/31/18	12/31/17
Discount rate	1.18%-1.25%	1.39%-1.44%
Expected Salary Growth Rate	2.00%	2.00%

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

	12/31/18	12/31/17
Discount rate		
Increase 0.5%	$(67,602)	$(70,665)
Decrease 0.5%	$87,354	$92,558
Expected Salary Growth Rate		
Increase 0.5%	$86,181	$91,479
Decrease 0.5%	$(67,415)	$(70,592)

B. The assumptions for defined benefit plan used by the Company' s foreign subsidiaries are as follows:

	12/31/18	12/31/17
Discount rate	8.25%	7.00%
Expected Salary Growth Rate	4.00%	4.00%

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

	12/31/18	12/31/17
Discount rate		
Increase 1.0%	$(86)	$(64)
Decrease 1.0%	$98	$72
Expected Salary Growth Rate		
Increase 1.0%	$103	$74
Derease 1.0%	$(92)	$(67)

C. 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.

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

28.Provision

	12/31/18	12/31/17
Litigation provision	$138,902	$136,334
Decommissioning liabilities	88,166	84,249
Total	$227,068	$220,583

29. Equity

(1) Common stock

	12/31/18	12/31/17
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 32,418,432 thousand dollars and 29,988,123 thousand dollars as of December 31, 2018 and 2017 respectively, each at a par value of NT$10. The Company has issued 3,241,843 thousand and 2,998,812 thousand common shares as of December 31, 2018 and 2017, 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 of 5,000,000 thousand dollars for the year ended on December 31, 2017. The case of capital reduction was approved by the authorities on July 14, 2017 and the record date was August 4, 2017.

The Company's Board of Directors acting on behalf of shareholders decided the case of capital increase of 2,430,309 thousand dollars from distributable earnings of 2017 by issuing 243,031 thousand common shares, at par value of NT$10 on May 25, 2018. The case of capital increase was approved by the authorities and the record date was June 29, 2018.

(2) Capital reserve

	12/31/18	12/31/17
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	14,379	13,035
Employee share options expired	227	103
Total	$8,648,158	$8,646,690

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

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

B. The Company held the annual meeting of shareholders (represented by the board of directors) on May 25, 2018 and June 9, 2017 respectively and resolved the distribution of annual net income for 2017 and 2016 as follows:

	Distribution of earnings		Dividend per share (dollar)	
	2017	2016	2017	2016
Legal reserve	$800,316	$244,918	-	-
Special reserve	2,772,536	502,082	-	-
Cash dividends	2,000,000	1,702,179	0.667	0.487
Stock dividends	2,430,309	-	0.810	-
Total	$8,003,161	$2,449,179		

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	
	2018	2017
Beginning balance	$3,300,090	$3,316,524
Effect of retrospective application	(1,677)	-
Subtotal	3,298,413	3,316,524
Profit attributable to non-controlling interests	64,595	31,613
Other comprehensive income, attributable to non-controlling interests, net of tax:		
Remeasurement of defined benefit plans	-	12
Exchange differences resulting from translating the financial statements of a foreign operation	(66)	(126)
Unrealized gains (losses) on available-for-sale financial assets	-	(14,789)
Purchase of subsidiary stock	(20)	-
Capital increased by cash from subsidiaries	-	1,107
Cash dividend issued from subsidiaries	(7,376)	(34,251)
Ending balance	$3,355,546	$3,300,090

30. The Detail of Comprehensive Net Income

(1) Brokerage handling fee revenue

	For the years ended December 31	
	2018	2017
Brokerage handling fee revenue	$5,942,075	$5,334,557
Foreign brokerage fee	2,863,873	2,830,239
Handling revenue of short sale	59,283	53,771
Handling fee revenue of securities borrowed	55,925	44,963
Foreign sub-brokerage revenue	194,866	196,852
Total	$9,116,022	$8,460,382

(2) Revenue from underwriting business

	For the years ended December 31	
	2018	2017
Revenue from underwriting of securities	$235,398	$245,850
Revenue from underwriting proceeding fee	133,515	214,055
Revenue from underwriting and counseling	30,192	33,725
Others	157,348	264,612
Total	$556,453	$758,242

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

	For the years ended December 31	
	2018	2017
Dealing	$(702,200)	$7,149,825
Underwriting	(6,802)	1,206,216
Hedging	(693,987)	1,066,300
Total	$(1,402,989)	$9,422,341

(4) Interest income

	For the years ended December 31	
	2018	2017
Margin loans	$1,903,220	$1,920,384
Bonds	1,251,822	832,948
Loans secured by securities	129,845	157,010
Others	99,902	29,185
Total	$3,384,789	$2,939,527

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

	For the years ended December 31	
	2018	2017
Dealing	$(542,667)	$(1,033,734)
Underwriting	37,576	(653,118)
Hedging	(166,694)	(128,000)
Settlement coverage bonds payable of short sale	(826)	325
Total	$(672,611)	$(1,814,527)

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

	For the years ended December 31	
	2018	2017
Gains	$326,744	$140,282
Losses	(107,587)	(598,718)
Total	$219,157	$(458,436)

(7) Please refer to Note VI.23 for details of profit and loss on derivative instruments.

(8) Expected credit losses/(gains)

A. Details of expected credit losses/(gains) are as follows:

	For the years ended December 31
	2018
Financial assets measured at FVOCI	$5,086
Financial assets measured at amortized cost	
Receivables (Note1)	88,202
Others (Note2)	18,527
Total	$111,815

Note1: Receivables include margin loans receivable, trading securities receivable, futures commission merchant receivable and accounts receivable.

Note2: Others include cash and cash equivalents, customer trading margin, financial assets measured at amortized cost-other, bond investments under resale agreements, other current assets and other non-current assets.

B. The Company and its subsidiaries' total carrying amount and impairment loss as of December 31, 2018 are as follows:

(a) Financial assets measured at fair value through other comprehensive income

The carrying amount of financial assets measured at fair value through other comprehensive income-bond instrument investment is 16,110,773 thousand dollars, and the impairement loss recognized is 5,447 thousand dollars.

(b) Receivables and others

Item	Carrying amount	Impairment loss	Total
Cash and cash equivalents	$13,849,068	$(532)	$13,848,536
Bond investments under resale agreements	19,448,839	(17)	19,448,822
Margin loans receivable	21,181,502	(1,871)	21,179,631
Trading securities receivable	8,031,155	(1,223)	8,029,932
Customer margin accounts	21,810,523	(48)	21,810,475
Futures commission merchant receivable	188,951	(176,333)	12,618
Accounts receivable	22,259,487	(1,113)	22,258,374
Other current assets	47,592,747	(12,958)	47,579,789
Financial assets measured at amortized cost-non-current	500,000	(3,293)	496,707
Other non-current assets	5,069,492	(1,797,288)	3,272,204
Total	$159,931,764	$(1,994,676)	$157,937,088

C. The Company and its subsidiaries' movements of accumulated impairment for the year ended on December 31, 2018 is as follows:

(a) Financial assets measured at fair value through other comprehensive income

Item	12-month expected credit losses
Balance as of January 1, 2018 (under IAS 39)	$-
Adjustments	293
Balance as of January 1, 2018 (under IFRS 9)	293
Increase/ (decrease)	5,086
Exchange differences	68
Balance as of December 31, 2018	$5,447

(b) Receivables and others

Item	12-month expected credit losses	Lifetime expected credit losses (collective assessment)	Lifetime expected credit losses (credit impaired financial assets)	Lifetime expected credit losses (simplified approach)	Total
Balance as of January 1, 2018 (under IAS 39)	$-	$-	$1,842,138	$806	$1,842,944
Adjustments	13,036	2	13	3,003	16,054
Balance as of January 1, 2018 (under IFRS 9)	13,036	2	1,842,151	3,809	1,858,998
Increase/(decrease)	2,531	211	104,216	(229)	106,729
Financial assets derecognized in the current period	-	-	(11,096)	-	(11,096)
Bad loans write-offs	-	-	(1,929)	-	(1,929)
Exchange differences	308	4	41,662	-	41,974
Balance as of December 31, 2018	$15,875	$217	$1,975,004	$3,580	$1,994,676

The movements of accumulated impairment above are not due to significant change of carrying amount. In February, 2018, a futures trader of subsidiary defaulted due to the shortage of margin, The Company and its subsidiaries recognize impairment loss of 89,771 thousand dollars for the unrecovered futures commision merchant receivable.

D. Please refer to Note XII.2 for details on measurement of expected credit losses.

(9) Other operating income

	For the years ended December 31	
	2018	2017
Investment advisory income	$68,297	$95,045
Commission income	546,597	425,299
Investment trust and fund management income	247,878	142,116
Exchange gain/(loss)	(197,696)	711,394
Others	193,673	339,522
Total	$858,749	$1,713,376

(10) Financial cost

	For the years ended December 31	
	2018	2017
Bills and bonds payable under repurchase agreements	$897,779	$561,563
Bank borrowing	373,683	285,791
Short-term notes and bills	65,952	68,219
Corporate bonds	79,588	94,560
Guarantee deposits received of securities and bonds borrowed	76,840	31,079
Others	54,556	28,904
Total	$1,548,398	$1,070,116

(11) Employee benefits expenses, depreciation and amortization

	For the years ended December 31	
Item	2018	2017
Employee benefit expenses		
Salary expenses	$6,452,805	$6,720,643
Insurance expenses	321,473	321,382
Pension expenses	257,787	249,353
Others	163,220	147,736
Total	$7,195,285	$7,439,114
Depreciations and amortizations		
Depreciations	$292,686	$298,898
Amortizations	259,548	257,241
Total	$552,234	$556,139

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 employees' bonus of 29,000 thousand dollars were recognized under salary expenses based on profit earning performance for the years ended December 31, 2018. The Company held the annual meeting of shareholders on March 22, 2019 and resolved the distribution of employees' bonus of 29,000 thousand dollars for the years ended December 31, 2018.

C. The Company held the annual meeting of shareholders on March 23, 2018 and resolved the distribution of employees' bonus of 57,000 thousand dollars for the years ended December 31, 2017, which are as same as the expenses recognized in the financial reports of 2017.

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.

(12) Other operating expenses

	For the years ended December 31	
	2018	2017
Postage and telephone expenses	$242,781	$240,157
Tax	852,554	900,386
Rental expenses	651,314	698,856
Computer information expenses	519,324	484,904
Bad debt expense	-	264,229
Services expense	211,038	184,627
Securities borrowed expenses	386,170	306,417
Handling fee	500,908	241,376
Fixed expense	237,013	211,050
Other expenses	855,945	749,855
Total	$4,457,047	$4,281,857

(13) Other income and costs

	For the years ended December 31	
	2018	2017
Interest income	$1,083,159	$728,498
Rental income	21,208	21,059
Disposal of property, plant and equipment	62,390	(3,035)
Disposal of investment	71,217	216,837
Non-operating financial assets measured at FVTPL	130,417	60,913
Dividend income	296,184	257,796
Management service income	347,352	348,410
Impairment loss	-	(194,850)
Others	76,879	166,171
Total	$2,088,806	$1,601,799

31. Components of Other Comprehensive Income

For the year ended December 31, 2018

	Arising	Reclassification	Other comprehensive income, before tax	Income tax (expense) income	Other comprehensive income, net of tax
Not to be reclassified subsequently to profit or loss:					
Remeasurements of defined benefit plans	$(42,027)	$-	$(42,027)	$21,736	$(20,291)
Unrealized gain from investments in equity instruments measured at FVOCI	(226,828)	133,782	(93,046)	-	(93,046)
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(396,176)	-	(396,176)	-	(396,176)
To be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of a foreign operation	363,055	-	363,055	-	363,055
Unrealized loss from investments in debt instruments measured at FVOCI	109,616	(29,009)	80,607	-	80,607
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(2,916,209)	-	(2,916,209)	-	(2,916,209)
Total	$(3,108,569)	$104,773	$(3,003,796)	$21,736	$(2,982,060)

For the year ended December 31 , 2017

	Arising	Reclassification	Other comprehensive income, before tax	Income tax (expense) income	Other comprehensive income, net of tax
Not to be reclassified subsequently to profit or loss:					
Remeasurements of defined benefit plans	$(79,417)	$-	$(79,417)	$7,138	$(72,279)
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(2,233)	-	(2,233)	-	(2,233)
To be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of a foreign operation	(882,789)	-	(882,789)	$-	(882,789)
Unrealized gain on 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 equity method	456,425	-	456,425	-	456,425
Total	$419,424	$(3,904,448)	$(3,485,024)	$8,775	$(3,476,249)

32. Income Tax

Based on the amendments to the Income Tax Act announced on February 7, 2018, the Company and its domestic subsidiaries' applicable corporate income tax rate for the year ended December 31, 2018 has changed from 17% to 20%. The corporate income surtax on undistributed earnings has changed from 10% to 5%.

(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	
	2018	2017
Current income tax expense (income)		
Current period	$686,718	$356,631
Adjustments of prior periods	(310,316)	(46,419)
Deferred income tax expense (income)		
Current period	(43,583)	90,690
Deferred tax expense related to changes in tax rates	179,043	-
Income tax expense (income)	$511,862	$400,902

Income tax relating to components of other comprehensive income

	For the years ended December 31	
	2018	2017
Deferred income tax expense (income)		
Unrealized gain (loss) on available-for-sale financial assets	$-	$(1,637)
Remeasurement of defined benefit plan	(21,736)	(7,138)
Income tax relating to components of other comprehensive income	$(21,736)	$(8,775)

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

	For the years ended December 31	
	2018	2017
Income before income tax	$4,341,282	$8,510,200
Income tax expense	$868,257	$1,446,734
Tax exempted income	(202,056)	(1,022,170)
Non tax-deductible expenses	39,624	32,102
Tax effect of deferred income tax assets/liabilities	14,534	33,144
Tax effect of different tax rate for subsidiaries	(121,012)	(114,226)
Alternative minimum tax expense	75,491	86,133
Deffered tax expense related to change of tax rate	179,043	-
Adjustments of prior periods	(310,316)	(46,419)
Others	(31,703)	(14,396)
Total income tax expense	$511,862	$400,902

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

	12/31/18	12/31/17
Deferred income tax assets		
Bad debts	$55,869	$42,792
Unrealized exchange loss	-	2,856
Unrealized loss of warrants issued and repurchase warrants	30,995	-
Unrealized loss of financial instruments	56,396	24,122
Net actuarial gain or loss and pension	147,005	131,442
Unused tax losses	55,960	94,237
Others	2,191	1,987
Total	348,416	297,436
Deferred income tax liabilities		
Unrealized gain of financial instruments	(117,209)	(9,664)
Unrealized exchange gain	(60,265)	(82,907)
Unrealized gain of company warrants	-	(64,213)
Goodwill	(1,069,814)	(909,342)
Land value increment tax liabilities	(9,252)	(9,252)
Others	(1,555)	(1,540)
Total	(1,258,095)	(1,076,918)
Net amount of deferred income tax assets (liabilities)	$(909,679)	$(779,482)

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

	For the years ended December 31	
	2018	2017
Beginning balance	$(779,482)	$(697,567)
Effect of retrospective restatement and retrospective application	(16,473)	-
Subtotal	(795,955)	(697,567)
Recognized in profit or loss	(135,460)	(90,690)
Recognized in other comprehensive income	21,736	8,775
Ending balance	$(909,679)	$(779,482)

(5) Unrecognized deferred income tax assets

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

(7) Income tax return assessed

	Assessment information
The Company	As of December 31, 2014, 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 2017.
KGI Insurance Brokers Co. Ltd.	Assessed through 2016.
KGI Venture Capital Co. Ltd.	Assessed through 2016.
KGI Securities Investment Trust Co. Ltd.	Assessed through 2016.
KGI Futures	Assessed through 2016.
GSFC	Assessed through 2016.
KGI Information Technology Co. Ltd.	Assessed through 2016.

(8) Administrative remedy

For the years from 2009 through 2013, the Company was assessed for additional income tax of 988,200 thousand dollars by the Tax Bureau. GCSC was assessed for additional income tax of 22,663 thousand dollars for 2011 and 2013. 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.

33. 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	
	2018	2017
Basic EPS		
Attributable to the Company	$3,764,825	$8,077,685
Weighted average number of shares outstanding	3,241,843,251 shares	3,536,363,799 shares
Basic EPS (NT$)	$1.16	$2.28

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of the financial statements.

34. Subsidiaries with significant non-controlling interests

The non-controlling interests of the Company are 3,355,546 thousand dollars and 3,300,090 thousand dollars as of December 31, 2018 and 2017, respectively. Proportions held by non-controlling interests are as follows:

Subsidiary Company	Country	12/31/18	12/31/17
KGI Futures	Taiwan	0.39%	0.39%
KGI Securities Investment Trust Co. Ltd.	Taiwan	-	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	12/31/18	12/31/17
GSFC	$3,339,857	$3,287,669

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	
	2018	2017
Revenue	$220,388	$304,769
Net profit from continuing operations	$79,563	$38,620
Other comprehensive income	-	(18,917)
Comprehensive income	$79,563	$19,703
Net profit allocated to non-controlling interests	$62,066	$30,127
Dividends paid to non-controlling interests	$6,332	$32,292

(2) Summarized information of financial position for GSFC

	12/31/18	12/31/17
Current assets	$5,839,999	$8,825,799
Non-current assets	1,462,922	1,839,143
Current liabilities	3,020,842	6,449,613
Non-current liabilities	780	930

(3) Summarized cash flow information for GSFC

	For the years ended December 31	
	2018	2017
Operating activities	$3,940,336	$137,307
Investing activities	31,939	(426,364)
Financing activities	(3,817,455)	98,974
Net increase/(decrease) in cash and cash equivalents	154,820	(190,083)

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

VII. Significant Related-Party Transaction

The Company and its subsidiaries adopted IFRS 9 since January 1, 2018. The Company and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

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

Related party	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 equity method (associate)
Trinitus Asset Management Limited(Trinitus)	Invested by the subsidiary and accounted for using equity method (associate) (Note 3)
KGI Bank Co., Ltd. (KGI Bank)	Sister company (other related party)
China Life Insurance Co., Ltd. (China Life)	Sister company (other related party) (Note 1)
CDIB Capital Group (CDIB Capital)	Sister company(other related party)
CDIB Venture Capital Corp.	Invested by the sister company and accounted for using equity method (other related party)
CDIB Capital Management Inc. (CDIB Capital Management)	Invested by the sister company and accounted for using equity method (other related party)
CDIB Capital International Corp.	Invested by the sister company and accounted for using equity method (other related party)
CDIB Capital Growth Partners L.P.	Invested by the sister company and accounted for using equity method (other related party)
CDIB CME Fund Ltd.	Invested by the sister company and accounted for using equity method (other related party)
CDIB Partners Investment Holding Corp.	Invested by the sister company and accounted for using equity method (other related party)
Tuntex Gas Corp.	Invested by the sister company and accounted for using equity method (other related party) (Note 2)
CDIB Capital Investment I Ltd.	Invested by the sister company and accounted for using equity method (other related party)
CDIB Capital Investment II Ltd.	Invested by the sister company and accounted for using equity method (other related party)
CDIB & Partners Investment Holding Pte. Ltd.	Invested by the sister company's subsidiary and accounted for using equity method (other related party)
CDC Finance & Leasing Corp.	Invested by the sister company's subsidiary and accounted for using equity method (other related party)
KGI Charity Foundation	The Company is the main donor (other related party)
Fund managed by KGI Securities Investment Trust Co. Ltd. (KGI Investment Trust Fund)	Investment trust fund managed by the subsidiary (other related party)
Bank of Taiwan Co., Ltd. (Bank of Taiwan)	The parent company's board of director (other related party)
GuoHen Chemistry Co., Ltd	The parent company's board of director (other related party)
XingWen Investment Ltd.(XingWen Investment)	The parent company's board of director (other related party)
Others	Other related-parties

Note 1: After the parent company acquires the stock in the form of public acquisition, it becomes the related party.

Note 2: Tuntex Gas Corp. was not related from March 1, 2017.

Note 3: Trinitus Asset Management Limited was not related from July 29, 2018.

2. Significant transactions with related-parties

(1) Operating revenue and cost:

	For the years ended December 31	
	2018	2017
A. Brokerage handling fee revenue		
Other related parties		
KGI Bank	$14,001	$14,433
China Life	$73,176	$11,992
KGI Investment Trust Fund	6,872	12,324
Others	10,112	7,767
Total	$104,161	$46,516
B. Revenue from underwriting business		
Parent company		
CDFH	$-	$10,500
Other related parties		
KGI Bank	3,094	4,715
CDIB Capital Mangement	1,500	-
Other	465	-
Total	$5,059	$15,215
C. Revenue from providing agency service for stock affairs		
Parent company		
CDFH	$17,078	$17,434
Other related parties	1,562	258
Total	$18,640	$17,692
D. Dividend income		
Other related parties		
China Life	$13	$805
E. Derivation profit or loss-OTC		
Other related parties		
KGI Bank	$(14,919)	$(11,680)

	For the years ended December 31	
	2018	2017
F. Other operating revenue		
Parent company		
CDFH	$8,900	$9,486
Associates	154	147
Other related parties		
China Life	337,512	69,024
Other	40	92
Total	$346,606	$78,749
G. Financial costs		
Other related parties		
KGI Bank	$4,826	$14,695
Bank of Taiwan	8,621	5,687
Others	221	926
Total	$13,668	$21,308

The above transactions were under general trading condition.

(2) Due from banks (recognized as cash and cash equivalents, other current financial assets and other current assets):

	12/31/18	12/31/17
Other related parties		
KGI Bank	$2,830,664	$4,552,617
Bank of Taiwan	66,855	7,105
Total	$2,897,519	$4,559,722

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

	12/31/18	12/31/17
A. Open-ended funds and monetary market instruments		
Other related parties		
KGI Investment Trust Fund	$465,958	$-

	12/31/18	12/31/17
	Notional Amount	Notional Amount
B. Outstanding derivative financial instruments		
A.IRS		
Other related parties		
KGI Bank	$636,173	$955,136
B.CBAS-interest		
Other related parties		
KGI Bank	$602,120	$508,220
C.CBAS -long option		
Other related parties		
KGI Bank	$5,900	$508,220
D.CBAS -short option		
Other related parties		
KGI Bank	$596,220	$-

	12/31/18	12/31/17
C. Trading Securities		
Other related parties		
KGI Investment Trust Fund	$26,311	$-

(4) Financial assets measured at fair value through other comprehensive income-current-equity instruments

	12/31/18
Stocks	
Parent company	
CDFH	$2,399,876

Please refer to Note VI.4(2) for information of sale of CDFH stock for the year ended December 31, 2018.

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

	12/31/17
Stocks	
Parent company	
CDFH	$3,063,126

(6) Margin loans receivable:

	12/31/18	12/31/17
Other related parties		
Others	$15,935	$23,919

(7) Customer margin accounts:

	12/31/18	12/31/17
Other related parties		
KGI Bank	$919,916	$2,042,540

(8) Account receivables

	12/31/18	12/31/17
Associates		
KGI TH	$15,614	$45,894
Other related parties		
China Life	13,457	18,582
Bank of Taiwan	-	74,866
XingWen Investment	20,888	-
Others	7,462	5,076
Total	$57,421	$144,418

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

	12/31/18	12/31/17
Associates		
KGI TH	$1,128	$1,912
Others	-	19
Other related parties		
KGI Bank	8,042	9,466
Others	375	3
Total	$9,545	$11,400

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

	12/31/18	12/31/17
Other related parties		
KGI Bank	$1,202,572	$1,036,153

(11) Short-term borrowings:

	12/31/18	12/31/17
Other related parties		
Bank of Taiwan	$-	$298,480

(12) Securities financing refundable deposits:

	12/31/18	12/31/17
Other related parties		
KGI Investment Trust Fund	$4,704	$5,451
Others	487	835
Total	$5,191	$6,286

(13) Deposits payable for securities financing:

	12/31/18	12/31/17
Other related parties		
KGI Investment Trust Fund	$5,201	$6,027
Others	538	875
Total	$5,739	$6,902

(14) Futures customers' equity:

	12/31/18	12/31/17
Other related parties		
KGI Bank	$394,377	$362,052
KGI Investment Trust Fund	8,723	42,647
Total	$403,100	$404,699

(15) Accounts Payable:

	12/31/18	12/31/17
Associates		
KGI TH	$696	$43,581
Other related parties		
KGI Bank	4,508	158,640
China Life	-	54,110
CDIB Capital	13,791	10,352
CDIB Capital Investment I Ltd.	34,475	-
KGI Investment Trust Fund	9,895	6,896
Others	3,532	9,548
Total	$66,897	$283,127

(16) Other accounts payable

	12/31/18	12/31/17
Other related parties		
KGI Bank	$277	$337
China Life	20,548	2,545
Others	31	173
Total	$20,856	$3,055

(17) Current income tax liabilities:

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

	12/31/18	12/31/17
Due to CDFH (the parent company)	$740,985	$340,456

(18) Bonds transactions with related parties as follows:

A. Repurchase or resale agreement-liabilities for bonds with attached repurchase agreements

For the year ended December 31, 2018: None

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

B. Purchase and sale of bonds

	For the year ended December 31, 2018	
	Purchase of bonds	Sale of bonds
Other related parties		
KGI Bank	$2,733,358	$5,330,933
China Life	2,544,662	10,529,502
Bank of Taiwan	400,420	1,942,918
Total	$5,678,440	$17,803,353

	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

C. Short sale of bonds

For the year ended December 31, 2018: None

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

(19) Significant leases with related parties are as follows:

Rental income (recognized as other income and costs)

	For the years ended December 31	
	2018	2017
Other related parties		
KGI Bank	$12,938	$12,939
Others	340	342
Total	$13,278	$13,281

The above lease prices were determined by market and received monthly.

Rental expenses (recognized as other operating expenses)

	For the years ended December 31	
	2018	2017
Other related parties		
China Life	$3,738	$1,605
Bank of Taiwan	1,836	1,836
Others	119	262
Total	$5,693	$3,703

The above lease prices were determined by market and paid monthly

(20) Employee benefit expense

	For the years ended December 31,	
	2018	2017
Other related parties		
China Life	$15,372	$6,473
Bank of Taiwan	223	216
Total	$15,595	$6,689

(21) Other operating expenses

	For the years ended December 31	
	2018	2017
Other related parties		
KGI Bank	$7,858	$8,397
China Life	126,520	972
KGI Charity Foundation	10,000	10,000
Others	1,716	2,360
Total	$146,094	$21,729

(22) Other income and costs

	For the years ended December 31	
	2018	2017
Parent company		
CDFH	$169,551	$151,293
Associates	11,541	10,970
Other related parties		
KGI Bank	118,653	129,580
Others	83	113
Total	$299,828	$291,956

(23) Information about key management personnel compensation

	For the years ended December 31	
	2018	2017
Short-term employee benefit	$145,981	$157,991
Post-employment benefits	3,139	3,156
Share-based payment transaction	976	1,756
Total	$150,096	$162,903

(24) Stocks transactions with related parties are as follows:

For the year ended December 31, 2018: None

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

(25) For business need, the Company requested the bank guarantees from other related parties for the amount are as follows:

	12/31/18	12/31/17
Other related parties		
Bank of Taiwan	$540,000	$860,000

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

	12/31/18	12/31/17
Property and equipment and investment property	$271,050	$273,119

VIII. Assets Pledged

The Company and its subsidiaries adopted IFRS 9 since January 1, 2018. The Company and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

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

Description of the Assets	12/31/18	12/31/17
Financial assets measured at fair value through profit or loss-current-trading securities-dealing	$200,339	$301,288
Other current assets- restricted	2,531,259	2,171,117
Financial assets measured at fair value through profit or loss-non-current-trading securities-dealing	-	49,998
Investment accounted for using equity method	2,005,410	2,751,465
Property and equipment	4,608,352	4,643,495
Investment property	475,180	478,014
Other non-current assets-guarantee deposits paid	1,045,827	1,074,524
Total	$10,866,367	$11,469,901

IX. Significant Contingent Liabilities and Unrecognized Commitments

1. The Company has appealed for its income tax returns. Please refer to Note VI.32 for detail.

2. One of the executive vice president of the merged entities, Jen-Hsin Securities Co., Ltd., claimed the ownership of stocks of Jen-Hsin Securities Co., Ltd. while certain clients of Jen-Hsin Securities Co., Ltd. also claimed ownership of the same lot of securities. The executive vice president declined to surrender the shares; hence, Jen-Hsin Securities Co., Ltd. petitioned a motion with the Taipei District Court on November 6, 2002 in order to repossess such shares. Because Jen-Hsin Securities Co., Ltd. has been merged into the Company, such case is taken over by the Company as a result. Also, in July, 2004, the certain clients has requested to the Court for the repossession of such shares from the Company, the Company can pay cash of 90,379 thousand dollars and assumed interest in lieu. During the process of litigation, the certain client change his claim to require the Company as first class debtor to pay 90,379 thousand dollars and assumed interest and executive vice president as secondary debtor to pay 2,000 thousand stocks of Jen-Hsin Securities Co., Ltd. and 73,946 thousand dollars and assumed interest because the confirm of original judgment and the Company is unable to retrieve the stocks. On October 25, 2016, Taiwan High Court judged that while certain clients conveyed all of the rights exercisable on the basis of the ownership of stocks of Jen-Hsin Securities Co., including those converted into stocks of China Development Financial Holding Corporation, Ltd. to the Company, the Company should pay 90,379 thousand dollars to certain clients, and other appeals were rejected. The Company and certain clients appealed to the Supreme Court. This case is currently processed by the Supreme Court.

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

4. For the need of securities borrowing margin, the Company requested the bank guarantees for 1,650,000 thousand dollars.

5. 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.

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

The plaintiffs, Digital Imaging Solution Global Ltd. (Digital) and Minda Consultancy Limited ("Minda") claimed that Global Treasure Investments Limited (GT) broke the pledged contract since GT and its fund manager including KGI Limited disposed 2,000 thousand shares of eCyberChina without the agreement of Digital and Minda based on the pledged stock derived from the loan, HKD 10,000 thousand dollars, between Minda and indirectly obtained the pledged stock 35,000 thousand shares of eCyberChina. Digital and Minda appealed to the Court and claimed HKD 119,130 thousand dollars and relevant expenses and interests against GT in November 2007. In February 2008, the plaintiffs also sued KGI Limited but the Hong Kong Court rejected the case on July 21, 2008. The plaintiffs appealed to the Court of Appeal and the Court of Appeal rejected Digital's appeal in December 2008. This case of Minda's part is currently proceeded by Court of Appeal.

X. Significant Disaster Losses

None.

XI. Significant Subsequent Events

None.

XII. Others

The Company and its subsidiaries adopted IFRS 9 since January 1, 2018. The Company and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

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, 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. Analyses of Credit Risk

(1) The analyses of credit risk from January 1, 2018 are as follows :

A. 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.

B. Credit risk management

The credit risk management of the Company and its subsidiaries' investments, fixed-income securities and other financial assets and counterparties are managed by each business unit subject to the internal control procedures and relevant specifications. As most of the investments and counterparties reach an good external credit rating, credit risk is very low.

C. Definition of default and credit impairment of financial assets

(a) The Conpany and its subsidiaries define default of financial assets, the same as impairment of financial assets. If there are any evidences indicating issuers or counterparties are not able to fulfill contratual obiligations or they have financial difficulty, such as:

I. Issuers and counterparties have bankrupted or it is becoming probable that they will enter bankruptcy or other financial reorganisation;
II. A breach of contract of the issuers and counterparties' other financial instruments has occurred;
III. The disappearance of an active market for that fiancial asset because of financial difficulties; or
IV. The Purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

(b) The above mentioned definition of default and credit impairment apply to all the financial assets held by the Company, which is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument.

(c) When financial assets don't meet definition of default and impairment after assesment, they will not be recognized in credit-impaired financial assets any longer.

(d) The Company and its subsidiaries shall directly reduce the gross carrying amount of a financial asset when they have no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event.

D. Description of credit risk on each financial asset

(a) Cash and cash equivalents and other financial assets:

The Company mainly puts bank deposit and cash in the banks with good credit and deposits specific amount of cash as collateral in the customers' margin account designated by the future corporations. The Company regularly assesses finance, operating activities and credit risk situation of each financial institution and future corporation, which serves as the management of credit risk. Considering the result of assessment, the credit risk is under controll.

(b) Financial assets measured at FVTPL-current

The above metioned financial assets include debentures, convertible bonds and CB Asset Swap. The debentures held by the Company were issued by large-scale listed corporations or financial institutions; the convertible bonds held by the Company were issued by domestic listed corporations and parts of them are backed by bank guarantees. As the Company transfers the credit risk through issuing CB Asset Swap and Credit Linked Note in order to reduce issuers' exposure to credit risk, the issuers' credit risk is under control.

(c) Financial assets measured at FVOCI (excluding equity instrument investment)

The above mentioned fiancial assets is mainly long-term bonds. The Company keeps a close eye on credit grade of each investment and issuer' (or credit rating agency) financial situation in order to minimize the credit risk.

(d) Bond investments under resale agreements

The counterparties with whom the Company do bond investments under resale agreements is mainly the financial institutions and corporations with good credit; The factor that counterparties' securities are held by the Company as collateral effectively reduces counterparties' exposure to credit risk.

(e) Receivables

Receivables include margin loans receivable, trading securities receivable, futures commission merchant receivable and accounts receivable. The main credit risk is margin loans receivable and trading securities receivable. The Company and its subsidiaries closely monitor market fluctuations and customers' credibility, and take measures to minimize the credit risk according to the regulations.

(f) Customer margin accounts

As the specific accounts of customer margin are opened in the banks with good credit and financial institutions and corporations with investment grade, there is no siginificant credit risk.

(g) Stock borrowing collateral price and stock borrowing margin

When the Company and its subsidiaries borrow securities, the Company and its subsidiaries should deposit margin in the specific financial institutions. The factor that securities are held by us reduces counterparties' amount of exposure to credit risk.

(h) Held to maturity financial assets-non-current

The subsidiaries hold subordinated debentures without collaterals of Sunny Bank, HuaTai Bank and BanXin Bank and assess the credibility of each financial institutions regularly, which serve as the management of credit risk.

(i) Other non-current assets

Other non-current assets include operation guarantee deposits, clearing and settlement fund and guarantee deposits paid. The Company assesses counterparty based on the materiality of the amounts deposited. As there are many counterparties and the amount of that is not significant, the credit risk is effectively decentralized. Therefore, the credit risk is vey low.

E. Measurement of expected credit losses

(a) Consideration of the forward-looking information

The Company and its subsidiaries consider the forward-looking information to decide if there is a significant increase in credit risk and to measure expected credit losses.

The probability of default used for measuring impairment on debt instrument investments, excluding ones measured at fair value through profit or loss, is based on probability of default information including forward-looking macroeconomic information published regularly by international credit rating institutions.

Apart from debt instrument investments, analyses on financial instruments are performed using historical data. Economic factors relevant to expected credit loss of each portfolio have been identified with reference to optimal estimations published by authorities or academic institutions. Optimal estimations are reevaluated and corrected on every financial statement date.

(b) Receivables and others

The Company and its domestic subsidiaries

The Company and its domestic subsidiaries measure the loss allowance by lifetime expected credit loss under IFRS 9. The lifetime expected credit loss is based on the historical experience, current information and forward-looking information and caculated by regression model. Considering the Company and its subsidiaries' historical experience, since no significant difference exists among different client groups, grouping analysis is not conducted.

The foreign subsidiaries

As the credit loss of financial assets recognized initially is not significantly increased, they are measured by 12-month expected credit loss. Otherwise, they are measured by lifetime expected credit loss. The measurement is based on customers' past record of default, credibility, current information and prospective information. since no significant difference exists among different client groups, grouping analysis is not conducted.

(c) Debt instrument investments (excluding ones measured at fair value through profit or loss)

The above mentioned instruments are at low credit risk upon acquisition, and an assessment is made at each reporting date as to whether the credit risk has substantially increased in order to determine the method of measuring the loss allowance and the loss ratio.

In order to measure expected credit loss, The Company and its subsidiaries calculated both 12-month and lifetime expected credit losses by considering the 12-month and lifetime probability of default, loss given default multiplied by exposure at default which is measured using amortized cost of financial assets, and taking into account the effect of time value of money.

The probability of default is the probability of breaching a contract by issuer or counterparty; the loss given default is the loss ratio when they breach a contract. Both of them are based on the information on probability of default and loss given default published regularly by international credit rating institutions.

The impairment assessment method for the aforementioned debt instrument investments and related indicators are described as follows:

Credit risk rating	Indicator	Measurement method for expected credit loss
Low credit risk	Debt instrument with credit grade BBB- or higher/ Counterparties with good credit	12-month expected credit losses
Credit risk significantly increased	Credit grade: BB+~C (Note)	Lifetime expected credit losses
Credit-impaired/default	Credit grade: D or lower/evidence of impairment	Lifetime expected credit losses

Note: the Company and its subsidiaries consider all reasonable and supportable information including forward-looking information that indicates credit risk significantly increases since initial recognition. The main indicators include:

(1) External credit rating, past due information, the credit spread, other market information related to the borrower and significant increases in credit risk on other financial instruments of the same borrower, etc.
(2) Low credit risk: if financial aseets have low credit risk on the reporting date, we assume there is no significant increase in credit risk since initial recognition.

F. The assessment technique or significant assumption used to evaluate the expected credit loss by the Company and its subsidiaries don't change for the year ended on December 31, 2018.

(2) The analyses of credit risk before January 1, 2018 are as follows:

A. 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.

B. 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 FVTPL-current	47,977,185	914,741	4,518,462	-	-	-	-	53,410,388
Available-for-sale financial assets- current	11,454	-	-	-	-	-	-	11,454
Bond investments 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
Customer 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 FVTPL-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%

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 equivalents

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 futures 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. Besides, the subsidiaries periodically review the credit risk exposure of bond investments under resale agreements and 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. Held-to-maturity financial assets-non-current

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

E. Other non-current assets

The medium risk financial assets under this category include the Company's guarantee deposits paid . The Company evaluates all counterparties based on the amount 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. Analyses of Capital liquidty risk

(1) Cash flow analysis

Statement of cash flow analysis for financial assets

12/31/18

Financial Assets	Collection period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Cash and cash equivalents	$5,114,643	$8,733,893	$-	$-	$-	$13,848,536
Financial assets measured at FVTPL-current	45,048,279	1,944,214	9,160,574	387,366	69,401	56,609,834
Financial assets measured at FVOCI-current	8,151,851	5,575,724	643,797	-	-	14,371,372
Bond investments under resale agreements	-	19,494,037	-	-	-	19,494,037
Receivables	29,269,275	4,088,892	15,752,425	2,371,131	-	51,481,723
Customer margin accounts	21,810,475	-	-	-	-	21,810,475
Stock borrowing collateral price and stock borrowing margin	2,925,678	2,093,783	6,916,890	-	-	11,936,351
Other financial assets-current	-	-	3,387,927	-	-	3,387,927
Income tax assets	-	-	48	2,255	569,624	571,927
Other current assets	45,521,742	986,209	1,071,838	-	-	47,579,789
Financial assets measured at FVTPL-non-current	-	-	-	549,334	2,233,090	2,782,424
Financial assets measured at FVOCI-non-current	-	-	-	-	4,218,151	4,218,151
Financial assets measured at amortized cost-non-current	-	-	-	298,653	198,054	496,707
Investments accounted for using equity method	-	-	-	-	11,170,844	11,170,844
Others non-current assets	70,000	-	100,000	259,621	2,814,781	3,244,402
Total	$157,911,943	$42,916,752	$37,033,499	$3,868,360	$21,273,945	$263,004,499
Percentage	60.04%	16.32%	14.08%	1.47%	8.09%	100.00%

Statement of cash flow analysis for financial liabilities

12/31/18

Financial Liabilities	Collection period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Short-term borrowings	$-	$14,782,223	$-	$-	$-	$14,782,223
Commercial papers payable-net	-	2,457,752	-	-	-	2,457,752
Financial liabilities measured at fair value through profit or loss-current	3,723,021	1,236,609	5,532,983	1,124,791	69,401	11,686,805
Liabilities for bonds with attached repurchase agreements	-	65,299,256	-	-	-	65,299,256
Payables	60,856,910	1,603,369	5,143,243	96,648	-	67,700,170
Securities lending refundable deposits	-	5,908,005	11,910,455	-	-	17,818,460
Futures customers' equity	21,792,908	-	-	-	-	21,792,908
Other current liabilities	424,784	1,101,415	2,601,633	30	-	4,127,862
Other financial liabilities-current	-	2,224,901	8,913	739	-	2,234,553
Income tax liabilities	-	-	175,426	-	738,425	913,851
Bonds payable	-	-	-	4,800,000	-	4,800,000
Liabilities reserve-non-current	-	-	-	21,840	205,228	227,068
Other non-current liabilities	-	-	-	694,628	67,593	762,221
Total	$86,797,623	$94,613,530	$25,372,653	$6,738,676	$1,080,647	$214,603,129
Percentage	40.45%	44.09%	11.82%	3.14%	0.50%	100.00%

Statement of capital liquidation gap

12/31/18

	Collection period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Cash inflow	$157,911,943	$42,916,752	$37,033,499	$3,868,360	$21,273,945	$263,004,499
Cash outflow	86,797,623	94,613,530	25,372,653	6,738,676	1,080,647	214,603,129
Amount of cash flow gap	$71,114,320	$(51,696,778)	$11,660,846	$(2,870,316)	$20,193,298	$48,401,370

Statement of cash flow analysis for financial assets

12/31/17

	Collection period					Total
Financial Assets	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
Bond investments 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
Customer 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 FVTPL-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 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	Payment 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 FVTPL-current	2,763,476	1,687,810	6,535,931	1,149,735	105,692	12,242,644
Liabilities for bonds with attached 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 deposit	-	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	-	4,101,275
Income tax liabilities	-	-	123,071	-	574,191	697,262
Long-term liabilities-current portion	-	-	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	$6,858,465	$1,011,370	$214,562,766
Percentage	39.98%	44.91%	11.44%	3.20%	0.47%	100.00%

Statement of capital liquidity 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	6,858,465	1,011,370	214,562,766
Amount of cash flow gap	$75,769,563	$(56,840,648)	$13,260,743	$(2,576,678)	$17,827,966	$47,440,946

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 statements on December 31, 2018 and December 31, 2017 show that the sums from deducting cash outflow from cash inflow are 48,401,370 thousand dollars and 47,440,946 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 60.04% of the entire financial assets. This shows that most of these financial assets can be liquidated immediately and therefore have high liquidity. As for financial liabilities, there is no particular period with a high number of due payments which will put stress on fund dispatching.

Although an analysis of funds gap shows that the cash outflow exceeded cash inflow within 3 months period and 1 to 5 years period, the main differentiating factor is that the financial assets of the Company and its subsidiaries have high liquidity, which causes financial assets and liabilities to have different impacts during different cash flow periods. As of December 31, 2018 and 2017, net cash inflow calculated from net spot financial assets are respectively 71,114,320 thousand dollars and 75,769,563 thousand dollars, which are sufficient to cover the net cash outflows of 54,567,094 thousand dollars and 59,417,326 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 estimated influence on the income of investment portfolio under potential extreme events or circumstances.

(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 investment portfolio held by the Company and its subsidiaries are as follows:

Comparisons of risk sensitive factors

Risk sensitivity	12/31/18	12/31/17
Interest rate risk	$5,774	$4,820
Equity securities risk	2,710,631	9,081,111
Exchange rate risk	957,905	199,480
Commodity risk sensitivity	10,758	95,944

(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 investment portfolio held by the Company and its subsidiaries are as follows:

Risk type	For the year ended December 31, 2018			12/31/18
	Average VAR	Minimum VAR	Maximum VAR	Ending VAR
Equity securities	$146,388	$65,496	$332,135	$159,003
Interest Rate	118,562	61,188	249,690	126,778
Exchange Rate	9,424	3,386	24,670	8,413
Commodity	5,501	146	17,873	3,037

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

(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) Types of financial instruments

Financial instruments	12/31/18	12/31/17
Financial assets		
Financial assets measured at fair value through profit or loss:		
Held for trading (Note 2)	$-	$66,897,926
Mandatorily Measured at fair value through profit or loss	59,289,736	-
Financial assets measured at fair value through other comprehensive income	18,589,523	-
Available-for-sale financial assets (Note 2)	-	5,150,186
Financial assets measured at amortized cost (Note 3)	173,227,090	-
Held to maturity financial assets (Note 3)	-	500,000
Loans and receivables (Note 3)	-	175,202,132
Total	$251,106,349	$247,750,244
Financial liabilities		
Financial liabilities measured at amortized cost (Note 4)	$200,902,965	$200,592,009
Financial liabilities measured at fair value through profit or loss:		
Held for trading	8,386,277	11,076,434
designated initially at fair value through profit or loss	3,155,241	986,143
Total	$212,444,483	$212,654,586

Note 1: The Company and its subsidiaries adopted IFRS 9 since January 1, 2018. The Company and its subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Note 2: Including financial assets measured at cost as of December 31, 2017.

Note 3: Considering the existing facts and circumstances assessment on January 1, 2018, As cash flows of held to maturity financial assets under IAS 39 are solely payments of principle and interest on the principle amount outstanding , the Company and its subsidiaries reclassified them as financial assets measured at amortized cost according to the fact that the business model of them is to collect contractual cash flows. Besides, Cash and cash equivalents excluding cash on hand, bond investments under resale agreements, notes receivable, accounts receivable, margin loans receivable, refinancing margin, refinancing deposits receivable, trading securities receivable, customer margin accounts, futures commission merchant receivable, stock borrowing collateral price, stock borrowing margin, other financial assets-current, other current assets, financial assets measured at amortized cost-non-current and other non-current assets are reclassified in financial assets measured at amortized cost, the same as loans and receivables under IAS 39.

Note 4: Financail liabilities measured at amortized cost include short-term borrowings, commercial papers payable, liabilities for bonds with attached repurchase agreements, securites financing refundable deposits, deposits payable for securties financing, securities lending refundable deposits, futures customers’ equity, accounts payable, receipts under custody, other payable, other current liabilities, bonds payable including one due within one year and guarantee deposits received.

(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. Financial assets, financial liabilities, lending and receivables measured at amortized cost 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.

B. Financial assets measured at amortized cost/ held to maturity financial assets: If an active market has public quote, then the market price will be the fair value; if there is no open quote available in 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 financial assets.

C. For financial assets and liabilities measured at fair value through profit or loss and financial assets measured at fair value through comprehensive income/ 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 in 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 financial assets. 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.

D. 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.

E. Due to the uncertain duration, fair values of the guaranteed deposits of other non-current assets and liabilities are measured by its book value.

F. 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).

G. 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.

(3) Financial assets measured at amortized cost

Excluding the following items, the book value of the Company and its subsidiaries' financial instruments measured at amortized cost is the reasonable approximation of theirs fair value. The fair value of the other financial assets and liabilities measured at amortized cost is as follows:

	12/31/18		12/31/17	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial assets measured at amortized cost	$496,707	$499,986	$-	$-
Held-to-maturity financial assets	-	-	500,000	499,986
Operation guarantee deposits	199,780	200,097	200,463	200,652
Guarantee deposits paid	199,445	200,266	199,258	200,518
Financial liabilities				
Long-term liabilities-current portion	-	-	2,200,000	2,205,386
Bonds payable	4,800,000	4,846,090	4,800,000	4,864,546

(4) 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:

12/31/18

Financial instruments measured at fair value	Level 1	Level 2	Level 3	Total
Non-derivative instruments				
Assets				
Financial assets measured at FVTPL				
Stocks	$6,054,926	$-	$2,268,207	$8,323,133
Bonds	19,529,617	16,107,005	-	35,636,622
Others	4,097,289	8,449,377	-	12,546,666
Financial assetss measured at FVOCI				
Stocks	2,399,876	-	2,049	2,401,925
Bonds	9,030,882	7,156,716	-	16,187,598
Liabilities				
Financial liabilities measured at FVTPL				
Stocks	2,856,929	-	-	2,856,929
Bonds	234,994	1,649,405	-	1,884,399
Derivative instruments				
Assets				
Financial assets measured at FVTPL	637,974	2,125,028	20,313	2,783,315
Liabilities				
Financial liabilities measured at FVTPL	746,459	5,428,294	625,437	6,800,190

12/31/17

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

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 are not transfers between Level 1 and Level 2 for the years ended of December 31, 2018 and 2017.

(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, 2018

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 (Note1)	Transfer to Level 3	Disposal	Transfer out of Level 3 (Note2)	
Financial Assets								
Derivative instruments								
Financial assets measured at FVTPL-current	$6,005	$22,500	$-	$34,068	$-	$(42,260)	$-	$20,313
Non-derivative instruments								
Financial assets measured at FVTPL-non-current(Note1)	-	69,185	-	2,518,676	-	(122,193)	(197,461)	2,268,207
Financial assets measured at FVOCI (Note1)	-	-	(188)	2,237	-	-	-	2,049

Note1: The acquisiton includes the adjusted amount of adopting IFRS 9.

Note2: The fair value of securities change from self-evaluation to market quotation, so it transfer from level 3 to level 1.

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								
Derivative instruments								
Financial assets measured at FVTPL-current	$53,855	$(11,260)	$-	$77,220	$-	$(113,810)	$-	$6,005
Non-derivative instruments								
Available-for-sale financial assets-non-current	58,150	-	16,468	-	-	-	-	74,618

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

For the year ended December 31, 2018

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								
Derivative instruments								
Financial liabilities measured at FVTPL-current	$308,547	$(222,969)	$-	$1,142,059	$-	$(602,200)	$-	$625,437

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								
Derivative instruments								
Financial liabilities measured at FVTPL-current	$8,514	$126,731	$-	$1,049,780	$-	$(876,478)	$-	$308,547

c. Total gains or losses from financial assets and liabilities still held by the Company for the years ended December 31, 2018 and 2017 are as follows:

	For the years ended December 31	
	2018	2017
Total gains or losses		
Recognized in profit or loss	$240,333	$(21,623)
Recognized in other comprehensive income	(188)	16,468

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, 2018 and 2017.

(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.

12/31/18

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value
Financial assets:				
Non-derivatives				
Financial assets measured at FVTPL-Equity instrument	Note	Not applicable	Not applicable	Not applicable
Financial assets measured at FVTPL-Equity instrument	Market approach	Discount for lack of liquidity	23%~26%	The higher the discount for lack of liquidity is, probably the lower the fair value of assets is.
Financial assets measured at FVOCI-Equity instrument	Note	Not applicable	Not applicable	Not applicable
Derivatives				
Structured notes-options	Martingale Pricing Technique	History Volatility	24.93%-62.14%	Depending on contract terms.
Credit Default Swaps	ISDA Standard Upfront Model	Recovery Rate	0.4	According to ISDA CDS Standard Model, recovery rate is set depending on the type of the underlying debt.
Financial liabilities:				
Derivatives				
Structured notes-options	Martingale Pricing Technique	History Volatility	2.18%-14.04%	Depending on contract terms.
Equity derivative instruments-short option	Martingale Pricing Technique	History Volatility	21.32%-47.70%	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, purchasing price or measured by asset method.

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	Not applicable	Not applicable	Not applicable
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%	Depending on contract terms.
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

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. The effect of possible changes of valuation inputs on the current profit or loss is shown below:

12/31/18

	Sensitivity of the input to fair value		Recognized in profit/loss	
	Inputs	Changes	Gain	Loss
Financial assets:				
Non-derivatives				
Financial assets measured at FVTPL				
Equity instruments (third-party quotation/purchasing price/asset method)	Not applicable.	Not applicable.	Not applicable.	Not applicable.
Equity instruments (market method)	Depreciation ratio	-1% / +1%	$359	$368
Financial assets measured at FVOCI				
Equity instruments (asset method)	Not applicable.	Not applicable.	Not applicable.	Not applicable.
Derivatives				
Structured notes- options	Historical volatility	+25% / -25%	$2,173	$1,997
Financial liabilities:				
Derivatives				
Structured notes- options	Historical volatility	-25% / +25%	$0	$0
Equity derivative instruments－short option	Historical volatility	-25% / +25%	(12)	(12)

12/31/17

	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
Financial liabilities:				
Derivatives				
Structured notes- options	Historical volatility	-25% / +25%	$(210)	$(175)
Equity derivative instruments－short option	Historical volatility	-25% / +25%	971	1,103

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.

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

12/31/18

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial measured assets at amortized cost-non-current	$-	$499,986	$-	$499,986
Operation guarantee deposits	-	200,097	-	200,097
Guaranteee deposits paid	-	200,266	-	200,266
Non-Financial assets:				
Investments accounted for using equity method	13,562,347	-	-	13,562,347
Investment properties	-	-	1,008,628	1,008,628
Financial liabilities:				
Bonds payable	4,846,090	-	-	4,846,090

12/31/17

	Level 1	Level 2	Level 3	Total
Financial assets:				
Available-for-sale financial assets -non-current	$-	$499,986	$-	$499,986
Operation guarantee deposits	-	200,652	-	200,652
Guaranteee deposits paid	-	200,518	-	200,518
Non-Financial assets:				
Investments accounted for using equity method	13,745,759	-	-	13,745,759
Investment properties	-	-	1,015,068	1,015,068
Financial liabilities:				
Long-term liabilities-current portion	2,205,386	-	-	2,205,386
Bonds payable	4,864,546	-	-	4,864,546

A. Investments accounted for using equity method is significant investment in associates. Please refer to Note VI.14 and VI.16 for the fair value hierarchy of investments accounted for using equity method and investment properties mentioned above.

B. The methods of evaluaion of financial assets and liabilities refer to Note XII.5(2).

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 liabilities for bonds with attached 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:

12/31/18					
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	$52,973,046	$51,217,733	$52,973,046	$51,217,733	$1,755,313
Securities borrowing transactions	826,971	1,157,759	826,971	1,157,759	(330,788)

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)

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

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

Period	Type of continuing involvement	Cash outflow of repurchasing transferred (derecognized) financial assets	Carrying amount of continuing involvement in statement of financial position	Fair value of continuing involvement		Maximum exposure to loss
			Financial asset measured at fair value through profit or loss	Asset	Liability	
12/31/18	Long call option	$11,074,500	$654,271	$654,271	$-	$654,271
12/31/17	Long call option	$10,430,900	$1,128,581	$1,128,581	$-	$1,128,581

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
12/31/18	Long call option	$-	$241,400	$1,875,100	$8,958,000	$-	$11,074,500
12/31/17	Long call option	$-	$437,400	$2,807,800	$7,185,700	$-	$10,430,900

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
12/31/18	Long call option	$(12,172)	$(357,181)	$(369,353)
12/31/17	Long call option	$(2,167)	$210,551	$208,384

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 liabilities for bonds with attached repurchase agreements, in which the Company and its subsidiaries provide securities as collaterals. The Company and its subsidiaries also enter with opponent into collateralized bond investments 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 liabilities for bonds with attached repurchase agreements and bond investments under resale 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:

12/31/18						
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	$2,164,742	$-	$2,164,742	$-	$435,743	$1,728,999
Resell agreement	19,448,822	-	19,448,822	19,448,822	-	-
Total	$21,613,564	$-	$21,613,564	$19,448,822	$435,743	$1,728,999

12/31/18						
Financial liabilities subject to offsetting, enforceable master netting arrangement or similar agreements						
Description	Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets set off in the statement of financial position (b)	Net amounts of financial liabilities presented in the statement of financial position (c)=(a)-(b)	Related amounts not set off in the statement of financial position(d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral in pledge	
Derivative	$2,899,593	$-	$2,899,593	$-	$676,921	$2,222,672
Repurchase agreement	65,175,218	-	65,175,218	65,175,218	-	-
Total	$68,074,811	$-	$68,074,811	$65,175,218	$676,921	$2,222,672

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 in pledge	
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

(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, 2018 and 2017 are disclosed as follows

(1) Capital Adequacy Ratio

Item	12/31/18	12/31/17
Qualified net equity Capital	$19,780,482	$18,167,949
Equivalent amount of operating risk	6,054,596	6,158,251
Capital adequacy ratio	327%	295%

Item	2018	2017
Average	273%	300%
Maximum	327%	340%
Minimum	218%	248%

(2) Equivalent amounts and percentages of operating risks

	12/31/18		12/31/17	
Item	Amount	Percentage	Amount	Percentage
Market risk	$2,395,211	39.56%	$2,550,252	41.41%
Credit risk	1,884,721	31.13%	2,097,460	34.06%
Operational risk	1,774,664	29.31%	1,510,539	24.53%
Total	$6,054,596	100.00%	$6,158,251	100.00%

9. Others

(1) 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.

(2) 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	12/31/18 Calculation	12/31/18 Ratio	12/31/17 Calculation	12/31/17 Ratio	Standard	Execution
17	Stock holders' equity / (Total liabilities－Futures customers' equity)	1,791,507 / 413,737	4.33	1,855,943 / 633,222	2.93	≧1	Satisfied
17	Current assets / Current liabilities	2,330,195 / 412,737	5.65	2,443,795 / 322,389	7.58	≧1	〃
22	Stockholders' equity / Minimum paid-in capital	1,791,507 / 400,000	447.88%	1,855,943 / 400,000	463.99%	≧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	1,091,064 / 244,118	446.94%	1,327,438 / 340,935	389.35%	≧20% ≧15%	〃

KGI Futures

Article #	Calculation Formula	12/31/18 Calculation	12/31/18 Ratio	12/31/17 Calculation	12/31/17 Ratio	Standard	Execution
17	Stockholders' equity / (Total liabilities－Futures customers' equity)	3,416,097 / 387,747	8.81	2,609,333 / 315,529	8.27	≧1	Satisfied
17	Current assets / Current liabilities	24,284,147 / 22,117,410	1.10	23,777,258 / 21,872,001	1.09	≧1	〃
22	Stockholders' equity / Minimum paid-in capital	3,416,097 / 760,000	449.49%	2,609,333 / 760,000	343.33%	≧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	3,005,408 / 5,059,084	59.41%	2,387,050 / 4,433,304	53.84%	≧20% ≧15%	〃

(3) 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

	12/31/18	12/31/17
Cash in bank	$1,043,226	$1,136,142
Financial assets	21,051,505	26,411,297
Receivables	33,903	127,032
Total trusted assets	$22,128,634	$27,674,471

	12/31/18	12/31/17
Payables	$11,274	$59,962
Trust capital	21,967,226	25,510,294
Reserves and retained earnings	150,134	2,104,215
Total trusted liabilities	$22,128,634	$27,674,471

B. Income statement of trust business

	For the years ended December 31	
	2018	2017
Revenues	$2,431,829	$3,230,873
Expenses	(3,579,009)	(2,184,859)
Income before tax	(1,147,180)	1,046,014
Income tax	-	-
Net income	$(1,147,180)	$1,046,014

C. Trust Property catalog

	12/31/18	12/31/17
Cash in bank	$1,043,226	$1,136,142
Stocks	10,733,485	14,493,874
Funds	9,350,380	11,532,078
Structured notes	957,456	385,345
Bonds	10,184	-
Total	$22,094,731	$27,547,439

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.

(4) 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, 2018 and 2017 are USD 2,160 thousand dollars and USD 2,091 thousand dollars respectively.

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

	12/31/18			12/31/17		
Financial instruments	Foreign currency (thousand dollars)	Exchange rate	NTD	Foreign currency (thousand dollars)	Exchange rate	NTD
Financial assets						
Monetary Items						
USD	$1,554,985	30.78	$47,867,143	$1,533,281	29.83	$45,733,639
HKD	155,753	3.92	610,893	130,431	3.81	497,062
GBP	620	38.89	24,101	331	40.17	13,314
JPY	23,540,436	0.28	6,553,476	10,660,054	0.26	2,822,099
EUR	91,152	35.22	3,210,271	1,843	35.63	65,645
CNY	33,063	4.48	147,973	181,517	4.58	831,136
AUD	620	21.68	13,438	1,567	23.26	36,446
SGD	502	22.49	11,294	360	22.30	8,027
THB	11,549	0.95	10,976	98	0.92	90
Non-monetary Items						
USD	1,315,358	30.73	40,424,903	948,179	29.85	28,301,257
HKD	12,231	3.92	47,994	24,475	3.82	93,471
JPY	88,886	0.28	24,746	106,325	0.26	28,165
EUR	4,156	35.22	146,367	978	35.67	34,888
CNY	301,685	4.48	1,350,220	332,660	4.58	1,523,219
AUD	13,460	21.68	291,811	30,770	23.26	715,714
Investments accounted for using equity method						
USD	78,570	30.73	2,414,682	73,746	29.85	2,201,177
Financial liabilities						
Monetary Items						
USD	4,150,323	30.73	127,546,314	3,737,065	29.84	111,512,461
HKD	99,051	3.92	388,442	99,931	3.81	380,589
GBP	493	38.89	19,157	82	40.11	3,301
JPY	23,390,109	0.28	6,511,626	10,364,108	0.26	2,744,556
EUR	92,580	35.22	3,260,553	785	35.57	27,935
CNY	10,201	4.48	45,651	13,746	4.58	62,928
AUD	8,640	21.68	187,315	24,696	23.26	574,426
SGD	169	22.48	3,803	99	22.26	2,210
THB	7,339	0.95	6,964	-	-	-
Non-monetary Items						
USD	183,398	30.73	5,636,356	212,777	29.85	6,350,974
JPY	88,886	0.28	24,746	106,325	0.26	28,165
EUR	10	35.22	350	223	35.67	7,962
CNY	27,442	4.48	122,818	31,864	4.58	145,903
AUD	4,511	21.68	97,804	4,220	23.26	98,167

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 197,696 thousand dollars and 711,394 thousand dollars for the years ended December 31, 2018 and 2017, respectively.

(6) The reconciliation of liabilities from financing activities

The changes in financing activities arise from changes in the amount of cash and currency rate for the year ended on December 31, 2018, and there is no need to disclose reconciliation of liabilities from financing activities for the year ended on December 31, 2017.