

**KGI SECURITIES CO. LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Six-Month Periods Ended June 30, 2019 and 2018**  
**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.

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 June 30, 2019, December 31, 2018 and June 30, 2018, and the related consolidated statements of comprehensive income for the three-month periods ended June 30, 2019 and 2018, and six-month periods ended June 30, 2019 and 2018, and statements for changes in equity and cash flows for the six-month periods ended June 30, 2019 and 2018, 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 June 30, 2019, December 31, 2018 and June 30, 2018, and their consolidated financial performance for the three-month periods ended June 30, 2019 and 2018, and six-month periods ended June 30, 2019 and 2018, and cash flows for the six-month periods ended June 30, 2019 and 2018, 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, and International Accounting Standards No. 34 “Interim Financial Reporting” 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 six-month period ended June 30, 2019. 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.

## Valuation of Derivative Instruments

The Company and its subsidiaries invest in different types of financial assets and liabilities. As of June 30, 2019, the carrying amount of derivative assets and liabilities measured at fair value is significant to the consolidated financial statement. Except for those classified as level 1, the fair value of other derivative instruments cannot be retrieved from active market. Management therefore used valuation technique to determine the fair value. Level 2 derivative instruments are valued using parameters that are available or observable from an active market. The inputs of level 3 are not based on observable inputs from an active market. Since different valuation techniques and assumptions may have significant effect on the estimates of fair value, we considered the valuation of derivative instruments as a key audit matter. Our audit method includes, but not limited to, assessing and testing the design and execution of the internal control regarding to valuation, and reviewing management's verification on fair value and authorization process of valuation models. In addition, we used our firm's internal valuation expert to reevaluate derivative instruments on a sampling basis, and compared the outcomes with the one from management to see if the difference is within acceptable range. We also assessed the adequacy of disclosures for valuation of derivative instruments in Note V and Note XII.

## **Other Matter – Making Reference to the Audits of Component Auditors**

We did not audit the financial statements of certain consolidated subsidiaries, which statements reflect total assets of NT 5,423,198 thousand dollar, NT 7,724,443 thousand dollars and NT 9,711,518 thousand dollars, constituting 1.68%, 2.78% and 3.10% of consolidated total assets as of June 30, 2019, December 31, 2018 and June 30, 2018, respectively; income before income tax of NT 8,547 thousand dollars and NT 27,489 thousand dollars, constituting 0.60% and 2.20% of consolidated income before income tax for the three-month periods ended June 30, 2019 and 2018, respectively; and income before income tax of NT 28,284 thousand dollars and NT 61,196 thousand dollars, constituting 0.97% and 2.52% of consolidated income before income tax for the six-month periods ended June 30, 2019 and 2018, 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, and International Accounting Standards No. 34 "Interim Financial Reporting" 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 six-month period ended June 30, 2019 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.

### **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 six-month periods ended June 30, 2019 and 2018.

Huang, Chien-Che  
Fuh, Wen-Fun  
Ernst & Young, Taiwan  
August 23, 2019

### Notice to Readers

The accompanying consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice. As the financial statements are the responsibility of the management, Ernst & Young cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2019, December 31, 2018 and June 30, 2018

(Expressed in New Taiwan Thousand Dollars)

ASSETS	6/30/2019	12/31/2018	6/30/2018
<b>CURRENT ASSETS</b>			
Cash and cash equivalents (Notes VI.1, VI.27 and VII)	\$10,442,114	\$13,848,536	\$12,081,341
Financial assets measured at fair value through profit or loss-current (Notes VI.2, VI.20, VII and VIII)	61,855,425	56,507,312	70,783,163
Financial assets measured at fair value through other comprehensive income-current (Notes VI.3, VI.27 and VII )	19,126,569	14,371,372	11,278,773
Bond investments under resale agreements (Notes VI.5 and VI.27)	22,848,839	19,448,822	31,650,368
Margin loans receivable (Notes VI.6, VI.27 and VII)	20,742,132	21,179,631	36,627,821
Trading securities receivable (Notes VI.7 and VI.27)	7,541,869	8,029,932	7,248,565
Customer margin accounts (Notes VI.8, VI.27 and VII)	28,140,448	21,810,475	22,556,660
Futures commission merchant receivable (Notes VI.9 and VI.27)	9,777	12,618	15,588
Stock borrowing collateral price	506,207	1,157,582	60,806
Security lending deposits	19,058,629	10,778,769	7,035,621
Notes receivable	1,478	1,168	1,055
Accounts receivable (Notes VI.10, VI.27 and VII)	36,971,524	22,258,374	28,165,760
Prepayments	117,996	107,241	140,906
Other financial assets-current (Notes VI.1 and VII)	1,958,997	3,387,927	3,782,015
Current tax assets	19,261	571,927	575,753
Other current assets (Notes VI.27, VII and VIII)	47,059,927	47,579,789	47,986,738
<b>Total Current Assets</b>	<b>276,401,192</b>	<b>241,051,475</b>	<b>279,990,933</b>
<b>NON-CURRENT ASSETS</b>			
Financial assets measured at fair value through profit or loss-non-current (Notes VI.2 and VIII)	2,979,377	2,782,424	2,869,931
Financial assets measured at fair value through other comprehensive income-non-current (Notes VI.3 and VI.27)	8,386,153	4,218,151	2,122
Financial assets measured at amortized cost-non-current (Notes VI.4 and VI.27)	796,411	496,707	496,707
Investments accounted for using equity method (Notes VI.11 and VIII)	15,198,657	11,170,844	11,759,242
Property and equipment (Notes VI.12, VII and VIII)	5,653,008	5,696,497	5,824,428
Right-of-use assets (Notes IV, VI.13 and VII)	1,360,916	-	-
Investment property (Notes VI.14, VII and VIII)	497,761	499,674	500,594
Intangible assets (Note V and VI.15)	7,914,226	7,985,194	8,086,064
Deferred tax assets	261,755	348,416	259,583
Other non-current assets (Notes VI.16, VI.27 and VIII)	3,143,567	3,272,204	3,343,497
<b>Total Non-current Assets</b>	<b>46,191,831</b>	<b>36,470,111</b>	<b>33,142,168</b>
<b>TOTAL ASSETS</b>	<b>\$322,593,023</b>	<b>\$277,521,586</b>	<b>\$313,133,101</b>

(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 BALANCE SHEETS

June 30, 2019, December 31, 2018 and June 30, 2018

(Expressed in New Taiwan Thousand Dollars)

LIABILITIES AND EQUITY	6/30/2019	12/31/2018	6/30/2018
<b>CURRENT LIABILITIES</b>			
Short-term borrowings (Notes VI.17 and VII)	\$15,085,373	\$14,782,223	\$24,974,628
Commercial papers payable (Note VI.18)	5,078,460	2,457,752	12,062,236
Financial liabilities measured at fair value through profit or loss-current (Notes VI.19, VI.20 and VII)	13,602,494	11,541,518	12,497,370
Liabilities for bonds with attached repurchase agreements (Notes VI.21)	75,686,106	65,175,218	76,938,259
Securities financing refundable deposits (Notes VI.6 and VII)	1,296,996	2,705,335	1,889,136
Deposits payable for securities financing (Notes VI.6 and VII)	11,661,427	14,465,995	13,998,203
Guarantee deposit received from security lending	22,854,452	17,818,460	15,677,270
Futures customers' equity (Notes VII)	28,117,171	21,792,908	22,529,017
Accounts payable (Notes VI.22 and VII)	64,756,518	50,528,840	55,392,270
Amounts received in advance	152,667	156,239	4,271
Amounts collected for other parties	1,367,699	1,405,617	1,473,384
Other payables (Notes VII)	2,318,641	2,650,442	2,322,061
Other financial liabilities-current	3,628,073	2,233,719	4,210,160
Current tax liabilities (Notes VII)	874,577	913,851	712,301
Long-term liabilities-current portion (Note VI.23)	4,800,000	-	-
Lease liabilities-current (Notes IV, VI.13 and VII)	456,953	-	-
Other current liabilities	58,625	71,803	68,300
Total Current Liabilities	<u>251,796,232</u>	<u>208,699,920</u>	<u>244,748,866</u>
<b>NON-CURRENT LIABILITIES</b>			
Bonds payable (Notes VI.23)	-	4,800,000	4,800,000
Liabilities reserve-non-current (Note VI.25)	222,495	227,068	219,096
Lease liabilities-non-current (Notes IV, VI.13 and VII)	916,746	-	-
Deferred tax liabilities	1,141,937	1,258,095	1,302,592
Other non-current liabilities	729,033	762,221	742,161
Total Non-Current Liabilities	<u>3,010,211</u>	<u>7,047,384</u>	<u>7,063,849</u>
Total Liabilities	<u>254,806,443</u>	<u>215,747,304</u>	<u>251,812,715</u>
<b>EQUITY</b>			
Capital stock abstract (Note VI.26)			
Common stock	32,418,432	32,418,432	32,418,432
Capital reserve (Notes VI.26)	8,648,397	8,648,158	8,647,392
Retained earnings (Note VI.26)			
Legal reserve	5,265,093	4,888,610	4,888,610
Special reserve	14,870,597	11,338,931	11,338,931
Unappropriated earnings	2,430,176	5,016,370	3,389,228
Other equity			
Exchange differences resulting from translating the financial statements of a foreign operation	(324,581)	(588,187)	(726,422)
Unrealized gain or loss on financial assets measured at fair value through other comprehensive income	1,152,143	(3,303,578)	(1,964,738)
Equity attributable to owners of the parent company	<u>64,460,257</u>	<u>58,418,736</u>	<u>57,991,433</u>
Non-controlling interests (Note VI.26 and VI.31)	<u>3,326,323</u>	<u>3,355,546</u>	<u>3,328,953</u>
Total Equity	<u>67,786,580</u>	<u>61,774,282</u>	<u>61,320,386</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$322,593,023</u>	<u>\$277,521,586</u>	<u>\$313,133,101</u>

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 Three-Month and Six-Month Periods Ended June 30, 2019 and 2018  
(Expressed in New Taiwan Thousand Dollars except for Earnings Per Share)

	For the Three-Month Periods		For the Six-Month Periods	
	Ended June 30		Ended June 30	
	2019	2018	2019	2018
<b>REVENUES</b>				
Brokerage handling revenue (Notes VI.27 and VII)	\$2,074,916	\$2,384,357	\$3,876,806	\$4,856,737
Revenue from borrowed securities	193,888	169,569	365,335	301,036
Revenue from underwriting business (Notes VI.27 and VII)	126,323	107,252	195,816	281,403
Revenue from wealth management services-net	23,695	25,347	45,195	57,246
Gains/(losses) on disposal of trading securities-net (Note VI.27)	233,438	1,130,246	1,073,574	(825,346)
Revenue from providing agency service for stock affairs (Note VII)	46,337	46,283	83,653	81,261
Interest income (Note VI.27)	998,192	885,654	1,800,263	1,685,087
Dividend income	23,454	57,278	25,080	62,191
Gains/(losses) on trading securities measured at fair value through profit or loss-net (Note VI.27)	(447,904)	(882,383)	628,921	1,153,353
Gains/(losses) on covering of borrowed securities and bonds with resale agreements-net (Note VI.27)	(45,368)	(73,342)	79,379	(35,844)
Gains/(losses) on borrowed securities and bonds with resale agreements measured at fair value through profit or loss-net	8,771	98,024	(544,098)	97,831
Realised gains/(losses) on financial assets measured at fair value through other comprehensive income-bonds	243,585	-	265,974	-
Gains/(losses) on warrants issued-net (Note VI.20)	116,414	39,954	122,833	331,027
Gains/(losses) on derivative financial product-futures-net (Note VI.20)	321,240	304,396	150,972	287,885
Gains/(losses) on derivative financial product-GTSM-net (Notes VI.20 and VII)	11,258	498,083	(274,228)	255,924
Expected credit losses/(gains) (Note VI.27 and XII)	422	(5,281)	3,853	(100,212)
Other operating revenue (Notes VI.27 and VII)	289,148	(220,217)	754,575	307,764
Total Revenues	4,217,809	4,565,220	8,653,903	8,797,343
<b>COSTS AND EXPENSES</b>				
Brokerage handling fee	(265,888)	(233,374)	(505,507)	(475,135)
Dealing handling fee	(18,591)	(14,560)	(25,487)	(31,673)
Refinancing handling fee	(13)	(22)	(127)	(75)
Financial costs (Notes VI.27 and VII)	(554,907)	(362,061)	(1,063,254)	(682,783)
Losses on trading of borrowed securities	(8,705)	-	(10,640)	(1,047)
Futures commission expenses	(22,587)	(20,257)	(54,286)	(48,130)
Settlement and clearing service expenditures	(66,697)	(69,742)	(127,212)	(141,912)
Other operating costs	(52,735)	(135,722)	(140,810)	(188,846)
Employee benefits expenses (Notes IV, VI.24, VI.27 and VII)	(1,802,226)	(1,870,343)	(3,580,881)	(3,811,512)
Depreciation and amortization (Notes VI.12 and VI.13)	(266,858)	(139,975)	(528,796)	(278,198)
Other operating expenses (Notes VI.12, VI.13 and VII)	(922,640)	(1,098,403)	(1,779,010)	(2,109,122)
Total Costs and Expenses	(3,981,847)	(3,944,459)	(7,816,010)	(7,768,433)
<b>INCOME FROM OPERATIONS</b>	235,962	620,761	837,893	1,028,910
<b>NON-OPERATING INCOME OR COSTS</b>				
Share of the profit or loss of associates and joint ventures accounted for using equity method (VI.11)	428,275	239,865	721,604	612,153
Other income and costs (Notes VI.14, VI.27 and VII)	762,231	390,631	1,345,803	788,910
Total Non-operating Income or Costs	1,190,506	630,496	2,067,407	1,401,063
<b>INCOME BEFORE INCOME TAX</b>	1,426,468	1,251,257	2,905,300	2,429,973
<b>INCOME TAX (EXPENSES)/PROFITS (Notes IV and VI.29)</b>	157,353	(165,416)	98,936	(357,111)
<b>NET INCOME</b>	1,583,821	1,085,841	3,004,236	2,072,862
<b>OTHER COMPREHENSIVE INCOME (Note VI.28)</b>				
Not to be reclassified subsequently to profit or loss				
Remeasurements of defined benefit plans	-	104	-	104
Unrealized gains/(losses) from investments in equity instruments measured at fair value through other comprehensive income	(183,644)	240,082	(44,109)	290,620
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(43,474)	(80,088)	251,452	(185,963)
To be reclassified subsequently to profit or loss				
Exchange differences resulting from translating the financial statements of a foreign operation	179,245	437,960	267,796	223,210
Unrealized gains/(losses) from investments in debt instruments measured at fair value through other comprehensive income	220,967	(19,325)	629,430	(16,664)
Share of other comprehensive income of associates and joint ventures accounted for using equity method	1,326,458	(834,995)	3,560,695	1,990,694
Current other comprehensive income-net of tax	1,499,552	(256,262)	4,665,264	(1,679,387)
<b>CURRENT COMPREHENSIVE INCOME</b>	\$3,083,373	\$829,579	\$7,669,500	\$393,475
<b>NET INCOME ATTRIBUTABLE TO:</b>				
Owners of the parent company	\$1,577,686	\$1,064,539	\$2,985,770	\$2,034,856
Non-controlling interests (Note VI.26 and Note VI.31)	\$6,135	\$21,302	\$18,466	\$38,006
<b>CURRENT COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>				
Owners of the parent company	\$3,077,199	\$808,260	\$7,650,960	\$355,539
Non-controlling interests (Note VI.26 and Note VI.31)	\$6,174	\$21,319	\$18,540	\$37,936
<b>EARNINGS PER SHARE (Note VI.30)</b>				
Net income attributable to owners of the parent company	\$0.49	\$0.33	\$0.92	\$0.63

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 Six-Month Periods Ended June 30, 2019 and 2018  
(Expressed in New Taiwan Thousand Dollars)

Items	Equity Attributed to Owners of the Parent Company								Total	Non-controlling Interests	Total Equity
	Retained Earnings					Other Equity					
	Common Stock	Capital Reserve	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences Resulting from Translating the Financial Statements of a Foreign Operation	Unrealised Gain or Loss on Financial Assets Measured at Fair value through Other Comprehensive Income	Unrealized Gain or Loss on Available-For-Sale Financial Assets			
Balance, January 1, 2018	\$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 six-month period ended June 30, 2018	-	-	-	-	2,034,856	-	-	-	2,034,856	38,006	2,072,862
Other comprehensive income for the six-month period ended June 30, 2018	-	-	-	-	90	224,334	(1,903,741)	-	(1,679,317)	(70)	(1,679,387)
Total comprehensive income	-	-	-	-	2,034,946	224,334	(1,903,741)	-	355,539	37,936	393,475
Purchase of subsidiary stock	-	-	-	-	-	-	-	-	-	(20)	(20)
Shared-based payment transaction	-	702	-	-	-	-	-	-	702	-	702
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(7,376)	(7,376)
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	(22,464)	-	22,464	-	-	-	-
Other	-	-	-	-	10,849	-	-	-	10,849	-	10,849
Balance, June 30, 2018	\$32,418,432	\$8,647,392	\$4,888,610	\$11,338,931	\$3,389,228	\$(726,422)	\$(1,964,738)	\$-	\$57,991,433	\$3,328,953	\$61,320,386
Balance, January 1, 2019	\$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
Appropriations and distribution of 2018 retained earnings:											
Legal reserve	-	-	376,483	-	(376,483)	-	-	-	-	-	-
Special reserve	-	-	-	3,531,666	(3,531,666)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(1,108,221)	-	-	-	(1,108,221)	-	(1,108,221)
Changes in equity of associates and joint ventures accounted for using equity method	-	-	-	-	(507,567)	-	7,074	-	(500,493)	-	(500,493)
Net income for the six-month period ended June 30, 2019	-	-	-	-	2,985,770	-	-	-	2,985,770	18,466	3,004,236
Other comprehensive income for the six-month period ended June 30, 2019	-	-	-	-	(850)	263,606	4,402,434	-	4,665,190	74	4,665,264
Total comprehensive income	-	-	-	-	2,984,920	263,606	4,402,434	-	7,650,960	18,540	7,669,500
Shared-based payment transaction	-	239	-	-	-	-	-	-	239	-	239
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(47,763)	(47,763)
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	(46,213)	-	46,213	-	-	-	-
Others	-	-	-	-	(964)	-	-	-	(964)	-	(964)
Balance, June 30, 2019	\$32,418,432	\$8,648,397	\$5,265,093	\$14,870,597	\$2,430,176	\$(324,581)	\$1,152,143	\$-	\$64,460,257	\$3,326,323	\$67,786,580

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 Six-Month Periods Ended June 30, 2019 and 2018  
(Expressed in New Taiwan Thousand Dollars)

	For the Six-Month Periods Ended June 30	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income before income tax expenses	\$2,905,300	\$2,429,973
Adjustments		
Income and expenses having no effect on cash flows		
Depreciation	397,928	148,982
Amortization	130,868	129,216
Expected credit losses/(gains)	(3,853)	100,212
Interest expense	1,063,254	682,783
Interest income	(2,488,708)	(2,153,759)
Dividend income	(96,242)	(69,303)
Share-based payment transactions	239	702
Share of the profit or loss of associates and joint ventures accounted for using equity method	(721,604)	(612,153)
(Gains)/losses on disposal of property and equipment	(35,144)	64
(Gains)/losses on disposal of investments accounted for using equity method	(119,700)	-
Others	(22)	(137)
Changes in operating assets and liabilities:		
Changes in operating assets:		
Financial assets measured at fair value through profit or loss-current	(5,348,113)	(3,320,759)
Financial assets measured at fair value through other comprehensive income-current	(5,408,719)	(8,133,266)
Bond investments under resale agreements	(3,400,001)	(10,521,245)
Margin loans receivable	437,686	(2,122,168)
Refinancing margin	-	723
Refinancing deposits receivable	-	648
Trading securities receivable	488,273	210,125
Customer margin accounts	(6,330,498)	504,094
Futures commission merchant receivable	2,841	(112,949)
Stock borrowing collateral price	651,375	137,775
Security lending deposits	(8,279,860)	(4,705,194)
Notes receivable	(310)	(286)
Accounts receivable	(14,689,475)	(6,733,647)
Prepayments	(10,755)	16,636
Other financial assets-current	1,428,930	(1,161,230)
Other current assets	589,712	(3,902,918)
Financial assets measured at fair value through profit or loss-non-current	(196,800)	(124,638)
Financial assets measured at fair value through other comprehensive income-non-current	(3,161,828)	-
Changes in operating liabilities:		
Financial liabilities measured at fair value through profit or loss-current	2,060,976	434,793
Liabilities for bonds with attached repurchase agreements	10,510,888	22,205,446
Securities financing refundable deposits	(1,408,339)	(1,240,541)
Deposits payable for securities financing	(2,804,568)	1,488,078
Guarantee deposit received from security lending	5,035,992	3,248,169
Futures customers' equity	6,324,263	(512,931)
Accounts payable	14,091,785	5,141,541
Amounts received in advance	(3,572)	2,521
Amounts collected for other parties	(37,918)	(240,478)
Other payables	(297,928)	(528,878)
Other financial liabilities-current	1,394,354	110,559
Other current liabilities	(13,178)	3,252
Liabilities reserve-non-current	(4,573)	(1,487)
Other non-current liabilities	(33,188)	(120,619)
Cash provided by/(used in) operating activities	(7,380,232)	(9,322,294)
Interest received	2,472,572	1,898,615
Dividend received	5,914	5,135
Interest paid	(961,234)	(702,299)
Income tax received/(paid)	582,831	(93,531)
Net cash provided by/(used in) operating activities	(5,280,149)	(8,214,374)

(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 Six-Month Periods Ended June 30, 2019 and 2018  
(Expressed in New Taiwan Thousand Dollars)

	For the Six-Month Periods Ended June 30	
	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disposal of financial assets measured at fair value through other comprehensive income	306,676	203,030
Purchase of property and equipment	(106,086)	(69,605)
Disposal of property and equipment	70,386	13
Operation guarantee deposits	48,780	681
Clearing and settlement fund	(65,782)	(7,948)
Guarantee deposits paid	(148,563)	(53,598)
Purchase of intangible assets	(37,204)	(29,143)
Other non-current assets	(13,081)	(15,282)
Dividends received	261,152	206,177
Net cash provided by/(used in) investing activities	316,278	234,325
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term borrowings	303,150	4,938,136
Commercial papers payable	2,620,708	3,436,432
Redemption of bonds	-	(2,200,000)
Lease principal paid	(249,793)	-
Cash dividends	(1,155,984)	(2,007,376)
Purchase of subsidiary stock	-	(20)
Net cash provided by/(used in) financing activities	1,518,081	4,167,172
EFFECTS OF EXCHANGE RATE CHANGES	39,368	192,994
DECREASE IN CASH AND CASH EQUIVALENTS	(3,406,422)	(3,619,883)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	13,848,536	15,701,224
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	\$10,442,114	\$12,081,341

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  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the Six-month Periods Ended June 30, 2019 and 2018  
(Expressed in thousands of New Taiwan dollars unless otherwise stated)

I. **Organization and Operations**

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

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 June 30, 2019, the Company had 77 branches including headquarter.

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

The consolidated financial statements of the Company and subsidiaries were authorized for issue in accordance with a resolution of the Board of Directors on August 23, 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 subsidiaries applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are recognized by Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after January 1, 2019. The first-time adoption has no material effect on the Company and subsidiaries except the following:

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

IFRS 16 “Leases”

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 Company and subsidiaries followed the transition provision in IFRS 16 and the date of initial application was January 1, 2019. The impacts arising from the adoption of IFRS 16 are summarized as follows:

- A. Please refer to Note IV for the accounting policies.
- B. For the definition of a lease, the Company and subsidiaries elected not to reassess whether a contract was, or contained, a lease on January 1, 2019. The Company and subsidiaries were permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. For contracts entered into (or changed) on or after January 1, 2019, the Company and subsidiaries need to assess whether contracts are, or contain, leases applying IFRS 16. In comparing to IAS 17, IFRS 16 provides that a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- C. The Company and subsidiaries are lessees and elect not to restate comparative information in accordance with the transition provision in IFRS 16.
  - (a) For leases that were previously classified as operating leases applying IAS 17, the Company and subsidiaries measured and recognized those leases as lease liability on January 1, 2019 at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate on January 1, 2019, and; the Company and subsidiaries chose an amount equal to the lease liability, and adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before January 1, 2019.

On January 1, 2019, the Company and subsidiaries’ right-of-use asset and lease liability increased by 1,553,129 thousand dollars and 1,553,129 thousand dollars, respectively.

In accordance with the transition provision in IFRS 16, the Company and subsidiaries used the following practical expedients on a lease-by-lease basis to leases previously classified as operating leases:

- i. Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- ii. Elect to account in the same way as short-term leases to leases for which the lease terms end within 12 months of January 1, 2019.
- iii. Exclude initial direct costs from the measurement of the right-of-use asset on January 1, 2019.
- iv. Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(b) Please refer to Note IV and Note VI for additional disclosure of lessee which required by IFRS 16.

(c) As of January 1, 2019, the impacts arising from the adoption of IFRS 16 are summarized as follows:

i. The lessee's incremental borrowing rate applied to lease liabilities recognized in the balance sheet on January 1, 2019 was 0.73%-9.79%.

ii. The explanation for the difference between: 1) operating lease commitments disclosed applying IAS 17 as of December 31, 2018, discounted using the incremental borrowing rate on January 1, 2019; and 2) lease liabilities recognized in the balance sheet as of January 1, 2019 is summarized as follows:

Operating lease commitments disclosed applying IAS 17 as of December 31, 2018	\$1,644,565
Less: adjustment to leases that meet and elect to account in the same way as short-term leases	(9,977)
Less: adjustment to leases that meet and elect to the underlying asset of low value	<u>(5,051)</u>
Undiscounted total amount as of January 1, 2019	<u>\$1,629,537</u>
Discounted using the incremental borrowing rate as of January 1, 2019	<u>\$1,553,129</u>
The carrying value of lease liabilities recognized as of January 1, 2019	<u>\$1,553,129</u>

(d) The Company and subsidiaries are lessors and has not made any adjustments. Please refer to Note IV and Note VI for the information relating to the lessor.

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 subsidiaries as of the end of reporting period are listed below:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective Date issued by IASB</u>
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 subsidiaries' consolidated financial statements are summarized as below:

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
 KGI SECURITIES CO. LTD. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(1) Definition of a Business (Amendments to IFRS 3 “Business Combinations”)

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. The amendments clarify the minimum requirements for a business, add guidance to help entities assess whether an acquired process is substantive, and narrow the definitions of a business and of outputs, etc.

(2) Definition of a 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 were issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after January 1, 2020. The above standards and interpretations have no material impact on the Company and subsidiaries.

3. Standards or interpretations issued, revised or amended, by IASB which are not endorsed by FSC, but not yet adopted by the Company and subsidiaries as at the end of the reporting period 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

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

IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investment in Associates and Joint Ventures” — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

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

**IV. Summary of Significant Accounting Policies**

Apart from the items mentioned below, the same accounting policies have been applied in the Company and subsidiaries’ consolidated financial statements for the year ended December 31, 2018.

**1. Statement of Compliance**

The consolidated financial statements of the Company and subsidiaries for the six-month periods ended June 30, 2019 and 2018 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms (“the Regulations”), Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 “Interim Financial Reporting” as endorsed and became effective by the FSC.



English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**2. General Description of Reporting Entities**

The consolidated entities are as follows:

Investor	Name of subsidiaries	Primary business	Percentage of ownership		
			6/30/19	12/31/18	6/30/18
KGI Securities Co. Ltd.	Richpoint Company Limited (Richpoint)	Investments holdings	100.00	100.00	100.00
"	KGI Securities Investment Advisory Co. Ltd.	Security investment consulting	100.00	100.00	100.00
"	KGI Insurance Brokers Co. Ltd.	Life/property insurance brokers	100.00	100.00	100.00
"	KGI Venture Capital Co. Ltd.	Venture Capital	100.00	100.00	100.00
"	KGI Securities Investment Trust Co. Ltd.	Nominee services, discretionary investment services	100.00	100.00	100.00
"	KGI Futures Co. Ltd. (KGI Futures)	Futures investment services	99.61	99.61	99.61
"	Global Securities Finance Corporation (GSFC) (Note)	Securities finance	21.99	21.99	21.99
KGI Futures	KGI Information Technology Co. Ltd.	Management consulting; information and software service; data processing service	100.00	100.00	100.00
Richpoint	KG Investments Holdings Limited	Investments holdings	100.00	100.00	100.00
"	KGI Investment advisory (Shanghai) Co., Ltd.	Investment consulting	100.00	100.00	100.00
KG Investments Holdings Limited	KGI International Holdings Limited	Investments holdings	100.00	100.00	100.00
KGI International Holdings Limited	KGI Limited	Investments holdings	100.00	100.00	100.00
"	Supersonic Services Inc.	Investments holdings	100.00	100.00	100.00
"	KGI International Limited	Investments holdings	100.00	100.00	100.00
"	Bauhinia 88 Ltd.	Investments holdings	100.00	100.00	100.00
KGI Limited	KGI Futures (Hong Kong) Limited	Futures brokerage and settlement services	100.00	100.00	100.00

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Investor	Name of subsidiaries	Primary business	Percentage of ownership		
			6/30/19	12/31/18	6/30/18
KGI Limited	Global Treasure Investments Limited	Investment services	100.00	100.00	100.00
"	KGI Investments Management Limited	Insurance brokerage	100.00	100.00	100.00
"	KGI International Finance Limited	Investment and financing services	100.00	100.00	100.00
"	KGI Hong Kong Limited	Management consulting services	100.00	100.00	100.00
"	KGI Asia Limited	Securities investment services	100.00	100.00	100.00
"	KGI Capital Asia Limited	Securities investment services	100.00	100.00	100.00
"	KGI Asset Management Limited	Asset management	100.00	100.00	100.00
"	TG Holborn (HK) Limited	Insurance brokerage	100.00	100.00	100.00
"	KGI Nominees (Hong Kong) Limited	Trust agent	100.00	100.00	100.00
Supersonic Services Inc.	KGI Korea Limited	Investments holdings	100.00	100.00	100.00
KGI International Limited	KGI Asia (Holdings) Pte. Ltd.	Investments holdings	100.00	100.00	100.00
"	KGI Capital (Singapore) Pte. Ltd.	Futures investment services	100.00	100.00	100.00
KGI Capital Asia Limited	KGI Alliance Corporation	Investment services	100.00	100.00	100.00
"	KGI International (Hong Kong) Limited	Derivative product services	100.00	100.00	100.00
"	KGI Finance Limited	Investment and financing services	100.00	100.00	100.00
"	PT KGI Sekuritas Indonesia	Securities investment services	99.00	99.00	99.00
KGI Asia (Holdings) Pte. Ltd.	KGI Securities (Singapore) Pte. Ltd.	Securities and futures investment services	100.00	100.00	100.00

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
KGI SECURITIES CO. LTD. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- (1) The detail information of the scope of subsidiaries:
  - A. TG Holborn (HK) Limited was dissolved on June 26, 2019.
  - B. 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.

**3. Lease**

The accounting policy from January 1, 2019 are as follows:

(1) The company and subsidiaries as lessees

For contracts entered on or after January 1, 2019, the Company and subsidiaries assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company and subsidiaries assess whether, throughout the period of use, has both of the following:

- (a) the right to obtain substantially all of the economic benefits from use of the identified asset;  
and
- (b) the right to direct the use of the identified asset.

Except for leases that meet and elect short-term leases or leases of low-value assets, the Company and subsidiaries recognize right-of-use asset and lease liability for all leases which the Company and subsidiaries are the lessees of those lease contracts.

At the commencement date, the Company and subsidiaries measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company and subsidiaries use its incremental borrowing rate. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- (a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

- (c) amounts expected to be payable by the lessee under residual value guarantees;
- (d) the exercise price of a purchase option if the Company and subsidiaries are reasonably certain to exercise that option; and
- (e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Company and subsidiaries measure the lease liability on an amortized cost basis, which increases the carrying amount to reflect interest on the lease liability by using an effective interest method, and reduces the carrying amount to reflect the lease payments made.

At the commencement date, the Company and subsidiaries measure the right-of-use asset at cost. The cost of the right-of-use asset comprises:

- (a) the amount of the initial measurement of the lease liability;
- (b) any lease payments made at or before the commencement date, less any lease incentives received;
- (c) any initial direct costs incurred by the lessee; and
- (d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

For subsequent measurement of the right-of-use asset, the Company and subsidiaries measure the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses. That is, the Company and subsidiaries measure the right-of-use asset applying a cost model.

If the lease transfers ownership of the underlying asset to the Company and subsidiaries by the end of the lease term or if the cost of the right-of-use asset reflects that the Company and subsidiaries will exercise a purchase option, the Company and subsidiaries depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Company and subsidiaries depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Company and subsidiaries apply IAS 36 “Impairment of Assets” to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Except for those leases that the Company and subsidiaries accounted for as short-term leases or leases of low-value assets, the Company and subsidiaries present right-of-use assets and lease liabilities in the balance sheet and present lease-related interest expense and depreciation charge separately in the comprehensive income statements.

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
KGI SECURITIES CO. LTD. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For short-term leases or leases of low-value assets, the Company and subsidiaries elect to recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis.

(2) The company and subsidiaries as lessors

At inception of a contract, the Company and subsidiaries classify each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

The Company and subsidiaries recognize lease payments from operating leases as rental income on either a straight-line basis or another systematic basis. Variable lease payments for operating leases that do not depend on an index or a rate are recognized as rental income when incurred.

The accounting policy before January 1, 2019 are as follows:

(1) The company and subsidiaries as lessees

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

(2) The company and subsidiaries as lessors

Leases in which the Company and 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.

4. Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted and disclosed for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
KGI SECURITIES CO. LTD. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period. The estimated average annual effective income tax rate only includes current income tax. The recognition and measurement of deferred tax follows annual financial reporting requirements in accordance with IAS 12. The Company and subsidiaries recognize the effect of change in tax rate for deferred taxes in full if the new tax rate is enacted by the end of the interim reporting period, by charging to profit or loss, other comprehensive income, or directly to equity.

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

The preparation of the Company and 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.6.

**2. Goodwill**

The Company and 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.

**3. Post-Employment Benefits**

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate and expected future salaries.

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**4. Income tax**

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 subsidiaries establish provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

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

**VI. Contents of Significant Accounts**

**1. Cash and Cash Equivalents**

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Cash on hand	\$3,259	\$3,942	\$3,217
Cash in banks	8,597,301	11,236,986	10,337,176
Cash equivalents			
Short-term commercial papers and bonds	1,050,610	1,271,282	892,596
Future excess margin	790,944	1,336,326	848,352
Total	<u>\$10,442,114</u>	<u>\$13,848,536</u>	<u>\$12,081,341</u>

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

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Interest rates	0.42%-0.65%	0.42%-0.65%	0.37%-0.52%

(2) As of June 30, 2019, December 31, 2018 and June 30, 2018, the certificate of deposits over three months from the original due date are classified as other financial assets-current, and the amounts are 1,958,997 thousand dollars, 3,387,997 thousand dollars, and 3,782,015 thousand dollars, respectively.

(3) Please refer to Note VI.27 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.

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
<u>Current</u>			
Mandatorily measured at FVTPL			
Lent securities	\$978,846	\$826,971	\$1,299,609
Open-ended funds, monetary market instruments and other securities	1,815,599	1,760,478	1,884,442
Trading securities -dealing	49,020,152	46,163,288	57,367,740
Trading securities -underwriting	984,124	533,279	746,472
Trading securities -hedging	4,954,463	4,431,749	5,641,795
Long options	51,262	76,617	110,430
Futures trading margins-proprietary funds	1,025,192	541,956	1,035,591
Derivative financial product assets	2,853,510	2,164,742	2,697,084
Others	172,277	8,232	-
Total	<u>\$61,855,425</u>	<u>\$56,507,312</u>	<u>\$70,783,163</u>
<u>Non-current</u>			
Mandatorily measured at FVTPL			
Trading securities -dealing	\$-	\$-	\$49,999
Others	2,979,377	2,782,424	2,819,932
Total	<u>\$2,979,377</u>	<u>\$2,782,424</u>	<u>\$2,869,931</u>

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

(1) Lent securities

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Listed/OTC company stock	\$1,395,204	\$1,479,975	\$1,253,912
Valuation adjustments	(416,358)	(653,004)	45,697
Market value	<u>\$978,846</u>	<u>\$826,971</u>	<u>\$1,299,609</u>

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

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Funds	\$475,000	\$465,000	\$650,020
Others	1,338,415	1,294,521	1,246,995
Subtotal	1,813,415	1,759,521	1,897,015
Valuation adjustments	2,184	957	(12,573)
Market value	<u>\$1,815,599</u>	<u>\$1,760,478</u>	<u>\$1,884,442</u>



English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Trading securities-dealing

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Listed/OTC/ESM company stock	\$3,387,995	\$2,213,555	\$3,183,966
Index fund	1,516,104	1,344,821	2,525,644
Listed/OTC company warrants	24,753	12,220	72,028
Domestic bonds	15,246,423	16,522,985	21,679,972
Foreign securities	28,745,291	26,130,061	29,293,594
Others	5,025	5,085	44,827
Subtotal	<u>48,925,591</u>	<u>46,228,727</u>	<u>56,800,031</u>
Valuation adjustments	94,561	(65,439)	567,709
Market value	<u>\$49,020,152</u>	<u>\$46,163,288</u>	<u>\$57,367,740</u>

(4) Trading securities -underwriting

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Listed/OTC company stock	\$543,890	\$43,718	\$210,696
Domestic bonds	402,047	472,107	444,088
Others	-	-	84,070
Subtotal	<u>945,937</u>	<u>515,825</u>	<u>738,854</u>
Valuation adjustments	38,187	17,454	7,618
Market value	<u>\$984,124</u>	<u>\$533,279</u>	<u>\$746,472</u>

(5) Trading securities-hedging

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Listed/OTC company stock	\$2,379,496	\$2,249,013	\$4,484,043
Index fund	104,410	5,093	75,904
Listed/OTC company warrants	48,949	230,712	76,909
Foreign securities	5,482	14,691	17,684
Beneficiary certificate	2,487,710	2,217,928	1,050,100
Subtotal	<u>5,026,047</u>	<u>4,717,437</u>	<u>5,704,640</u>
Valuation adjustments	(71,584)	(285,688)	(62,845)
Market value	<u>\$4,954,463</u>	<u>\$4,431,749</u>	<u>\$5,641,795</u>

(6) Long options

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Index options	\$46,987	\$67,631	\$104,773
Stock options	7,910	9,303	9,274
Subtotal	<u>54,897</u>	<u>76,934</u>	<u>114,047</u>
Open interest	(3,635)	(317)	(3,617)
Market value	<u>\$51,262</u>	<u>\$76,617</u>	<u>\$110,430</u>

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(7) Futures trading margins-proprietary funds

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Account balance	\$1,030,395	\$515,593	\$1,058,360
Open interest	(5,203)	26,363	(22,769)
Account value	<u>\$1,025,192</u>	<u>\$541,956</u>	<u>\$1,035,591</u>

(8) Please refer to Note VI.20 for details of derivative financial product assets.

(9) Others

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Listed/OTC company stock	\$171,752	\$8,956	\$-
Valuation adjustments	525	(724)	-
Market value	<u>\$172,277</u>	<u>\$8,232</u>	<u>\$-</u>

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

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Government bonds	\$-	\$-	\$49,940
Listed/OTC/ESM company stock	315,423	338,361	230,124
Foreign securities	31,178	31,145	31,143
Non-Listed/OTC/ESM company stock	1,021,467	954,731	1,154,666
Subtotal	1,368,068	1,324,237	1,465,873
Valuation adjustments	1,611,309	1,458,187	1,404,058
Market value	<u>\$2,979,377</u>	<u>\$2,782,424</u>	<u>\$2,869,931</u>

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 Fair Value through Other Comprehensive Income**

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
<u>Current</u>			
Debt instrument investment-current			
Government bonds	\$768,865	\$2,296,818	\$4,018,157
Foreign securities	16,308,588	9,674,678	4,109,784
Subtotal	<u>17,077,453</u>	<u>11,971,496</u>	<u>8,127,941</u>
Equity instrument investment-current			
Listed/OTC company stock	2,049,116	2,399,876	3,150,832
Total	<u>\$19,126,569</u>	<u>\$14,371,372</u>	<u>\$11,278,773</u>

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
<u>Non-current</u>			
Debt instrument investment-non-current			
Foreign securities	\$8,384,130	\$4,216,102	\$-
Equity instrument investment-non-current			
Non-Listed/OTC company stock	2,023	2,049	2,122
Total	<u>\$8,386,153</u>	<u>\$4,218,151</u>	<u>\$2,122</u>

- (1) Please refer to Note VI.27 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 six months end June 30, 2019 and 2018, the Company sold 30,521 thousand shares and 19,200 thousand shares of stocks of CDFH (recognized in financial assets measured at fair value through other comprehensive income-equity instruments) respectively. Upon derecognition, the fair value of that sold shares was 306,676 thousand dollars and 203,030 thousand dollars respectively. The Company transferred the cumulative disposal loss of 85,119 thousand dollars and 43,306 thousand dollars from other equity to retained earnings respectively.
- (4) No pledged was made for financial assets measured at fair value through other comprehensive income mentioned above.

**4. Financial Assets Measured at Amortized Cost**

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
<u>Non-Current</u>			
Bank debentures	\$700,000	\$500,000	\$500,000
Government bonds	99,815	-	-
Subtotal	799,815	500,000	500,000
Less: loss allowance	(3,404)	(3,293)	(3,293)
Total	<u>\$796,411</u>	<u>\$496,707</u>	<u>\$496,707</u>

- (1) Please refer to Note VI.27 for details on accumulated impairment and Note XII for details on credit risk.
- (2) No pledged was made for financial assets measured at amortized cost mentioned above.

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**5. Bond Investments under Resale Agreements**

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Government bonds	\$8,191,101	\$5,389,163	\$22,946,869
Corporate bonds	8,002,976	7,569,712	3,489,733
Bank debentures	6,654,762	6,489,947	5,213,766
Total	<u>\$22,848,839</u>	<u>\$19,448,822</u>	<u>\$31,650,368</u>
Resold amount as specified in respective agreements plus accrued interest	<u>\$22,877,466</u>	<u>\$19,494,037</u>	<u>\$31,670,375</u>
Resold date as specified in respective agreements	7/1/19-8/16/19	1/3/19-1/29/19	7/2/18-8/1/18

Please refer to Note VI.27 for details on accumulated impairment and Note XII for details on credit risk.

**6. 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 on June 30, 2019, December 31, 2018 and June 30, 2018 are as follows:

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
The Company	6.45%	6.45%	6.45%
Subsidiaries	6.30%	6.30%	6.30%

The Company and 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 on June 30, 2019, December 31, 2018 and June 30, 2018 are calculated by the following annual interest rates:

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
The Company	0.20%	0.20%	0.20%
Subsidiaries	0.10%	0.10%	0.10%

Please refer to Note VI.27 for details on accumulated impairment and Note XII for details on credit risk.

**7. Trading Securities Receivable**

The Company and subsidiaries lend money to the clients and took the securities held by them as collateral. According to the related regulations, the collateral coverage ratio should not be lower than 130% and 140%.

Please refer to Note VI.27 for details on accumulated impairment and Note XII for details on credit risk.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**8. Customer Margin Accounts**

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Cash in banks	\$16,023,484	\$14,064,494	\$14,715,952
Marking to market from the clearing house	2,313,538	1,996,295	2,109,092
Marking to market from the other futures brokers	4,118,542	1,668,667	2,033,207
Securities	18	114	372
Foreign customer margin accounts	<u>5,684,866</u>	<u>4,080,905</u>	<u>3,698,037</u>
Total	<u>\$28,140,448</u>	<u>\$21,810,475</u>	<u>\$22,556,660</u>

Please refer to Note VI.27 for details on accumulated impairment and Note XII for details on credit risk.

**9. Futures Commission Merchant Receivable**

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Futures commission merchant receivable	\$170,212	\$188,951	\$196,942
Less: loss allowance	<u>(160,435)</u>	<u>(176,333)</u>	<u>(181,354)</u>
Net amount	<u>\$9,777</u>	<u>\$12,618</u>	<u>\$15,588</u>

Please refer to Note VI.27 for details on accumulated impairment and Note XII for details on credit risk.

**10. Accounts Receivable**

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Exchange clearing receivable	\$5,478,404	\$6,308,741	\$4,642,002
Accounts receivable for settlement	29,192,541	13,249,872	21,272,249
Account receivable for spot exchange transactions	208,069	962,718	440,438
Interest receivable	938,851	933,635	939,576
Others	<u>1,155,481</u>	<u>804,521</u>	<u>872,827</u>
Subtotal	36,973,346	22,259,487	28,167,092
Less: loss allowance	<u>(1,822)</u>	<u>(1,113)</u>	<u>(1,332)</u>
Total	<u>\$36,971,524</u>	<u>\$22,258,374</u>	<u>\$28,165,760</u>

(1) Aging analysis of accounts receivable are as follows:

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Non-past due	\$36,828,542	\$22,150,079	\$27,980,959
Past due			
Less than 30 days	134,616	99,369	166,675
30 to 60 days	4,103	3,849	12,239
61 to 120 days	3,122	1,433	4,007
More than 121 days	<u>2,963</u>	<u>4,757</u>	<u>3,212</u>
Total	<u>\$36,973,346</u>	<u>\$22,259,487</u>	<u>\$28,167,092</u>

(2) Please refer to Note VI.27 for details on accumulated impairment and Note XII for details on credit risk.

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**11. Investments Accounted for Using Equity Method**

<u>Investee</u>	<u>6/30/19</u>		<u>12/31/18</u>	
	Amount	Percentage	Amount	Percentage
<u>Investments in associates</u>				
KGI Securities (Thailand) Public Company Limited	\$2,460,373	34.97	\$2,414,682	34.97
Trinitus Asset Management Limited	-	-	-	-
CDIB Bioscience Ventures I, Inc.	2,029	1.20	2,029	1.20
China Life Insurance Co., Ltd.	12,736,255	8.66	8,754,133	9.63
<b>Total</b>	<b>\$15,198,657</b>		<b>\$11,170,844</b>	

<u>Investee</u>	<u>6/30/18</u>	
	Amount	Percentage
<u>Investments in associates</u>		
KGI Securities (Thailand) Public Company Limited	\$2,163,065	34.97
Trinitus Asset Management Limited	8,886	40.00
CDIB Bioscience Ventures I, Inc.	2,783	1.20
China Life Insurance Co., Ltd.	9,584,508	9.63
<b>Total</b>	<b>\$11,759,242</b>	

(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 the equity method are 3,341,576 thousand dollars, 2,803,009 thousand dollars and 2,448,182 thousand dollars as of June 30, 2019, December 31, 2018 and June 30, 2018, respectively.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	6/30/19	12/31/18	6/30/18
Current assets	\$17,174,161	\$10,849,424	\$13,006,369
Non-current assets	979,722	902,515	934,779
Current liabilities	(12,097,660)	(5,815,738)	(8,757,279)
Non-current liabilities	(206,091)	(203,953)	(162,808)
Non-controlling interests	(3,285)	(3,089)	(2,510)
Attributed to controlling interests	<u>\$5,846,847</u>	<u>\$5,729,159</u>	<u>\$5,018,551</u>
Ownership ratio	34.97%	34.97%	34.97%
Proportion of ownership	\$2,044,642	\$2,003,487	\$1,754,987
Goodwill	415,731	411,195	408,078
Carrying amount	<u>\$2,460,373</u>	<u>\$2,414,682</u>	<u>\$2,163,065</u>

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Operating revenue	<u>\$778,676</u>	<u>\$735,312</u>	<u>\$1,637,646</u>	<u>\$1,565,014</u>
Profit or loss from				
continuing operations	\$193,832	\$210,377	\$497,318	\$451,564
Other comprehensive income	(5,519)	9,654	(9,652)	8,706
Total comprehensive income	<u>\$188,313</u>	<u>\$220,031</u>	<u>\$487,666</u>	<u>\$460,270</u>
Dividends received from associate	<u>\$258,896</u>	<u>\$205,399</u>	<u>\$258,896</u>	<u>\$205,399</u>

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 within the fair value hierarchy. The fair value of the Company's investment accounted for using the equity method are 9,600,343 thousand dollars, 10,759,338 thousand dollars and 11,699,291 thousand dollars as of June 30, 2019, December 31, 2018 and June 30, 2018, respectively.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Total assets	\$1,896,755,084	\$1,711,355,336	\$1,621,010,942
Total liabilities	<u>(1,766,820,215)</u>	<u>(1,638,260,952)</u>	<u>(1,539,961,419)</u>
Attributed to controlling interests	<u>\$129,934,869</u>	<u>\$73,094,384</u>	<u>\$81,049,523</u>
Ownership ratio	8.66%	9.63%	9.63%
Proportion of ownership	\$11,246,123	\$7,035,773	\$7,801,503
Net stock equity difference	1,490,132	1,718,360	1,783,005
Carrying amount	<u>\$12,736,255</u>	<u>\$8,754,133</u>	<u>\$9,584,508</u>

	<u>For the three-month periods ended June 30</u>		<u>For the six-month periods ended June 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Operating revenue	<u>\$84,621,355</u>	<u>\$82,876,859</u>	<u>\$176,989,711</u>	<u>\$156,187,489</u>
Profit or loss from				
continuing operations	\$4,644,062	2,580,694	\$7,449,627	6,258,627
Other comprehensive income	14,274,037	<u>(10,107,799)</u>	39,975,627	<u>(23,561,556)</u>
Total comprehensive income	<u>\$18,918,099</u>	<u>\$(7,527,105)</u>	<u>\$47,425,254</u>	<u>\$(17,302,929)</u>
Dividends received from associate	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>

- (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, 2,029 thousand dollars and 11,669 thousand dollars as of June 30, 2019, December 31, 2018 and June 30, 2018 respectively, and the proportionate aggregate financial information of investments is as follows:

	<u>For the three-month periods ended June 30</u>		<u>For the six-month periods ended June 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Profit or loss from				
continuing operations	\$-	\$(971)	\$-	\$(1,606)
Other comprehensive income	-	-	-	-
Total comprehensive income	<u>\$-</u>	<u>\$(971)</u>	<u>\$-</u>	<u>\$(1,606)</u>

- (3) Since the shares of CDIB Bioscience Venture I, Inc held by the Company and affiliate company, CDIB Capital Group, is over 20%, the investment is measured under equity method
- (4) Since the shares of China Life Insurance Co. Ltd. held by the Company and parent company, China Development Financial Holding Corp., is over 20%, the investment is measured under equity method.



English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

**12. Property and Equipment**

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

	Land	Buildings	Equipment	Leasehold improvement	Total
<u>Cost:</u>					
January 1, 2019	\$3,926,002	\$2,076,559	\$2,503,261	\$401,988	\$8,907,810
Additions	-	-	93,994	12,092	106,086
Disposals	(21,621)	(17,362)	(161,942)	(49,617)	(250,542)
Transfers	-	-	11,071	3,195	14,266
Exchange differences	-	-	12,991	3,109	16,100
June 30, 2019	<u>\$3,904,381</u>	<u>\$2,059,197</u>	<u>\$2,459,375</u>	<u>\$370,767</u>	<u>\$8,793,720</u>
January 1, 2018	\$3,954,044	\$2,102,086	\$2,658,733	\$394,897	\$9,109,760
Additions	-	-	59,210	10,395	69,605
Disposals	-	-	(107,204)	(10,749)	(117,953)
Transfers	-	-	4,758	551	5,309
Exchange differences	-	-	15,534	5,131	20,665
June 30, 2018	<u>\$3,954,044</u>	<u>\$2,102,086</u>	<u>\$2,631,031</u>	<u>\$400,225</u>	<u>\$9,087,386</u>
<u>Depreciation and Impairment:</u>					
January 1, 2019	\$-	\$816,878	\$2,049,603	\$344,832	\$3,211,313
Depreciation	-	19,169	99,406	13,934	132,509
Disposals	-	(4,805)	(161,140)	(49,355)	(215,300)
Exchange differences	-	-	9,498	2,692	12,190
June 30, 2019	<u>\$-</u>	<u>\$831,242</u>	<u>\$1,997,367</u>	<u>\$312,103</u>	<u>\$3,140,712</u>
January 1, 2018	\$-	\$785,040	\$2,110,293	\$320,547	\$3,215,880
Depreciation	-	19,475	103,851	23,743	147,069
Disposals	-	-	(107,181)	(10,695)	(117,876)
Exchange differences	-	-	13,671	4,214	17,885
June 30, 2018	<u>\$-</u>	<u>\$804,515</u>	<u>\$2,120,634</u>	<u>\$337,809</u>	<u>\$3,262,958</u>
<u>Net carrying amount as of:</u>					
June 30, 2019	<u>\$3,904,381</u>	<u>\$1,227,955</u>	<u>\$462,008</u>	<u>\$58,664</u>	<u>\$5,653,008</u>
December 31, 2018	<u>\$3,926,002</u>	<u>\$1,259,681</u>	<u>\$453,658</u>	<u>\$57,156</u>	<u>\$5,696,497</u>
June 30, 2018	<u>\$3,954,044</u>	<u>\$1,297,571</u>	<u>\$510,397</u>	<u>\$62,416</u>	<u>\$5,824,428</u>

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- (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 2 to 10 years.
- (3) Please refer to Note VIII for property and equipment pledged as collaterals.

**13. Lease**

The Company and subsidiaries adopted IFRS 16 since January 1, 2019. In accordance with the transition provision in IFRS 16, the Company and subsidiaries elected not to restate prior periods at the date of initial application.

The Company and subsidiaries lease various properties, including real estate such as buildings, transportation equipment and other equipment. The lease terms range from 1 to 6 years. The Company and subsidiaries' leases effect on the financial position, financial performance and cash flows are as follows:

- (1) Amounts recognized in the balance sheet

A. The carrying amount of right-of-use assets

	<u>6/30/19</u>
Buildings	\$1,349,100
Transportation equipment	11,762
Other equipment	54
Total	<u>\$1,360,916</u>

During the six-month period ended June 30, 2019, the Company and subsidiaries' additions to right-of-use assets amounting to 68,025 thousand dollars.

B. Lease liabilities

	<u>6/30/19</u>
Lease liabilities	
Current	\$456,953
Non-current	916,746
Total	<u>\$1,373,699</u>

Please refer to Note VI.27 for the interest on lease liabilities recognized during the three-month and six-month period ended June 30, 2019 and refer to Note XII.4 for the maturity analysis for lease liabilities as of June 30, 2019.

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

(2) Amounts recognized in the comprehensive income statements

Depreciation charge for right-of-use assets

	For the three-month period ended June 30	For the six-month period ended June 30
	2019	2019
Buildings	\$128,707	\$257,204
Transportation equipment	3,170	6,235
Other equipment	26	67
Total	<u>\$131,903</u>	<u>\$263,506</u>

(3) Income and costs relating to leasing activities

	For the three-month period ended June 30	For the six-month period ended June 30
	2019	2019
The expenses relating to short-term leases	\$5,128	\$10,563
The expenses relating to leases of low-value assets (Not including the expenses relating to short-term leases of low-value assets)	4,407	4,768

(4) Cash outflow relating to leasing activities

During the six-month period ended June 30, 2019, the Company and subsidiaries' total cash outflows for leases amounting to 281,569 thousand dollars.

**14. Investment Property**

(1) Changes in investment property are as follows:

	Land	Buildings	Total
<u>Cost:</u>			
January 1, 2019	\$379,446	\$191,713	\$571,159
Transfers	-	-	-
June 30, 2019	<u>\$379,446</u>	<u>\$191,713</u>	<u>\$571,159</u>
January 1, 2018	\$378,497	\$191,806	\$570,303
Transfers	-	-	-
June 30, 2018	<u>\$378,497</u>	<u>\$191,806</u>	<u>\$570,303</u>

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
 KGI SECURITIES CO. LTD. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	Land	Buildings	Total
<u>Depreciation and Impairment:</u>			
January 1, 2019	\$-	\$71,485	\$71,485
Depreciation	-	1,913	1,913
June 30, 2019	<u>\$-</u>	<u>\$73,398</u>	<u>\$73,398</u>
January 1, 2018	\$-	\$67,796	\$67,796
Depreciation	-	1,913	1,913
June 30, 2018	<u>\$-</u>	<u>\$69,709</u>	<u>\$69,709</u>
<u>Net carrying amount as of:</u>			
June 30, 2019	<u>\$379,446</u>	<u>\$118,315</u>	<u>\$497,761</u>
December 31, 2018	<u>\$379,446</u>	<u>\$120,228</u>	<u>\$499,674</u>
June 30, 2018	<u>\$378,497</u>	<u>\$122,097</u>	<u>\$500,594</u>

(2) Leases relating to investment property

The Company and subsidiaries adopted IFRS 16 since January 1, 2019. In accordance with the transition provision in IFRS 16, the Company and subsidiaries elected not to restate prior periods at the date of initial application.

The Company and subsidiaries' investment properties include owned investment properties. The Company and subsidiaries have entered into commercial property leases on its owned investment properties with lease terms of between 1 and 3 years. These leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Leases of owned investment properties are classified as operating leases as they do not transfer substantially all the risks and rewards incidental to ownership of underlying assets.

A. Lease income for operating leases are as follows:

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Rental income from the lease of investment property	<u>\$7,334</u>	<u>\$5,274</u>	<u>\$14,661</u>	<u>\$10,550</u>

B. The undiscounted lease payments to be received and total amounts for the remaining years as at June 30, 2019 are as follows:

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	<u>6/30/19</u>
Not later than one year	\$14,673
Later than one year but not later than two years	13,149
Later than two years but not later than three years	<u>7,988</u>
Total	<u><u>\$35,810</u></u>

- (3) The investment properties are not measured 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 subsidiaries is 980,348 thousand dollars, 1,008,628 thousand dollars and 1,015,068 thousand dollars as of June 30, 2019, December 31, 2018 and June 30, 2018, respectively. The management refers outside appraisal report and adopts the market evaluated model to evaluate the fair value.
- (4) The investment properties are depreciated on a straight-line basis over estimated 55 years useful life.
- (5) Please refer to Note VIII for investment property pledged as collaterals.

**15. Intangible Assets**

- (1) Changes in intangible assets are as follows:

	Goodwill	Other intangible assets	Software	Total
January 1, 2019	\$6,774,975	\$1,069,304	\$140,915	\$7,985,194
Additions	-	-	37,204	37,204
Amortizations	-	(94,508)	(35,981)	(130,489)
Exchange differences	22,317	-	-	22,317
June 30, 2019	<u>\$6,797,292</u>	<u>\$974,796</u>	<u>\$142,138</u>	<u>\$7,914,226</u>
January 1, 2018	\$6,753,531	\$1,258,319	\$160,101	\$8,171,951
Additions	-	-	29,143	29,143
Amortizations	-	(94,508)	(34,337)	(128,845)
Transfers	-	-	2,585	2,585
Exchange differences	11,230	-	-	11,230
June 30, 2018	<u>\$6,764,761</u>	<u>\$1,163,811</u>	<u>\$157,492</u>	<u>\$8,086,064</u>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**16. Other Non-Current Assets**

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Operation guarantee deposits	\$1,376,900	\$1,425,680	\$1,425,682
Clearing and settlement fund	621,258	555,476	550,791
Guarantee deposits	894,795	1,045,827	1,127,791
Others	250,614	245,221	239,233
Total	<u>\$3,143,567</u>	<u>\$3,272,204</u>	<u>\$3,343,497</u>

(1) Please refer to Note VI.27 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.

**17. Short-Term Borrowings**

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Interbank loans	\$1,864,320	\$1,075,655	\$701,500
Credit loans	9,719,908	9,549,360	15,023,284
Secured loans	3,501,145	4,114,666	9,224,063
Bank overdraft	-	42,542	25,781
Total	<u>\$15,085,373</u>	<u>\$14,782,223</u>	<u>\$24,974,628</u>
Interest rate	0.85%-8.30%	1.70%-8.55%	0.65%-8.25%

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

**18. Commercial Papers Payable**

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Commercial papers payable	\$5,081,269	\$2,459,859	\$12,067,990
Less: discount	(2,809)	(2,107)	(5,754)
Net amount	<u>\$5,078,460</u>	<u>\$2,457,752</u>	<u>\$12,062,236</u>
Interest rate	0.52%-2.53%	0.60%-2.59%	0.41%-2.48%

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Financial liabilities held for trading			
Bond investments under resale agreements-short sale	\$958,619	\$323,429	\$-
Warrants liabilities	12,828,781	13,218,370	13,317,612
Warrants redeemed	(12,330,099)	(12,546,289)	(12,504,769)
Settlement coverage bonds payable of short sale	348,374	78,856	397,305
Short options	39,876	73,275	111,542
Liabilities for securities and bonds borrowed	3,689,590	4,339,043	4,681,662
Derivative instruments liabilities	4,172,152	2,899,593	5,600,532
Financial liabilities designated at fair value through profit or loss	<u>3,895,201</u>	<u>3,155,241</u>	<u>893,486</u>
Total	<u><u>\$13,602,494</u></u>	<u><u>\$11,541,518</u></u>	<u><u>\$12,497,370</u></u>

(1) Bond investments under resale agreements -short sale

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Foreign securities	<u><u>\$958,619</u></u>	<u><u>\$323,429</u></u>	<u><u>\$-</u></u>

(2) Warrants liabilities and warrants redeemed

A. Details on warrants liabilities and warrants redeemed are as follows:

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Warrants liabilities	\$18,638,314	\$24,615,441	\$16,473,112
Gains/(losses) on value change	(5,809,533)	(11,397,071)	(3,155,500)
Market value	<u>12,828,781</u>	<u>13,218,370</u>	<u>13,317,612</u>
Warrants redeemed	16,196,654	19,902,475	14,154,041
Gains/(losses) on value change	(3,866,555)	(7,356,186)	(1,649,272)
Market value	<u>12,330,099</u>	<u>12,546,289</u>	<u>12,504,769</u>
Net value	<u><u>\$498,682</u></u>	<u><u>\$672,081</u></u>	<u><u>\$812,843</u></u>

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

(3) Settlement coverage bonds payable of short sale

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Government bonds	\$348,374	\$-	\$-
Foreign securities	-	78,856	397,305
Total	<u><u>\$348,374</u></u>	<u><u>\$78,856</u></u>	<u><u>\$397,305</u></u>

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(4) Short options

	6/30/19	12/31/18	6/30/18
Index options	\$35,209	\$103,999	\$141,031
Stock options	5,718	8,819	5,812
Subtotal	40,927	112,818	146,843
	6/30/19	12/31/18	6/30/18
Open interest	(1,051)	(39,543)	(35,301)
Market value	\$39,876	\$73,275	\$111,542

(5) Liabilities for securities and bonds borrowed

	6/30/19	12/31/18	6/30/18
Listed/OTC company stock	\$605,572	\$2,321,453	\$448,778
Index funds	1,554,084	1,016,551	889,085
Foreign securities	1,504,616	1,524,845	3,434,803
Subtotal	3,664,272	4,862,849	4,772,666
Valuation adjustments	25,318	(523,806)	(91,004)
Market value	\$3,689,590	\$4,339,043	\$4,681,662

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

**20. Derivative Instruments**

(1) Nominal amounts

Financial Instruments	6/30/19	12/31/18	6/30/18
Options and futures contract	\$25,025,522	\$18,778,795	\$33,341,790
Foreign futures and options	25,704,097	29,606,039	9,033,630
Interest rate swap (IRS)	263,993,300	154,961,856	133,088,801
Convertible bond asset swap (CBAS)-interest	11,859,500	27,130,627	11,834,500
CBAS-long option	21,075,452	19,536,843	20,709,925
CBAS-short option	12,593,700	12,114,300	13,711,500
Structured notes	8,350,004	7,205,434	14,031,164
Equity derivative instruments	67,843	123,291	174,123
Credit derivative instruments	2,358,394	2,959,775	6,477,346
Exchange rate derivative instruments	53,355,948	46,101,595	27,579,033
Others	-	7,739	10,607
Total	\$424,383,760	\$318,526,294	\$269,992,419



English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(2) Derivative instruments assets/liabilities

Financial Instruments	6/30/19	12/31/18	6/30/18
Derivative instrument assets			
Contract value			
IRS	\$704,344	\$501,685	\$425,303
CBAS-interest	76,357	92,473	49,878
Long options			
CBAS	1,547,449	797,602	1,439,692
Structured notes	4,579	52,401	31,429
Equity derivative instruments	3,403	-	-
Credit derivative instruments	6,816	7,409	8,427
Exchange rate derivative instruments	288,245	393,799	544,892
Foreign futures and options	222,317	318,089	196,820
Others	-	1,284	643
Total	<u>\$2,853,510</u>	<u>\$2,164,742</u>	<u>\$2,697,084</u>
Derivative instrument liabilities			
Contract value			
IRS	\$756,318	\$460,399	\$313,628
CBAS-interest	553,861	484,491	189,914
Short options			
CBAS	1,092,602	778,760	1,524,629
Structured notes	764,076	594,924	2,810,108
Equity derivative instruments	29,450	31,870	69,186
Credit derivative instruments	33,750	52,795	24,324
Exchange rate derivative instruments	211,403	159,554	51,188
Foreign futures and options	730,692	335,516	616,912
Others	-	1,284	643
Total	<u>\$4,172,152</u>	<u>\$2,899,593</u>	<u>\$5,600,532</u>
Financial liabilities designated initially at fair value through profit or loss			
Structured notes	\$3,890,684	\$3,155,241	\$893,486
Liabilities for outstanding exchange traded notes issued	4,517	-	-
Total	<u>\$3,895,201</u>	<u>\$3,155,241</u>	<u>\$893,486</u>

Please refer to Note VI.2 and Note VI.19 for details on financial assets or liabilities of options and future contracts.

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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

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

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Warrants liabilities:				
Gains on value change	\$15,984,359	\$8,145,598	\$25,146,017	\$15,311,742
Gains on exercising warrants before maturity	(1,962)	11,650	525	15,845
Warrants redeemed:				
Losses on resale of warrants	(1,887,334)	(1,293,369)	(2,834,579)	(2,882,975)
Losses on value change	(13,937,293)	(6,797,013)	(22,101,024)	(12,058,823)
Expense for warrant	(41,356)	(26,912)	(88,106)	(54,762)
Gains/(losses) on warrants issued	<u>\$116,414</u>	<u>\$39,954</u>	<u>\$122,833</u>	<u>\$331,027</u>

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

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Future contracts	\$346,105	\$202,691	\$138,980	\$90,494
Options	(24,865)	101,705	11,992	197,391
Total	<u>\$321,240</u>	<u>\$304,396</u>	<u>\$150,972</u>	<u>\$287,885</u>

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

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
IRS	\$(90,826)	\$16,866	\$(98,433)	\$29,193
CBAS	70,065	(168,859)	220,467	(121,469)
Options	(54,906)	22,628	(329,696)	(6,497)
Structured notes	(35,554)	18,529	(144,843)	12,686
Equity derivative instruments	23,987	(9,613)	19,893	(16,091)
Credit derivative instruments	(18,704)	1,327	(51,319)	11,609
Exchange rate derivative instruments	117,196	617,205	109,703	346,493
Total	<u>\$11,258</u>	<u>\$498,083</u>	<u>\$(274,228)</u>	<u>\$255,924</u>

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

6/30/19

Item	Type of trading	Open interest position		Contract Amount/ Premium Paid (received)	Fair Value	Note
		Long/Short	Lots			
Futures Contracts	Brent Oil Futures	Long	22	\$9,024	\$9,035	
Futures Contracts	Brent Oil Futures	Short	20	8,221	8,056	
Futures Contracts	GreTai Futures	Long	34	18,501	18,544	
Futures Contracts	GreTai Futures	Short	2	1,077	1,085	
Futures Contracts	Elec-Sector Index Futures	Long	196	323,819	330,118	
Futures Contracts	Finance Sector Index Futures	Long	8	10,158	10,162	
Futures Contracts	Finance Sector Index Futures	Short	400	510,496	514,640	
Futures Contracts	Non-Fin Non-Elec Sub-Index Futures	Long	113	143,846	144,071	
Futures Contracts	Gold Futures	Long	3	1,218	1,333	
Futures Contracts	Gold Futures	Short	13	5,749	5,732	
Futures Contracts	TWD/Gold Futures	Short	67	35,562	35,565	
Futures Contracts	TaiEx Futures	Long	3,295	6,785,035	6,927,810	
Futures Contracts	TaiEx Futures	Short	4,382	9,157,050	9,220,631	
Futures Contracts	Mini-TaiEx Futures	Long	412	214,564	214,176	
Futures Contracts	Mini-TaiEx Futures	Short	1,346	711,126	709,317	
Futures Contracts	Weekly-Mature Mini-TaiEx Futures	Long	5	2,654	2,671	
Futures Contracts	Stock Futures	Long	1,625	544,555	557,631	
Futures Contracts	Stock Futures	Short	9,922	2,360,910	2,425,313	
Futures Contracts	Foreign Futures	Long	3,245	1,527,168	1,509,696	
Futures Contracts	Foreign Futures	Short	1,324	1,854,959	1,875,966	
Futures Contracts	USD/CNH FX Futures	Long	85	265,559	264,923	
Futures Contracts	USD/CNT FX Futures	Long	56	34,985	35,009	
Futures Contracts	USA S&P 500 Futures	Long	115	67,322	67,438	
Futures Contracts	USA S&P 500 Futures	Short	13	7,611	7,623	
Futures Contracts	TOPIX Futures	Long	88	27,237	27,298	
Futures Contracts	TOPIX Futures	Short	26	8,045	8,061	
Futures Contracts	Taiwan 50 Index futures	Long	29	22,868	22,913	
Futures Contracts	Taiwan 50 Index futures	Short	5	3,898	3,901	
Futures Contracts	Yuanta ETF Futures	Long	186	148,786	150,660	
Futures Contracts	Dow Jones Futures	Long	213	113,298	113,209	
Futures Contracts	Dow Jones Futures	Short	4	2,125	2,124	
Futures Contracts	HK-HSI Futures	Long	2	11,316	11,345	
Futures Contracts	HK-HSI Futures	Short	62	351,972	351,695	
Futures Contracts	Mini-HK-HSI Futures Index	Long	70	79,392	79,415	
Futures Contracts	Mini-HK-HSI Futures Index	Short	10	11,368	11,345	
Futures Contracts	Indian Nifty Index Futures	Short	4	2,271	2,389	
Futures Contracts	MSCI Taiwan Index Futures	Long	1,135	1,363,273	1,362,971	
Futures Contracts	HSCEI Futures	Long	120	255,001	258,740	
Options Contracts	Index Options-Call	Long	2,602	25,830	24,879	
Options Contracts	Index Options-Put	Long	3,776	21,157	16,619	
Options Contracts	Index Options-Call	Short	16,276	(23,007)	23,668	
Options Contracts	Index Options-Put	Short	15,358	(12,202)	11,522	
Options Contracts	Stock Options-Call	Long	869	4,956	8,311	
Options Contracts	Stock Options-Put	Long	737	2,954	1,453	
Options Contracts	Stock Options-Call	Short	926	(3,033)	3,151	
Options Contracts	Stock Options-Put	Short	707	(2,685)	1,535	

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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	

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6/30/18

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	18	\$31,352	\$31,345	
Futures Contracts	Elec-Sector Index Futures	Short	167	287,500	290,685	
Futures Contracts	Finance Sector Index Futures	Long	13	16,152	16,162	
Futures Contracts	Finance Sector Index Futures	Short	19	23,421	23,539	
Futures Contracts	Gold Futures	Short	119	46,507	45,591	
Futures Contracts	Non-Fin Non-Elec Sub-Index Futures	Long	135	168,586	170,015	
Futures Contracts	Non-Fin Non-Elec Sub-Index Futures	Short	2	2,393	2,474	
Futures Contracts	TWD/Gold Futures	Long	24	11,128	11,111	
Futures Contracts	TaiEx Futures	Long	2,591	5,398,117	5,422,644	
Futures Contracts	TaiEx Futures	Short	4,423	9,306,578	9,359,849	
Futures Contracts	Taiwan 50 Index futures	Short	104	81,160	81,886	
Futures Contracts	USA DJIA Futures	Short	201	97,813	97,750	
Futures Contracts	GreTai Futures	Short	10	6,062	6,039	
Futures Contracts	Indian Nifty Index Futures	Long	5	2,659	2,675	
Futures Contracts	Indian Nifty Index Futures	Short	106	56,551	56,673	
Futures Contracts	Mini-TaiEx Futures	Long	2,483	1,296,249	1,301,755	
Futures Contracts	Mini-TaiEx Futures	Short	5,221	2,746,015	2,766,521	
Futures Contracts	Weekly-Mature Mini-TaiEx Futures	Long	52	27,726	28,075	
Futures Contracts	Stock Futures	Long	3,667	759,424	758,237	
Futures Contracts	Stock Futures	Short	18,151	4,144,538	4,138,272	
Futures Contracts	Foreign Futures	Long	569	1,004,845	1,003,585	
Futures Contracts	Foreign Futures	Short	1,957	3,367,096	3,389,144	
Futures Contracts	USD/CNH FX Futures	Long	94	281,540	288,142	
Futures Contracts	USD/CNH FX Futures	Short	23	68,724	70,201	
Futures Contracts	USD/CNT FX Futures	Long	82	49,805	50,150	
Futures Contracts	USD/CNT FX Futures	Short	91	55,288	56,118	
Futures Contracts	USA S&P 500 Futures	Long	16	8,718	8,734	
Futures Contracts	USA S&P 500 Futures	Short	103	56,067	56,161	
Futures Contracts	EUR/USD FX Futures	Short	223	159,859	159,521	
Futures Contracts	USD/JPY FX Futures	Long	131	78,965	79,153	
Futures Contracts	AUD/USD FX Futures	Long	135	77,370	76,073	
Futures Contracts	GBP/USD FX Futures	Short	12	9,612	9,629	
Futures Contracts	TOPIX Futures	Short	304	104,739	105,020	
Futures Contracts	MSCI Taiwan Index Futures	Long	2,677	3,125,532	3,162,614	
Futures Contracts	HK-HSI Futures	Long	11	61,366	61,412	
Futures Contracts	Mini-HK-HSI Futures Index	Short	55	61,443	61,410	
Options Contracts	Index Options-Call	Long	9,359	37,636	54,046	
Options Contracts	Index Options-Put	Long	10,260	67,137	44,576	
Options Contracts	Index Options-Call	Short	17,951	(44,058)	52,162	
Options Contracts	Index Options-Put	Short	28,492	(96,973)	53,741	
Options Contracts	Stock Options-Call	Long	1,284	3,915	2,269	
Options Contracts	Stock Options-Put	Long	1,528	5,359	9,539	
Options Contracts	Stock Options-Call	Short	1,214	(3,825)	2,865	
Options Contracts	Stock Options-Put	Short	400	(1,987)	2,774	

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

E. Credit risk valuation adjustment

The Company and subsidiaries' credit risk valuation adjustments could be mainly divided into two parts: Credit Value Adjustments, "CVA", and Debit Value Adjustments, "DVA", which are adjustments on credit risk valuation of derivative instruments traded at OTC. The purpose for the adjustments 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 subsidiaries take an opponent's Probability of Default, "PD" (given the Company and subsidiaries do not default) and Loss Given Default, "LGD" into account, then calculate CVA with the opponent's Exposure at Default, "EAD". Contrarily, the Company and subsidiaries take their PD (given the opponent do not default) and LGD into account, calculate DVA with their EAD.

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

**21. Liabilities for Bonds with Attached Repurchase Agreements**

	6/30/19	12/31/18	6/30/18
Government bonds	\$14,461,446	\$14,595,805	\$37,690,228
Bank debentures	27,737,945	21,488,240	21,610,896
Convertible bonds	354,303	288,043	618,069
Corporate bonds	33,132,412	28,803,130	17,019,066
Total	<u>\$75,686,106</u>	<u>\$65,175,218</u>	<u>\$76,938,259</u>
Repurchased amount as specified in respective agreements plus accrued interest	<u>\$75,875,018</u>	<u>\$65,299,255</u>	<u>\$76,980,900</u>
Repurchased date as specified in respective agreements	7/1/19-9/23/19	1/2/19-3/6/19	7/2/18-9/19/18

**22. Accounts Payable**

	6/30/19	12/31/18	6/30/18
Exchange clearing payable	\$8,871,414	\$4,838,810	\$6,212,965
Accounts payable for settlement-brokerage	43,519,177	39,777,105	43,001,582
Accounts payable for settlement-non- brokerage	10,481,395	4,893,523	5,829,507
Others	1,884,532	1,019,402	348,216
Total	<u>\$64,756,518</u>	<u>\$50,528,840</u>	<u>\$55,392,270</u>

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
 KGI SECURITIES CO. LTD. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**23. Bonds Payable**

	6/30/19	12/31/18	6/30/18
104-1 unsecured corporation bonds payable	\$4,800,000	\$4,800,000	\$4,800,000
Less: due within one year	(4,800,000)	-	-
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.

**24. Post-Employment Benefits**

- (1) Description of labor pension:

Defined contribution plan

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

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Defined benefit plan

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

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

The defined benefit plan for the Company's subsidiary, PT KGI Sekuritas Indonesia, is performed in accordance 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 three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Defined contribution plan	\$54,425	\$55,498	\$107,169	\$112,106
Defined benefit plan	3,655	5,892	8,715	11,261
Total	<u>\$58,080</u>	<u>\$61,390</u>	<u>\$115,884</u>	<u>\$123,367</u>

**25. Provision**

	6/30/19	12/31/18	6/30/18
Litigation provision	\$130,727	\$138,902	\$138,711
Decommissioning liabilities	91,768	88,166	80,385
Total	<u>\$222,495</u>	<u>\$227,068</u>	<u>\$219,096</u>



English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**26. Equity**

(1) Common stock

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Authorized shares (thousand shares)	<u>4,600,000</u>	<u>4,600,000</u>	<u>4,600,000</u>
Authorized capital	<u>\$46,000,000</u>	<u>\$46,000,000</u>	<u>\$46,000,000</u>

The Company's authorized and issued capital was 32,418,432 thousand dollars as of as of June 30, 2019, December 31, 2018 and June 30, 2018, each at a par value of NT\$10. The Company has issued 3,241,843 thousand common shares as of June 30, 2019, December 31, 2018 and June 30, 2018.

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

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Additional paid-in capital	\$2,603,148	\$2,603,148	\$2,603,148
Treasury share transactions	364,435	364,435	364,435
Surplus from business combination	5,665,969	5,665,969	5,665,969
Employee share options	14,588	14,379	13,613
Employee share options expired	257	227	227
Total	<u>\$8,648,397</u>	<u>\$8,648,158</u>	<u>\$8,647,392</u>

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.

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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 24, 2019 and May 25, 2018 respectively and resolved the distribution of annual net income for 2018 and 2017 as follows:

	Distribution of earnings		Dividend per share (dollar)	
	2018	2017	2018	2017
Legal reserve	\$376,483	\$800,316	-	-
Special reserve	3,531,666	2,772,536	-	-
Cash dividends	1,108,221	2,000,000	0.342	0.667
Stock dividends	-	2,430,309	-	0.810
Total	\$5,016,370	\$8,003,161		

- 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.

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

(4) Non-controlling interests

	For the six-month periods ended June 30	
	2019	2018
Beginning balance	\$3,355,546	\$3,300,090
Effect of retrospective application	-	(1,677)
Subtotal	3,355,546	3,298,413
Profit attributable to non-controlling interests	18,466	38,006
Other comprehensive income, attributable to non-controlling interests, net of tax:		
Remeasurement of defined benefit plans	-	1
Exchange differences resulting from translating the financial statements of a foreign operation	74	(71)
Purchase of subsidiary stock	-	(20)
Cash dividend issued from subsidiaries	(47,763)	(7,376)
Ending balance	\$3,326,323	\$3,328,953

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

(1) Brokerage handling revenue

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Brokerage handling revenue	\$1,284,014	\$1,586,511	\$2,404,698	\$3,077,207
Foreign brokerage fee	682,088	717,760	1,281,257	1,611,970
Handling revenue of short sale	9,352	15,558	18,355	28,136
Handling revenue of securities borrowed	16,640	17,215	28,480	27,194
Foreign sub-brokerage revenue	82,822	47,313	144,016	112,230
Total	\$2,074,916	\$2,384,357	\$3,876,806	\$4,856,737

(2) Revenue from underwriting business

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Revenue from underwriting of securities	\$44,860	\$42,633	\$78,976	\$122,673
Revenue from underwriting proceeding fee	49,242	20,375	55,588	61,221
Revenue from underwriting and counseling	5,812	8,734	12,427	13,932
Others	26,409	35,510	48,825	83,577
Total	\$126,323	\$107,252	\$195,816	\$281,403

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Dealing	\$221,856	\$893,068	\$911,976	\$(948,852)
Underwriting	16,307	16,843	57,392	31,133
Hedging	(4,725)	220,335	104,206	92,373
Total	<u>\$233,438</u>	<u>\$1,130,246</u>	<u>\$1,073,574</u>	<u>\$(825,346)</u>

(4) Interest income

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Margin loans	\$361,763	\$536,799	\$697,234	\$1,052,249
Bonds	570,165	291,622	978,573	520,737
Others	66,264	57,233	124,456	112,101
Total	<u>\$998,192</u>	<u>\$885,654</u>	<u>\$1,800,263</u>	<u>\$1,685,087</u>

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

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Dealing	\$(346,719)	\$(815,316)	\$394,091	\$1,063,407
Underwriting	(10,829)	26,451	20,734	27,740
Hedging	(108,081)	(92,880)	214,164	63,000
Settlement coverage bonds payable of short sale	17,725	(638)	(68)	(794)
Total	<u>\$(447,904)</u>	<u>\$(882,383)</u>	<u>\$628,921</u>	<u>\$1,153,353</u>

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

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Gains	\$69,692	\$(28,036)	\$256,879	\$40,402
Losses	(115,060)	(45,306)	(177,500)	(76,246)
Total	<u>\$(45,368)</u>	<u>\$(73,342)</u>	<u>\$79,379</u>	<u>\$(35,844)</u>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
 KGI SECURITIES CO. LTD. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(8) Expected credit losses/(gains)

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

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Financial assets measured at fair value through other comprehensive income	\$1,012	\$589	\$4,140	\$1,448
Financial assets measured at amortized cost				
Receivables (Note 1)	343	7,155	310	96,765
Others (Note 2)	(1,777)	(2,463)	(8,303)	1,999
<b>Total</b>	<u><u>\$ (422)</u></u>	<u><u>\$5,281</u></u>	<u><u>\$ (3,853)</u></u>	<u><u>\$100,212</u></u>

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

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

B. The Company and subsidiaries' total carrying amount and accumulated impairment loss as of June 30, 2019, December 31, 2018 and June 30, 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—debt instrument investment are 24,757,412 thousand dollars, 16,110,773 thousand dollars and 8,145,690 thousand dollars, respectively. The accumulated impairment loss recognized are 9,631 thousand dollars, 5,447 thousand dollars and 1,750 thousand dollars, respectively.

(b) Receivables and others

6/30/19

Item	Carrying amount	Accumulated impairment	Total
Cash and cash equivalents	\$10,442,675	\$(561)	\$10,442,114
Investments in bonds with resale agreements	22,848,839	(0)	22,848,839
Margin loans receivable	20,743,822	(1,690)	20,742,132
Trading securities receivable	7,542,882	(1,013)	7,541,869
Customer margin accounts	28,141,023	(575)	28,140,448
Futures commission merchant receivable	170,212	(160,435)	9,777
Accounts receivable	36,973,346	(1,822)	36,971,524

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Item	Carrying amount	Accumulated impairment	Total
Other current assets	47,069,640	(9,713)	47,059,927
Financial assets measured at amortized cost-non-current	799,815	(3,404)	796,411
Other non-current assets	4,937,876	(1,794,309)	3,143,567
Total	<u>\$179,670,130</u>	<u>\$(1,973,522)</u>	<u>\$177,696,608</u>

12/31/18

Item	Carrying amount	Accumulated impairment	Total
Cash and cash equivalents	\$13,849,068	\$(532)	\$13,848,536
Investments in bonds with reverse repurchase 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	<u>\$159,931,764</u>	<u>\$(1,994,676)</u>	<u>\$157,937,088</u>

6/30/18

Item	Carrying amount	Accumulated impairment	Total
Cash and cash equivalents	\$12,081,481	\$(140)	\$12,081,341
Investments in bonds with reverse repurchase agreements	31,650,373	(5)	31,650,368
Margin loans receivable	36,630,361	(2,540)	36,627,821
Trading securities receivable	7,249,810	(1,245)	7,248,565
Customer margin accounts	22,557,369	(709)	22,556,660
Futures commission merchant receivable	196,942	(181,354)	15,588
Accounts receivable	28,167,092	(1,332)	28,165,760
Other current assets	47,996,511	(9,773)	47,986,738
Financial assets measured at amortized cost-non-current	500,000	(3,293)	496,707
Other non-current assets	5,127,054	(1,783,557)	3,343,497
Total	<u>\$192,156,993</u>	<u>\$(1,983,948)</u>	<u>\$190,173,045</u>

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

C. The Company and subsidiaries' movements of accumulated impairment for the six months ended on June 30, 2019 and 2018 are as follows:

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

Item	12-month expected credit losses
Balance as of January 1, 2019	\$5,447
Increase (decrease)	4,140
Exchange differences	44
Balance as of June 30, 2019	\$9,631
Balance as of January 1, 2018 (under IAS 39)	\$-
Adjustments	293
Balance as of January 1, 2018 (under IFRS 9)	293
Increase (decrease)	1,448
Exchange differences	9
Balance as of June 30, 2018	\$1,750

Due to the increasing in debt investments measured at fair value through other comprehensive income during six-month periods ended June 30, 2019 and 2018, the related expected credit losses increase.

(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, 2019	\$15,875	\$217	\$1,975,004	\$3,580	\$1,994,676
Increase/(decrease)	(2,745)	(88)	(5,596)	436	(7,993)
Financial assets derecognized in the current period	-	-	(18,859)	-	(18,859)
Bad loans write-offs	-	-	(6,808)	-	(6,808)
Exchange differences	132	3	12,371	-	12,506
Balance as of June 30, 2019	\$13,262	\$132	\$1,956,112	\$4,016	\$1,973,522

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Item	12-month expected credit losses	Lifetime expected credit losses (collective assessment)	Lifetime expected credit losses 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)	1,234	215	97,239	76	98,764
Financial assets derecognized in the current period	-	-	(2,326)	-	(2,326)
Bad loans write-offs	-	-	(7,602)	-	(7,602)
Exchange differences	236	7	35,871	-	36,114
Balance as of June 30, 2018	<u>\$14,506</u>	<u>\$224</u>	<u>\$1,965,333</u>	<u>\$3,885</u>	<u>\$1,983,948</u>

The movements of accumulated impairment above are not due to significant change of carrying amount. In February, 2018, futures traders of subsidiary defaulted due to the shortage of margin, The Company and subsidiaries recognized impairment loss of 97,372 thousand dollars for the unrecovered futures commission merchant receivable during six-month periods ended June 30, 2018.

D. Please refer to Note XII.3 for details on measurement of expected credit losses.

(9) Other operating revenues

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Commission income	\$179,551	\$91,993	\$290,555	\$219,843
Investment trust and fund management income	134,053	47,920	246,979	83,614
Exchange gain/(loss)	(29,482)	(440,755)	37,809	(150,411)
Others	5,026	80,625	179,232	154,718
Total	<u>\$289,148</u>	<u>\$(220,217)</u>	<u>\$754,575</u>	<u>\$307,764</u>



English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(10) Financial cost

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Bonds	\$367,431	\$191,448	\$693,759	\$361,145
Bank borrowing	105,774	103,410	205,356	193,842
Short-term notes and bills	8,200	20,668	14,332	34,959
Corporate bonds	16,981	21,912	33,788	45,228
Lease liabilities	8,207	-	16,850	-
Securities leading refundable deposits	24,839	14,419	54,388	28,567
Others	23,475	10,204	44,781	19,042
<b>Total</b>	<b>\$554,907</b>	<b>\$362,061</b>	<b>\$1,063,254</b>	<b>\$682,783</b>

(11) Employee benefits expenses, depreciation and amortization

Item	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Employee benefit expenses				
Salary expenses	\$1,639,181	\$1,698,247	\$3,230,623	\$3,445,147
Insurance expenses	75,383	74,808	170,552	170,145
Pension expenses	58,080	61,390	115,884	123,367
Others	29,582	35,898	63,822	72,853
<b>Total</b>	<b>\$1,802,226</b>	<b>\$1,870,343</b>	<b>\$3,580,881</b>	<b>\$3,811,512</b>
Depreciations and amortizations				
Depreciations	\$199,037	\$74,408	\$397,928	\$148,982
Amortizations	67,821	65,567	130,868	129,216
<b>Total</b>	<b>\$266,858</b>	<b>\$139,975</b>	<b>\$528,796</b>	<b>\$278,198</b>

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

B. The Company appropriates at least 0.1% of income before tax and before distributing earnings to employees as employees' compensation income. The employees' compensation of 8,628 thousand dollars, 7,900 thousand dollars, 18,344 thousand dollars and 15,416 thousand dollars were recognized under salary expenses based on the profit for the three-month periods ended June 30, 2019 and 2018 and the six-month periods ended June 30, 2019 and 2018.

C. The resolutions were passed at the Board of Directors meetings held on March 22, 2019 and March 23, 2018 to distribute 29,000 thousand dollars and 57,000 thousand dollars in cash as employee's compensation of 2019 and 2018, respectively, which were as same as the estimated expenses recognized in 2018 and 2017.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(12) Other operating expenses

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Postage and telephone expenses	\$65,244	\$59,718	\$126,779	\$117,669
Tax	158,734	238,907	319,093	481,043
Rental expenses	9,535	162,462	15,331	323,870
Computer information expenses	119,741	128,739	237,612	245,943
Service expense	54,665	47,751	109,793	88,430
Securities borrowed expenses	100,907	97,799	192,629	176,730
Handling fee	105,187	99,139	176,086	186,569
Fixed expense	55,424	53,581	113,343	101,951
Business expense	61,924	28,212	121,439	49,018
Other expenses	191,279	182,095	366,905	337,899
Total	<u>\$922,640</u>	<u>\$1,098,403</u>	<u>\$1,779,010</u>	<u>\$2,109,122</u>

(13) Other income and costs

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Interest income	\$367,000	\$247,415	\$688,445	\$468,672
Disposal of investment	108,327	13,605	131,935	68,067
Non-operating financial assets measured at FVTPL	66,770	11,744	154,377	25,473
Dividend income	70,106	5,272	71,162	7,112
Management service income	90,466	83,360	177,720	169,213
Others	59,562	29,235	122,164	50,373
Total	<u>\$762,231</u>	<u>\$390,631</u>	<u>\$1,345,803</u>	<u>\$788,910</u>

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**28. Components of Other Comprehensive Income**

For the three-month period ended June 30, 2019

	<u>Arising</u>	<u>Reclassification</u>	<u>Other comprehensive income, before tax</u>	<u>Income tax (expense) profits</u>	<u>Other comprehensive income, net of tax</u>
Not to be reclassified subsequently to profit or loss:					
Unrealized gains/(losses) from investments in equity instruments measured at fair value through other comprehensive income	\$(183,644)	\$-	\$(183,644)	\$-	\$(183,644)
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(43,474)	-	(43,474)	-	(43,474)
To be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of a foreign operation	179,245	-	179,245	-	179,245
Unrealized gains/(losses) from investments in debt instruments measured at fair value through other comprehensive income	464,552	(243,585)	220,967	-	220,967
Share of other comprehensive income of associates and joint ventures accounted for using equity method	1,326,458	-	1,326,458	-	1,326,458
<b>Total</b>	<b>\$1,743,137</b>	<b>\$(243,585)</b>	<b>\$1,499,552</b>	<b>\$-</b>	<b>\$1,499,552</b>

For the three-month period ended June 30, 2018

	<u>Arising</u>	<u>Reclassification</u>	<u>Other comprehensive income, before tax</u>	<u>Income tax (expense) profits</u>	<u>Other comprehensive income, net of tax</u>
Not to be reclassified subsequently to profit or loss:					
Remeasurements of defined benefit plans	\$104	\$-	\$104	\$-	\$104

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	<u>Arising</u>	<u>Reclassification</u>	<u>Other comprehensive income, before tax</u>	<u>Income tax (expense) profits</u>	<u>Other comprehensive income, net of tax</u>
Unrealized gain/(losses) from investments in equity instruments measured at fair value through other comprehensive income	240,082	-	240,082	-	240,082
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(80,088)	-	(80,088)	-	(80,088)
To be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of a foreign operation	437,960	-	437,960	-	437,960
Unrealized gains/(losses) from investments in debt instruments measured at fair value through other comprehensive income	(19,325)	-	(19,325)	-	(19,325)
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(834,995)	-	(834,995)	-	(834,995)
<b>Total</b>	<b>\$(256,262)</b>	<b>\$-</b>	<b>\$(256,262)</b>	<b>\$-</b>	<b>\$(256,262)</b>

For the six-month period ended June 30, 2019

	<u>Arising</u>	<u>Reclassification</u>	<u>Other comprehensive income, before tax</u>	<u>Income tax (expense) profits</u>	<u>Other comprehensive income, net of tax</u>
Not to be reclassified subsequently to profit or loss:					
Unrealized gains/(losses) from investments in equity instruments measured at fair value through other comprehensive income	\$(44,109)	\$-	\$(44,109)	\$-	\$(44,109)
Share of other comprehensive income of associates and joint ventures accounted for using equity method	251,452	-	251,452	-	251,452

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	<u>Arising</u>	<u>Reclassification</u>	<u>Other comprehensive income, before tax</u>	<u>Income tax (expense) profits</u>	<u>Other comprehensive income, net of tax</u>
To be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of a foreign operation	267,796	-	267,796	-	267,796
Unrealized gains/(losses) from investments in debt instruments measured at fair value through other comprehensive income	895,404	(265,974)	629,430	-	629,430
Share of other comprehensive income of associates and joint ventures accounted for using equity method	3,560,695	-	3,560,695	-	3,560,695
<b>Total</b>	<b>\$4,931,238</b>	<b>\$(265,974)</b>	<b>\$4,665,264</b>	<b>\$-</b>	<b>\$4,665,264</b>

For the six-month period ended June 30, 2018

	<u>Arising</u>	<u>Reclassification</u>	<u>Other comprehensive income, before tax</u>	<u>Income tax (expense) profits</u>	<u>Other comprehensive income, net of tax</u>
Not to be reclassified subsequently to profit or loss:					
Remeasurements of defined benefit plans	\$104	\$-	\$104	\$-	\$104
Unrealized gains/(losses) from investments in equity instruments measured at fair value through other comprehensive income	290,620	-	290,620	-	290,620
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(185,963)	-	(185,963)	-	(185,963)
To be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of a foreign operation	223,210	-	223,210	-	223,210

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

	Arising	Reclassification	Other comprehensive income, before tax	Income tax (expense) profits	Other comprehensive income, net of tax
Unrealized gains/(losses) from investments in debt instruments measured at fair value through other comprehensive income	(16,664)	-	(16,664)	-	(16,664)
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(1,990,694)	-	(1,990,694)	-	(1,990,694)
<b>Total</b>	<b>\$(1,679,387)</b>	<b>\$-</b>	<b>\$(1,679,387)</b>	<b>\$-</b>	<b>\$(1,679,387)</b>

**29. Income Tax**

Based on the amendments to the Income Tax Act announced on February 7, 2018, the Company and 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 (profits) are as follows:

Income tax expense (profits) recognized in profit or loss

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Current income tax expense (profits)				
Current period	\$110,883	\$221,588	\$135,013	\$335,259
Adjustments of prior periods	(204,452)	(27,783)	(204,452)	(113,790)
Deferred income tax expense (profits)				
Current period	(63,784)	(28,466)	(29,497)	(44,786)
Deferred income tax related to changes in tax rates	-	77	-	180,428
<b>Income tax expense (profits)</b>	<b>\$(157,353)</b>	<b>\$165,416</b>	<b>\$(98,936)</b>	<b>\$357,111</b>

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(2) Income tax return assessed

<u>Entities</u>	<u>Assessment information</u>
The Company	The Company's income tax returns have been assessed by the Tax Bureau through 2014. 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 2017.
KGI Venture Capital Co. Ltd.	Assessed through 2017.
KGI Securities Investment Trust Co. Ltd.	Assessed through 2017.
KGI Futures	Assessed through 2017.
GSFC	Assessed through 2016.
KGI Information Technology Co. Ltd.	Assessed through 2017.

(3) Administrative remedy

GCSC was assessed for additional income tax of 15,067 thousand dollars for 2011 by the Tax Bureau. The Company does not agree with such assessments and is in the process of appealing. The Company has already recognized the estimated amount of assessed additional tax liabilities.

**30. Earnings Per Share**

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

	<u>For the three-month periods ended June 30</u>		<u>For the six-month periods ended June 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Basic EPS				
Attributable to the Company	<u>\$1,577,686</u>	<u>\$1,064,539</u>	<u>\$2,985,770</u>	<u>\$2,034,856</u>
Weighted average number of shares outstanding	<u>3,241,843,251 shares</u>	<u>3,241,843,251 shares</u>	<u>3,241,843,251 shares</u>	<u>3,241,843,251 shares</u>
Basic EPS (NT\$)	<u>\$0.49</u>	<u>\$0.33</u>	<u>\$0.92</u>	<u>\$0.63</u>

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.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**31. Subsidiaries with significant non-controlling interests**

The non-controlling interests of the Company are 3,326,323 thousand dollars, 3,355,546 thousand dollars and 3,328,953 thousand dollars as of June 30, 2019, December 31, 2018 and June 30, 2018, respectively. Proportions held by non-controlling interests are as follows:

Subsidiary	Country	6/30/19	12/31/18	6/30/18
KGI Futures	Taiwan	0.39%	0.39%	0.39%
GSFC	Taiwan	78.01%	78.01%	78.01%
KGI Indonesia	Indonesia	1.00%	1.00%	1.00%

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

Subsidiary	6/30/19	12/31/18	6/30/18
GSFC	\$3,310,656	\$3,339,857	\$3,314,706

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

(1) Summarized information of comprehensive income for GSFC

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Revenue	\$31,648	\$58,419	\$74,594	\$118,784
Net profit from continuing operations	\$6,720	\$21,438	\$21,718	\$47,966
Other comprehensive income	-	-	-	-
Comprehensive income	\$6,720	\$21,438	\$21,718	\$47,966
Net profit allocated to non-controlling interests	\$5,242	\$20,637	\$16,942	\$36,915
Dividends paid to non-controlling interests	\$-	\$6,332	\$-	\$6,332

(2) Summarized information of financial position for GSFC

	6/30/19	12/31/18	6/30/18
Current assets	\$3,790,430	\$5,839,999	\$8,236,087
Non-current assets	1,632,768	1,462,922	1,475,431
Current liabilities	1,178,551	3,020,842	5,461,036
Non-current liabilities	780	780	780



English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

(3) Summarized cash flow information for GSFC

	For the six-month periods ended June 30	
	2019	2018
Operating activities	\$1,418,853	\$987,769
Investing activities	(174,881)	9,104
Financing activities	(1,409,586)	(1,008,798)
Net increase/(decrease) in cash and cash equivalents	(165,614)	(11,925)

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

**VII. Significant Transactions with the Related Parties**

The Company and subsidiaries adopted IFRS 16 since January 1, 2019. The Company and subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 16.

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

1. Name and nature of relationship of the related parties

Name of the related parties	Nature of relationship of the related parties
China Development Financial Holding Corp. (CDFH)	The parent company
KGI Securities (Thailand) Public Company Limited (KGI TH)	The associate
Trinitus Asset Management Limited	The associate (Note 1)
KGI Bank Co., Ltd. (KGI Bank)	Other related party
China Life Insurance Co., Ltd. (China Life)	Other related party
CDIB Capital Group (CDIB Capital)	Other related party
CDIB Venture Capital Corp.	Other related party
CDIB Capital Management Inc. (CDIB Capital Management)	Other related party
CDIB Management Consulting Corp.	Other related party
CDIB Capital Growth Partners L.P.	Other related party
CDIB Capital International Corp. (CDIB Capital International)	Other related party
CDIB CME Fund Ltd.	Other related party
CDIB Partners Investment Holding Corp.	Other related party
CDIB Capital Investment I Ltd.	Other related party
CDIB Capital Investment II Ltd.	Other related party
CDIB & Partners Investment Holding Pte. Ltd.	Other related party
CDC Finance & Leasing Corp.	Other related party
KGI Charity Foundation	Other related party
Fund managed by KGI Securities Investment Trust Co. Ltd. (KGI Investment Trust Fund)	Other related party
Bank of Taiwan Co., Ltd. (Bank of Taiwan)	Other related party(Note2)
GuoHen Chemistry Co., Ltd	Other related party

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

<u>Name of the related parties</u>	<u>Nature of relationship of the related parties</u>
XingWen Investment Ltd. (XingWen Investment)	Other related party(Note3)
JingHuei Investment Ltd. (JingHuei Investment)	Other related party
Others	Other related-parties

Note 1: Trinitus Asset Management Limited was not related from July 29, 2018.

Note 2: Bank of Taiwan Co., Limited was not related from June 14, 2019.

Note 3: XingWen Investment Limited was not related from June 14, 2019.

2. Significant transactions with related parties

(1) Operating revenue and cost:

	<u>For the three-month periods</u> <u>ended June 30</u>		<u>For the six-month periods</u> <u>ended June 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
A. <u>Brokerage handling</u> <u>revenue</u>				
Other related parties				
KGI Bank	\$1,136	\$2,202	\$1,826	\$10,907
China Life	22,846	17,282	40,186	37,478
Others	4,392	5,467	6,436	10,033
Total	<u>\$28,374</u>	<u>\$24,951</u>	<u>\$48,448</u>	<u>\$58,418</u>
B. <u>Revenue from</u> <u>underwriting</u> <u>business</u>				
Other related parties				
CDIB Capital Management	\$-	\$-	\$-	\$750
CDIB Capital International	7,500	-	7,500	-
KGI Bank	1,550	-	1,550	1,170
Others	600	-	600	-
Total	<u>\$9,650</u>	<u>\$-</u>	<u>\$9,650</u>	<u>\$1,920</u>
C. <u>Revenue from</u> <u>providing agency</u> <u>service for stock</u> <u>affairs</u>				
Parent company				
CDFH	\$4,196	\$4,159	\$7,590	\$7,589
Other related parties				
China Life	1,037	-	1,659	-
Others	65	64	127	126
Total	<u>\$5,298</u>	<u>\$4,223</u>	<u>\$9,376</u>	<u>\$7,715</u>

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
D. <u>Gains/(losses) on derivative financial product-GTSM-net</u> Other related parties				
KGI Bank	\$4,153	\$(2,785)	\$16,538	\$53,463
E. <u>Other operating revenue</u>				
Parent company				
CDFH	\$1,785	\$2,372	\$3,571	\$4,743
Associates	-	57	-	113
Other related parties				
China Life	138,539	63,808	239,027	154,256
Others	554	11	561	20
Total	\$140,878	\$66,248	\$243,159	\$159,132
F. <u>Financial costs</u>				
Other related parties				
KGI Bank	\$2,475	\$3,652	\$6,730	\$8,489
Bank of Taiwan	1,459	1,818	3,926	4,076
Others	18	113	40	205
Total	\$3,952	\$5,583	\$10,696	\$12,770

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):

	6/30/19	12/31/18	6/30/18
Other related parties			
KGI Bank	\$335,500	\$2,830,664	\$1,741,586
Bank of Taiwan	-	66,855	5,846
Total	\$335,500	\$2,897,519	\$1,747,432

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

	6/30/19	12/31/18	6/30/18
A. <u>Open-ended funds and monetary market instruments</u>			
Other related parties			
KGI Investment Trust Fund	\$477,184	\$465,958	\$370,002

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
	Notional Amount	Notional Amount	Notional Amount
<b>B. <u>Outstanding derivative instruments</u></b>			
a. IRS			
Other related parties			
KGI Bank	<u>\$372,864</u>	<u>\$636,173</u>	<u>\$1,088,850</u>
b. CBAS-interest			
Other related parties			
KGI Bank	<u>\$180,000</u>	<u>\$602,120</u>	<u>\$675,200</u>
c. CBAS-long option			
Other related parties			
KGI Bank	<u>\$180,000</u>	<u>\$5,900</u>	<u>\$83,500</u>
d. CBAS-short option			
Other related parties			
KGI Bank	<u>\$-</u>	<u>\$596,220</u>	<u>\$591,700</u>
	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
<b>C. <u>Trading securities</u></b>			
Other related parties			
KGI Investment Trust Fund	<u>\$24,573</u>	<u>\$26,311</u>	<u>\$-</u>

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

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
<u>Stocks</u>			
Parent company			
CDFH	<u>\$2,049,116</u>	<u>\$2,399,876</u>	<u>\$3,150,832</u>

Please refer to Note VI.3 for information of sale of CDFH stock for the six-month periods ended June 30, 2019 and 2018.

(5) Margin loans receivable:

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Other related parties			
Others	<u>\$21,352</u>	<u>\$15,935</u>	<u>\$16,091</u>

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(6) Customer margin accounts:

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Other related parties			
KGI Bank	<u>\$918,057</u>	<u>\$919,916</u>	<u>\$445,671</u>

(7) Account receivables

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Parent company			
CDFH	\$1,185	\$-	\$1,199
Associates			
KGI TH	35,172	15,614	6,712
Other related parties			
JingHuei Investment	380,542	-	-
China Life	30,556	13,457	18,264
XingWen Investment	-	20,888	-
KGI Bank	1,555	1,930	59,323
Others	10,157	5,532	3,141
Total	<u>\$459,167</u>	<u>\$57,421</u>	<u>\$88,639</u>

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

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Associates			
KGI TH	\$2,012	\$1,128	\$-
Other related parties			
KGI Bank	8,003	8,042	7,448
China Life	356	371	291,571
Others	-	4	3
Total	<u>\$10,371</u>	<u>\$9,545</u>	<u>\$299,022</u>

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

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Other related parties			
KGI Bank	<u>\$1,202,053</u>	<u>\$1,202,572</u>	<u>\$993,763</u>

(10) Right-of-use assets

	<u>6/30/19</u>
Other related parties	
China Life	<u>\$2,491</u>

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(11) Short-term borrowings:

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Other related parties			
Bank of Taiwan	\$-	\$-	\$451,400

(12) Securities financing refundable deposits:

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Other related parties			
KGI Investment Trust Fund	\$-	\$4,704	\$2,911
Others	-	487	14
Total	<u>\$-</u>	<u>\$5,191</u>	<u>\$2,925</u>

(13) Deposits payable for securities financing:

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Other related parties			
KGI Investment Trust Fund	\$-	\$5,201	\$3,219
Others	-	538	15
Total	<u>\$-</u>	<u>\$5,739</u>	<u>\$3,234</u>

(14) Futures customers' equity:

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Other related parties			
KGI Bank	\$78,895	\$394,377	\$717,257
KGI Investment Trust Fund	9,160	8,723	8,912
Total	<u>\$88,055</u>	<u>\$403,100</u>	<u>\$726,169</u>

(15) Accounts Payable:

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Associates			
KGI TH	\$844	\$696	\$690
Other related parties			
China Life	64,169	-	59,384
CDIB Capital	14,711	13,791	49,404
CDIB Capital Investment I Ltd.	28,270	34,475	2,475
KGI Investment Trust Fund	2,641	9,895	10,838
Bank of Taiwan	-	-	49,813
Others	23,880	8,040	11,033
Total	<u>\$134,515</u>	<u>\$66,897</u>	<u>\$183,637</u>

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
KGI SECURITIES CO. LTD. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(16) Other accounts payable

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Other related parties			
China Life	\$25,288	\$20,548	\$9,588
Others	404	308	592
Total	<u>\$25,692</u>	<u>\$20,856</u>	<u>\$10,180</u>

(17) Current income tax liabilities:

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

	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Due to CDFH (the parent company)	<u>\$668,212</u>	<u>\$740,985</u>	<u>\$481,314</u>

(18) Bonds transactions with related parties as follows:

A. Purchase and sale of bonds

	<u>For the six-month periods ended June 30, 2019</u>	
	<u>Purchase of bonds</u>	<u>Sale of bonds</u>
Other related parties		
KGI Bank	\$702,331	\$ 386,477
China Life	389,978	12,850,991
Bank of Taiwan	49,636	739,213
Total	<u>\$1,141,945</u>	<u>\$13,976,681</u>
	<u>For the six-month periods ended June 30, 2018</u>	
	<u>Purchase of bonds</u>	<u>Sale of bonds</u>
Other related parties		
KGI Bank	\$431,412	\$3,431,410
China Life	1,703,084	4,542,282
Bank of Taiwan	199,943	731,839
Total	<u>\$2,334,439</u>	<u>\$8,705,531</u>

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
KGI SECURITIES CO. LTD. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Lease liabilities

	<u>6/30/19</u>
Current	
Other related parties	
China Life	\$ 2,500

Rental income (recognized as other income and costs)

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Other related parties				
KGI Bank	\$3,235	\$3,235	\$6,469	\$6,469
Others	85	84	170	170
Total	\$3,320	\$3,319	\$6,639	\$6,639

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

Rental expenses (recognized as other operating expenses)

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Other related parties				
China Life	\$-	\$935	\$-	\$1,855
KGI Bank	-	459	-	918
Others	-	53	-	119
Total	\$-	\$1,447	\$-	\$2,892

(20) Employee benefit expense

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Other related parties				
China Life	\$5,157	\$4,309	\$9,888	\$7,090
Bank of Taiwan	96	83	114	83
Total	\$5,253	\$4,392	\$10,002	\$7,173



English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(21) Other operating expenses

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Other related parties				
KGI Bank	\$2,005	\$1,206	\$2,926	\$4,137
China Life	45,061	22,306	92,052	35,339
KGI Charity Foundation	10,000	-	10,000	-
Others	108	135	618	253
Total	<u>\$57,174</u>	<u>\$23,647</u>	<u>\$105,596</u>	<u>\$39,729</u>

(22) Other income and costs

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Associates				
KGI TH	\$11,761	\$8,045	\$13,383	\$8,183
Other related parties				
KGI Bank	25,637	26,574	52,548	59,356
Others	29	36	50	55
Total	<u>\$37,427</u>	<u>\$34,655</u>	<u>\$65,981</u>	<u>\$67,594</u>

(23) Information about key management personnel compensation

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Short-term employee benefit	\$61,904	\$45,553	\$119,171	\$81,245
Post-employment benefits	860	779	1,747	1,565
Share-based payment transaction	110	285	221	577
Total	<u>\$62,874</u>	<u>\$46,617</u>	<u>\$121,139</u>	<u>\$83,387</u>

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

	6/30/19	12/31/18	6/30/18
Other related parties			
Bank of Taiwan	<u>\$-</u>	<u>\$540,000</u>	<u>\$-</u>

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

	6/30/19	12/31/18	6/30/18
Property and equipment and investment property	<u>\$270,015</u>	<u>\$271,050</u>	<u>\$272,084</u>

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**VIII. Assets Pledged**

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

<u>Description of the Assets</u>	<u>6/30/19</u>	<u>12/31/18</u>	<u>6/30/18</u>
Financial assets measured at FVTPL- current-trading securities-dealing	\$250,837	\$200,339	\$250,651
Financial assets measured at FVTPL- current-Open-ended funds, monetary market instruments and other securities	241,075	-	-
Other current assets- restricted	2,646,651	2,531,259	2,353,290
Financial assets measured at FVTPL-non- current-trading securities-dealing	-	-	49,999
Investments accounted for using equity method	2,917,845	2,005,410	2,327,550
Property and equipment	4,405,179	4,608,352	4,626,420
Investment property	355,960	475,180	476,100
Other non-current assets-guarantee deposits paid	894,795	1,045,827	1,127,791
<b>Total</b>	<u><u>\$11,712,342</u></u>	<u><u>\$10,866,367</u></u>	<u><u>\$11,211,801</u></u>

**IX. Significant Contingent Liabilities and Unrecognized Commitments**

1. The Company has appealed for its share returns. Please refer to Note VI.29 for detail.
2. One of the executive vice president of the merged entities, Jen-Hsin Securities Co., Ltd., claimed the ownership of stocks of Jen-Hsin Securities Co., Ltd. while certain clients of Jen-Hsin Securities Co., Ltd. also claimed ownership of the same lot of securities. The executive vice president declined to surrender the shares; hence, Jen-Hsin Securities Co., Ltd. petitioned a motion with the Taipei District Court on November 6, 2002 in order to repossess such shares. Because Jen-Hsin Securities Co., Ltd. has been merged into the Company, such case is taken over by the Company as a result. Also, in July, 2004, the certain clients has requested to the Court for the repossession of such shares from the Company, the Company can pay cash of 90,379 thousand dollars and assumed interest in lieu. During the process of litigation, the certain client change his claim to require the Company as first class debtor to pay 90,379 thousand dollars and assumed interest and executive vice president as secondary debtor to pay 2,000 thousand stocks of Jen-Hsin Securities Co., Ltd. and 73,946 thousand dollars and assumed interest because the confirm of original judgment and the Company is unable to retrieve the stocks. On May 21, 2019, the case was remanded by the Supreme Court back to the High Court with the decision. It was decided that the Company has been given the right to retrieve the stocks from the former executive vice president and the right to bring a claim against the former executive vice president on the embezzlement of client's properties. The 90,379 thousand dollars claimed by the certain clients are to be paid by the Company. Other cases brought by the certain clients are dismissed. The Company has appealed to the Supreme Court. This case is currently being processed by the Supreme Court.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 1,990,000 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.

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
KGI SECURITIES CO. LTD. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**XI. Significant Subsequent Events**

The resolution of Shareholders' Meeting of Global Securities Finance Corporation (GSFC) has been approved on May 29, 2019 that major business of GSFC will be transferred to Yuanta Securities on the condition of 15,000 thousand dollars with price adjusting mechanism agreed upon by both parties of the transaction plus collaterals and costs for relevant rights on the reference date of transfer. The above-mentioned business transfer has been approved by Fair Trade Commission on August 14, 2019 but will only be executed upon the approval of FSC.

**XII. Others**

1. The Company and subsidiaries adopted IFRS 16 since January 1, 2019. The Company and subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 16.

2. Financial risk management objectives and policies

(1) Financial risk management objectives

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

(2) Risk management organization

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

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

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

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

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

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

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

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

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

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

(3) Risk management system

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

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

(4) Risk management mechanism

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

A. Market risk

The Company restricts the risk level to which it is exposed to an acceptable level through structuring risk management system, enacting market risk management policies, and formulating merchandise operation guidelines. It also restrains 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.

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
KGI SECURITIES CO. LTD. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

3. Analysis of Credit Risk

(1) A. Source of credit risk

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

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

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

B. Credit risk management

The credit risk management of the Company and 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 extremely low.



C. Definition of default and credit impairment of financial assets

- (a) The Company 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 contractual obligations 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 financial 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 assessment, they will not be recognized in credit-impaired financial assets any longer.
- (d) The Company and 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 control.

- (b) Financial assets measured at fair value through profit or loss-current

The above mentioned 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 fair value through other comprehensive income (excluding equity instrument investment)

The above mentioned financial 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 agreement are 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 trading margin receivable and accounts receivable. The main credit risk is margin loans receivable and trading securities receivable. The Company and 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 significant credit risk.

- (g) Stock borrowing collateral price and security lending deposits

When the Company and subsidiaries borrow securities, the Company and 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) Financial assets measured at amortized cost

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. 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 extremely low.

E. Measurement of expected credit losses

(a) Consideration of the forward-looking information

The Company and 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 calculated by regression model. Considering the Company and 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 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 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 assets have low credit risk on the reporting date, we assume there is no significant increase in credit risk since initial recognition.

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

F. The assessment technique or significant assumption used to evaluate the expected credit loss by the Company and subsidiaries don't change for the six-month periods ended on June 30, 2019 and 2018.

4. Analysis of Capital Liquidity Risk

(1) Cash flow analysis

Statement of cash flow analysis for financial assets

6/30/19

Financial Assets	Collection period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Cash and cash equivalents	\$7,274,590	\$3,167,524	\$-	\$-	\$-	\$10,442,114
Financial assets measured at FVTPL-current	47,205,400	1,604,702	1,272,976	11,740,868	45,111	61,869,057
Financial assets measured at FVOCI-current	15,803,295	3,311,771	11,503	-	-	19,126,569
Bond investment under resale agreements	-	22,877,466	-	-	-	22,877,466
Receivables	44,347,722	3,514,530	16,493,240	911,288	-	65,266,780
Customer margin accounts	28,140,448	-	-	-	-	28,140,448
Stock borrowing collateral price and security lending deposits	1,174,816	2,100,311	16,289,709	-	-	19,564,836
Other financial assets-current	-	-	1,958,997	-	-	1,958,997
Current tax assets	-	3,734	12,948	2,371	208	19,261
Other current assets	45,473,459	462,272	1,124,196	-	-	47,059,927
Financial assets measured at FVTPL-non-current	-	-	-	628,570	2,350,807	2,979,377
Financial assets measured at FVOCI-non-current	-	-	-	-	8,386,153	8,386,153
Financial assets measured at amortized cost-non-current	-	-	-	448,484	347,927	796,411
Investments accounted for using equity method	-	-	-	-	15,198,657	15,198,657
Others non-current assets	200,000	-	-	250,033	2,657,199	3,107,232
<b>Total</b>	<b>\$189,619,730</b>	<b>\$37,042,310</b>	<b>\$37,163,569</b>	<b>\$13,981,614</b>	<b>\$28,986,062</b>	<b>\$306,793,285</b>
Percentage	61.81%	12.07%	12.11%	4.56%	9.45%	100.00%

Statement of cash flow analysis for financial liabilities

6/30/19

Financial Liabilities	Payment period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Short-term borrowings	\$-	\$15,085,373	\$-	\$-	\$-	\$15,085,373
Commercial papers payable	-	5,078,460	-	-	-	5,078,460
Financial liabilities measured at FVTPL-current	3,856,553	2,328,342	1,103,497	6,320,720	44,718	13,653,830

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Statement of cash flow analysis for financial liabilities

6/30/19

Financial Liabilities	Payment period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Liabilities for bonds with attached repurchase agreements	-	75,875,018	-	-	-	75,875,018
Payables	73,663,553	1,331,995	2,653,432	65,961	-	77,714,941
Guarantee deposit received from security lending	-	3,947,243	18,907,209	-	-	22,854,452
Futures customers' equity	28,117,171	-	-	-	-	28,117,171
Amounts collected for others/ Other payable/ Other current liabilities	376,061	1,060,263	2,308,606	35	-	3,744,965
Other financial liabilities-current	-	3,629,090	-	829	-	3,629,919
Lease liabilities-current	-	133,846	376,141	-	-	509,987
Current tax liabilities	-	24,974	107,400	-	742,203	874,577
Long-term liabilities-current portion	-	-	4,800,000	-	-	4,800,000
Liabilities reserve-non-current	-	-	-	24,475	198,020	222,495
Lease liabilities-non-current	-	-	-	926,877	-	926,877
Other non-current liabilities	-	-	-	641,332	87,701	729,033
<b>Total</b>	<b>\$106,013,338</b>	<b>\$108,494,604</b>	<b>\$30,256,285</b>	<b>\$7,980,229</b>	<b>\$1,072,642</b>	<b>\$253,817,098</b>
Percentage	41.77%	42.75%	11.92%	3.14%	0.42%	100.00%

Statement of capital liquidation gap

6/30/19

	Collection period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Cash inflow	\$189,619,730	\$37,042,310	\$37,163,569	\$13,981,614	\$28,986,062	\$306,793,285
Cash outflow	106,013,338	108,494,604	30,256,285	7,980,229	1,072,642	253,817,098
Amount of cash flow gap	\$83,606,392	\$(71,452,294)	\$6,907,284	\$6,001,385	\$27,913,420	\$52,976,187

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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	
Customer margin accounts	21,810,475	-	-	-	-	21,810,475
Stock borrowing collateral price and security lending deposits	2,925,678	2,093,783	6,916,890	-	-	11,936,351
Other financial assets-current	-	-	3,387,927	-	-	3,387,927
Current 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
<b>Total</b>	<b>\$157,911,943</b>	<b>\$42,916,752</b>	<b>\$37,033,499</b>	<b>\$3,868,360</b>	<b>\$21,273,945</b>	<b>\$263,004,499</b>
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	Payment 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	-	2,457,752	-	-	-	2,457,752
Financial liabilities measured at FVTPL-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
Guarantee deposit received from security lending	-	5,908,005	11,910,455	-	-	17,818,460
Futures customers' equity	21,792,908	-	-	-	-	21,792,908
Amounts collected for others/ Other payable/ 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
Current 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
<b>Total</b>	<b>\$86,797,623</b>	<b>\$94,613,530</b>	<b>\$25,372,653</b>	<b>\$6,738,676</b>	<b>\$1,080,647</b>	<b>\$214,603,129</b>
Percentage	40.45%	44.09%	11.82%	3.14%	0.50%	100.00%

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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

6/30/18

Financial Assets	Collection period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Cash and cash equivalents	\$6,116,267	\$5,965,074	\$-	\$-	\$-	\$12,081,341
Financial assets measured at FVTPL-current	55,325,792	1,654,627	13,490,025	372,717	91,253	70,934,414
Financial assets measured at FVOCI-current	11,278,773	-	-	-	-	11,278,773
Bond investments under resale agreements	-	31,670,375	-	-	-	31,670,375
Receivables	40,700,427	5,625,551	21,153,087	4,579,724	-	72,058,789
Customer margin accounts	22,556,660	-	-	-	-	22,556,660
Stock borrowing collateral price and security lending deposits	870,123	1,738,853	4,487,451	-	-	7,096,427
Other financial assets-current	-	-	3,782,015	-	-	3,782,015
Current tax assets	-	-	5,572	557	569,624	575,753
Other current assets	46,619,521	615,833	751,384	-	-	47,986,738
Financial assets measured at FVTPL-non-current	-	-	50,188	-	2,819,932	2,870,120
Financial assets measured at FVOCI-non-current	-	-	-	-	2,122	2,122
Financial assets measured at amortized cost-non-current	-	-	-	298,653	198,054	496,707
Investments accounted for using equity method	-	-	-	-	11,759,242	11,759,242
Others non-current assets	-	100,000	149,837	318,978	2,747,388	3,316,203
Total	\$183,467,563	\$47,370,313	\$43,869,559	\$5,570,629	\$18,187,615	\$298,465,679
Percentage	61.47%	15.87%	14.70%	1.87%	6.09%	100.00%



English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Statement of cash flow analysis for financial liabilities

6/30/18

Financial Liabilities	Payment period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Short-term borrowings	\$20,000	\$24,954,628	\$-	\$-	\$-	\$24,974,628
Commercial papers payable	-	12,062,236	-	-	-	12,062,236
Financial liabilities measured at FVTPL-current	3,450,049	460,881	7,554,270	1,122,733	91,029	12,678,962
Liabilities for bonds with attached repurchase agreements	-	76,980,900	-	-	-	76,980,900
Payables	67,146,978	138,393	3,940,735	53,503	-	71,279,609
Guarantee deposit received from security lending	-	3,773,288	11,903,982	-	-	15,677,270
Futures customers' equity	22,529,017	-	-	-	-	22,529,017
Amounts collected for others/ Other payable/ Other current liabilities	687,602	1,054,575	2,121,564	4	-	3,863,745
Other financial liabilities-current	-	4,211,216	-	350,030	-	4,561,246
Current tax liabilities	-	-	115,148	-	597,153	712,301
Bonds payable	-	-	-	4,800,000	-	4,800,000
Liabilities reserve-non-current	-	-	-	22,369	196,727	219,096
Other non-current liabilities	-	-	-	641,436	100,725	742,161
<b>Total</b>	<b>\$93,833,646</b>	<b>\$123,636,117</b>	<b>\$25,635,699</b>	<b>\$6,990,075</b>	<b>\$985,634</b>	<b>\$251,081,171</b>
<b>Percentage</b>	<b>37.37%</b>	<b>49.24%</b>	<b>10.21%</b>	<b>2.79%</b>	<b>0.39%</b>	<b>100.00%</b>

Statement of capital liquidity gap

6/30/18

	Collection period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Cash inflow	\$183,467,563	\$47,370,313	\$43,869,559	\$5,570,629	\$18,187,615	\$298,465,679
Cash outflow	93,833,646	123,636,117	25,635,699	6,990,075	985,634	251,081,171
<b>Amount of cash flow gap</b>	<b>\$89,633,917</b>	<b>\$(76,265,804)</b>	<b>\$18,233,860</b>	<b>\$(1,419,446)</b>	<b>\$17,201,981</b>	<b>\$47,384,508</b>

The Company has established statement of capital liquidation gap to estimate the financial assets and liabilities in future cash flows which can affect the Company and subsidiaries when it comes to fund dispatching. The cash flow gap statements on June 30, 2019, December 31, 2018 and June 30, 2018 show that the sums from deducting cash outflow from cash inflow are 52,976,187 thousand dollars, 48,401,370 thousand dollars and 47,384,508 thousand dollars, respectively, all indicating sufficient fund liquidity.

Due to operational characteristics of securities firms, an observation of fund inflow and outflow in different periods of time shows that current receivable items contribute to the most of the financial assets of the Company and subsidiaries, taking up to nearly 61.81% 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 part of periods of the cash outflow exceeded cash inflow. Net cash inflow calculated from net spot financial assets are sufficient to cover the other periods of net cash outflows, 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.

5. Market Risk Analysis

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 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 subsidiaries are as follows:

Comparisons of risk sensitive factors

Risk sensitivity	6/30/19	12/31/18	6/30/18
Interest rate risk	\$12,832	\$5,774	\$7,921
Equity securities risk	4,363,047	2,710,631	4,126,560
Exchange rate risk	4,624,592	957,905	2,056,384
Commodity risk sensitivity	19,112	10,758	(25,234)

(2) Risk value

Risk value ("VAR") is a statistical measurement used to measure the maximum potential loss of a portfolio in a certain future time horizon and confidence level. The Company and subsidiaries 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 subsidiaries continue to conduct back testing daily to ensure the reliability of the estimations made by the risk value model.

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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

Risk type	For the six-month period ended June 30, 2019			6/30/19
	Average VAR	Minimum VAR	Maximum VAR	Ending VAR
Equity securities	\$107,249	\$73,809	\$178,371	\$106,192
Interest Rate	102,211	68,035	163,461	97,788
Exchange Rate	21,125	6,918	38,106	29,401
Commodity	8,348	729	21,959	16,637
Risk type	For the six-month period ended June 30, 2018			6/30/18
	Average VAR	Minimum VAR	Maximum VAR	Ending VAR
Equity securities	\$168,488	\$91,772	\$301,501	\$112,343
Interest Rate	138,343	79,818	211,119	107,355
Exchange Rate	7,791	3,371	17,362	13,767
Commodity	7,969	146	11,516	6,620

(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.

6. Fair Value of Financial Instruments

(1) Types of financial instruments

Financial instruments	6/30/19	12/31/18	6/30/18
<b><u>Financial assets</u></b>			
Financial assets measured at fair value through profit or loss:			
Mandatorily Measured at fair value through profit or loss	\$64,834,802	\$59,289,736	\$73,653,094
Financial assets measured at fair value through other comprehensive income	27,512,722	18,589,523	11,280,895
Financial assets measured at amortized cost (Note 1)	199,182,325	173,227,090	201,022,031
<b>Total</b>	<b><u>\$291,529,849</u></b>	<b><u>\$251,106,349</u></b>	<b><u>\$285,956,020</u></b>

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Financial instruments	6/30/19	12/31/18	6/30/18
<u>Financial liabilities</u>			
Financial liabilities measured at amortized cost (Note 2)	\$238,124,491	\$200,902,965	\$236,385,791
Financial liabilities measured at fair value through profit or loss:			
Held for trading	9,707,293	8,386,277	11,603,884
Designated initially at fair value through profit or loss	3,895,201	3,155,241	893,486
Total	<u>\$251,726,985</u>	<u>\$212,444,483</u>	<u>\$248,883,161</u>

Note 1: Financial assets measured at amortized cost include Cash and cash equivalents excluding cash on hand, bond investments under resale agreements, notes receivable, accounts receivable, margin loans receivable, trading securities receivable, customer margin accounts, futures commission merchant receivable, stock borrowing collateral price, security lending deposits, 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.

Note 2: Financial liabilities measured at amortized cost include short-term borrowings, commercial papers payable, liabilities for bonds with attached repurchase agreements, securities financing refundable deposits, deposits payable for securities financing, guarantee deposit received from security lending, futures customers' equity, accounts payable, amount collected for other parties, other payable, other financial liabilities-current, other current liabilities, lease liabilities including current and non current, bonds payable including one due within one year and guarantee deposits received.

(2) Valuation techniques and assumptions in estimating fair value

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

- A. Financial assets and financial liabilities 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: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- C. For financial assets and liabilities measured at fair value through profit or loss and financial assets measured at fair value through other comprehensive income, 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).

(3) Fair value of financial assets measured at amortized cost

Excluding the following items, the book value of the Company and 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:

	6/30/19		12/31/18		6/30/18	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
<u>Financial assets</u>						
Financial assets measured at amortized cost	\$796,411	\$803,153	\$496,707	\$499,986	\$496,707	\$499,963
Operation guarantee deposits	-	-	199,780	200,097	199,783	200,754
Guarantee deposits	99,723	100,185	199,445	200,266	199,351	200,267
<u>Financial liabilities</u>						
Long-term liabilities-current portion	4,800,000	4,832,525	-	-	-	-
Bonds payable	-	-	4,800,000	4,846,090	4,800,000	4,857,893

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
KGI SECURITIES CO. LTD. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(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 1 that are observable, either directly or indirectly, from an active market. For example:

- (a) quoted price for similar financial instruments in active markets, that is, the fair value of the instrument is deduced from the recent trading price of similar financial instruments. Similar financial instruments are identified by their nature and specific terms. The fair value should be adjusted by considering factors include: time lag between latest transaction of similar financial instrument and the present transaction, difference in dealing terms, prices involving related parties 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 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:

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6/30/19

Financial instruments measured at fair value	Level 1	Level 2	Level 3	Total
Non-derivative instruments				
Assets				
Financial assets measured at FVTPL				
Stocks	\$8,112,474	\$-	\$2,492,379	\$10,604,853
Bonds	18,631,380	17,259,126	-	35,890,506
Others	4,656,102	9,753,377	-	14,409,479
Financial assets measured at FVOCI				
Stocks	2,049,116	-	2,023	2,051,139
Bonds	17,193,081	8,268,502	-	25,461,583
Liabilities				
Financial liabilities measured at FVTPL				
Stocks	2,347,467	-	-	2,347,467
Bonds	1,306,993	1,342,123	-	2,649,116
Derivative instruments				
Assets				
Financial assets measured at FVTPL	1,076,454	2,853,473	37	3,929,964
Liabilities				
Financial liabilities measured at FVTPL	543,075	7,266,117	796,719	8,605,911

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 assets 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



English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12/31/18

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

6/30/18

Financial instruments measured at fair value	Level 1	Level 2	Level 3	Total
Non-derivative instruments				
Assets				
Financial assets measured at FVTPL				
Stocks	\$11,032,363	\$-	\$2,425,573	\$13,457,936
Bonds	19,287,378	20,367,347	-	39,654,725
Others	4,319,909	12,377,419	-	16,697,328
Financial assets measured at FVOCI				
Stocks	3,150,832	-	2,122	3,152,954
Bonds	4,109,784	4,018,157	-	8,127,941
Liabilities				
Financial liabilities measured at FVTPL				
Stocks	1,503,524	129	-	1,503,653
Bonds	397,305	3,178,009	-	3,575,314
Derivative instruments				
Assets				
Financial assets measured at FVTPL	1,197,719	2,636,224	9,162	3,843,105
Liabilities				
Financial liabilities measured at FVTPL	954,352	6,120,414	343,637	7,418,403

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

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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

There are not transfers between Level 1 and Level 2 for the six-month periods ended of June 30, 2019 and 2018.

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

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

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

For the six-month period ended June 30, 2019

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 (Note)	
<b>Financial Assets</b>								
<u>Derivative instruments</u>								
Financial assets measured at FVTPL-current	\$20,313	\$(6,727)	\$-	\$6,005	\$-	\$(19,554)	\$-	\$37
<u>Non-derivative instruments</u>								
Financial assets measured at FVTPL-non-current	2,268,207	156,168	-	96,524	-	(2,520)	(26,000)	2,492,379
Financial assets measured at FVOCI-non-current	2,049	-	(26)	-	-	-	-	2,023

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the six-month period ended June 30, 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	
<b>Financial Assets</b>								
<u>Derivative instruments</u>								
Financial assets measured at FVTPL-current	\$6,005	\$6,925	\$-	\$21,670	\$-	\$(25,438)	\$-	\$9,162
<u>Non-derivative instruments</u>								
Financial assets measured at FVTPL-non-current (Note)	-	23,349	-	2,455,806	-	(5,582)	(48,000)	2,425,573
Financial assets measured at FVOCI-non-current (Note)	-	-	(115)	2,237	-	-	-	2,122

Note: The acquisition includes the adjusted amount of adopting IFRS 9.

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

For the six-month period ended June 30, 2019

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	
<b>Financial Liabilities</b>								
<u>Derivative instruments</u>								
Financial liabilities measured at FVTPL-current	\$625,437	\$91,126	\$-	\$197,680	\$-	\$(117,524)	\$-	\$796,719

For the six-month period ended June 30, 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	
<b>Financial Liabilities</b>								
<u>Derivative instruments</u>								
Financial liabilities measured at FVTPL-current	\$308,547	\$(67,720)	\$-	\$367,144	\$-	\$(264,334)	\$-	\$343,637

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

c. Total gains or losses from above financial assets and liabilities still held by the Company for the six-month periods ended June 30, 2019 and 2018 are as follows:

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Total gains or losses				
Recognized in profit or loss	\$47,785	\$75,879	\$44,882	\$107,983
Recognized in other comprehensive income	-	-	(26)	(115)

d. There are no significant changes in the Company and subsidiaries' valuation models or in levels of the fair value hierarchy between current and prior periods as of June 30, 2019 and 2018.

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

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

6/30/19

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value
<u>Financial assets:</u>				
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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value
<b>Derivatives</b>				
Structured notes- options	Martingale Pricing Technique	History Volatility	19.13%-23.22%	Depending on contract terms.
<b>Financial liabilities:</b>				
<b>Derivatives</b>				
Structured notes- options	Martingale Pricing Technique	History Volatility	1.96%-14.00%	Depending on contract terms.
Equity derivative instruments-short option	Martingale Pricing Technique	History Volatility	16.32%-60.71%	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.

12/31/18

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value
<b>Financial assets:</b>				
<b>Non-derivatives</b>				
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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

6/30/18

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value
<u>Financial assets:</u>				
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	Lack of liquidity discount	23%~26%	The higher the lack of liquidity discount is, probably the lower the fair value of assets is.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value
Financial assets measured at FVOCI-equity instrument	Note	Not applicable	Not applicable	Not applicable
Derivatives				
Structured notes- options	Martingale Pricing Technique	History Volatility	14.60%-64.16%	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	1.97%-47.83%	Depending on contract terms.
Equity derivative instruments-short option	Martingale Pricing Technique	History Volatility	8.83%-60.57%	Depending on contract terms.

Note: Fair value is from third-party quotations, purchasing price or measured by asset method.

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 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:

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

6/30/19

	<u>Sensitivity of the input to fair value</u>		<u>Recognized in profit/loss</u>	
	<u>Inputs</u>	<u>Changes</u>	<u>Gain</u>	<u>Loss</u>
<u>Financial assets:</u>				
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%	\$499	\$499
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%	47	22
<u>Financial liabilities:</u>				
Derivatives				
Structured notes-options	Historical volatility	-25% / +25%	\$0	\$0
Equity derivative instruments-short option	Historical volatility	-25% / +25%	69	70

12/31/18

	<u>Sensitivity of the input to fair value</u>		<u>Recognized in profit/loss</u>	
	<u>Inputs</u>	<u>Changes</u>	<u>Gain</u>	<u>Loss</u>
<u>Financial assets:</u>				
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



English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

	Sensitivity of the input to fair value		Recognized in profit/loss	
	Inputs	Changes	Gain	Loss
<u>Financial liabilities:</u>				
Derivatives				
Structured notes-options	Historical volatility	-25% / +25%	\$-	\$-
Equity derivative instruments-short option	Historical volatility	-25% / +25%	(12)	(12)

6/30/18

	Sensitivity of the input to fair value		Recognized in profit/loss	
	Inputs	Changes	Gain	Loss
<u>Financial assets:</u>				
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%	\$281	\$289
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%	1,055	1,010
<u>Financial liabilities:</u>				
Derivatives				
Structured notes-options	Historical volatility	-25% / +25%	\$0	\$1
Equity derivative instruments-short option	Historical volatility	-25% / +25%	174	230

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.

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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

6/30/19

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets measured at amortized cost-				
non-current	\$-	\$803,153	\$-	\$803,153
Guarantee deposits	-	100,185	-	100,185
<u>Non-Financial assets:</u>				
Investments accounted for using equity method	12,941,919	-	-	12,941,919
Investment properties	-	-	980,348	980,348
<u>Financial liabilities:</u>				
Bonds payable	4,832,525	-	-	4,832,525

12/31/18

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

6/30/18

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial measured assets at amortized cost-				
non-current	\$-	\$499,963	\$-	\$499,963
Operation guarantee deposits	-	200,754	-	200,754
Guarantee deposits	-	200,267	-	200,267
<u>Non-Financial assets:</u>				
Investments accounted for using equity method	14,147,473	-	-	14,147,473
Investment properties	-	-	1,015,068	1,015,068

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

	Level 1	Level 2	Level 3	Total
<u>Financial liabilities:</u>				
Bonds payable	4,857,893	-	-	4,857,893

A. Investments accounted for using equity method is significant investment in associates. Please refer to Note VI.11 and VI.14 for the fair value hierarchy of investments accounted for using equity method and investment properties mentioned above.

B. The methods of evaluation of financial assets and liabilities refer to Note XII.6(2).

7. Transfer of Financial Assets

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

In the Company and subsidiaries' daily operational transactions, most transferred financial assets that are not derecognized in their entirety are either 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 subsidiaries recognize only the liabilities arising from the responsibilities of repurchasing those bonds at fixed or market price in the future. In the effective period of mentioned transactions, the Company and subsidiaries are not allowed to use, sell, or pledge those transferred financial assets, but still retain their interest rate risk, credit risk, and market risk, so they are not derecognized in their entirety.

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

6/30/19					
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	\$66,266,662	\$63,681,039	\$66,266,662	\$63,681,039	\$2,585,623
Securities borrowing transactions	978,846	1,370,385	978,846	1,370,385	(391,539)

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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)

6/30/18					
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	\$78,128,231	\$76,938,259	\$78,128,231	\$76,938,259	\$1,189,972
Securities borrowing transactions	1,299,609	1,819,453	1,299,609	1,819,453	(519,844)

(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	
6/30/19	Long call option	\$11,807,100	\$966,909	\$966,909	\$-	\$966,909
12/31/18	Long call option	\$11,074,500	\$654,271	\$654,271	\$-	\$654,271
6/30/18	Long call option	\$11,765,800	\$1,139,715	\$1,139,715	\$-	\$1,139,715

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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
6/30/19	Long call option	\$-	\$163,000	\$3,954,900	\$7,689,200	\$-	\$11,807,100
12/31/18	Long call option	\$-	\$241,400	\$1,875,100	\$8,958,000	\$-	\$11,074,500
6/30/18	Long call option	\$-	\$649,100	\$2,172,800	\$8,943,900	\$-	\$11,765,800

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

Period	Type of continuing involvement	Gain or loss recognized at the date of transfer	Income and expenses recognized in the reporting period	Income and expenses recognized cumulatively
6/30/19	Long call option	\$2,244	\$(165,501)	\$(163,256)
12/31/18	Long call option	\$(12,172)	\$(357,181)	\$(369,353)
6/30/18	Long call option	\$40	\$(64,020)	\$(63,980)

#### 8. Offsetting Financial Assets and Financial Liabilities

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

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

6/30/19						
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	\$2,853,510	\$-	\$2,853,510	\$-	\$511,812	\$2,341,698
Resell agreement	22,848,839	-	22,848,839	22,848,839	-	-
<b>Total</b>	<b>\$25,702,349</b>	<b>\$-</b>	<b>\$25,702,349</b>	<b>\$22,848,839</b>	<b>\$511,812</b>	<b>\$2,341,698</b>

6/30/19						
Financial liabilities subject to offsetting, enforceable master netting arrangement or similar agreements						
Description	Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets set off in the statement of financial position (b)	Net amounts of financial liabilities presented in the statement of financial position (c)=(a)-(b)	Related amounts not set off in the statement of financial position(d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral in pledge	
Derivative	\$4,172,152	\$-	\$4,172,152	\$-	\$1,102,055	\$3,070,097
Repurchase agreement	75,686,106	-	75,686,106	75,686,106	-	-
<b>Total</b>	<b>\$79,858,258</b>	<b>\$-</b>	<b>\$79,858,258</b>	<b>\$75,686,106</b>	<b>\$1,102,055</b>	<b>\$3,070,097</b>

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	-	-
<b>Total</b>	<b>\$21,613,564</b>	<b>\$-</b>	<b>\$21,613,564</b>	<b>\$19,448,822</b>	<b>\$435,743</b>	<b>\$1,728,999</b>

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	-	-
<b>Total</b>	<b>\$68,074,811</b>	<b>\$-</b>	<b>\$68,074,811</b>	<b>\$65,175,218</b>	<b>\$676,921</b>	<b>\$2,222,672</b>

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

6/30/18						
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	\$2,697,084	\$-	\$2,697,084	\$-	\$269,231	\$2,427,853
Resell agreement	31,650,368	-	31,650,368	31,650,368	-	-
<b>Total</b>	<b>\$34,347,452</b>	<b>\$-</b>	<b>\$34,347,452</b>	<b>\$31,650,368</b>	<b>\$269,231</b>	<b>\$2,427,853</b>

6/30/18						
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	\$5,600,532	\$-	\$5,600,532	\$-	\$733,130	\$4,867,402
Repurchase agreement	76,938,259	-	76,938,259	76,938,259	-	-
<b>Total</b>	<b>\$82,538,791</b>	<b>\$-</b>	<b>\$82,538,791</b>	<b>\$76,938,259</b>	<b>\$733,130</b>	<b>\$4,867,402</b>

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

## 9. Capital Management

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

The Company's capital adequacy ratios as of June 30, 2019, December 31, 2018, and June 30, 2018 are disclosed as follows

### (1) Capital Adequacy Ratio

Item	6/30/19	12/31/18	6/30/18
Qualified net equity Capital	\$21,253,701	\$19,780,482	\$18,647,668
Equivalent amount of operating risk	6,612,335	6,054,596	7,251,944
Capital adequacy ratio	321%	327%	257%
	For the six-month periods Ended		
Item	2019	2018	
Average	346%	260%	
Maximum	380%	275%	
Minimum	321%	218%	

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(2) Equivalent amounts and percentages of operating risks

Item	6/30/19		12/31/18	
	Amount	Percentage	Amount	Percentage
Market risk	\$2,980,422	45.07%	\$2,395,211	39.56%
Credit risk	1,836,018	27.77%	1,884,721	31.13%
Operational risk	1,795,895	27.16%	1,774,664	29.31%
Total	<u>\$6,612,335</u>	<u>100.00%</u>	<u>\$6,054,596</u>	<u>100.00%</u>

  

Item	6/30/18	
	Amount	Percentage
Market risk	\$3,065,346	42.27%
Credit risk	2,411,934	33.26%
Operational risk	1,774,664	24.47%
Total	<u>\$7,251,944</u>	<u>100.00%</u>

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

Futures department of the Company

Article #	Calculation Formula	6/30/19		12/31/18		Standard	Execution
		Calculation	Ratio	Calculation	Ratio		
17	<u>Stock holders' equity</u> (Total liabilities – Futures customers' equity)	<u>1,687,853</u> 155,473	10.86	<u>1,791,507</u> 413,737	4.33	≥ 1	Satisfied
17	<u>Current assets</u> Current liabilities	<u>2,008,929</u> 155,444	12.92	<u>2,330,195</u> 412,737	5.65	≥ 1	"
22	<u>Stockholders' equity</u> Minimum paid-in capital	<u>1,687,853</u> 400,000	421.96%	<u>1,791,507</u> 400,000	447.88%	≥ 60% ≥ 40%	"
22	<u>Net capital amount after adjustment</u> The total amount of customer's margin required by the non-offset position for the futures dealer	<u>1,379,847</u> 215,898	639.12%	<u>1,091,064</u> 244,118	446.94%	≥ 20% ≥ 15%	"



English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Article #	Calculation Formula	6/30/18		Standard	Execution
		Calculation	Ratio		
17	<u>Stock holders' equity</u> (Total liabilities – Futures customers' equity)	<u>1,716,176</u> 449,917	3.81	≥ 1	Satisfied
17	<u>Current assets</u> Current liabilities	<u>2,445,196</u> 449,917	5.43	≥ 1	"
22	<u>Stock holders' equity</u> Minimum paid-in capital	<u>1,716,176</u> 400,000	429.04%	≥ 60% ≥ 40%	"
22	<u>Net capital amount after adjustment</u> The total amount of customer's margin required by the non-offset position for the futures dealer	<u>1,065,792</u> 418,752	254.52%	≥ 20% ≥ 15%	"

KGI Futures

Article #	Calculation Formula	6/30/19		12/31/18		Standard	Execution
		Calculation	Ratio	Calculation	Ratio		
17	<u>Stockholders' equity</u> (Total liabilities – Futures customers' equity)	<u>3,340,226</u> 371,112	9.00	<u>3,416,097</u> 387,747	8.81	≥ 1	Satisfied
17	<u>Current assets</u> Current liabilities	<u>27,533,781</u> 25,518,186	1.08	<u>24,284,147</u> 22,117,410	1.10	≥ 1	"
22	<u>Stockholders' equity</u> Minimum paid-in capital	<u>3,340,226</u> 760,000	439.50%	<u>3,416,097</u> 760,000	449.49%	≥ 60% ≥ 40%	"
22	<u>Net capital amount after adjustment</u> The total amount of customer's margin required by the non-offset position for the futures dealer	<u>2,717,198</u> 7,030,491	38.65%	<u>3,005,408</u> 5,059,084	59.41%	≥ 20% ≥ 15%	"

Article #	Calculation Formula	6/30/18		Standard	Execution
		Calculation	Ratio		
17	<u>Stockholders' equity</u> (Total liabilities – Futures customers' equity)	<u>3,073,512</u> 284,771	10.79	≥ 1	Satisfied
17	<u>Current assets</u> Current liabilities	<u>24,808,517</u> 22,968,371	1.08	≥ 1	"
22	<u>Stockholders' equity</u> Minimum paid-in capital	<u>3,073,512</u> 760,000	404.41%	≥ 60% ≥ 40%	"
22	<u>Net capital amount after adjustment</u> The total amount of customer's margin required by the non-offset position for the futures dealer	<u>2,511,996</u> 6,085,511	41.28%	≥ 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:

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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-Zheng-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

	6/30/19	12/31/18	6/30/18
Cash in bank	\$1,183,876	\$1,043,226	\$1,908,252
Financial assets	22,724,467	21,051,505	23,514,841
Receivables	167,410	33,903	223,514
Total trusted assets	<u>\$24,075,753</u>	<u>\$22,128,634</u>	<u>\$25,646,607</u>
	6/30/19	12/31/18	6/30/18
Payables	\$29,276	\$11,274	\$19,847
Trust capital	21,952,916	21,967,226	23,730,428
Reserves and retained earnings	2,093,561	150,134	1,896,332
Total trusted liabilities	<u>\$24,075,753</u>	<u>\$22,128,634</u>	<u>\$25,646,607</u>

B. Income statement of trust business

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Revenues	\$264,470	\$(158,623)	\$2,186,182	\$2,569,391
Expenses	137,539	(412,046)	(2,110,785)	(2,286,091)
Income before tax	402,009	(570,669)	75,397	283,300
Income tax	-	-	-	-
Net income	<u>\$402,009</u>	<u>\$(570,669)</u>	<u>\$75,397</u>	<u>\$283,300</u>

C. Trust Property catalog

	6/30/19	12/31/18	6/30/18
Cash in bank	\$1,183,876	\$1,043,226	\$1,908,252
Stocks	9,928,836	10,733,485	12,956,211
Funds	11,275,685	9,350,380	9,814,029
Structured notes	1,309,590	957,456	744,601
Bonds	210,356	10,184	-
Total	<u>\$23,908,343</u>	<u>\$22,094,731</u>	<u>\$25,423,093</u>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- (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 June 30, 2019, December 31, 2018, and June 30, 2018 are USD 1,479 thousand dollars, 2,160 thousand dollars and USD 2,131 thousand dollars respectively.

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

Financial instruments	6/30/19			12/31/18		
	Foreign currency (thousand dollars)	Exchange rate	NTD	Foreign currency (thousand dollars)	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary Items</u>						
USD	\$2,071,971	31.11	\$64,463,913	\$1,554,985	30.78	\$47,867,143
HKD	145,854	3.98	580,149	155,753	3.92	610,893
GBP	531	39.38	20,901	620	38.89	24,101
JPY	20,002,842	0.29	5,774,734	23,540,436	0.28	6,553,476
EUR	365,616	35.38	12,935,497	91,152	35.22	3,210,271
CNY	212,254	4.52	960,064	33,063	4.48	147,973
AUD	7,675	21.80	167,304	620	21.68	13,438
SGD	708	22.97	16,261	502	22.49	11,294
THB	1,974	1.02	2,005	11,549	0.95	10,976
ZAR	15,477	2.20	34,035	3,408	2.13	7,255
<u>Non-monetary Items</u>						
USD	1,698,350	31.07	52,771,119	1,315,358	30.73	40,424,903
HKD	16,030	3.98	63,781	12,231	3.92	47,994
JPY	98,230	0.29	28,359	88,886	0.28	24,746
EUR	7,607	35.38	269,125	4,156	35.22	146,367
CNY	615,436	4.52	2,783,738	301,685	4.48	1,350,220
AUD	19,873	21.80	433,225	13,460	21.68	291,811
ZAR	45,000	2.20	98,955	-	2.13	-
<u>Investments accounted for using equity method</u>						
USD	79,183	31.07	2,460,373	78,570	30.73	2,414,682

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Financial instruments	6/30/19			12/31/18		
	Foreign currency (thousand dollars)	Exchange rate	NTD	Foreign currency (thousand dollars)	Exchange rate	NTD
<u>Financial liabilities</u>						
<u>Monetary Items</u>						
USD	4,759,595	31.07	147,885,489	4,150,323	30.73	127,546,314
HKD	112,038	3.98	445,634	99,051	3.92	388,442
GBP	222	39.39	8,740	493	38.89	19,157
JPY	19,713,111	0.29	5,691,089	23,390,109	0.28	6,511,626
EUR	365,156	35.38	12,919,198	92,580	35.22	3,260,553
CNY	272,438	4.52	1,232,290	10,201	4.48	45,651
AUD	16,618	21.80	362,265	8,640	21.68	187,315
SGD	204	22.97	4,679	169	22.48	3,803
THB	-	1.02	-	7,339	0.95	6,964
ZAR	55,703	2.20	122,491	2,807	2.13	5,976
<u>Non-monetary Items</u>						
USD	241,673	31.07	7,509,249	183,398	30.73	5,636,356
JPY	98,230	0.29	28,359	88,886	0.28	24,746
EUR	234	35.38	8,294	10	35.22	350
CNY	28,263	4.52	127,839	27,442	4.48	122,818
AUD	8,718	21.80	190,059	4,511	21.68	97,804
Financial instruments	6/30/18					
	Foreign currency (thousand dollars)	Exchange rate	NTD			
<u>Financial assets</u>						
<u>Monetary Items</u>						
USD	\$1,809,592	30.50	\$55,179,815			
HKD	126,302	3.88	490,516			
GBP	249	39.98	9,938			
JPY	19,851,987	0.28	5,472,310			
EUR	74,469	35.47	2,641,630			
CNY	38,991	4.60	179,367			
AUD	1,240	22.54	27,940			
SGD	300	22.37	6,707			
ZAR	836	2.22	1,857			
<u>Non-monetary Items</u>						
USD	929,485	30.50	28,349,299			
HKD	13,086	3.89	50,865			
JPY	88,115	0.28	24,293			
EUR	195	35.48	6,935			
CNY	523,470	4.60	2,408,170			
AUD	35,093	22.54	791,001			

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
**KGI SECURITIES CO. LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Financial instruments	6/30/18		
	Foreign currency (thousand dollars)	Exchange rate	NTD
<u>Investments accounted for using equity method</u>			
USD	71,212	30.50	2,171,951
<u>Financial liabilities</u>			
<u>Monetary Items</u>			
USD	4,156,660	30.50	126,765,390
HKD	72,051	3.88	279,641
GBP	131	39.96	5,231
JPY	19,573,435	0.28	5,396,096
EUR	73,588	35.47	2,610,352
CNY	19,150	4.60	88,091
AUD	30,434	22.54	685,977
SGD	23	22.37	511
ZAR	36	2.22	79
<u>Non-monetary Items</u>			
USD	239,524	30.50	7,305,483
JPY	88,115	0.28	24,293
EUR	-	35.47	-
CNY	33,316	4.60	153,267
AUD	3,702	22.54	83,441

Due to various types of functional currencies, it is inefficient for the Company and subsidiaries to disclose information on exchange differences by foreign currencies having significant effect on the Company and subsidiaries. Exchange differences (including realized and unrealized) are losses of 29,482 thousand dollars and 440,755 thousand dollars for the three-month periods ended on June 30, 2019 and 2018, respectively; and gains of 37,809 thousand dollars and losses of 150,411 thousand dollars for the six-month periods ended on June 30, 2019 and 2018, respectively.

(6) The reconciliation of liabilities from financing activities

The changes in financing activities arise from changes in the amount of cash and currency exchange rate for the six-month period ended on June 30, 2019, and 2018.