

**KGI SECURITIES CO. LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2023 and 2022**

**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 December 31, 2023 and 2022, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2023 and 2022, and notes to the consolidated financial statements, including the summary of significant accounting policies (together “the consolidated financial statements”).

In our opinion, based on the reports of our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2023 and 2022, and their consolidated financial performance and cash flows for the years ended December 31, 2023 and 2022, 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, International Financial Reporting Standards, International Accounting Standards, Interpretations developed by International Financial Reporting Committee, or the former Standing Interpretations Committee as endorsed and became effective by Financial Supervisory Commission of the Republic of China.

**Basis for Opinion**

We conducted our audits in accordance with the Regulations Governing Financial Statement Audit and Attestation Engagements of Certified Public Accountants and the Standards on Auditing of 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 the reports of our audits, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of consolidated financial statements for the year ended December 31, 2023. 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.

### Assessment of Goodwill Impairment

The Company and subsidiaries perform impairment test annually on goodwill generated from business combination. Due to the complexity of testing assessment, management's subjective judgement to related assumptions, and significant goodwill amount as of December 31, 2023 to the consolidated financial statements, we considered the assessment of goodwill impairment as a key audit matter. Our audit procedures include, but not limited to, obtaining the self-assessment report from management and the impairment report prepared by external expert, and reviewing related assumptions used in calculating future cash flows in those reports. In addition, we use our firm's internal valuation expert to review the methods (such as discounted cash flow method) and the parameters (such as discounted rate) used in the impairment report to assist us to assess the methods and assumptions of goodwill impairment testing mentioned above. We also assessed the adequacy of disclosures for goodwill in Note V and Note VI.17.

### Valuation of Derivative Instruments

The Company and subsidiaries invest in different types of derivative instrument assets and liabilities. As of December 31, 2023, the carrying amount of derivative instrument 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 markets. 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 procedures include, but not limited to, assessing and testing the design and execution of the internal control regarding 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 assess 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.

### **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, International Financial Reporting Standards, International Accounting Standards, Interpretations developed by International Financial Reporting Committee, or the former Standing Interpretations Committee as endorsed and became effective by Financial Supervisory Commission of the Republic of China and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including audit committee or supervisors, 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 the Standards on Auditing of the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Company and its subsidiaries. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of consolidated financial statements for the year ended December 31, 2023 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 years ended December 31, 2023 and 2022.

Hsu, Jung-Huang  
Fuh, Wen-Fun  
Ernst & Young, Taiwan  
March 8, 2024

### 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

December 31, 2023 and 2022

(Expressed in New Taiwan Thousand Dollars)

ASSETS	12/31/2023	12/31/2022
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Note VI.1, VI.29 and VII)	\$22,481,269	\$34,754,408
Financial assets measured at fair value through profit or loss-current (Note VI.2, VI.21, VII and VIII)	80,576,206	72,711,109
Financial assets measured at fair value through other comprehensive income-current (Note VI.3, VI.29 and VII)	33,286,087	34,712,250
Hedging financial assets-current (Note VI.5)	237,236	486,019
Investment in bonds with reverse repurchase agreements (Note VI.6)	13,142,589	8,487,952
Securities margin loans receivable (Note VI.7, VI.29 and VII)	35,366,006	24,298,551
Refinancing margin	26,587	14,189
Refinancing deposits receivable	29,472	11,515
Trading securities receivable (Note VI.29)	15,684,774	9,216,479
Customer margin accounts (Note VI.8, VI.29 and VII)	53,729,655	58,934,382
Futures commission merchant receivable (Note VI.9, VI.29 and VII)	46	2
Stock borrowing collateral price	124,896	2,254,232
Security lending deposits (Note VI.29)	39,929,058	34,978,194
Accounts receivable (Note VI.10, VI.29 and VII)	55,923,415	29,820,216
Prepayments	149,257	152,964
Current tax assets	21,766	2,227
Other current assets (Note VI.29, VII and VIII)	38,181,131	36,416,578
Total Current Assets	<u>388,889,450</u>	<u>347,251,267</u>
<b>NON-CURRENT ASSETS</b>		
Financial assets measured at fair value through profit or loss-non-current (Note VI.2)	3,999,597	3,533,579
Financial assets measured at fair value through other comprehensive income-non-current (Note VI.3 and VI.29)	11,076,173	8,692,888
Financial assets measured at amortized cost-non-current (Note VI.4 and VIII)	148,736	-
Investments accounted for using the equity method (Note VI.11)	2,803,433	2,735,582
Property and equipment (Note VI.12, VII and VIII)	5,472,310	5,472,546
Right-of-use assets (Note VI.13 and VII)	1,108,102	1,438,739
Investment property (Note VI.14, VII and VIII)	405,986	270,382
Intangible assets (Note VI.15)	7,103,214	7,170,537
Deferred tax assets	471,379	502,142
Other non-current assets (Note VI.16, VI.29 and VII)	3,553,938	4,002,721
Total Non-Current Assets	<u>36,142,868</u>	<u>33,819,116</u>
<b>TOTAL ASSETS</b>	<u><u>\$425,032,318</u></u>	<u><u>\$381,070,383</u></u>

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

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English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2023 and 2022

(Expressed in New Taiwan Thousand Dollars)

LIABILITIES AND EQUITY	12/31/2023	12/31/2022
<b>CURRENT LIABILITIES</b>		
Short-term borrowings (Note VI.18)	\$17,638,644	\$13,229,271
Commercial papers payable (Note VI.19 and VII)	16,100,445	12,169,751
Financial liabilities measured at fair value through profit or loss-current (Note VI.20 and VII)	28,256,989	39,021,587
Hedging financial liabilities-current (Note VI.5)	86,799	55,091
Liabilities for bonds with repurchase agreements (Note VI.22)	87,713,610	72,822,911
Short sale margins	2,285,843	3,757,562
Payables for short sale collateral received	8,971,558	13,081,611
Guarantee deposit received from security lending	50,538,859	42,013,408
Futures customers' equity (Note VII)	51,454,981	59,152,076
Equity for each customer in the account (Note VI.23)	12,648,551	3,000,099
Accounts payable (Note VI.24 and VII)	66,004,055	44,591,917
Amounts received in advance	48,136	762
Amounts collected for other parties	2,411,450	3,130,343
Other payables (Note VII)	5,326,112	4,164,260
Other financial liabilities-current	1,839,716	2,821,037
Current tax liabilities (Note VII)	2,030,771	2,253,860
Current portion of long-term liabilities (Note VI.25)	2,600,000	-
Lease liabilities-current (Note VI.13, VI.29 and VII)	349,455	471,957
Other current liabilities	163,820	196,438
Total Current Liabilities	<u>356,469,794</u>	<u>315,933,941</u>
<b>NON-CURRENT LIABILITIES</b>		
Bonds payable (Note VI.25)	6,300,000	8,900,000
Liabilities reserve-non-current (Note VI.27)	224,970	212,504
Lease liabilities-non-current (Note VI.13, VI.29 and VII)	796,262	995,673
Deferred tax liabilities	1,063,169	1,239,457
Other non-current liabilities	598,339	569,793
Total Non-Current Liabilities	<u>8,982,740</u>	<u>11,917,427</u>
Total Liabilities	<u>365,452,534</u>	<u>327,851,368</u>
<b>EQUITY</b>		
Capital stock abstracted (Note VI.28)		
Common stock	18,174,785	18,787,366
Capital reserve (Note VI.28)	7,355,031	7,207,268
Retained earnings (Note VI.28)		
Legal reserve	8,262,019	7,868,582
Special reserve	21,032,655	19,160,154
Unappropriated earnings	7,247,406	3,934,370
Other equity		
Exchange differences resulting from translating the financial statements of a foreign operation	(766,775)	(809,116)
Unrealized gain or loss on financial assets measured at fair value through other comprehensive income	(1,745,973)	(2,948,912)
Equity attributable to owners of the parent company	<u>59,559,148</u>	<u>53,199,712</u>
Non-controlling interests (Note VI.28)	<u>20,636</u>	<u>19,303</u>
Total Equity	<u>59,579,784</u>	<u>53,219,015</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$425,032,318</u>	<u>\$381,070,383</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 STATEMENTS OF COMPREHENSIVE INCOME  
For the Years Ended December 31, 2023 and 2022  
(Expressed in New Taiwan Thousand Dollars except for Earnings Per Share)

	For the Years Ended December	
	2023	2022
<b>REVENUES</b>		
Brokerage handling fee revenue (Note VI.29 and VII)	\$13,383,785	\$11,738,610
Revenue from borrowed securities	2,051,774	1,614,946
Revenue from underwriting business (Note VI.29)	819,084	572,466
Revenue from wealth management services-net	297,760	274,337
Gains/(losses) on disposal of trading securities-net (Note VI.29 and VII)	4,088,322	(2,988,898)
Revenue from providing agency service for stock affairs (Note VII)	266,820	249,935
Interest income (Note VI.29 and VII)	6,749,742	4,094,918
Dividend income (Note VI.3)	1,955,201	705,720
Gains/(losses) on trading securities measured at fair value through profit or loss-net (Note VI.29 and VII)	1,211,268	(2,865,340)
Gains/(losses) on covering of securities borrowing and short sales of bonds with reverse repurchase agreements-net (Note VI.29 and VII)	(832,993)	1,603,833
Gains/(losses) on securities borrowing and short sales of bonds with reverse repurchase agreements measured at fair value through profit or loss-net	(466,477)	821,720
Realized gains/(losses) on financial assets measured at fair value through other comprehensive income -debt instrument investments	124,839	(76,737)
Gains/(losses) on warrants issued-net (Note VI.21)	(227,496)	2,295,553
Gains/(losses) on derivative financial product-futures-net (Note VI.21)	(721,049)	7,637
Gains/(losses) on derivative financial product-GTSM-net (Note VI.21 and VII)	(1,418,726)	2,548,492
Expected credit impairment (losses) or gains on reversal (Note VI.29)	(176,462)	(55,387)
Other operating revenue (Note VI.29 and VII)	1,346,561	160,393
Total Revenues	<u>28,451,953</u>	<u>20,702,198</u>
<b>COSTS AND EXPENSES</b>		
Brokerage handling fee expenses	(2,089,086)	(1,952,060)
Dealing handling fee expenses	(49,369)	(46,142)
Refinancing handling fee expenses	(1,231)	(681)
Financial costs (Note VI.29 and VII)	(6,907,194)	(2,203,139)
Losses on trading of borrowed securities	(154,935)	(261,131)
Futures commission expenses	(142,714)	(135,817)
Settlement and clearing service expenditures	(393,345)	(480,300)
Other operating costs	(878,046)	(770,488)
Employee benefits expenses (Note VI.25, VI.29 and VII)	(8,575,178)	(6,767,939)
Depreciation and amortization (Note VI.29 and VII)	(1,091,077)	(1,042,447)
Other operating expenses (Note VI.29 and VII)	(5,284,760)	(5,025,262)
Total Costs and Expenses	<u>(25,566,935)</u>	<u>(18,685,406)</u>
<b>INCOME FROM OPERATIONS</b>	<u>2,885,018</u>	<u>2,016,792</u>
<b>NON-OPERATING INCOME OR COSTS</b>		
Share of the profit or loss of associates and joint ventures accounted for using the equity method	271,566	298,786
Other income and costs (Note VI.29 and VII)	4,957,650	2,139,132
Total Non-Operating Income or Costs	<u>5,229,216</u>	<u>2,437,918</u>
<b>INCOME BEFORE INCOME TAX</b>	8,114,234	4,454,710
<b>INCOME TAX EXPENSES (Note VI.31)</b>	<u>(767,816)</u>	<u>(824,506)</u>
<b>NET INCOME</b>	<u>7,346,418</u>	<u>3,630,204</u>
<b>OTHER COMPREHENSIVE INCOME (Note VI.30)</b>		
Not to be reclassified subsequently to profit or loss		
Remeasurements of defined benefit plans	(101,773)	300,411
Unrealized valuation gains/(losses) from equity instrument investments measured at fair value through other comprehensive income	(28,340)	237,612
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	930	5,162
Income tax relating to components that will not be reclassified (Note VI.31)	4,725	(103,056)
To be reclassified subsequently to profit or loss		
Exchange differences resulting from translating the financial statements of a foreign operation	43,245	1,413,426
Unrealized valuation gains/(losses) from debt instrument investments measured at fair value through other comprehensive income	1,254,247	(2,771,470)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(860)	2,548
Income tax relating to components that will be reclassified (Note VI.31)	(22,071)	136,663
Total Other Comprehensive Income-Net of Tax	<u>1,150,103</u>	<u>(778,704)</u>
<b>TOTAL COMPREHENSIVE INCOME</b>	<u>\$8,496,521</u>	<u>\$2,851,500</u>
<b>NET INCOME ATTRIBUTABLE TO:</b>		
Owners of the parent company	<u>\$7,343,512</u>	<u>\$3,627,566</u>
Non-controlling interests (Note VI.28)	<u>\$2,906</u>	<u>\$2,638</u>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>		
Owners of the parent company	<u>\$8,493,432</u>	<u>\$2,848,743</u>
Non-controlling interests (Note VI.28)	<u>\$3,089</u>	<u>\$2,757</u>
<b>EARNINGS PER SHARE (Note VI.32)</b>		
Net income attributable to owners of the parent company	<u>\$3.97</u>	<u>\$1.61</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 STATEMENTS OF CHANGES IN EQUITY  
For the Years Ended December 31, 2023 and 2022  
(Expressed in New Taiwan Thousand Dollars)

Items	Equity Attributed to Owners of the Parent Company									
	Retained Earnings					Other Equity				
	Common Stock	Capital Reserve	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences Resulting from Translating the Financial Statements of a Foreign Operation	Unrealized Gains/(Losses) on Financial Assets Measured at Fair Value through Other Comprehensive Income	Total	Non-controlling Interests	Total Equity
Balance, January 1, 2022	\$32,995,978	\$7,706,245	\$6,591,910	\$13,934,409	\$12,766,719	\$(2,225,039)	\$(447,362)	\$71,322,860	\$18,747	\$71,341,607
Appropriations and distribution of 2021 retained earnings:										
Legal reserve	-	-	1,276,672	-	(1,276,672)	-	-	-	-	-
Special reserve	-	-	-	5,225,745	(5,225,745)	-	-	-	-	-
Cash dividends	-	-	-	-	(6,264,302)	-	-	(6,264,302)	-	(6,264,302)
Other changes in capital reserve	-	(735,698)	-	-	-	-	-	(735,698)	-	(735,698)
Net income for the year ended December 31, 2022	-	-	-	-	3,627,566	-	-	3,627,566	2,638	3,630,204
Other comprehensive income for the year ended December 31, 2022	-	-	-	-	202,503	1,415,923	(2,397,249)	(778,823)	119	(778,704)
Total comprehensive income	-	-	-	-	3,830,069	1,415,923	(2,397,249)	2,848,743	2,757	2,851,500
Cash refund capital reduction	(4,897,759)	-	-	-	-	-	-	(4,897,759)	-	(4,897,759)
Share-based payment transaction	-	101,670	-	-	-	-	-	101,670	-	101,670
Changes in non-controlling interests	-	-	-	-	-	-	-	-	(2,201)	(2,201)
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	104,301	-	(104,301)	-	-	-
Other (Note)	(9,310,853)	135,051	-	-	-	-	-	(9,175,802)	-	(9,175,802)
Balance, December 31, 2022	\$18,787,366	\$7,207,268	\$7,868,582	\$19,160,154	\$3,934,370	\$(809,116)	\$(2,948,912)	\$53,199,712	\$19,303	\$53,219,015
Balance, January 1, 2023	\$18,787,366	\$7,207,268	\$7,868,582	\$19,160,154	\$3,934,370	\$(809,116)	\$(2,948,912)	\$53,199,712	\$19,303	\$53,219,015
Appropriations and distribution of 2022 retained earnings:										
Legal reserve	-	-	393,437	-	(393,437)	-	-	-	-	-
Special reserve	-	-	-	1,872,501	(1,872,501)	-	-	-	-	-
Cash dividends	-	-	-	-	(1,668,432)	-	-	(1,668,432)	-	(1,668,432)
Net income for the year ended December 31, 2023	-	-	-	-	7,343,512	-	-	7,343,512	2,906	7,346,418
Other comprehensive income for the year ended December 31, 2023	-	-	-	-	(96,106)	42,341	1,203,685	1,149,920	183	1,150,103
Total comprehensive income	-	-	-	-	7,247,406	42,341	1,203,685	8,493,432	3,089	8,496,521
Share-based payment transaction	-	88,053	-	-	-	-	-	88,053	-	88,053
Changes in non-controlling interests	-	-	-	-	-	-	-	-	(1,756)	(1,756)
Other (Note)	(612,581)	59,710	-	-	-	-	(746)	(553,617)	-	(553,617)
Balance, December 31, 2023	\$18,174,785	\$7,355,031	\$8,262,019	\$21,032,655	\$7,247,406	\$(766,775)	\$(1,745,973)	\$59,559,148	\$20,636	\$59,579,784

Note: Reduction of capital except cash

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2023 and 2022  
(Expressed in New Taiwan Thousand Dollars)

	For the Years Ended December 31	
	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Income before income tax	\$8,114,234	\$4,454,710
Adjustments		
Income and expenses having no effect on cash flows		
Depreciation	821,312	775,566
Amortization	269,765	266,881
Expected credit impairment losses or (gains) on reversal	176,462	55,387
Interest expense	6,907,194	2,203,139
Interest income	(10,395,136)	(5,464,828)
Dividend income	(2,191,477)	(925,444)
Share-based payment transactions	88,053	101,670
Share of the profit or loss of associates and joint ventures accounted for using the equity method	(271,566)	(298,786)
(Gains)/losses on disposal of property and equipment	(27,632)	(16,174)
(Gains)/losses on disposal of investment property	-	(17,506)
Others	(414,393)	(1,843)
Changes in operating assets and liabilities:		
Changes in operating assets:		
Financial assets measured at fair value through profit or loss-current	(7,690,076)	2,779,063
Financial assets measured at fair value through other comprehensive income-current	2,985,386	(13,937,949)
Investment in bonds with reverse repurchase agreements	(4,654,639)	5,214,803
Securities margin loans receivable	(11,236,273)	14,792,376
Refinancing margin	(12,398)	(12,174)
Refinancing deposits receivable	(17,957)	(9,838)
Trading securities receivable	(6,470,762)	(1,937,751)
Customer margin accounts	5,204,722	(6,970,401)
Futures commission merchant receivable	(44)	(95)
Stock borrowing collateral price	2,129,336	(1,662,581)
Security lending deposits	(4,950,862)	5,721,419
Accounts receivable	(25,887,996)	10,871,663
Prepayments	1,821	(46,174)
Other current assets	(1,773,692)	19,815,396
Financial assets measured at fair value through profit or loss-non-current	(466,018)	136,084
Financial assets measured at fair value through other comprehensive income-non-current	(2,620,802)	(1,664,029)
Changes in operating liabilities:		
Financial liabilities measured at fair value through profit or loss-current	(10,764,598)	2,552,700
Liabilities for bonds with repurchase agreements	14,890,699	13,719,270
Short sale margins	(1,471,719)	1,027,218
Payables for short sale collateral received	(4,110,053)	555,828
Guarantee deposit received from security lending	8,525,451	(5,406,102)
Futures customers' equity	(7,697,095)	9,026,688
Accounts payable	21,163,164	(12,355,198)
Amounts received in advance	47,374	(1,645)
Amounts collected for other parties	(716,462)	(20,778,126)
Other payables	1,220,199	(1,504,047)
Other financial liabilities-current	(981,321)	(412,393)
Other current liabilities	9,615,834	2,771,808
Liabilities reserve-non-current	12,466	5,643
Other non-current liabilities	(72,156)	(203,210)
Cash provided by/(used in) operating activities	(22,721,655)	23,221,018
Interest received	10,044,056	4,478,379
Dividend received	1,929,998	703,241
Interest paid	(6,652,573)	(1,679,477)
Income tax received/(paid)	(1,149,427)	(1,471,840)
Net cash provided by/(used in) operating activities	(18,549,601)	25,251,321

(Continue on next page)

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

(Continue from previous page)

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
KGI SECURITIES CO. LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2023 and 2022  
(Expressed in New Taiwan Thousand Dollars)

	For the Years Ended December 31	
	2023	2022
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of financial assets measured at amortized cost	\$(148,736)	\$-
Purchase of property and equipment	(194,910)	(245,642)
Disposal of property and equipment	123,056	58,068
Operation guarantee deposits	-	-
Clearing and settlement fund	(15,343)	(11,567)
Guarantee deposits	258,223	(792,691)
Purchase of intangible assets	(231,159)	(126,771)
Disposal of investment property	-	42,000
Other non-current assets	9,584	(63,792)
Prepayments for purchase of equipment	(252,350)	(181,520)
Dividends received	461,662	549,482
Net cash provided by/(used in) investing activities	<u>10,027</u>	<u>(772,433)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Short-term borrowings	4,409,373	(4,070,669)
Commercial papers payable	3,939,422	11,353,729
Repayment of bonds	-	(300,000)
Lease principal paid	(499,799)	(507,919)
Cash dividends	(1,668,432)	(6,264,302)
Cash refund capital reduction	-	(4,897,759)
Changes in non-controlling interests	(1,756)	(2,201)
Other financing activities	-	(735,698)
Net cash provided by/(used in) financing activities	<u>6,178,808</u>	<u>(5,424,819)</u>
EFFECTS OF EXCHANGE RATE CHANGES	<u>87,627</u>	<u>28,658</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(12,273,139)	19,082,727
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	34,754,408	15,671,681
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	<u><u>\$22,481,269</u></u>	<u><u>\$34,754,408</u></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  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the Years Ended December 31, 2023 and 2022  
(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, offshore securities 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 on May 3, 2012. CDFH had acquired 81.73% shares of the Company through the public tender offer period. The Board of Directors set January 18, 2013 as the record date for stock conversion on December 17, 2012. The Company became 100% owned subsidiary of CDFH after the stock conversion. Meanwhile, the Company’s stock trading via OTC was suspended.

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

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

The Company’s registered address is 3F, No. 698 and 3F, No. 700, Mingshui Road, Taipei City. As of December 31, 2023, the Company had 72 branches including headquarter.

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

The consolidated financial statements of the Company and subsidiaries were approved and authorized for issue in accordance with a resolution of the Board of Directors on March 8, 2024.

**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, 2023. The adoption of these new standards and amendments had no material impact on the Group.

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective Date issued by IASB</u>
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	January 1, 2024
Lease Liability in a Sale and Leaseback – Amendments to IFRS 16	January 1, 2024
Non-current Liabilities with Covenants – Amendments to IAS 1	January 1, 2024
Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7	January 1, 2024

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(1) Classification of Liabilities as Current or Non-current – Amendments to IAS 1

These are the amendments to paragraphs 69-76 of IAS 1 Presentation of Financial statements and the amended paragraphs related to the classification of liabilities as current or non-current.

(2) Non-current Liabilities with Covenants – Amendments to IAS 1

The amendments improved the information companies provide about long-term debt with covenants. The amendments specify that covenants to be complied within twelve months after the reporting period do not affect the classification of debt as current or non-current at the end of the reporting period.

The abovementioned standards and interpretations that are released by IASB and applicable for annual periods beginning on or after January 1, 2024 by FCS of ROC, 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, and not yet adopted by the Company and subsidiaries as of the end of the reporting period are listed below**

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective Date issued by IASB</u>
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, 2023
Lack of Exchangeability – Amendments to IAS 21	January 1, 2025

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

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

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

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

(2) Lack of Exchangeability – Amendments to IAS 21

These amendments specify whether a currency is exchangeable into another currency and, when it is not, to determining the exchange rate to use and the disclosures to provide. The amendments apply for annual reporting periods beginning on or after January 1, 2025.

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 approved and authorized for issue, the local effective dates are to be determined by FSC. As the Company and subsidiaries is 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. The remaining new or amended standards and interpretations have no material impact on the Company and subsidiaries.

#### **IV. Summary of Significant Accounting Policies**

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

The consolidated financial statements of the Company and subsidiaries have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms ("the Regulations"), Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, International Financial Reporting Standards, International Accounting Standards, Interpretations developed by International Financial Reporting Committee, or the former Standing Interpretations Committee as endorsed and became effective by FSC of the ROC.

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

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

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

###### Preparation principle of consolidated financial statement

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

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

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

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

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

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

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

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

If the Company loses control of a subsidiary, it:

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

The consolidated entities are as follows:

Investor	Name of subsidiaries	Primary business	Percentage of ownership	
			12/31/23	12/31/22
KGI Securities Co. Ltd.	Richpoint Company Limited (Richpoint)	Investments holdings	100.00	100.00
"	KGI Securities Investment Advisory Co. Ltd.	Security investment consulting	100.00	100.00
"	KGI Insurance Brokers Co. Ltd.	Life/property insurance brokers	100.00	100.00
"	KGI Venture Capital Co. Ltd.	Venture Capital	100.00	100.00
"	KGI Securities Investment Trust Co. Ltd.	Nominee services, discretionary investment services	-	100.00
"	KGI Futures Co. Ltd. (KGI Futures)	Futures investment services	99.61	99.61
KGI Futures	KGI Information Technology Co. Ltd.	Management consulting; information and software service; data processing service	100.00	100.00
Richpoint	KG Investments Holdings Limited	Investments holdings	100.00	100.00
KG Investments Holdings Limited	KGI International Holdings Limited	Investments holdings	100.00	100.00
KGI International Holdings Limited	KGI Limited	Investments holdings	100.00	100.00
"	KGI International Limited	Investments holdings	100.00	100.00
KGI Limited	KGI Futures (Hong Kong) Limited	Futures brokerage and settlement services	100.00	100.00
"	Global Treasure Investments Limited	Investment services	100.00	100.00
"	KGI Investments Management Limited	Insurance brokerage	100.00	100.00
"	KGI International Finance Limited	Investment and financing services	100.00	100.00
"	KGI Hong Kong Limited	Management consulting services	100.00	100.00
"	KGI Asia Limited	Securities investment services	100.00	100.00
"	KGI Capital Asia Limited	Securities investment services	100.00	100.00
"	KGI Asset Management Limited	Asset management	100.00	100.00
"	KGI Nominees (Hong Kong) Limited	Trust agent	100.00	100.00
KGI International Limited	KGI Asia (Holdings) Pte. Ltd.	Investments holdings	100.00	100.00
KGI Capital Asia Limited	KGI International (Hong Kong) Limited	Derivative product services	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	
			12/31/23	12/31/22
"	KGI Finance Limited	Investment services	100.00	100.00
"	PT KGI Sekuritas Indonesia	Securities investment services	99.00	99.00
KGI Asia (Holdings) Pte. Ltd.	KGI Securities (Singapore) Pte. Ltd.	Securities and futures investment services	100.00	100.00

(1) The detail information of the scope of subsidiaries:

To align with the strategic development plan of the parent company, China Development Financial Holding Corporation ("CDFH"), the Company conducted a capital reduction through a resolution passed by the board of directors on behalf of the shareholders' meeting on April 21, 2023. The Company offset the capital by transferring all of its wholly-owned shares in KGI Investment Trust, totaling 30,000 thousand common shares, to CDFH, to reduce capital in the amount of \$612,581 thousand. Consequently, CDFH directly acquired the ownership of KGI Investment Trust. The capital reduction was a reorganization under common control, for which the carrying amount method was adopted for accounting treatment. The Company chose not to consider KGI Investment Trust held by CDFH from the beginning, and thus did not restate the parent-company-only and consolidated financial statements for comparative periods.

The assets, liabilities, and equity of KGI Investment Trust, which was directly held by CDFH on July 1, 2023, as of June 30, 2023 are as follows:

	<u>6/30/23</u>
Current assets	\$491,855
Non-current assets	141,464
Current liabilities	(108,285)
Non-current liabilities	(1,651)
Attributed to controlling interests	<u>\$523,383</u>

Additionally, the profit or loss calculation for KGI Investment Trust for the six-month period ended June 30, 2023, is as follows:

	<u>For the six-month period ended June 30, 2023</u>
Operating income	<u>\$324,324</u>
Profit from continuing operations	<u>\$52,637</u>
Other comprehensive income	<u>-</u>
Total comprehensive income	<u>\$52,637</u>

(2) The name of each subsidiary not included in the consolidated financial statements, percentage of ownership, and the reason for its exclusion from the consolidated financial statements: not applicable.

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

- (1) The Company and subsidiaries' consolidated financial statements are presented in New Taiwan Dollars (NTD), which is also the parent company's functional currency. Each entity under the consolidated financial statements determines its own functional currency.
- (2) Transactions in foreign currencies are initially recorded by the subsidiaries at their respective local functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities are retranslated at the rate of the reporting date. Non-monetary items measured at fair value are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost are translated using the exchange rates at the date of the initial transactions.

- (3) The assets and liabilities of foreign operations and OSU are translated into NTD at the exchange rate on the reporting date and their gains and losses are translated at an average rate within the period. The exchange differences arising from the translations are recognized in other comprehensive income. On the disposal of a foreign operation or cessation of OSU business, the total cumulative amount of the exchange differences relating to that foreign operation should be reclassified from equity to profit or loss. Also accounted for as disposals when the partial disposal involves the loss of control of a subsidiary that includes a foreign operation, or when the retained interest after the partial disposal of an interest in a joint arrangement or in an associate containing a foreign operation is a financial asset that includes foreign operation.
- (4) On the partial disposal of a subsidiary that includes a foreign operation without loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in the other comprehensive income is re-attributed to the non-controlling interests. In partial disposal of an associate or joint arrangement that includes a foreign operation that does not lose significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profits or losses.
- (5) Any goodwill and any fair value adjustments to the carrying amounts on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and reported in its functional currency.

**5. Current and non-current distinction**

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current when:

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

All other liabilities are classified as non-current.

**6. Cash and cash equivalents**

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**7. Financial instruments**

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

Financial assets and financial liabilities within the scope of IFRS 9 Financial Instruments are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

(1) Financial assets: Recognition and Measurement

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

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

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

Financial assets measured at amortized cost

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

- A. the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- B. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

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

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

Financial assets measured at fair value through other comprehensive income

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

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

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

- A. A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- B. When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
- C. Interest revenue calculated by using the effective interest method is recognized as profit or loss. Besides, interest revenue calculated by the below methods is also recognized in profit or loss:
  - (a) purchased or originated credit-impaired financial assets. For those financial assets, the Company and subsidiaries applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
  - (b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company and subsidiaries applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

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

Financial assets measured at fair value through profit or loss

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

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

Impairment of financial assets

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

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

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

The loss allowance is measures as follow:

- A. At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Company and subsidiaries measure the loss allowance for a financial asset at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that condition is no longer met.
- B. At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
- C. For trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Company and subsidiaries measures the loss allowance at an amount equal to lifetime expected credit losses.
- D. For lease receivables arising from transactions within the scope of IFRS 16, the Company and subsidiaries measures the loss allowance at an amount equal to lifetime expected credit losses.

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

Derecognition of financial assets

A financial asset is derecognized when:

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

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

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

(2) Financial liabilities and equity instrument

Classification between liabilities or equity

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

Equity instruments

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

Financial Liabilities

Financial liabilities within the scope of IFRS 9 “Financial Instruments” are classified as financial liabilities measured at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities measured at fair value through profit or loss

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

A financial liability is classified as held for trading if:

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

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

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

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

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

A. Warrants liabilities and warrants redeemed

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

B. Settlement coverage bonds payable of short sale

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

Financial liabilities measured at amortized cost

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

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

Derecognition of financial liabilities

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

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

(3) Offsetting of financial instruments

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

(4) Derivative instruments

Derivative instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Derivatives that are designated and effective hedging instruments are recognized as hedging financial assets/liabilities. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss.

When the host contracts are either non-financial assets or liabilities, derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not designated at fair value through profit or loss.

(5) Hedge accounting

The Company and subsidiaries designate part of derivatives instruments as hedging instruments for fair value hedging.

When a hedging relationship begins, the Company and subsidiaries record hedging instruments, hedged items, goals of risk management and hedging strategies in paper. In addition, while hedging, the Company and subsidiaries continuously record whether hedging instruments can offset highly efficiently changes in fair value that are attributable to hedged risk in paper.

Fair value hedge:

With respect to the change in fair value of designated and matched fair value hedging instruments, if such change is attributable to hedged risk, it is recognized as net income or loss immediately.

The Company and subsidiaries postpone and stop using hedge accounting only if the hedging relationship does not meet the key item indicators of hedging accounting, including when hedging instruments are expired, sold, terminated or used.

## **8. Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- (1) In the principal market for the asset or liability, or
- (2) In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company and subsidiaries.

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

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

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

## **9. Collateralized Securities Transactions**

- (1) Collateralized securities transactions are recorded at cost. Under the financing method, securities purchased under agreements to resell and securities sold under agreements to repurchase are recorded at the amount of cash paid or received at the time of the transaction under "Investment in bonds with reverse repurchase agreements" or "Liabilities for bonds with repurchase agreements" accounts. The difference between the recorded cost and the amount, at which the securities will be resold or reacquired, as specified in the respective agreements, is accrued as interest expense or income.
- (2) When bonds purchased under resale agreements are short sold to third party for financing purpose, they are recorded in the account of "Investment in bonds with reverse repurchase agreements-short sales", which is grouped under current liabilities in the balance sheet. At the balance sheet date, such items are recorded by the fair value method on the gross basis. When such items are covered, the resulting gains or losses are recorded in the account of "Gains/(losses) on covering of securities borrowing and short sales of bonds with reverse repurchase agreements-net".

## **10. Customer Margin Accounts and Futures Customers' Equity**

### Customer margin accounts

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

Futures customers' equity

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

**11. Securities Borrowing Transactions**

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

**12. Futures Transactions**

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

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

Margins paid for the futures over the original ones are recognized as "cash and cash equivalents".

**13. Investments accounted for using the equity method**

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

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

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

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

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

The Company and subsidiaries determine at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 28 Investments in Associates and Joint Ventures. If this is the case the Company and subsidiaries calculate the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income.

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

#### **14. Property and equipment**

- (1) Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. When (a) significant parts of property and equipment that are replaced is derecognized and (b) the new parts' cost increase the carrying amount of the assets, the expense can be capitalized. All other repair and maintenance costs are expensed as incurred. Disposal gain or loss is recognized as current period's other income and costs.
- (2) Depreciation is calculated on a straight-line basis over the estimated economic lives (not including land). The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. If the expected values differ from the initial estimation, the change regards as changes in accounting estimation. The asset life for building is 55 years, and others are 2 to 10 years.

**15. Investment property**

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

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

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

**16. Lease**

(1) The Company and subsidiaries as lessees

At the inception of a contract, 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.

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 a straight-line 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.

**17. Intangible assets**

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

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

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

**18. Impairment of non-financial assets**

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

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

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

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

**19. Provision**

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

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

If an obligation happens during a period, the provisions should be recognized gradually.

Provision for decommissioning, restoration and rehabilitation costs

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

**20. Revenue Recognition**

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

- (1) Brokerage handling fee revenue/expenses are recognized on the transaction date.
- (2) Gains/ (losses) on disposal of trading securities and related transaction costs are recognized on the transaction date.
- (3) Interest income/expense on margin loans and short sales of securities and bonds purchased under resale agreements, bonds sold under repurchase agreements are recognized respectively over the loan period on an accrual basis.
- (4) Consulting and financial advisory, revenue from underwriting business and related service charges are recognized according to the contracts or agreements on accrual basis.
- (5) Revenue from providing agency service for stock affairs is recognized according to the contracts based on the accrual basis.
- (6) Futures commission revenue is recognized on the transaction date and the Company assists in futures transactions and fees collection. Recognized according to the trading period based on the accrual basis.
- (7) Gain (losses) on futures contracts: The margin of futures transactions is recognized as cost. Gain (losses) on future contracts resulted from fair value measurement, reversing trade, or delivery is recognized daily. Costs and expenses are recognized as incurred.
- (8) Options transaction income (loss): The premium of options transaction is recognized as cost. The options are evaluated monthly based on the market value. Options transaction gains or losses arising from settlement are recognized in current period.
- (9) Dividends income is recognized when the Company's right to receive the payment is established.

**21. Post-employment Benefit Plan**

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

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

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

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

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

## **22.Share-based Payment Transaction**

The cost of equity-settled transactions between the Company and subsidiaries and the employees is recognized based on the fair value of the equity instruments granted.

This share-based equity-settled transactions recognized the wage expenses and the increase of equity during the vested period on the straight-line basis of the fair value mentioned above and the best estimate number of expected vested equity.

The recognized wage expenses are adjusted with the expected service criteria accordance and the prize quantity of non-fair value vested criteria; the final recognized amount is based on the vested quantity on the vesting date.

## **23.Income Tax**

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

### Current income tax

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

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

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

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

#### Deferred tax

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

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

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

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

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

#### **24. Business Combinations and Goodwill**

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

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

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

Besides, Accounting Research and Development Foundation released the frequently asked question for IFRS 3 on October 26, 2018, and explained no specific rules for joint control of business combination in IFRS 3. Therefore, the rules for joint control of business combination still applied to interpretations released by Accounting Research and Development Foundations, R.O.C.

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

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

The preparation of the Company and 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.

### **1. Judgements**

In the process of applying the Company and subsidiaries' accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements:

#### De facto control without a majority of the voting rights in subsidiaries

The Company and subsidiaries hold less than 50% of the invested company's shares and are the largest shareholder, who are judged to have no control and only have significant influence. Please refer to Note VI.11.

### **2. Estimates and Assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### (1) Fair value of financial instruments

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

(2) Goodwill

The Company and subsidiaries evaluate whether the goodwill impairs annually. Adopting appropriate discount rate to estimate the CGU's recoverable value of goodwill, and execute the impairment evaluation tests for goodwill. Please refer to Note VI.17.

(3) Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company and 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>12/31/23</u>	<u>12/31/22</u>
Cash on hand	\$213	\$243
Cash in bank	18,707,893	30,964,146
Cash equivalents		
Short-term commercial papers and bonds	2,411,894	2,015,986
Futures excess margin	<u>1,361,269</u>	<u>1,774,033</u>
Total	<u>\$22,481,269</u>	<u>\$34,754,408</u>

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

	<u>12/31/23</u>	<u>12/31/22</u>
Interest rates	1.23%-1.40%	0.88%-1.22%

(2) Please refer to Note VI.29 for information related to impairment of cash and cash equivalents and Note XII for details on credit risk.

(3) 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>12/31/23</u>	<u>12/31/22</u>
<u>Current</u>		
Mandatorily measured at FVTPL		
Open-ended funds, monetary market instruments and other securities	\$932,686	\$888,826
Trading securities-dealing-net	44,130,576	35,805,963
Trading securities-underwriting-net	648,312	1,168,746
Trading securities-hedging-net	28,148,243	29,092,527
Long options	7,066	5,139
Futures trading margins-proprietary funds	657,145	900,556
Futures trading margins – marketable securities	36,500	-
Derivative instrument assets	5,633,501	4,484,293
Others	382,177	365,059
Total	<u>\$80,576,206</u>	<u>\$72,711,109</u>
<u>Non-current</u>		
Mandatorily measured at FVTPL		
Others	<u>\$3,999,597</u>	<u>\$3,533,579</u>

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

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

	<u>12/31/23</u>	<u>12/31/22</u>
Funds	\$490,596	\$505,596
Foreign securities	427,359	374,215
Subtotal	917,955	879,811
Valuation adjustments	14,731	9,015
Market value	<u>\$932,686</u>	<u>\$888,826</u>

(2) Trading securities-dealing-net

	<u>12/31/23</u>	<u>12/31/22</u>
Domestic listed stock	\$4,690,507	\$3,954,921
Index fund	4,711,948	1,159,655
Domestic bonds	21,660,286	19,277,068
Foreign securities	13,155,971	12,302,481
Others	6,854	15,236
Subtotal	44,225,566	36,709,361
Valuation adjustments	(94,990)	(903,398)
Market value	<u>\$44,130,576</u>	<u>\$35,805,963</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-underwriting-net

	12/31/23	12/31/22
Domestic listed stock	\$5,680	\$450,363
Domestic bonds	616,240	685,572
Subtotal	621,920	1,135,935
Valuation adjustments	26,392	32,811
Market value	<u>\$648,312</u>	<u>\$1,168,746</u>

(4) Trading securities-hedging-net

	12/31/23	12/31/22
Domestic listed stock	\$6,329,723	\$2,933,126
Domestic bonds	15,170,430	15,246,134
Funds	3,148,883	2,590,503
Foreign securities	3,507,691	8,673,587
Others	64,902	50,688
Subtotal	28,221,629	29,494,038
Valuation adjustments	(73,386)	(401,511)
Market value	<u>\$28,148,243</u>	<u>\$29,092,527</u>

(5) Long options

	12/31/23	12/31/22
Index options	\$6,991	\$7,345
Open interest	75	(2,206)
Market value	<u>\$7,066</u>	<u>\$5,139</u>

(6) Futures trading margins-proprietary funds

	12/31/23	12/31/22
Account balance	\$644,989	\$1,000,698
Open interest	12,156	(100,142)
Account value	<u>\$657,145</u>	<u>\$900,556</u>

(7) Futures trading margins – marketable securities

	12/31/23	12/31/22
Account balance	\$35,057	\$-
Open interest	1,443	-
Account value	<u>\$36,500</u>	<u>\$-</u>

(8) Please refer to Note VI.21 for details of derivative instrument assets.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(9) Others

	12/31/23	12/31/22
Domestic listed stock	\$362,354	\$385,662
Valuation adjustments	19,823	(20,603)
Market value	<u>\$382,177</u>	<u>\$365,059</u>

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

	12/31/23	12/31/22
Domestic listed stock	\$253,247	\$468,061
Domestic unlisted stock	1,215,791	937,137
Foreign securities	30,089	30,089
Subtotal	1,499,127	1,435,287
Valuation adjustments	2,500,470	2,098,292
Market value	<u>\$3,999,597</u>	<u>\$3,533,579</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**

	12/31/23	12/31/22
<u>Current</u>		
Debt instrument investments-current		
Domestic bonds	\$696,325	\$-
Foreign securities	32,589,762	34,712,250
Total	<u>\$33,286,087</u>	<u>\$34,712,250</u>
<u>Non-current</u>		
Debt instrument investments-non-current		
Foreign securities	<u>\$11,055,096</u>	<u>\$8,640,791</u>
Equity instrument investments-non-current		
Domestic unlisted stock	-	3,021
Foreign securities	21,077	49,076
Subtotal	21,077	52,097
Total	<u>\$11,076,173</u>	<u>\$8,692,888</u>

- (1) Please refer to Note VI.29 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 and subsidiaries' dividend income related to equity instrument investments measured at fair value through other comprehensive income for the years ended December 31, 2023 and 2022 are all \$0.
- (3) None of the above financial assets measured at fair value through other comprehensive income is pledged as collaterals.

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

**4. Financial assets measured at amortized cost**

	12/31/23	12/31/22
<u>Non-current</u>		
Government bonds	\$148,736	\$-

(1) Please refer to Note XII for details on credit risk of financial assets measured at amortized cost.

(2) Please refer to Note VIII for details on the above financial assets measured at amortized cost pledged as collaterals.

**5. Hedging Financial Instruments**

	12/31/23	12/31/22
<u>Hedging Financial Assets-Current</u>		
Interest rate swap (IRS)	\$237,236	\$486,019
<u>Hedging Financial Liabilities-Current</u>		
Interest rate swap (IRS)	\$86,799	\$55,091

The Company and subsidiaries adopt hedging transactions to reduce the impact of interest risks on the fair value of the hedged assets. The information of on hedged items and hedging instruments applicable to fair value hedge as of December 31, 2023 and 2022 are as follows:

December 31, 2023

			Carrying Amount	
			Assets	Liabilities
<u>Hedging Instruments</u>	<u>Nominal Amount</u>	<u>Maturity</u>		
Interest rate swap (IRS)	\$7,053,683	1/26/26-9/21/33	\$237,236	\$86,799

	Carrying Amount	Accumulated Amount of Fair Value Hedge Adjustment
<u>Hedged Items</u>		
Financial assets measured at fair value through other comprehensive income-current	\$7,069,606	\$(464,132)

	Increase (Decrease) in Fair Value Used for Calculating Hedge Ineffectiveness For the year ended December 31, 2023
<u>Hedging Instruments/Hedged Items</u>	
Hedging instruments	
Interest rate swap (IRS)	\$(185,583)
Hedged items	
Financial assets measured at fair value through other comprehensive income-current	185,583
Total	\$-

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2022

Hedging Instruments	Nominal Amount	Maturity	Carrying Amount	
			Assets	Liabilities
Interest rate swap (IRS)	\$8,275,806	2/9/26-5/15/32	\$486,019	\$55,091

Hedged Items	Carrying Amount	Accumulated Amount of Fair Value Hedge Adjustment
Financial assets measured at fair value through other comprehensive income-current	\$8,295,471	\$(648,624)

Hedging Instruments/Hedged Items	Increase (Decrease) in Fair Value Used for Calculating Hedge Ineffectiveness For the year ended December 31, 2022
Hedging instruments	
Interest rate swap (IRS)	\$245,219
Hedged items	
Financial assets measured at fair value through other comprehensive income-current	(245,219)
Total	\$-

No pledge was made for hedging financial assets-current.

**6. Investment in Bonds with Reverse Repurchase Agreements**

	12/31/23	12/31/22
Government bonds	\$4,779,523	\$4,474,561
Corporate bonds	6,204,260	2,756,212
Bank debentures	2,158,806	1,257,179
Total	\$13,142,589	\$8,487,952
Resold amount as specified in respective agreements plus accrued interest	\$13,170,322	\$8,494,878
Resold date as specified in respective agreements	1/3/24-3/29/24	1/4/23-2/24/23

Please refer to Note VI.29 for details on accumulated impairment and Note XII for details on credit risk.

**7. Securities Margin Loans Receivable**

	12/31/23	12/31/22
Securities margin loans receivable	\$35,377,632	\$24,300,857
Less: loss allowance	(11,626)	(2,306)
Net amount	\$35,366,006	\$24,298,551

Securities margin loans receivable are loans that secured by stocks pledged as collaterals that clients purchased by loans. Please refer to Note VI.29 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**

	12/31/23	12/31/22
Cash in bank	\$24,695,315	\$21,148,931
Marking to market from the clearing house	8,392,358	5,764,240
Marking to market from the other futures brokers	1,262,212	1,584,762
Securities	2,631	7,410
Foreign customer margin accounts	19,377,139	30,429,039
Total	<u>\$53,729,655</u>	<u>\$58,934,382</u>

Please refer to Note VI.29 for details on accumulated impairment and Note XII for details on credit risk.

**9. Futures Commission Merchant Receivable**

	12/31/23	12/31/22
Futures commission merchant receivable	\$115,172	\$134,148
Less: loss allowance	(115,126)	(134,146)
Net amount	<u>\$46</u>	<u>\$2</u>

Please refer to Note VI.29 for details on accumulated impairment and Note XII for details on credit risk.

**10. Accounts Receivable**

	12/31/23	12/31/22
Accounts receivable- related parties	\$1,651,559	\$1,040,680
Accounts receivable- non-related parties		
Exchange clearing receivable	12,429,501	6,258,231
Accounts receivable for settlement	39,473,934	20,117,921
Interest receivable	1,451,337	1,200,258
Others	923,687	1,205,331
Subtotal	55,930,018	29,822,421
Less: loss allowance	(6,603)	(2,205)
Total	<u>\$55,923,415</u>	<u>\$29,820,216</u>

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

	12/31/23	12/31/22
Non-past due	\$55,759,861	\$29,701,611
Past due		
Less than 30 days	138,939	114,444
30 to 60 days	24	3,208
61 to 120 days	1,567	1,481
More than 121 days	29,627	1,677
Total	<u>\$55,930,018</u>	<u>\$29,822,421</u>

(2) Please refer to Note VI.29 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 the Equity Method**

Investee	12/31/23		12/31/22	
	Amount	Percentage	Amount	Percentage
<u>Investments in associates</u>				
KGI Securities (Thailand) Public Company Limited	\$2,803,191	34.97	\$2,734,751	34.97
CDIB Bioscience Ventures I, Inc.	242	1.20	831	1.20
Total	<u>\$2,803,433</u>		<u>\$2,735,582</u>	

(1) Information on associates significant to the Company

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

Nature of activities: the associate engages in securities related businesses

Principal place of business: Thailand

Fair value from quoted market price: KGI Securities (Thailand) Public Company Limited is listed on the Stock Exchange of Thailand. 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 2,865,064 thousand dollars and 3,096,451 thousand dollars as of December 31, 2023 and 2022, respectively.

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

	12/31/23	12/31/22
Current assets	\$17,780,048	\$12,202,331
Non-current assets	1,593,666	1,072,864
Current liabilities	(11,572,923)	(5,741,240)
Non-current liabilities	(957,459)	(884,250)
Non-controlling interests	(3,271)	(4,322)
Attributed to controlling interests	<u>\$6,840,061</u>	<u>\$6,645,383</u>
Ownership percentage	34.97%	34.97%
Proportion of ownership	\$2,391,969	\$2,323,890
Goodwill and others	411,222	410,861
Carrying Amount	<u>\$2,803,191</u>	<u>\$2,734,751</u>
	<u>For the years ended December 31</u>	
	2023	2022
Operating revenue	<u>\$3,286,787</u>	<u>\$3,480,649</u>
Profit or loss from continuing operations	\$778,254	\$857,468
Other comprehensive income	201	22,081
Total comprehensive income	<u>\$778,455</u>	<u>\$879,549</u>
Dividends received from associate	<u>\$226,187</u>	<u>\$329,758</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 Company's investments in CDIB Bioscience Ventures I, Inc. are not material. The carrying amounts of the investment are 242 thousand dollars and 831 thousand dollars as of December 31, 2023 and 2022, respectively, and the proportionate aggregate financial information of investments is as follows:

	For the years ended December 31	
	2023	2022
Profit or loss from continuing operations	\$(589)	\$(582)
Other comprehensive income	-	-
Total comprehensive income	<u>\$(589)</u>	<u>\$(582)</u>

- (3) Since the shares of KGI Securities (Thailand) Public Company Limited (KGI Thailand) held by the Company and affiliate company is at 34.97%, which is below 50%, and does not hold over half of the seats on board of directors, the Company and affiliate company do not have control over KGI Thailand. The investment does not have to be included in the main body of consolidated financial statements.
- (4) 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 the equity method.
- (5) No pledge was made for investments accounted for using the equity method.

**12. Property and Equipment**

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

	Land	Buildings	Equipment	Leasehold improvement	Total
<u>Cost</u>					
January 1, 2023	\$3,752,391	\$1,979,424	\$2,103,350	\$326,942	\$8,162,107
Additions	-	-	181,427	13,483	194,910
Disposals	(68,800)	(56,754)	(98,205)	(5,524)	(229,283)
Transfers	(98,209)	(79,025)	290,184	56,045	168,995
Changes in consolidated entities	-	-	(12,129)	(5,180)	(17,309)
Exchange differences	-	-	5,484	197	5,681
December 31, 2023	<u>\$3,585,382</u>	<u>\$1,843,645</u>	<u>\$2,470,111</u>	<u>\$385,963</u>	<u>\$8,285,101</u>
January 1, 2022	\$3,904,258	\$2,034,920	\$2,179,869	\$301,460	\$8,420,507
Additions	-	-	237,481	8,161	245,642
Disposals	(28,810)	(23,689)	(473,391)	(4,334)	(530,224)
Transfers	(123,057)	(31,807)	45,622	-	(109,242)
Exchange differences	-	-	113,769	21,655	135,424
December 31, 2022	<u>\$3,752,391</u>	<u>\$1,979,424</u>	<u>\$2,103,350</u>	<u>\$326,942</u>	<u>\$8,162,107</u>
<u>Depreciation and Impairment</u>					
January 1, 2023	\$-	\$922,658	\$1,478,342	\$288,561	\$2,689,561
Depreciation	-	35,190	242,977	24,242	302,409
Disposals	-	(32,836)	(95,600)	(5,423)	(133,859)
Transfers	-	(38,301)	-	-	(38,301)
Changes in consolidated entities	-	-	(8,367)	(3,137)	(11,504)
Exchange differences	-	-	4,323	162	4,485
December 31, 2023	<u>\$-</u>	<u>\$886,711</u>	<u>\$1,621,675</u>	<u>\$304,405</u>	<u>\$2,812,791</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>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Leasehold improvement</u>	<u>Total</u>
January 1, 2022	\$-	\$905,703	\$1,661,532	\$251,843	\$2,819,078
Depreciation	-	38,125	193,346	20,119	251,590
Disposals	-	(11,406)	(472,590)	(4,334)	(488,330)
Transfers	-	(9,764)	-	-	(9,764)
Exchange differences	-	-	96,054	20,933	116,987
December 31, 2022	<u>\$-</u>	<u>\$922,658</u>	<u>\$1,478,342</u>	<u>\$288,561</u>	<u>\$2,689,561</u>
<u>Net carrying amount as of</u>					
December 31, 2023	<u>\$3,585,382</u>	<u>\$956,934</u>	<u>\$848,436</u>	<u>\$81,558</u>	<u>\$5,472,310</u>
December 31, 2022	<u>\$3,752,391</u>	<u>\$1,056,766</u>	<u>\$625,008</u>	<u>\$38,381</u>	<u>\$5,472,546</u>

(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 lease various properties, including real estate such as buildings, transportation equipments and other equipments. The lease terms range from 1 to 14 years. The Company and subsidiaries' lease effects on the financial position, financial performance and cash flows are as follows:

(1) Amounts recognized in the balance sheets

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

	<u>12/31/23</u>	<u>12/31/22</u>
Buildings	\$1,073,371	\$1,402,517
Transportation equipment	12,302	13,961
Office equipment	21,979	22,261
Other equipment	450	-
Total	<u>\$1,108,102</u>	<u>\$1,438,739</u>

During the years ended December 31, 2023 and 2022, the Company and subsidiaries' additions to right-of-use assets amounting to 255,004 thousand dollars and 713,124 thousand dollars, respectively.

B. Lease liabilities

	<u>12/31/23</u>	<u>12/31/22</u>
Lease liabilities		
Current	\$349,455	\$471,957
Non-current	796,262	995,673
Total	<u>\$1,145,717</u>	<u>\$1,467,630</u>

Please refer to Note VI.29 for the interest on lease liabilities recognized during the years ended December 31, 2023 and 2022 and refer to Note XII.3 for the maturity analysis for lease liabilities as of December 31, 2023 and 2022.

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 years ended December 31	
	2023	2022
Buildings	\$498,776	\$507,228
Transportation equipment	9,792	9,787
Office equipment	6,781	5,813
Other equipment	225	107
Total	\$515,574	\$522,935

(3) Income and costs relating to leasing activities

	For the years ended December 31	
	2023	2022
The expenses relating to short-term leases	\$3,412	\$7,863
The expenses relating to leases of low-value assets (Not including the expenses relating to short-term leases of low-value assets)	\$1,630	\$1,347

(4) Cash outflow relating to leasing activities

During the years ended December 31, 2023 and 2022, the Company and subsidiaries' total cash outflows for leases amounting to 529,330 thousand dollars and 536,931 thousand dollars, respectively.

**14. Investment Property**

(1) Changes in investment property are as follows:

	Land	Buildings	Total
<u>Cost</u>			
January 1, 2023	\$219,292	\$86,351	\$305,643
Transfers	101,865	75,369	177,234
December 31, 2023	\$321,157	\$161,720	\$482,877
January 1, 2022	\$120,729	\$54,544	\$175,273
Disposals	(24,494)	-	(24,494)
Transfers	123,057	31,807	154,864
December 31, 2022	\$219,292	\$86,351	\$305,643
<u>Depreciation and Impairment</u>			
January 1, 2023	\$-	\$35,261	\$35,261
Depreciation	-	3,329	3,329
Transfers	-	38,301	38,301
December 31, 2023	\$-	\$76,891	\$76,891

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
January 1, 2022	\$-	\$24,456	\$24,456
Depreciation	-	1,041	1,041
Transfers	-	9,764	9,764
December 31, 2022	\$-	\$35,261	\$35,261
<u>Net carrying amount as of</u>			
December 31, 2023	\$321,157	\$84,829	\$405,986
December 31, 2022	\$219,292	\$51,090	\$270,382

(2) Leases relating to investment property

The Company and subsidiaries' investment properties are 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 5 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 years ended December 31	
	2023	2022
<u>Rental income from the lease of investment property</u>		
Income relating to fixed lease payments and variable lease payments that depend on an index or a rate	\$36,875	\$19,798

B. The undiscounted lease payments to be received and total amounts for the remaining period as of December 31, 2023 and 2022 are as follows:

	12/31/23	12/31/22
Not later than one year	\$35,956	\$28,177
Later than one year but not later than two years	9,038	7,745
More than two years but less than three years	8,912	119
More than three years but less than four years	8,912	-
More than four years but less than five years	2,228	-
Total	\$65,046	\$36,041

(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 is 1,090,839 thousand dollars and 666,505 thousand dollars as of December 31, 2023 and 2022, respectively. The management refers independent appraisal report and adopts the market valuation model to evaluate the fair value.

(4) The investment properties are depreciated on a straight-line basis overestimated 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	Software	Other intangible assets	Total
January 1, 2023	\$6,615,501	\$226,093	\$328,943	\$7,170,537
Additions	-	231,153	6	231,159
Transfers	-	2,611	-	2,611
Amortizations	-	(105,293)	(164,472)	(269,765)
Exchange differences	11,659	(100)	-	11,559
Changes in consolidated entities	(30,235)	(12,652)	-	(42,887)
December 31, 2023	<u>\$6,596,925</u>	<u>\$341,812</u>	<u>\$164,477</u>	<u>\$7,103,214</u>
January 1, 2022	\$6,495,665	\$192,542	\$493,414	\$7,181,621
Additions	-	126,771	-	126,771
Transfers	-	9,038	-	9,038
Amortizations	-	(102,410)	(164,471)	(266,881)
Exchange differences	119,836	152	-	119,988
December 31, 2022	<u>\$6,615,501</u>	<u>\$226,093</u>	<u>\$328,943</u>	<u>\$7,170,537</u>

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

**16. Others Non-Current Assets**

	12/31/23	12/31/22
Operation guarantee deposits	\$1,073,000	\$1,126,900
Clearing and settlement fund	579,350	564,007
Guarantee deposits	1,537,052	1,806,284
Others	364,536	505,530
Total	<u>\$3,553,938</u>	<u>\$4,002,721</u>

Please refer to Note VI.29 for details on accumulated impairment and Note XII for details on credit risk.

**17. Impairment Test of Goodwill**

Goodwill acquired by the Company and subsidiaries in business combinations is allocated to the brokerage business as the cash-generating unit. The recoverable amount of cash-generating unit from brokerage business is estimated based on value in use. The value in use is calculated by discounting projected cash flows over the next five years and cash flows generated beyond the five-year period are projected based on growth rate in perpetuity. According to the result of the Company and subsidiaries' impairment test of goodwill for the years ended December 31, 2023 and 2022, the recoverable amount is higher than the carrying amount. No impairment was recorded for the years ended December 31, 2023 and 2022.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Key assumptions used in the calculation of value in use

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

- (1) Market trading volume
- (2) Discount rate

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

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

	<u>The Company</u>	<u>Subsidiaries</u>
<u>2023</u>		
Growth Rate	2.14%	2.41%-4.96%
Discount rate	13.69%	6.60%-15.30%
<u>2022</u>		
Growth Rate	1.97%	2.49%-5.12%
Discount rate	13.03%	5.97%-14.02%

Variability of the assumptions

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

**18. Short-Term Borrowings**

	<u>12/31/23</u>	<u>12/31/22</u>
Interbank loans	\$2,889,090	\$1,228,320
Credit loans	14,739,575	10,398,122
Secured loans	9,979	1,602,829
Total	<u>\$17,638,644</u>	<u>\$13,229,271</u>
Interest rate	1.65%-6.25%	2.42%-5.40%

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**19. Commercial Papers Payable**

	<u>12/31/23</u>	<u>12/31/22</u>
Commercial papers payable	\$16,116,985	\$12,177,563
Less: discount	(16,540)	(7,812)
Net amount	<u>\$16,100,445</u>	<u>\$12,169,751</u>
Interest rate	1.532%-5.26%	1.592%-4.220%

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

	<u>12/31/23</u>	<u>12/31/22</u>
Financial liabilities held for trading		
Investment in bonds with reverse repurchase agreements - short sale	\$647,789	\$469,557
Warrants liabilities	22,648,685	16,504,803
Warrants redeemed	(21,140,483)	(15,472,746)
Settlement coverage bonds payable of short sale	49,989	-
Short options	7,472	757
Liabilities for securities and bonds borrowed	7,522,875	15,236,891
Derivative instruments liabilities	10,582,404	8,853,812
Financial liabilities designated at fair value through profit or loss	<u>7,938,258</u>	<u>13,428,513</u>
Total	<u>\$28,256,989</u>	<u>\$39,021,587</u>

(1) Investment in bonds with reverse repurchase agreements - short sale

	<u>12/31/23</u>	<u>12/31/22</u>
Foreign securities	<u>\$647,789</u>	<u>\$469,557</u>

(2) Warrants liabilities and warrants redeemed

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

	<u>12/31/23</u>	<u>12/31/22</u>
Warrants liabilities	\$25,729,545	\$30,752,054
Gains/(losses) on value change	(3,080,860)	(14,247,251)
Market value	<u>22,648,685</u>	<u>16,504,803</u>
Warrants redeemed	22,733,416	24,208,965
Gains/(losses) on value change	(1,592,933)	(8,736,219)
Market value	<u>21,140,483</u>	<u>15,472,746</u>
Net value	<u>\$1,508,202</u>	<u>\$1,032,057</u>

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

(3) Settlement coverage bonds payable of short sale

	<u>12/31/23</u>	<u>12/31/22</u>
Government bonds	<u>\$49,989</u>	<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

	12/31/23	12/31/22
Index options	\$7,217	\$2,582
Open interest	255	(1,825)
Market value	<u>\$7,472</u>	<u>\$757</u>

(5) Liabilities for securities and bonds borrowed

	12/31/23	12/31/22
Domestic listed/OTC company stock	\$421,709	\$9,661,413
Index fund	3,397,712	936,226
Foreign securities	3,585,961	4,934,986
Subtotal	7,405,382	15,532,625
Valuation adjustments	117,493	(295,734)
Market value	<u>\$7,522,875</u>	<u>\$15,236,891</u>

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

**21. Derivative Instruments**

(1) Nominal Amounts

Financial Instruments	12/31/23	12/31/22
Options and futures contract	\$24,033,457	\$21,772,330
Foreign futures and options	8,245,994	4,290,409
Interest rate swap (IRS)	162,715,044	160,021,940
Convertible bond asset swap (CBAS)-interest	17,754,252	25,167,808
CBAS-long option	17,744,252	25,115,908
CBAS-short option	28,014,389	39,696,466
Structured notes	13,464,828	19,382,017
Equity derivative instruments	2,333	-
Credit derivative instruments	3,369,803	2,107,432
Exchange rate derivative instruments	54,080,119	35,132,189
Commodity swap	30,455	-
Total	<u>\$329,454,926</u>	<u>\$332,686,499</u>

(2) Derivative instruments assets/liabilities

Financial Instruments	12/31/23	12/31/22
Derivative instrument assets		
Contract value		
IRS	\$861,698	\$1,308,197
CBAS-interest	15,207	3,964
Long options		
CBAS	2,975,634	1,588,969
Structured notes	466,972	1,422
Equity derivative instruments	4,559	-
Credit derivative instruments	5,452	753
Exchange rate derivative instruments	1,125,086	1,451,086
Commodity derivative instruments	197	-
Foreign futures and options	178,696	129,902
Total	<u>\$5,633,501</u>	<u>\$4,484,293</u>

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	12/31/23	12/31/22
Derivative instruments liabilities		
Contract value		
IRS	\$718,568	\$650,192
CBAS-interest	888,731	1,493,831
Short options		
CBAS	4,313,434	2,441,465
Structured notes	3,098,050	2,961,574
Credit derivative instruments	10,606	1,862
Exchange rate derivative instruments	1,375,764	1,192,300
Foreign futures and options	177,251	112,588
Total	<u>\$10,582,404</u>	<u>\$8,853,812</u>
Financial liabilities designated at fair value through profit or loss		
Structured notes	\$7,937,195	\$13,427,696
Others	1,063	817
Total	<u>\$7,938,258</u>	<u>\$13,428,513</u>

Please refer to Note VI.2 and Note VI.20 for details on financial assets or liabilities of option and futures contracts.

(3) Presentation of derivative instruments on the financial statements

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

	<u>For the years ended December 31</u>	
	2023	2022
Warrants liabilities:		
Gains on value change	\$88,891,006	\$106,898,427
Gains on exercising warrants before maturity	43,325	34,636
Warrants redeemed:		
Losses on resale of warrants	(5,506,751)	(16,197,639)
Losses on value change	(83,063,196)	(87,997,706)
Expense for warrant	(591,880)	(442,165)
Gains/(losses) on warrants issued	<u>\$(227,496)</u>	<u>\$2,295,553</u>

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

	<u>For the years ended December 31</u>	
	2023	2022
Futures contracts	\$(666,558)	\$155,353
Options	(54,491)	(147,716)
Total	<u>\$(721,049)</u>	<u>\$7,637</u>

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	For the years ended December 31	
	2023	2022
IRS	\$70,086	\$532,382
CBAS	(1,551,575)	(303,241)
Options	48,441	52,372
Structured notes	(512,960)	399,626
Equity derivative instruments	3	1,485
Credit derivative instruments	(13,219)	48,190
Exchange rate derivative instruments	540,482	1,817,678
Commodity derivative instruments	16	-
Total	<u>\$(1,418,726)</u>	<u>\$2,548,492</u>

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

12/31/23

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	43	\$152,159	\$153,398	
Futures Contracts	Elec-Sector Index Futures	Short	9	31,280	32,107	
Futures Contracts	Mini-Elec-Sector Index Futures	Long	60	38,379	39,403	
Futures Contracts	Mini-Elec-Sector Index Futures	Short	1,070	185,574	185,645	
Futures Contracts	Taiwan Stock Futures	Long	1,613	5,729,854	5,764,862	
Futures Contracts	Taiwan Stock Futures	Short	1,971	7,024,697	7,044,354	
Futures Contracts	Finance Sector Index Futures	Long	15	25,767	25,791	
Futures Contracts	Finance Sector Index Futures	Short	1	1,702	1,719	
Futures Contracts	Non-Fin Non-Elec Sub-Index Futures	Long	41	62,187	62,201	
Futures Contracts	Mini-TaiEx Futures	Long	1	877	893	
Futures Contracts	Mini-TaiEx Futures	Short	891	795,424	796,111	
Futures Contracts	TaiEx Futures	Long	102	361,113	364,548	
Futures Contracts	TaiEx Futures	Short	110	392,909	393,140	
Futures Contracts	Stock Futures	Long	5,345	1,357,131	1,368,324	
Futures Contracts	Stock Futures	Short	9,683	2,127,949	2,153,098	
Futures Contracts	Foreign Futures	Long	566	2,342,726	2,347,374	
Futures Contracts	Foreign Futures	Short	855	1,364,928	1,364,681	
Futures Contracts	Mini-Nasdaq-100 Index	Long	7	73,179	73,262	
Futures Contracts	Micro E-mini Nasdaq-100 Index	Short	70	73,346	73,262	
Futures Contracts	MSCI China A50 Connect Index	Long	4	5,649	5,649	
Futures Contracts	FTSE Taiwan Index	Long	724	1,379,411	1,380,302	
Futures Contracts	MSCI Taiwan (USD) Index	Long	234	490,980	491,868	
Futures Contracts	MSCI Taiwan (USD) Index	Short	1	2,028	2,029	
Options Contracts	Index Options-Call	Long	6,281	6,175	6,467	
Options Contracts	Index Options-Call	Short	6,453	(7,060)	7,362	
Options Contracts	Index Options-Put	Long	213	816	599	
Options Contracts	Index Options-Put	Short	40	(157)	110	

## KGI SECURITIES CO. LTD. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12/31/22

Item	Type of trading	Open interest position		Contract amount/ Premium paid (received)	Fair Value	Note
		Long/ Short	Lots			
Futures Contracts	Elec-Sector Index Futures	Short	297	\$766,965	\$764,775	
Futures Contracts	Foreign Futures	Long	84	219,827	219,201	
Futures Contracts	Foreign Futures	Short	78	306,559	303,070	
Futures Contracts	Mini-Elec-Sector Index Futures	Long	104	33,400	33,475	
Futures Contracts	Finance Sector Index Futures	Short	100	149,306	149,440	
Futures Contracts	Non-Fin Non-Elec Sub-Index Futures	Short	214	303,486	304,479	
Futures Contracts	Mini-TaiEx Futures	Long	2,232	1,574,892	1,577,466	
Futures Contracts	Mini-TaiEx Futures	Short	85	63,726	59,771	
Futures Contracts	Stock Futures	Long	28,787	3,319,308	3,237,908	
Futures Contracts	Stock Futures	Short	7,391	975,525	955,907	
Futures Contracts	TaiEx Futures	Long	3,032	8,631,436	8,571,160	
Futures Contracts	TaiEx Futures	Short	1,738	4,924,435	4,913,326	
Futures Contracts	HK-HSI Futures Index	Long	3	11,749	11,764	
Futures Contracts	HK-HSI Futures Index	Short	8	31,402	31,371	
Futures Contracts	Mini-HK-HSI Futures Index	Long	39	30,630	30,587	
Futures Contracts	Mini-HK-HSI Futures Index	Short	14	10,952	10,980	
Futures Contracts	FTSE Taiwan Index	Short	234	357,183	356,935	
Futures Contracts	MSCI Taiwan (USD) Index	Short	23	38,383	38,318	
Futures Contracts	Mini-Nasdaq-100 Index	Short	1	6,614	6,770	
Futures Contracts	Micro E-mini Nasdaq-100 Index	Long	10	6,625	6,770	
Options Contracts	Index Options-Call	Long	6,165	3,312	1,151	
Options Contracts	Index Options-Call	Short	5,980	(2,532)	713	
Options Contracts	Index Options-Put	Long	1,185	4,033	3,988	
Options Contracts	Index Options-Put	Short	4	(50)	44	

## E. Credit risk valuation adjustment

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**22. Liabilities for Bonds with Repurchase Agreements**

	<u>12/31/23</u>	<u>12/31/22</u>
Government bonds	\$14,389,770	\$11,738,135
Bank debentures	24,683,842	24,251,227
Corporate bonds	<u>48,639,998</u>	<u>36,833,549</u>
Total	<u>\$87,713,610</u>	<u>\$72,822,911</u>
Repurchased amount as specified in respective agreements plus accrued interest	<u>\$87,999,165</u>	<u>\$73,044,648</u>
Repurchased date as specified in respective agreements	1/2/24-3/26/24	1/3/23-3/24/23

**23. Equity for Each Customer in the Account**

According to Paragraph 2, Article 38 of the Securities Firm Management Regulations, securities firms may retain the settlement funds of customers in the dedicated settlement accounts of securities firms with the consent of the customers. The securities firms shall set up customer ledgers in the dedicated accounts.

	<u>12/31/23</u>	<u>12/31/22</u>
Equity for each customer in the account	<u>\$12,648,551</u>	<u>\$3,000,099</u>

**24. Accounts Payable**

	<u>12/31/23</u>	<u>12/31/22</u>
Accounts payable-related parties	\$522,411	\$659,278
Accounts payable-non-related parties		
Exchange clearing receivable	10,573,313	6,236,120
Accounts payable for settlement	53,568,452	36,334,269
Others	<u>1,339,879</u>	<u>1,362,250</u>
Total	<u>\$66,004,055</u>	<u>\$44,591,917</u>

**25. Bonds payable**

	<u>12/31/23</u>	<u>12/31/22</u>
108-1 Unsecured Corporation Bonds Payable	\$3,900,000	\$3,900,000
110-1 Unsecured Corporation Bonds Payable	<u>5,000,000</u>	<u>5,000,000</u>
Subtotal	8,900,000	8,900,000
Less: Current portion	<u>(2,600,000)</u>	-
Net amount	<u>\$6,300,000</u>	<u>\$8,900,000</u>

(1) The Company had issued 108-1 unsecured corporate bonds (hereinafter called “the Bonds-108-1”) amounted to 4,200,000 thousand dollars on November 22, 2019. The Bonds-108-1 were issued in three types: Bonds A were issued with three year maturities, amounted to 300,000 thousand dollars; Bonds B were issued with five year maturities, amounted to 2,600,000 thousand dollars; Bonds C were issued with seven year maturities, amounted to 1,300,000 thousand dollars, all of them at par value of 10,000 thousand dollars per bond. Other terms are listed below:

A. Term to Maturity: Bonds A were issued on November 22, 2019 and will be redeemed on November 22, 2022; Bonds B were issued on November 22, 2019 and will be redeemed on November 22, 2024; Bonds C were issued on November 22, 2019 and will be redeemed on

November 22, 2026.

B. Coupon rate: the coupon rate of Bonds A is 0.73% annually; of Bonds B is 0.78% annually; of Bonds C is 0.83% annually.

C. Repayment of principal: The principal of the Bonds will be repaid at maturity.

D. The Bonds-110-1 were issued without collaterals.

E. Interest payment method: The interest is paid annually and calculated on coupon rate by using simple interest method.

- (2) The Company had issued 110-1 unsecured corporate bonds (hereinafter called “the Bonds-110-1”) amounted to 5,000,000 thousand dollars on July 9, 2021. The Bonds-110-1 were issued in two types: Bonds A were issued with five year maturities, amounted to 2,300,000 thousand dollars; Bonds B were issued with seven year maturities, amounted to 2,700,000 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 July 9, 2021 and will be redeemed on July 9, 2026; Bonds B were issued on July 9, 2021 and will be redeemed on July 9, 2028.

B. Coupon rate: the coupon rate of Bonds A is 0.51% annually; of Bonds B is 0.55% annually.

C. Repayment of principal: The principal of the Bonds will be repaid at maturity.

D. The Bonds-110-1 were issued without collaterals.

E. Interest payment method: The interest is paid annually and calculated on coupon rate by using simple interest method.

## **26. Post-Employment Benefits**

- (1) Description of employment pension:

### Defined contribution plan

The Company and 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 domestic subsidiaries are not less than 6% of employee’s monthly wages and salaries. The Company and domestic subsidiaries contribute monthly an amount equal to 6% of employee’s wages and salaries to the employee’s individual pension fund accounts at the Bureau of Labor Insurance.

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

### Defined benefit plan

The Company and 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 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. As of December 31, 2023, the defined benefit plan of the Company and domestic subsidiaries plan to contribute 86,253 thousand dollars in the following year.

The defined benefit plan for the company's subsidiary, PT KGI Sekuritas Indonesia, is performed in accordance with local regulation in Indonesia.

The maturities of the Company and subsidiaries' defined benefit obligation are as follows:

	<u>12/31/23</u>	<u>12/31/22</u>
Average maturities of defined benefit obligation	10-16 years	5-17 years

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

	<u>For the years ended December 31</u>	
	<u>2023</u>	<u>2022</u>
Defined contribution plan	\$258,599	\$223,992
Defined benefit plan	12,722	11,817
Total	<u>\$271,321</u>	<u>\$235,809</u>

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

	<u>For the years ended December 31</u>	
	<u>2023</u>	<u>2022</u>
Current service cost	\$4,386	\$7,606
Net interest on net defined benefit liability (assets)	8,336	6,174
Past service cost and settlement	-	(1,926)
Others	-	(37)
Total	<u>\$12,722</u>	<u>\$11,817</u>

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

	<u>12/31/23</u>	<u>12/31/22</u>
Present value of the defined benefit obligation	\$1,084,130	\$1,006,587
Plan assets at fair value	<u>(548,566)</u>	<u>(498,547)</u>
Carrying amount of net defined benefit obligation	<u>\$535,564</u>	<u>\$508,040</u>

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	Present value of the defined benefit obligation	Plan assets at fair value	Net defined benefit liability (asset)
January 1, 2023	\$1,006,587	\$(498,547)	\$508,040
Current service cost	4,386	-	4,386
Interest expense (income)	16,291	(7,955)	8,336
Past service cost	-	-	-
Others	-	-	-
Recognized in profit or loss	20,677	(7,955)	12,722
Remeasurements of defined liability/asset:			
The actuarial gain/loss on the change of demographic assumptions	288	-	288
The actuarial gain/loss on the change of financial assumptions	93,393	-	93,393
Adjustment based on experience	8,040	52	8,092
Recognized in OCI	101,721	52	101,773
Benefit paid	(43,341)	43,341	-
Employer contributions	-	(90,704)	(90,704)
Exchange differences	15	-	15
Changes in consolidated entities	(1,529)	5,247	3,718
December 31, 2023	\$1,084,130	\$(548,566)	\$535,564
	Present value of the defined benefit obligation	Plan assets at fair value	Net defined benefit liability (asset)
January 1, 2022	\$1,411,196	\$(383,355)	\$1,027,841
Current service cost	7,606	-	7,606
Interest expense (income)	8,431	(2,257)	6,174
Past service cost	(1,926)	-	(1,926)
Others	(37)	-	(37)
Recognized in profit or loss	14,074	(2,257)	11,817
Remeasurements of defined liability/asset:			
The actuarial gain/loss on the change of demographic assumptions	(68,288)	-	(68,288)
The actuarial gain/loss on the change of financial assumptions	3,566	-	3,566
Adjustment based on experience	(204,333)	(31,356)	(235,689)
Recognized in OCI	(269,055)	(31,356)	(300,411)
Benefit paid	(149,713)	149,713	-
Employer contributions	-	(231,292)	(231,292)
Exchange differences	85	-	85
December 31, 2022	\$1,006,587	\$(498,547)	\$508,040

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	<u>12/31/23</u>	<u>12/31/22</u>
Discount rate	1.28%-1.29%	1.22%-1.61%
Expected Salary Growth Rate	3.00%	2.50%

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

	<u>12/31/23</u>	<u>12/31/22</u>
Discount rate		
Increase 0.5%	<u>\$(58,370)</u>	<u>\$(55,818)</u>
Decrease 0.5%	<u>\$62,642</u>	<u>\$61,563</u>
Expected Salary Growth Rate		
Increase 0.5%	<u>\$61,257</u>	<u>\$60,702</u>
Decrease 0.5%	<u>\$(57,704)</u>	<u>\$(55,686)</u>

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

	<u>12/31/23</u>	<u>12/31/22</u>
Discount rate	6.75%	7.50%
Expected Salary Growth Rate	4.00%	4.00%

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

	<u>12/31/23</u>	<u>12/31/22</u>
Discount rate		
Increase 1.0%	<u>\$(341)</u>	<u>\$(275)</u>
Decrease 1.0%	<u>\$398</u>	<u>\$322</u>
Expected Salary Growth Rate		
Increase 1.0%	<u>\$411</u>	<u>\$335</u>
Decrease 1.0%	<u>\$(358)</u>	<u>\$(290)</u>

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

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**27. Provision**

	12/31/23	12/31/22
Litigation provision	\$133,824	\$130,727
Decommissioning liabilities	91,146	81,777
Total	<u>\$224,970</u>	<u>\$212,504</u>

**28. Equity**

(1) Common stock

	12/31/23	12/31/22
Authorized shares (thousand shares)	<u>4,600,000</u>	<u>4,600,000</u>
Authorized capital	<u>\$46,000,000</u>	<u>\$46,000,000</u>

The Company has issued 1,817,479 thousand common shares and 1,878,737 thousand common shares as of December 31, 2023 and 2022, respectively. The Company's issued capital was 18,174,785 thousand dollars and 18,787,366 thousand dollars as of December 31, 2023 and 2022, respectively, each at a par value of NT\$10.

The Company's board of directors acting on behalf of shareholders decided capital reduction of 4,897,759 thousand dollars in cash and reduction of 9,310,853 thousand dollars by CDFH common stocks and special stocks owned by the Company on February 18, 2022. This capital reduction approved by the authority and April 8, 2022 was the based date of capital reduction.

The Company held a board meeting on April 21, 2023 to act on behalf of its shareholders and resolved to implement capital reduction in the amount of 612,581 thousand dollars, in the form of 30,000 thousand common shares of KGI Securities Investment Trust held by the Company. This capital reduction was approved by the competent authority and July 1, 2023 was set as the based date of the capital reduction.

(2) Capital reserve

	12/31/23	12/31/22
Additional paid-in capital	\$1,786,849	\$1,786,849
Treasury share transactions	364,435	364,435
Share-based payment	189,428	110,682
Surplus from business combination	4,999,288	4,930,271
Employee share options	14,774	14,774
Employee share options expired	257	257
Total	<u>\$7,355,031</u>	<u>\$7,207,268</u>

Capital reserve needs to make up the company's deficiencies as priority. The company with no deficiency can issue all or portion of capital reserve in new stocks or cash and release to shareholders as their percentage by following the company law of shareholders' decision method. Capital reserve mentions in the former includes excess over par value of stocks and donations received.

The Company's board of directors decided to distribute 735,698 thousand dollars in cash from capital reserve on May 20, 2022. This capital reserve distribution approved by the authority and agreed by the Company's board of directors acting on behalf of shareholders on August 19, 2022.

(3) Distribution of earnings and dividend policy

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

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

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

B. The Company held the annual meeting of shareholders (represented by the board of directors) on June 21, 2023 and May 20, 2022 and resolved the distribution of annual net income for 2022 and 2021, respectively, as follows:

	Distribution of earnings		Dividend per share (dollar)	
	2022	2021	2022	2021
Legal reserve	\$393,437	\$1,276,672	-	-
Special reserve	1,872,501	5,225,745	-	-
Cash dividends	1,668,432	6,264,302	0.888	3.334

C. According to the Rule No. 1100365484 issued by FSC on January 21, 2022, when the Company distributes earnings, it must set aside (from current net income and the items other than current net income which would be added into current unappropriated earnings) special reserves equal in amounts to other net deductions from shareholders equity arising during that same year. Undistributed earnings from the preceding period are set aside if amount set aside from current net income and unappropriated earnings are not sufficient. 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 its paid-in 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 years ended December 31	
	2023	2022
Beginning balance	\$19,303	\$18,747
Profit attributable to non-controlling interests	2,906	2,638
Other comprehensive income, attributable to non-controlling interests, net of tax:		
Remeasurements of defined benefit plans	(13)	14
Exchange differences resulting from translating the financial statements of a foreign operation	45	51
Unrealized valuation gains/(losses) from equity instrument investments measured at FVOCI	151	54
Cash dividend issued from subsidiaries	(1,756)	(2,201)
Ending balance	\$20,636	\$19,303

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

(1) Brokerage handling fee revenue

	For the years ended December 31	
	2023	2022
Brokerage handling fee revenue	\$9,231,252	\$8,616,741
Foreign brokerage fee	2,356,402	2,138,431
Foreign sub-brokerage revenue	1,576,402	811,494
Others	219,729	171,944
Total	\$13,383,785	\$11,738,610

(2) Revenue from underwriting business

	For the years ended December 31	
	2023	2022
Revenue from underwriting of securities	\$239,038	\$227,696
Revenue from underwriting proceeding fee	500,379	205,969
Revenue from underwriting and counseling	25,902	26,832
Others	53,765	111,969
Total	\$819,084	\$572,466

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

	For the years ended December 31	
	2023	2022
Dealing	\$2,890,780	\$(1,206,876)
Underwriting	337,887	210,799
Hedging	859,655	(1,992,821)
Total	\$4,088,322	\$(2,988,898)

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(4) Interest income

	For the years ended December 31	
	2023	2022
Margin loans	\$1,766,384	\$1,789,609
Bonds	3,820,220	1,827,030
Others	1,163,138	478,279
Total	<u>\$6,749,742</u>	<u>\$4,094,918</u>

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

	For the years ended December 31	
	2023	2022
Dealing	\$861,965	\$(1,774,982)
Underwriting	(6,419)	(71,463)
Hedging	355,708	(1,018,939)
Settlement coverage bonds payable of short sale	14	44
Total	<u>\$1,211,268</u>	<u>\$(2,865,340)</u>

(6) Gains/(losses) on covering of securities borrowing and short sales of bonds with reverse repurchase agreements-net

	For the years ended December 31	
	2023	2022
Gains	\$459,152	\$2,203,925
Losses	(1,292,145)	(600,092)
Total	<u>\$(832,993)</u>	<u>\$1,603,833</u>

(7) Please refer to Note VI.21 for details of gains and losses on derivative instruments.

(8) Expected credit (losses)/gains on reversal

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

	For the years ended December 31	
	2023	2022
Financial assets measured at FVOCI	\$(454)	\$4,125
Financial assets measured at amortized cost		
Receivables (Note 1)	(11,741)	297
Others (Note 2)	(164,267)	(59,809)
Total	<u>\$(176,462)</u>	<u>\$(55,387)</u>

Note 1: Receivables include securities margin loans receivable, trading securities receivable, futures commission merchant receivable and accounts receivable.

Note 2: Others include cash and cash equivalents, investment in bonds with reverse repurchase agreements, customer margin accounts, security lending deposit, other current assets and other non-current assets.

## KGI SECURITIES CO. LTD. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

B. The Company and subsidiaries' total carrying amount and accumulated impairment loss as of December 31, 2023 and 2022 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 investments are 45,542,812 thousand dollars and 45,927,185 thousand dollars as of December 31, 2023 and 2022, respectively. The accumulated impairment loss recognized are 21,091 thousand dollars and 20,697 thousand dollars as of December 31, 2023 and 2022, respectively.

## (b) Receivables and others

As of December 31, 2023:

Item	Carrying amount	Accumulated impairment loss	Total
Cash and cash equivalents	\$22,481,796	\$(527)	\$22,481,269
Investment in bonds with reverse repurchase agreements	13,142,593	(4)	13,142,589
Securities margin loans receivable	35,377,632	(11,626)	35,366,006
Trading securities receivable	15,688,314	(3,540)	15,684,774
Customer margin accounts	53,729,685	(30)	53,729,655
Futures commission merchant receivable	115,172	(115,126)	46
Security lending deposits	39,929,060	(2)	39,929,058
Accounts receivable	55,930,018	(6,603)	55,923,415
Other current assets	38,190,049	(8,946)	38,181,103
Others non-current assets	4,598,077	(1,044,139)	3,553,938
Total	\$279,182,396	\$(1,190,543)	\$277,991,853

As of December 31, 2022:

Item	Carrying amount	Accumulated impairment loss	Total
Cash and cash equivalents	\$34,755,535	\$(1,127)	\$34,754,408
Investment in bonds with reverse repurchase agreements	8,487,954	(2)	8,487,952
Securities margin loans receivable	24,300,857	(2,306)	24,298,551
Trading securities receivable	9,217,552	(1,073)	9,216,479
Customer margin accounts	58,940,082	(5,700)	58,934,382
Futures commission merchant receivable	134,148	(134,146)	2
Security lending deposits	34,978,198	(4)	34,978,194
Accounts receivable	29,822,421	(2,205)	29,820,216
Other current assets	36,429,814	(13,279)	36,416,535
Others non-current assets	4,884,687	(881,966)	4,002,721
Total	\$241,951,248	\$(1,041,808)	\$240,909,440

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 years ended December 31, 2023 and 2022 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, 2023	\$ (20,697)
(Increase)/decrease	(454)
Exchange differences and others	60
Balance as of December 31, 2023	<u>\$ (21,091)</u>
Balance as of January 1, 2022	\$ (23,735)
(Increase)/decrease	4,125
Exchange differences and others	(1,087)
Balance as of December 31, 2022	<u>\$ (20,697)</u>

The changes in the impairment of debt instrument investments measured at fair value through other comprehensive income were mainly affected by the derecognition and the newly acquired position during the years ended December 31, 2023 and 2022.

(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, 2023	\$ (8,802)	\$ (316)	\$ (1,028,067)	\$ (4,623)	\$ (1,041,808)
(Increase)/decrease	(962)	(106)	(163,651)	(11,289)	(176,008)
Financial assets derecognized in the current period	-	-	19,619	-	19,619
Bad loans write-offs	-	-	1,372	-	1,372
Exchange differences and others	(41)	281	6,041	1	6,282
Balance as of December 31, 2023	<u>\$ (9,805)</u>	<u>\$ (141)</u>	<u>\$ (1,164,686)</u>	<u>\$ (15,911)</u>	<u>\$ (1,190,543)</u>
Balance as of January 1, 2022	\$ (12,347)	\$ (645)	\$ (960,705)	\$ (4,682)	\$ (978,379)
(Increase)/decrease	4,869	334	(64,780)	65	(59,512)
Financial assets derecognized in the current period	-	-	1,657	-	1,657
Bad loans write-offs	-	-	594	-	594
Exchange differences and others	(1,324)	(5)	(4,833)	(6)	(6,168)
Balance as of December 31, 2022	<u>\$ (8,802)</u>	<u>\$ (316)</u>	<u>\$ (1,028,067)</u>	<u>\$ (4,623)</u>	<u>\$ (1,041,808)</u>

The changes in the carrying amounts of above mentioned receivables and others were mainly due to the securities trading market situation.

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(9) Other operating income

	For the years ended December 31	
	2023	2022
Commission income	\$535,609	\$435,868
Investment trust and fund management income	317,494	656,886
Exchange gain/(loss)	46,301	(847,848)
Gain on exercising warrant before expiration date	14,319	(7,909)
Net gain (loss) on disposal of marketable securities	93,617	132,502
Net gain (loss) on the evaluation of marketable securities	158,511	(384,832)
Others	180,710	175,726
<b>Total</b>	<b>\$1,346,561</b>	<b>\$160,393</b>

(10) Financial cost

	For the years ended December 31	
	2023	2022
Bonds	\$3,916,691	\$1,199,965
Bank borrowing	1,003,858	371,988
Corporate bonds	57,650	59,527
Lease liabilities	24,495	19,801
Securities lending refundable deposits	1,222,511	389,321
Others	681,989	162,537
<b>Total</b>	<b>\$6,907,194</b>	<b>\$2,203,139</b>

(11) Employee benefits expenses, depreciation and amortization

Item	For the years ended December 31	
	2023	2022
Employee benefit expenses		
Salary expenses	\$7,681,655	\$5,951,424
Insurance expenses	411,670	373,948
Pension expenses	271,321	235,809
Others	210,532	206,758
<b>Total</b>	<b>\$8,575,178</b>	<b>\$6,767,939</b>
Depreciations and amortizations		
Depreciations	\$821,312	\$775,566
Amortizations	269,765	266,881
<b>Total</b>	<b>\$1,091,077</b>	<b>\$1,042,447</b>

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

B. The Company appropriates at least employees' bonus 0.1% and no more than directors' remuneration 1.0% of income before tax and before distributing earnings to employees and directors as employees' bonus income and directors' remuneration, respectively. The employees' bonus of 57,000 thousand dollars and the directors' remuneration of 80,000 thousand dollars were recognized under salary expenses based on the current year profit for the year ended December 31, 2023. The Company held the Board of Directors' meeting on March 8, 2024 and resolved the distribution of employees' bonus and directors' remuneration of 57,000 thousand dollars and 80,000 thousand dollars by cash, respectively.

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 distributed the employees' bonus of 32,000 thousand dollars and the directors' remuneration of 44,000 thousand dollars for the year ended December 31, 2022, which have no difference from the expenses recognized in 2022.

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

(12) Other operating expenses

	For the years ended December 31	
	2023	2022
Postage and telephone expenses	\$316,428	\$327,601
Tax	990,974	995,474
Computer information expenses	685,287	580,379
Professional fee	297,879	392,784
Securities borrowed expenses	896,450	769,553
Handling fee	548,289	405,732
Maintenance and repairs	335,589	309,587
Operation expense	72,801	120,507
TDCC service fee	322,135	267,513
Other expenses	818,928	856,132
<b>Total</b>	<b>\$5,284,760</b>	<b>\$5,025,262</b>

(13) Other income and costs

	For the years ended December 31	
	2023	2022
Interest income	\$3,645,394	\$1,369,910
Gains/(losses) from disposal of investment	71,761	(184,179)
Non-operating financial assets measured at FVTPL	342,648	249,538
Dividend income	236,276	219,724
Management service income	473,199	319,308
Others	188,372	164,831
<b>Total</b>	<b>\$4,957,650</b>	<b>\$2,139,132</b>

**30. Components of Other Comprehensive Income**

For the year ended December 31, 2023

	Arising	Reclassification	Other	Income tax	Other
			comprehensive income, before tax	(expense) income	comprehensive income, net of tax
Not to be reclassified subsequently to profit or loss:					
Remeasurements of defined benefit plans	\$(101,773)	\$-	\$(101,773)	\$4,725	\$(97,048)
Unrealized valuation gains/(losses) from equity instrument investments measured at FVOCI	(28,340)	-	(28,340)	-	(28,340)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	930	-	930	-	930

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) income	Other comprehensive income, net of tax
To be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of a foreign operation	43,245	-	43,245	-	43,245
Unrealized valuation gains/(losses) from debt instrument investments measured at FVOCI	1,379,086	(124,839)	1,254,247	(22,071)	1,232,176
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(860)	-	(860)	-	(860)
<b>Total</b>	<b>\$1,292,288</b>	<b>\$(124,839)</b>	<b>\$1,167,449</b>	<b>\$(17,346)</b>	<b>\$1,150,103</b>

For the year ended December 31, 2022

	Arising	Reclassification	Other comprehensive income, before tax	Income tax (expense) income	Other comprehensive income, net of tax
Not to be reclassified subsequently to profit or loss:					
Remeasurements of defined benefit plans	\$300,411	\$-	\$300,411	\$(103,056)	\$197,355
Unrealized valuation gains/(losses) from equity instrument investments measured at FVOCI	237,612	-	237,612	-	237,612
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	5,162	-	5,162	-	5,162
To be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of a foreign operation	1,413,426	-	1,413,426	-	1,413,426
Unrealized valuation gains/(losses) from debt instrument investments measured at FVOCI	(2,848,207)	76,737	(2,771,470)	136,663	(2,634,807)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	2,548	-	2,548	-	2,548
<b>Total</b>	<b>\$(889,048)</b>	<b>\$76,737</b>	<b>\$(812,311)</b>	<b>\$33,607</b>	<b>\$(778,704)</b>

**31. Income Tax**

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

Income tax expense (benefit) recognized in profit or loss

	For the years ended December 31	
	2023	2022
Current income tax expense (benefit)		
Current period	\$933,214	\$1,032,579
Adjustments of prior periods	(2,527)	(52,620)
Deferred income tax expense (benefit)		
Current period	(162,871)	(155,453)
<b>Income tax expense (benefit)</b>	<b>\$767,816</b>	<b>\$824,506</b>

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Income tax relating to components of other comprehensive income

	<u>For the years ended December 31</u>	
	<u>2023</u>	<u>2022</u>
Deferred income tax expense (benefit)		
Remeasurements of defined benefit plan	\$(4,725)	\$103,056
Financial assets measured at FVOCI	22,071	(136,663)
Total	<u>\$17,346</u>	<u>\$(33,607)</u>

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

	<u>For the years ended December 31</u>	
	<u>2023</u>	<u>2022</u>
Income before income tax	<u>\$8,114,234</u>	<u>\$4,454,710</u>
Tax at the rate applicable to profits	\$1,622,847	\$890,942
Tax effect of revenues exempt from taxation	(704,433)	(125,938)
Tax effect expenses not deductible for tax purposes	91,425	33,762
Tax effect of deferred income tax assets/liabilities	(33,966)	113,533
Tax effect of different tax rate for subsidiaries	(261,954)	(99,208)
Alternative minimum tax expense	72,614	74,377
Adjustments of prior periods	(2,527)	(52,620)
Others	(16,190)	(10,342)
Total income tax expense	<u>\$767,816</u>	<u>\$824,506</u>

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

	<u>12/31/23</u>	<u>12/31/22</u>
Deferred income tax assets		
Bad debts	\$9,699	\$9,699
Unrealized exchange loss	674	55,414
Unrealized loss of warrants issued and repurchase warrants	-	39,187
Unrealized loss of financial instruments	173,703	215,292
Unrealized exchange loss of financial instruments	631	1,004
Defined benefit plan	106,745	102,043
Unused tax losses	169,498	77,363
Others	10,429	2,140
Total	<u>471,379</u>	<u>502,142</u>
Deferred tax liabilities		
Unrealized exchange gain	(19,413)	(6,632)
Unrealized gain of warrants issued and repurchase warrants	(5,891)	-
Unrealized gain of financial instruments	(33,427)	(227,547)
Goodwill	(986,154)	(986,155)
Land value increment tax liabilities	(9,252)	(9,252)
Others	(9,032)	(9,871)
Total	<u>(1,063,169)</u>	<u>(1,239,457)</u>
Net amount of deferred income tax assets (liabilities)	<u>\$591,790</u>	<u>\$(737,315)</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) Movement of deferred income tax assets (liabilities):

	For the years ended December 31	
	2023	2022
Beginning balance	\$ (737,315)	\$ (926,375)
Recognized in profit or loss	162,871	155,453
Recognized in other comprehensive income	(17,346)	33,607
Ending balance	<u>\$ (591,790)</u>	<u>\$ (737,315)</u>

(5) Unrecognized deferred income tax assets

As of December 31, 2023 and 2022, the Company's subsidiary – KGI Futures' deferred tax assets have not been recognized in respect of unused tax losses, unused tax credits and deductible temporary differences amounting to 62,682 thousand dollars and 123,989 thousand dollars, as the future taxable profit may not be available.

(6) Unrecognized deferred income tax liabilities

The Company and subsidiaries have no liabilities that may be used to increase any subsequent periods' income tax expense but not recognized as deferred income tax liabilities.

(7) Income tax return assessed

The income tax returns assessed of the Company and subsidiaries are as follows:

	Assessment information
The Company	Assessed through 2017
KGI Securities Investment Advisory Co. Ltd.	Assessed through 2021
KGI Insurance Brokers Co. Ltd.	Assessed through 2021
KGI Venture Capital Co. Ltd.	Assessed through 2021
KGI Futures	Assessed through 2020
KGI Information Technology Co. Ltd.	Assessed through 2021

(8) Administrative remedy

The income tax return of the Company for the years ended December 31, from 2015 to 2017 was assessed for additional income tax of 182,464 thousand dollars. The Company has appealed for administrative remedy. Additional income tax has been recognized into the financial statements.

**32. Earnings Per Share**

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

	For the years ended December 31	
	2023	2022
Basic EPS		
Attributable to the Company	<u>\$7,343,512</u>	<u>\$3,627,566</u>
Weighted average number of shares outstanding	<u>1,847,855,841 shares</u>	<u>2,256,335,354 shares</u>
Basic EPS (NT\$)	<u>\$3.97</u>	<u>\$1.61</u>

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**VII. Significant Related Parties Transaction**

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

<u>Name of the related parties</u>	<u>Nature of relationship of the related parties</u>
China Development Financial Holding Corp. (CDFH)	The parent company
KGI Securities (Thailand Public) Company Limited (KGI TH)	The associate
KGI Securities Investment Trust Co. Ltd. (KGI Investment Trust)	Other related party (Note)
KGI Bank Co., Ltd. (KGI Bank)	Other related party
KGI Life Insurance Co., Ltd. (KGI Life)	Other related party
China Development Asset Management Corp.	Other related party
CDIB Capital Group (CDIB Capital)	Other related party
CDIB Capital Healthcare Ventures Limited	Other related party
CDIB Venture Capital Corp.	Other related party
CDIB Capital Management Corp. (Capital Management)	Other related party
JING-HUI Investment Corp. (JING-HUI Investment)	Other related party
CDIB CME Fund Ltd	Other related party
CDIB Capital Growth Partners L.P.	Other related party
CDIB Partners Investment Holding Corporation	Other related party
CDC Finance & Leasing Corp.	Other related party
KGI Charity Foundation	Other related party
Funds managed by KGI Securities Investment Trust Co. Ltd. (KGI Investment Trust Funds)	Other related party
CDIB Capital Investment I Ltd.	Other related party
CDIB Capital Investment II Ltd.	Other related party
CDIB Private Equity (Fujian) Enterprise (Limited Partnership)	Other related party
CDIB Innolux Fund L.P.	Other related party
CDIB Capital International Corporation(CREC)	Other related party
Others	Other related parties

Note: To align with the strategic development plan of the parent company, CDFH, the Company adopted an capital reduction to return all of its wholly-owned shares in KGI Investment Trust to CDFH. Consequently, CDFH directly acquired the ownership of KGI Investment Trust On July 1, 2023, KGI Investment Trust has become the other related party of the Company.

2. Significant transactions with the related-parties

(1) Operating revenue and cost:

	<u>For the years ended December 31</u>	
	<u>2023</u>	<u>2022</u>
<b>A. <u>Brokerage handling fee revenue</u></b>		
Other related parties		
KGI Life	\$63,419	\$59,650
KGI Bank	15,145	21,286
KGI Investment Trust Funds	12,178	10,166
Others	5,435	5,849
Total	<u>\$96,177</u>	<u>\$96,951</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>For the years ended December 31</u>	
	<u>2023</u>	<u>2022</u>
<b>B. <u>Revenue from underwriting business</u></b>		
Other related parties		
KGI Life	\$2,050	\$-
Capital Management	-	188
Total	<u>\$2,050</u>	<u>\$188</u>
<b>C. <u>Gains/(losses) on disposal of trading securities-net</u></b>		
Other related parties		
KGI Life	<u>\$(6,406)</u>	<u>\$(52)</u>
<b>D. <u>Gains on wealth management</u></b>		
Other related parties		
KGI Investment Trust	<u>\$11,053</u>	<u>\$-</u>
<b>E. <u>Revenue from providing agency service for stock affairs</u></b>		
Parent company		
CDFH	\$23,744	\$22,944
Other related parties		
KGI Life	206	574
Others	245	275
Total	<u>\$24,195</u>	<u>\$23,793</u>
<b>F. <u>Interest income</u></b>		
Other related parties		
KGI Life	\$130,946	\$130,950
Others	1,957	2,548
Total	<u>\$132,903</u>	<u>\$133,498</u>
<b>G. <u>Gains/(losses) on trading securities measured at fair value through profit and loss-net</u></b>		
Other related parties		
KGI Life	<u>\$(11,805)</u>	<u>\$74</u>
<b>H. <u>Gains/(losses) on derivative financial product-GTSM-net</u></b>		
Other related parties		
KGI Bank	\$-	\$(11,662)
Others	(866)	(4,142)
Total	<u>\$(866)</u>	<u>\$(15,804)</u>
<b>I. <u>Other operating revenue</u></b>		
Other related parties		
KGI Life	\$224,065	\$245,173
KGI Bank	5,548	6,449
Others	760	220
Total	<u>\$230,373</u>	<u>\$251,842</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>For the years ended December 31</u>	
	<u>2023</u>	<u>2022</u>
J. <u>Financial costs</u>		
Other related parties		
KGI Life	\$1,417	\$480
KGI Bank	40,117	935
Others	89	17
Total	<u>\$41,623</u>	<u>\$1,432</u>

The above transactions were under general trading condition.

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

	<u>12/31/23</u>	<u>12/31/22</u>
Other related parties		
KGI Bank	<u>\$13,061,808</u>	<u>\$3,009,526</u>

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

	<u>12/31/23</u>	<u>12/31/22</u>
A. <u>Open-ended funds, monetary market instruments and other securities</u>		
Other related parties		
KGI Investment Trust Funds	<u>\$505,327</u>	<u>\$514,611</u>

	<u>12/31/23</u>	<u>12/31/22</u>
	<u>Nominal</u>	<u>Nominal</u>
	<u>Amounts</u>	<u>Amounts</u>

B. <u>Outstanding derivative instruments</u>		
Structure notes liabilities		
Other related parties		
Others	<u>\$19,993</u>	<u>\$18,000</u>

	<u>12/31/23</u>	<u>12/31/22</u>
C. <u>Trading Securities</u>		
Other related parties		
KGI Life	\$4,831,706	\$4,849,990
KGI Investment Trust Funds	338,432	418,295
Others	49,176	-
Total	<u>\$5,219,314</u>	<u>\$5,268,285</u>

(4) Securities margin loans receivable:

	<u>12/31/23</u>	<u>12/31/22</u>
Other related parties		
Others	<u>\$36,261</u>	<u>\$17,336</u>

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(5) Customer margin accounts:

	<u>12/31/23</u>	<u>12/31/22</u>
Associates	\$14,909	\$13,210
Other related parties		
KGI Bank	<u>1,455,257</u>	<u>539,455</u>
Total	<u><u>\$1,470,166</u></u>	<u><u>\$552,665</u></u>

(6) Accounts receivables:

	<u>12/31/23</u>	<u>12/31/22</u>
Associates		
KGI TH	\$452,051	\$614,468
Other related parties		
KGI Life	37,673	6,781
KGI Bank	200,533	168,643
KGI Investment Trust Funds	952,830	242,977
Others	<u>8,472</u>	<u>7,811</u>
Total	<u><u>\$1,651,559</u></u>	<u><u>\$1,040,680</u></u>

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

	<u>12/31/23</u>	<u>12/31/22</u>
Associates		
KGI TH	\$-	\$579
Other related parties		
KGI Life	376	373
KGI Bank	15,926	8,701
KGI Investment Trust	1,910	-
Others	<u>36</u>	<u>66</u>
Total	<u><u>\$18,248</u></u>	<u><u>\$9,719</u></u>

(8) Temporary payments (recognized as other current assets):

	<u>12/31/23</u>	<u>12/31/22</u>
Other related parties		
KGI Life	\$-	\$1
Others	<u>-</u>	<u>1</u>
Total	<u><u>\$-</u></u>	<u><u>\$2</u></u>

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

	<u>12/31/23</u>	<u>12/31/22</u>
Other related parties		
KGI Bank	<u><u>\$2,112,957</u></u>	<u><u>\$2,602,569</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)

(10) Futures customers' equity:

	12/31/23	12/31/22
Other related parties		
KGI Bank	\$367,749	\$345,140
Others	22,426	11,524
Total	<u>\$390,175</u>	<u>\$356,664</u>

(11) Accounts payable:

	12/31/23	12/31/22
Associates		
KGI TH	\$435,384	\$618,949
Other related parties		
KGI Life	48,456	119
Others	38,571	40,210
Total	<u>\$522,411</u>	<u>\$659,278</u>

(12) Other accounts payable:

	12/31/23	12/31/22
Associates	\$47	\$41
Other related parties		
KGI Life	3,540	5,159
KGI Bank	-	528
Total	<u>\$3,587</u>	<u>\$5,728</u>

(13) Current income tax liabilities:

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

	12/31/23	12/31/22
Due to CDFH (the parent company)	<u>\$1,852,683</u>	<u>\$2,029,128</u>

(14) Bonds transactions with related parties are as follows:

Purchase and sale of bonds

	For the year ended December 31, 2023	
	Purchase of bonds	Sale of bonds
Other related parties		
KGI Bank	\$-	\$1,600,000
Others	6,446	91,334
Total	<u>\$6,446</u>	<u>\$1,691,334</u>
	For the year ended December 31, 2022	
	Purchase of bonds	Sale of bonds
Other related parties		
KGI Bank	\$-	\$598,311
Others	-	10,000
Total	<u>\$-</u>	<u>\$608,311</u>

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

<u>Right-of-use asset</u>	<u>12/31/23</u>	<u>12/31/22</u>
Other related parties		
KGI Life	\$79,856	\$82,995
	<u>                    </u>	<u>                    </u>
<u>Lease liabilities</u>		
	<u>12/31/23</u>	<u>12/31/22</u>
Current		
Other related parties		
KGI Life	\$13,618	\$11,595
Non-current		
Other related parties		
KGI Life	68,559	72,917
Total	<u>\$82,177</u>	<u>\$84,512</u>
	<u>                    </u>	<u>                    </u>
<u>Refundable deposits</u> (recognized as other non-current assets)		
	<u>12/31/23</u>	<u>12/31/22</u>
Other related parties		
KGI Life	\$3,310	\$3,285
	<u>                    </u>	<u>                    </u>
<u>Depreciations and amortizations</u>		
	<u>For the years ended December 31</u>	<u>For the years ended December 31</u>
	<u>2023</u>	<u>2022</u>
Other related parties		
KGI Life	\$12,924	\$7,208
	<u>                    </u>	<u>                    </u>
<u>Rental income</u> (recognized as other income and costs)		
	<u>For the years ended December 31</u>	<u>For the years ended December 31</u>
	<u>2023</u>	<u>2022</u>
Other related parties		
KGI Bank	\$66	\$64
CDIB Capital	5,429	3,574
JING-HUI Investment	13,227	3,772
Others	355	346
Total	<u>\$19,077</u>	<u>\$7,756</u>
	<u>                    </u>	<u>                    </u>

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

(16) Employee benefit expenses

	<u>For the years ended December 31</u>	
	<u>2023</u>	<u>2022</u>
Other related parties		
KGI Life	\$28,176	\$29,425
	<u>                    </u>	<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)

(17) Other operating expenses

	For the years ended December 31	
	2023	2022
Associates	\$15	\$228
Other related parties		
KGI Life	4,309	13,005
KGI Charity Foundation	23,000	23,000
KGI Bank	21,602	28,219
Others	2,908	777
Total	\$51,834	\$65,229

(18) Other income and costs

	For the years ended December 31	
	2023	2022
Parent company	\$67	\$-
Associates	72	603
Other related parties		
KGI Life	55	16
KGI Bank	235,199	105,117
Others	10,013	766
Total	\$245,406	\$106,502

(19) Information about key management personnel compensation

	For the years ended December 31	
	2023	2022
Short-term employee benefit	\$365,906	\$230,853
Post-employment benefits	1,991	1,701
Share-based payment transaction	35,303	38,547
Total	\$403,200	\$271,101

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

	12/31/23	12/31/22
Property and equipment and investment property	\$528,784	\$532,183

**VIII. Assets Pledged**

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

Description of the Assets	12/31/23	12/31/22
Financial assets measured at FVTPL-current		
Trading securities-dealing	\$562,314	\$1,716,695
Open-ended funds, monetary market instruments and other securities	247,414	244,478
Other current assets-restricted	2,107,342	2,440,078
Financial assets measured at amortized cost	148,736	-
Property and equipment	4,335,098	4,585,063
Investment property	405,986	270,382
Total	\$7,806,890	\$9,256,696

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

1. One of the executive vice presidents 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 abovementioned clients requested the Court for the repossession of such shares from the Company, and the Company shall pay cash of 90,379 thousand dollars and assumed interest in lieu. During the process of litigation, said clients changed the 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 original judgment has been rendered and the Company was unable to retrieve the stocks. The case was dismissed by the High Court on November 23, 2022. The abovementioned client died during the litigation procedure, therefore, the heir assumed the action. The heir filed an appeal against the judgment made by the High Court. On November 30, 2023, the Supreme Court overruled the abovementioned seventh instance retrial decision and returned it to the High Court for the eighth retrial. This case is currently pending by the High Court.
2. 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, and the Company failed to perform sufficient audits on the contents disclosed in the prospectus of Taiwan Kolin Co., Ltd. 2nd convertible corporate bonds, the Company constituted violation Articles 20 and 32 of Securities and Exchange Act and Article 184 and 185 of Civil Code. The plaintiffs sued the Company and Taiwan Kolin Co., Ltd. with jointly liability amounting to 133,308 thousand dollars plus 5% interest. The Taipei District Court ruled in the Company's favor in first instance on January 29, 2021. This case is currently pending at the High Court as Securities and Futures Investors Protection Center brought an appeal.
3. For the need of securities borrowing margin, the Company requested the bank guarantees for 4,110,000 thousand dollars.
4. 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.

5. 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.

**VI. Significant Subsequent Events**

None.

**XII. Others**

1. Financial risk management objectives and policies

(1) Financial risk management objectives

In order to manage the operation risk effectively and strengthen competitiveness, the Company formulates its risk management policies according to the regulatory requirements, CDFH “Risk Management Policy” and the Company’s business development strategy, as its risk management guidelines.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 includes 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, commodity risk, and 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 the daily basis to enforce control of market risk and venture capital allocation.

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

#### B. Credit risk

The Company sets proper credit limits by considering 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.

While considering the credit risk of counterparties, the Company adapts the third parties' credit evaluations, such as TCRI of Taiwan Economic Journal, Taiwan Ratings, S&P, Moody's and Fitch. The Company compares its own evaluation to the third parties' results to categories of levels 1 to 9. The Company updates the information about counterparties and credit evaluations of transactions timely and the Company is able to adjust the limit of credit risk while evaluation changes.

To properly manage the Company's 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 whole company, single level, or single firm, etc. Also, set Pre-settlement Risk (PSR) limits and 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.

#### 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.

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.

Each unit is responsible to examine and control its own business operating risk. 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.

In the event of abnormal occurrences in any unit, the Company shall follow the “Operation Guidelines Governing the Reporting and Handling Procedures of Abnormal Events”. The audit unit will report the incident to the Chairman and the auditor of the Parent company depending on the importance of the abnormal event in order to manage the loss efficiently. When there is a significant risk event, the Company follows the “Key Points of Reporting Significant Risk” of the parent company and the Company’s “Operation Guidelines Governing the Reporting and Handling Procedures of Abnormal Events”. The risk management unit will review and see if this significant event is reported in time.

The Company is qualified for adopting Delta-Plus sensitivity analysis method for options under advanced calculation of Bank of International Settlement ratio for securities companies. In order to calculate BIS ratio and other financial commodity valuation models required for other statutory ratios, the Company has implemented model management.

The Company detects operation risk regularly. The detection items include financial institution capital adequacy, asset qualities, management abilities, profitability, liquidity, sources of profit, foreign exposure, investment positions, off balance sheet items and client complaints or arguments. Each detection and warning indicator is evaluated by the specific unit according to the review frequency. The responsible unit will send the result and the variation information to the risk management sector for monitoring and filing purposes.

(5) Risk hedge and mitigation strategy

The Company has set up policies such as the “Handling Procedure of Selling and Buying Securities and Trading Derivatives Financial Instruments” and the “Operation Guidelines of Operating Derivatives Financial Instruments”, in order to hedge and reduce the risk, the policies are as follows:

A. Before conducting a transaction of derivatives, each segment shall first make sure whether the nature of the transaction is trading or hedging. After the transaction is conducted, the nature of the transaction cannot be changed at will.

B. The nature of the transaction shall refer to selling and buying derivatives at the expected prices bearing risks in order to make gains by the price difference. Hedging shall refer to trading derivatives to reduce the market risk of assets or liabilities or expected transactions.

C. The positions held for hedging shall include both the hedging position and hedged position as a portfolio and be aware of the profit/loss changes between the hedging and hedged positions.

## 2. Analyses of credit risk

### (1) Source of credit risk

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

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

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

### (2) 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 a good external credit rating, credit risk is extremely low.

### (3) Definition of default and credit impairment of financial assets

A. The Company and subsidiaries define default of financial assets, the same as impairment of financial assets. If there are any evidence 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 reorganization;
- 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 and subsidiaries, 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.

(4) Description of credit risk on each financial asset

A. Cash and cash equivalents

The Company and subsidiaries mainly put 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 and subsidiaries regularly assess 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 FVTPL-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 investments) and financial assets measured at amortized cost

The abovementioned financial assets are 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. Investment in bonds with reverse repurchase agreements

The counterparties with whom the Company and subsidiaries do bond investments with reserve repurchase agreement are mainly the financial institutions and corporations with good credit. The factor that counterparties' securities are held by the Company and subsidiaries as collateral effectively reduces counterparties' exposure to credit risk.

E. Receivables

Receivables include securities margin loans receivable, trading securities receivable, futures trading margin receivable and accounts receivable. The main credit risk is Securities 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 borrow securities, the Company 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. Others non-current assets

Other non-current assets include operation guarantee deposits, clearing and settlement fund and guarantee deposits. The Company and subsidiaries assess 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.

(5) 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 domestic subsidiaries

The Company and 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 were at low credit risk upon acquisition, and an assessment is made at each reporting date as to whether the credit risk has substantially increased and whether the credit has been impaired. The assessment is categorized into "Low credit risk ( Stage 1 )", "Credit risk significantly increased ( Stage 2 )" and, "Credit-impaired ( Stage 3 )". The Company and subsidiaries mainly determines whether credit risk significantly increases since initial recognition based on external credit rating and the rating change (being downgraded from investment grade to non-investment grade or the rating since initial recognition is lowered to a certain grade ), and that other market information related to the issuer indicating significant increases in credit risk. The Company and subsidiaries also consider credit impairment based on default financial difficulties, bankruptcy, financial restructuring or a combination of impacts from certain events that may cause credit impairment on the financial assets. If the credit risk on financial assets is considered low on the balance sheet date, the Company and subsidiaries shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses as the credit risk is assumed to not significantly increase since initial recognition; and the Company and subsidiaries shall measure the loss allowance for financial assets at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly or been impaired since initial recognition.

In order to measure expected credit loss, The Company 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.

- (6) The assessment technique or significant assumption used to evaluate the expected credit loss by the Company and subsidiaries have no change for the years ended December 31, 2023 and 2022.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Analyses of capital liquidity risk

(1) Cash flow analysis

Statement of cash flow analysis for financial assets

12/31/23

Financial Assets	Collection period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Cash and cash equivalents	\$10,037,260	\$9,520,318	\$2,923,691	\$-	\$-	\$22,481,269
Financial assets measured at FVTPL-current	76,963,679	1,129,294	1,004,377	936,684	578,656	80,612,690
Financial assets measured at FVOCI-current	27,599,150	3,722,283	1,964,654	-	-	33,286,087
Hedging financial assets-current	-	5,844	24,409	89,245	120,396	239,894
Investment in bonds with reverse repurchase agreements	-	13,170,322	-	-	-	13,170,322
Receivables	47,576,229	20,235,947	39,192,357	25,767	-	107,030,300
Customer margin accounts	36,415,662	17,313,993	-	-	-	53,729,655
Stock borrowing collateral price and security lending deposits	830,337	6,787,630	32,435,987	-	-	40,053,954
Other current assets	35,637,707	1,623,995	908,831	10,598	-	38,181,131
Financial assets measured at FVTPL-non-current	-	-	-	729,806	3,269,791	3,999,597
Financial assets measured at FVOCI-non-current	-	-	-	9,613,790	1,462,383	11,076,173
Financial assets measured at amortized cost-non-current	-	-	-	153,675	-	153,675
Others non-current assets	1,000	7	-	45,837	3,416,562	3,463,406
<b>Total</b>	<b>\$235,061,024</b>	<b>\$73,509,633</b>	<b>\$78,454,306</b>	<b>\$11,605,402</b>	<b>\$8,847,788</b>	<b>\$407,478,153</b>
Percentage	57.69%	18.04%	19.25%	2.85%	2.17%	100.00%

Statement of cash flow analysis for financial liabilities

12/31/23

Financial Liabilities	Payment period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Short-term borrowings	\$-	\$17,638,644	\$-	\$-	\$-	\$17,638,644
Commercial papers payable	-	16,090,485	9,960	-	-	16,100,445
Financial liabilities measured at FVTPL-current	7,846,978	5,767,223	5,733,971	6,542,240	2,920,190	28,810,602
Hedging financial liabilities-current	-	(23,560)	(18,902)	120,117	27,536	105,191
Liabilities for bonds with repurchase agreements	-	87,999,165	-	-	-	87,999,165
Payables	58,544,804	14,513,175	4,203,477	-	-	77,261,456
Guarantee deposit received from security lending	-	13,081,865	37,456,994	-	-	50,538,859
Futures customers' equity	36,010,210	15,444,771	-	-	-	51,454,981
Equity for each customer in the account	12,648,551	-	-	-	-	12,648,551
Amounts collected for others/ Other payable/ Other current liabilities	1,637,643	1,231,265	5,029,805	1,873	796	7,901,382
Other financial liabilities-current	-	1,056,144	785,763	1,086	1,992	1,844,985
Lease liabilities-current	-	93,196	270,171	-	-	363,367
Long-term liabilities-current portion	-	-	2,600,000	-	-	2,600,000
Bonds payable	-	-	-	6,300,000	-	6,300,000
Lease liabilities-non-current	-	-	-	784,968	47,709	832,677
Other non-current liabilities	-	-	-	523,765	74,574	598,339
<b>Total</b>	<b>\$116,688,186</b>	<b>\$172,892,373</b>	<b>\$56,071,239</b>	<b>\$14,274,049</b>	<b>\$3,072,797</b>	<b>\$362,998,644</b>
Percentage	32.15%	47.62%	15.45%	3.93%	0.85%	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

12/31/23

	Collection (payment) period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Cash inflow	\$235,061,024	\$73,509,633	\$78,454,306	\$11,605,402	\$8,847,788	\$407,478,153
Cash outflow	116,688,186	172,892,373	56,071,239	14,274,049	3,072,797	362,998,644
Amount of cash flow gap	\$118,372,838	\$(99,382,740)	\$22,383,067	\$(2,668,647)	\$5,774,991	\$44,479,509

Statement of cash flow analysis for financial assets

12/31/22

Financial Assets	Collection period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Cash and cash equivalents	\$10,850,953	\$23,445,044	\$458,411	\$-	\$-	\$34,754,408
Financial assets measured at FVTPL-current	69,213,161	1,207,480	1,047,450	1,252,606	63,636	72,784,333
Financial assets measured at FVOCI-current	31,852,242	450,943	2,409,065	-	-	34,712,250
Hedging financial assets-current	-	39,570	102,627	319,963	33,498	495,658
Investment in bonds with reverse repurchase agreements	-	8,494,878	-	-	-	8,494,878
Receivables	29,881,152	10,557,448	22,896,222	26,130	-	63,360,952
Customer margin accounts	30,700,515	28,233,867	-	-	-	58,934,382
Stock borrowing collateral price and security lending deposits	6,342,071	20,140,036	10,750,319	-	-	37,232,426
Other current assets	33,894,905	2,336,951	178,782	5,940	-	36,416,578
Financial assets measured at FVTPL-non-current	-	-	-	514,307	3,019,272	3,533,579
Financial assets measured at FVOCI-non-current	-	-	-	7,466,430	1,226,458	8,692,888
Others non-current assets	-	-	1,200	131,981	3,670,730	3,803,911
Total	\$212,734,999	\$94,906,217	\$37,844,076	\$9,717,357	\$8,013,594	\$363,216,243
Percentage	58.57%	26.13%	10.42%	2.67%	2.21%	100.00%

Statement of cash flow analysis for financial liabilities

12/31/22

Financial Liabilities	Payment period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Short-term borrowings	\$-	\$13,229,271	\$-	\$-	\$-	\$13,229,271
Commercial papers payable	-	12,169,751	-	-	-	12,169,751
Financial liabilities measured at FVTPL-current	12,846,344	5,624,841	4,765,228	13,390,083	2,899,697	39,526,193
Hedging financial liabilities-current	-	(1,360)	7,830	26,201	17,636	50,307
Liabilities for bonds with repurchase agreements	-	73,044,648	-	-	-	73,044,648
Payables	48,438,904	6,723,612	6,268,574	-	-	61,431,090
Guarantee deposit received from security lending	-	9,847,612	32,165,796	-	-	42,013,408
Futures customers' equity	59,152,076	-	-	-	-	59,152,076
Equity for each customer in the account	3,000,099	-	-	-	-	3,000,099
Amounts collected for others/ Other payable/ Other current liabilities	1,885,826	932,538	4,669,972	1,876	829	7,491,041
Other financial liabilities-current	-	1,458,840	1,373,978	525	2,410	2,835,753
Lease liabilities-current	-	122,724	361,831	-	-	484,555
Bonds payable	-	-	-	6,200,000	2,700,000	8,900,000
Lease liabilities-non-current	-	-	-	989,129	44,153	1,033,282
Other non-current liabilities	-	-	35	497,198	72,560	569,793
Total	\$125,323,249	\$123,152,477	\$49,613,244	\$21,105,012	\$5,737,285	\$324,931,267
Percentage	38.57%	37.90%	15.27%	6.49%	1.77%	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

12/31/22

	Collection (payment) period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Cash inflow	\$212,734,999	\$94,906,217	\$37,844,076	\$9,717,357	\$8,013,594	\$363,216,243
Cash outflow	125,323,249	123,152,477	49,613,244	21,105,012	5,737,285	324,931,267
Amount of cash flow gap	\$87,411,750	\$(28,246,260)	\$(11,769,168)	\$(11,387,655)	\$2,276,309	\$38,284,976

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 as of December 31, 2023 and 2022 show that the sums from deducting cash outflow from cash inflow are 44,479,509 thousand dollars and 38,284,976 thousand dollars, respectively, all indicating sufficient fund liquidity.

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 future 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 President. 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 hold a meeting with relevant departments to formulating emergency measures, which includes disposal of low yield or unnecessary assets, expanding repurchase agreements with the Central Bank of Taiwan, financing from securities finance corporations or exploring other fund-raising methods that will increase available funds to the Company.

4. Market risk analysis

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

The Company utilizes risk factor sensitivity and value at risk to measure and contain market risks. The Company also holds regular stress test to help the management understand the estimated influence on the income of investment portfolio under potential extreme events or circumstances.

(1) Risk factor sensitivity

Using product identification and analysis procedure held by the Company, the corresponding market risk factor can be determined. Individual risk factor's entire exposure can be measured by observing how the value of a financial instrument changes as each risk factor changes. The Company and 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, which could be divided into two types by distribution of financial instrument:
  - (a) Equity delta: measured by the change of present value of stock 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%).
  - (b) Debt delta: measured by the change of present value of bond with the price of the underlying assets linked to the debt securities. (As the potential loss amount given that the beneficiary certificates and funds, included preferred stocks and bond ETF 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 decreases 1%).

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

Comparisons of risk sensitive factors

Risk sensitivity	12/31/23	12/31/22
Interest rate risk	\$6,641	\$1,861
Equity securities risk		
Equity delta	5,479,505	4,433,631
Debt delta	(832,977)	6,245
Exchange rate risk	1,073,704	2,948,548
Commodity risk sensitivity	(3,091)	5,969

(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 year ended December 31, 2023			12/31/23
	Average VAR	Minimum VAR	Maximum VAR	Ending VAR
Equity securities	\$132,248	\$76,283	\$229,011	\$119,611
Interest rate	128,317	27,672	249,078	140,214
Exchange rate	46,537	23,531	82,253	71,205
Commodity	18,132	150	39,766	11,586

Risk type	For the year ended December 31, 2022			12/31/22
	Average VAR	Minimum VAR	Maximum VAR	Ending VAR
Equity securities	\$176,834	\$92,083	\$355,679	\$179,623
Interest rate	181,662	109,009	247,993	166,268
Exchange rate	79,785	40,482	126,400	85,877
Commodity	3,893	141	15,100	1,184

(3) Stress test

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

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

5. Fair value of financial instruments

(1) Types of financial instruments

Financial Instruments	12/31/23	12/31/22
<u>Financial assets</u>		
Financial assets measured at fair value through profit or loss:		
Mandatorily measured at fair value through profit or loss	\$84,575,803	\$76,244,688
Hedging financial assets	237,236	486,019
Financial assets measured at fair value through other comprehensive income	44,362,260	43,405,138
Financial assets measured at amortized cost (Note 1)	278,230,826	242,990,365
Total	<u>\$407,406,125</u>	<u>\$363,126,210</u>
<u>Financial Liabilities</u>		
Financial liabilities measured at fair value through profit or loss:		
Held for trading	\$20,318,731	\$25,593,074
Designated initially at fair value through profit or loss	7,938,258	13,428,513
Hedging Financial liabilities	86,799	55,091
Financial liabilities measured at amortized cost (Note 2)	333,189,687	284,531,927
Total	<u>\$361,533,475</u>	<u>\$323,608,605</u>

Note 1: Financial assets measured at amortized cost include cash and cash equivalents excluding cash on hand, investment in bonds with reverse repurchase agreements, notes receivable, accounts receivable, securities margin loans receivable, refinancing margin, refinancing deposits receivable, trading securities receivable, customer margin accounts, futures commission merchant receivable, stock borrowing collateral price, security lending deposits, other current assets, financial assets measured at amortized cost-non-current and other non-current assets.

Note 2: Financial liabilities measured at amortized cost include short-term borrowings, commercial papers payable, liabilities for bonds with repurchase agreements, short sale margins, payables for short sale collateral received, guarantee deposit received from security lending, futures customers' equity, equity for each customer in the account, 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. 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.
- C. 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.
- D. Due to the uncertain duration, fair values of the guaranteed deposits of other non-current assets and liabilities are measured by its book value.
- E. 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).

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) 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 their fair value. The fair value of the other financial assets and liabilities measured at amortized cost is as follows:

	12/31/23		12/31/22	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial assets</u>				
Financial assets measured at amortized cost	\$148,736	\$151,160	\$-	\$-
<u>Financial liabilities</u>				
Long-term liabilities-current portion	2,600,000	2,586,054	-	-
Bonds payable	6,300,000	6,089,167	8,900,000	8,568,036

(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.

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

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:

12/31/23				
Financial instruments measured at fair value	Level 1	Level 2	Level 3	Total
<u>Non-derivative instruments</u>				
Assets				
Financial assets measured at FVTPL				
Stocks	\$11,830,804	\$36,699	\$3,613,204	\$15,480,707
Bonds	16,178,769	37,569,309	-	53,748,078
Others	8,201,348	811,458	-	9,012,806

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12/31/23

Financial instruments measured at fair value	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at FVOCI</b>				
Stocks	-	-	21,077	21,077
Bonds	31,592,057	12,749,126	-	44,341,183
<b>Liabilities</b>				
<b>Financial liabilities measured at FVTPL</b>				
Stocks	445,570	-	-	445,570
Bonds	-	4,283,740	-	4,283,740
Others	3,491,343	-	-	3,491,343
<u>Derivative instruments</u>				
<b>Assets</b>				
Financial assets measured at FVTPL	700,711	5,633,191	310	6,334,212
Hedging Financial assets	-	237,236	-	237,236
<b>Liabilities</b>				
Financial liabilities measured at FVTPL	1,516,737	15,432,622	3,086,977	20,036,336
Hedging Financial liabilities	-	86,799	-	86,799

12/31/22

Financial instruments measured at fair value	Level 1	Level 2	Level 3	Total
<u>Non-derivative instruments</u>				
<b>Assets</b>				
<b>Financial assets measured at FVTPL</b>				
Stocks	\$8,115,669	\$36,184	\$3,019,692	\$11,171,545
Bonds	15,403,947	39,211,388	-	54,615,335
Others	4,094,227	973,593	-	5,067,820
<b>Financial assets measured at FVOCI</b>				
Stocks	-	-	52,097	52,097
Bonds	34,405,824	8,947,217	-	43,353,041
<b>Liabilities</b>				
<b>Financial liabilities measured at FVTPL</b>				
Stocks	9,643,346	-	-	9,643,346
Bonds	-	5,123,841	-	5,123,841
Others	939,261	-	-	939,261
<u>Derivative instruments</u>				
<b>Assets</b>				
Financial assets measured at FVTPL	905,389	4,483,177	1,422	5,389,988
Hedging Financial assets	-	486,019	-	486,019
<b>Liabilities</b>				
Financial liabilities measured at FVTPL	1,033,631	19,342,195	2,939,313	23,315,139
Hedging Financial liabilities	-	55,091	-	55,091

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

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

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 at recurring basis

There are no transfers between Level 1 and Level 2 for the years ended of December 31, 2023 and 2022.

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

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

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

For the year ended December 31, 2023

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 2)	
<b>Financial Assets</b>								
<u>Derivative instruments</u>								
Financial assets measured at FVTPL	\$1,422	\$4,050	\$-	\$11,950	\$-	\$(17,112)	\$-	\$310
<u>Non-derivative instruments</u>								
Financial assets measured at FVTPL	3,019,692	314,858	-	466,779	-	-	(188,125)	3,613,204
Financial assets measured at FVOCI	52,097	-	(28,000)	-	-	(3,020)	-	21,077
						(Note 1)		

For the year ended December 31, 2022

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 2)	
<b>Financial Assets</b>								
<u>Derivative instruments</u>								
Financial assets measured at FVTPL	\$-	\$(28,311)	\$-	\$63,255	\$-	\$(33,522)	\$-	\$1,422
<u>Non-derivative instruments</u>								
Financial assets measured at FVTPL	2,846,210	376,545	-	728,805	-	(36,830)	(895,038)	3,019,692
Financial assets measured at FVOCI	42,138	-	9,959	-	-	-	-	52,097

Note 1: Changes in consolidated entities

Note 2: Due to basis of fair value of financial instruments changed from self-valuation to active market quotation.

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

For the year ended December 31, 2023

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	\$2,939,313	\$(106,238)	\$-	\$1,824,775	\$-	\$(1,570,873)	\$-	\$3,086,977

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 year ended December 31, 2022

	Beginning balances (A)	Amounts recognized (B)		Increase (C)		Decrease (D)		Ending balances (E)=(A)+(B)+(C)+(D)
		in profit or loss	in OCI	Acquisition	Transfer to Level 3	Disposal	Transfer out of Level 3	
Financial instruments measured at fair value								
Financial Liabilities								
<u>Derivative instruments</u>								
Financial liabilities measured at FVTPL	\$3,052,493	\$(555,925)	\$-	\$1,283,081	\$-	\$(840,336)	\$-	\$2,939,313

- c. Total gains or losses from financial assets and liabilities still held by the Company and subsidiaries as of December 31, 2023 and 2022 are as follows:

	For the years ended December 31	
	2023	2022
Total gains or losses		
Recognized in profit or loss	\$312,949	\$510,969
Recognized in other comprehensive income	\$(28,000)	\$9,959

- 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 years ended December 31, 2023 and 2022.

(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.

12/31/23	Fair Value	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value
<u>Financial assets:</u>					
<u>Non-derivatives</u>					
Financial assets measured at FVTPL-equity instrument	\$3,613,204	Purchasing price	Not applicable	Not applicable	Not applicable
		Market approach	Discount for lack of liquidity	26%-29%	The higher the discount for lack of liquidity is, probably the lower the fair value of assets is.
		Discounted cash flow	Discount for lack of liquidity	29%	The higher the discount for lack of liquidity is, probably the lower the fair value of assets is.
			WACC	7.18%	The higher the WACC is, probably the lower the fair value of asset is.
			Growth Rate	5.50%	The higher the growth rate is, probably the higher the fair value of asset is.
		Asset method	Discount for lack of control	11%	The higher the discount for lack of control 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)

12/31/23	Fair Value	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value
Derivatives Financial assets measured at FVTPL Structured notes-options	\$310	Martingale Pricing Technique	History volatility	47.77%-47.77%	Depending on contract terms.
<u>Financial liabilities:</u> Derivatives Financial liabilities measured at FVTPL Structured notes-options	3,086,977	Martingale Pricing Technique	History Volatility	0.00%-16.92%	Depending on contract terms.

12/31/22	Fair Value	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 and debt instruments	\$3,019,692	Purchasing price	Not applicable	Not applicable	Not applicable
		Market approach	Discount for lack of liquidity	26%-29%	The higher the discount for lack of liquidity is, probably the lower the fair value of assets is.
		Discounted cash flow	Discount for lack of liquidity	29%	The higher the discount for lack of liquidity is, probably the lower the fair value of assets is.
			WACC	6.53%	The higher the WACC is, probably the lower the fair value of asset is.
			Growth Rate	2.95%	The higher the growth rate is, probably the higher the fair value of asset is.
		Asset method	Discount for lack of control	11%	The higher the discount for lack of control is, probably the lower the fair value of assets is.
Financial assets measured at FVOCI-equity instrument	52,097	Option Pricing Model	Discount for lack of liquidity	26%	The higher the discount for lack of liquidity is, probably the lower the fair value of assets is.
			History volatility	41.82%	Depending on market terms.
		Asset method	Discount for lack of liquidity	15%	The higher the discount for lack of liquidity 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)

12/31/22	Fair Value	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value
Derivatives Financial assets measured at FVTPL Structured notes-options	\$1,422	Martingale Pricing Technique	History Volatility	52.83%-54.85%	Depending on contract terms.
<u>Financial liabilities:</u> Derivatives Financial liabilities measured at FVTPL Structured notes-options	2,939,313	Martingale Pricing Technique	History Volatility	0.00%-19.37%	Depending on contract terms.

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

The 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:

12/31/23	Sensitivity of the input to fair value		Recognized in profit/loss		Recognized in OCI	
	Inputs	Changes	Gain	Loss	Gain	Loss
<u>Financial assets:</u>						
Non-derivative instruments						
Financial assets measured at FVTPL						
Equity instruments and debt instruments (purchasing price)	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Equity instruments (market method)	Discount for lack of liquidity	-1%/ +1%	\$175	\$175	\$-	\$-
Equity instruments (discounted cash flow)	Discount for lack of liquidity	-1%/ +1%	190	190	-	-
	WACC	-1%/ +1%	3,448	3,164	-	-
	Growth Rate	+1%/-1%	2,536	2,375	-	-
Equity instruments (asset method)	Discount for lack of control	-1%/ +1%	3,688	3,688	-	-
Derivatives						
Financial assets measured at FVTPL						
Structured notes-options	History volatility	+25%/ -25%	118	115	-	-
<u>Financial liabilities:</u>						
Derivatives						
Financial liabilities measured at FVTPL						
Structured notes-options	History volatility	-25%/ +25%	-	-	-	-

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12/31/22	Sensitivity of the input to fair value		Recognized in profit/loss		Recognized in OCI	
	Inputs	Changes	Gain	Loss	Gain	Loss
<u>Financial assets:</u>						
Non-derivatives						
Financial assets measured at FVTPL						
Equity instruments and debt instruments (purchasing price)	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Equity instruments (market method)	Discount for lack of liquidity	-1%/ +1%	\$111	\$111	\$-	\$-
Equity instruments (discounted cash flow)	Discount for lack of liquidity	-1%/ +1%	105	105	-	-
	WACC	-1%/ +1%	776	748	-	-
	Growth Rate	+1%/-1%	326	320	-	-
Equity instruments (asset method)	Discount for lack of control	-1%/ +1%	3,667	3,667	-	-
Financial assets measured at FVOCI						
Equity instruments (option pricing method)	Discount for lack of liquidity	-1%/ +1%	-	-	141	141
	Historical volatility	-1%/ +1%	-	-	249	246
Equity instruments (asset method)	Discount for lack of liquidity	-1%/ +1%	-	-	5	5
Derivatives						
Financial assets measured at FVTPL						
Structured notes-options	History volatility	+25%/ -25%	190	177	-	-
<u>Financial liabilities:</u>						
Derivatives						
Financial liabilities measured at FVTPL						
Structured notes-options	History volatility	-25%/ +25%	-	-	-	-

Evaluation process for level 3 fair value measurements

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

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

12/31/23

	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Financial assets measured at amortized cost-non-current	\$151,160	\$-	\$-	\$151,160
<u>Non-financial assets:</u>				
Investments accounted for using the equity method	2,865,064	-	-	2,865,064
Investment properties	-	-	1,090,839	1,090,839
<u>Financial liabilities</u>				
Long-term liabilities-current portion	\$2,586,054	\$-	\$-	\$2,586,054
Bonds payable	6,089,167	-	-	6,089,167

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12/31/22

	Level 1	Level 2	Level 3	Total
<u>Non-financial assets:</u>				
Investments accounted for using the equity method	\$3,096,451	\$-	\$-	\$3,096,451
Investment properties	-	-	666,505	666,505
<u>Financial liabilities</u>				
Bonds payable	8,568,036	-	-	8,568,036

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

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

6. Transfer of financial assets

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

In the Company and 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:

12/31/23					
Financial assets	Carrying amount of transferred financial assets	Carrying amount 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 FVTPL Collateralized transactions	\$28,152,330	\$27,529,289	\$28,152,330	\$27,529,289	\$623,041
Financial assets measured at FVOCI Collateralized transactions	29,901,195	27,651,012	29,901,195	27,651,012	2,250,183
Financial assets measured at amortized cost Collateralized transactions	4,772,444	4,457,915	4,772,444	4,457,915	314,529

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12/31/22					
Financial assets	Carrying amount of transferred financial assets	Carrying amount 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 FVTPL Collateralized transactions	\$16,580,093	\$16,273,231	\$16,580,093	\$16,273,231	\$306,862
Financial assets measured at FVOCI Collateralized transactions	31,296,792	29,817,268	31,296,792	29,817,268	1,479,524
Financial assets measured at amortized cost Collateralized transactions	3,470,745	3,508,160	3,470,745	3,508,160	(37,415)

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

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

The following table analyzes information of transferred financial assets that are derecognized in their entirety and related financial liabilities:

Period	Type of continuing involvement	Cash outflow of repurchasing transferred (derecognized) financial assets	Carrying amount of continuing involvement in statement of financial position	Fair value of continuing involvement		Maximum exposure to loss
			Financial assets measured at fair value through profit or loss	Asset	Liability	
12/31/23	Long call option	\$12,434,300	\$2,504,819	\$2,504,819	\$-	\$2,504,819
12/31/22	Long call option	\$11,593,500	\$1,383,072	\$1,383,072	\$-	\$1,383,072

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

Period	Type of continuing involvement	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	Total
12/31/23	Long call option	\$-	\$934,500	\$3,133,500	\$8,366,300	\$-	\$12,434,300
12/31/22	Long call option	\$-	\$350,300	\$2,595,700	\$8,647,500	\$-	\$11,593,500

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

Period	Type of continuing involvement	Gain or loss recognized at the date of transfer	Income and expenses recognized in the reporting period	Income and expenses recognized cumulatively
12/31/23	Long call option	\$159,316	\$(98,652)	\$60,664
12/31/22	Long call option	\$(28,703)	\$(663,738)	\$(692,441)

7. Offsetting financial assets and financial liabilities

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

The Company and subsidiaries enter with opponent into collateralized liabilities for bonds with 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 repurchase agreements and investments in bonds with reverse repurchase agreements are reported separately in the statement of financial position.

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

12/31/23						
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 1)	Cash collateral received	
Derivative (Note 2)	\$5,870,737	\$-	\$5,870,737	\$-	\$1,014,109	\$4,856,628
Resell agreement	13,142,589	-	13,142,589	13,142,589	-	-
Total	\$19,013,326	\$-	\$19,013,326	\$13,142,589	\$1,014,109	\$4,856,628

12/31/23						
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 1)	Cash collateral in pledge	
Derivative (Note 2)	\$10,669,203	\$-	\$10,669,203	\$-	\$1,532,523	\$9,136,680
Repurchase agreement	87,713,610	-	87,713,610	87,713,610	-	-
Total	\$98,382,813	\$-	\$98,382,813	\$87,713,610	\$1,532,523	\$9,136,680

English Translation of Consolidated Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12/31/22						
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 (Note1)	Cash collateral received	
Derivative (Note 2)	\$4,970,312	\$-	\$4,970,312	\$-	\$1,335,364	\$3,634,948
Resell agreement	8,487,952	-	8,487,952	8,487,952	-	-
Total	\$13,458,264	\$-	\$13,458,264	\$8,487,952	\$1,335,364	\$3,634,948

12/31/22						
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 (Note1)	Cash collateral in pledge	
Derivative (Note 2)	\$8,908,903	\$-	\$8,908,903	\$-	\$1,253,608	\$7,655,295
Repurchase agreement	72,822,911	-	72,822,911	72,822,911	-	-
Total	\$81,731,814	\$-	\$81,731,814	\$72,822,911	\$1,253,608	\$7,655,295

Note1: Including amounts subject to a master netting arrangement and amounts related to non-cash financial collateral.

Note2: Including hedging derivative instruments.

8. Capital management

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

The company's Capital adequacy ratios as of December 31, 2023 and 2022 are disclosed as follows:

(1) Capital adequacy ratio

Item	12/31/23	12/31/22
Qualified net equity Capital	\$29,749,765	\$24,430,570
Equivalent amount of operating risk	10,224,878	8,216,100
Capital adequacy ratio	291%	297%

  

Item	For the years ended December 31	
	2023	2022
Average	275%	311%
Maximum	298%	452%
Minimum	243%	260%

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	12/31/23		12/31/22	
	Amount	Percentage	Amount	Percentage
Market risk	\$3,562,820	34.84%	\$3,199,514	38.94%
Credit risk	3,970,107	38.83%	2,458,003	29.92%
Operational risk	2,691,951	26.33%	2,558,583	31.14%
Total	\$10,224,878	100.00%	\$8,216,100	100.00%

9. Others

(1) The specific risk for futures dealer business

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

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

Futures department of the Company

Article #	Calculation Formula	12/31/23		12/31/22		Standard	Execution
		Calculation	Percentage	Calculation	Percentage		
17	<u>Stockholders' equity</u> (Total liabilities – Futures customers' equity)	<u>2,229,746</u> 114,785	19.43	<u>2,214,152</u> 685,835	3.23	≥ 1	Satisfied
17	<u>Current assets</u> Current liabilities	<u>2,783,912</u> 114,785	24.25	<u>3,522,812</u> 685,835	5.14	≥ 1	"
22	<u>Stockholders' equity</u> Minimum paid-in capital	<u>2,229,746</u> 400,000	557.44%	<u>2,214,152</u> 400,000	553.54%	≥ 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>1,950,528</u> 204,319	954.65%	<u>441,936</u> 556,885	79.36%	≥ 20% ≥ 15%	"

KGI Futures

Article #	Calculation Formula	12/31/23		12/31/22		Standard	Execution
		Calculation	Percentage	Calculation	Percentage		
17	<u>Stockholders' equity</u> (Total liabilities – Futures customers' equity)	<u>4,316,835</u> 662,463	6.52	<u>3,990,803</u> 745,740	5.35	≥ 1	Satisfied
17	<u>Current assets</u> Current liabilities	<u>39,651,351</u> 36,941,969	1.07	<u>33,814,416</u> 31,308,819	1.08	≥ 1	"
22	<u>Stockholders' equity</u> Minimum paid-in capital	<u>4,316,835</u> 760,000	568.00%	<u>3,990,803</u> 760,000	525.11%	≥ 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>3,768,955</u> 8,699,781	43.32%	<u>3,507,229</u> 6,384,208	54.94%	≥ 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)

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

As approved by the Jin-Guan-Zheng-Quan Letter No.0990066178, the Company engages in new business of wealth management by trust, which is to conduct trust business concerning specific and separate money management. In addition, with the approval of Jin-Guan-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

	<u>12/31/23</u>	<u>12/31/22</u>
Cash in bank	\$2,912,774	\$1,863,179
Financial assets		
Bonds	11,356,875	3,113,522
Stocks	15,374,518	11,471,886
Funds	19,679,943	16,642,614
Short-term securities	-	601,877
Structured notes	4,976,816	3,387,560
Receivables	452,460	125,745
Total trusted assets	<u>\$54,753,386</u>	<u>\$37,206,383</u>
	<u>12/31/23</u>	<u>12/31/22</u>
Payables	\$200,636	\$26,220
Taxes payables	77	246
Trust capital	50,099,575	38,620,026
Net income for current period	3,529,082	(4,161,210)
Accumulated profit or loss	1,453,947	3,163,084
Deferred carried forward	651	4,648
Others	(530,582)	(446,631)
Total trusted liabilities	<u>\$54,753,386</u>	<u>\$37,206,383</u>

B. Income statement of trust business

	<u>For the years ended December 31</u>	
	<u>2023</u>	<u>2022</u>
Revenues		
Interest income	\$434,366	\$92,649
Rent income	28,408	19,460
Dividend income	821,735	714,379
Realized investment gain	906,127	913,741
Unrealized investment gain	5,039,051	1,392,926
Other income	1,090,415	1,073,759
Total revenue	<u>8,320,102</u>	<u>4,206,914</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 years ended December 31	
	2023	2022
Expenses		
Management expense	\$4,159	\$3,696
Taxes expense	11,233	6,471
Handling fee	52,336	64,940
Realized investment loss	886,361	2,833,445
Unrealized investment loss	2,898,065	4,714,318
Other expense	938,866	745,254
Total revenue	4,791,020	8,368,124
Income before tax	3,529,082	(4,161,210)
Income tax	-	-
Net income	\$3,529,082	\$(4,161,210)

C. Trust property catalog

	12/31/23	12/31/22
Cash in bank	\$2,912,774	\$1,863,179
<u>Financial assets</u>		
Bonds	11,356,875	3,113,522
Stocks	15,374,518	11,471,886
Funds	19,679,943	16,642,614
Short-term securities	-	601,877
Structured notes	4,976,816	3,387,560
Total	\$54,300,926	\$37,080,638

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

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

Offshore Securities Unit of the Company engaged in custody and investment of funds affairs on behalf of customers. Related bank deposits under such affairs on December 31, 2023 and 2022 are USD 5,801 thousand and USD 5,007 thousand, respectively.

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

Financial instruments	12/31/23			12/31/22		
	Foreign currency (thousand dollars)	Exchange rate	NTD	Foreign currency (thousand dollars)	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary Items</u>						
USD	\$3,377,834	30.74	\$103,805,241	\$3,541,362	30.71	\$108,749,136
HKD	337,680	3.93	1,326,923	223,543	3.94	880,313
JPY	5,271,627	0.22	1,145,084	961,419	0.23	223,434
EUR	502,731	34.03	17,107,841	503,112	32.71	16,456,792
CNY	46,258	4.33	200,354	44,151	4.41	194,609
ZAR	63,668	1.66	105,626	28,912	1.81	52,389
KRW	676,041	0.02	16,214	762,457	0.02	18,476
AUD	7,813	21.01	164,154	9,532	20.83	198,514

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	12/31/23			12/31/22		
	Foreign currency (thousand dollars)	Exchange rate	NTD	Foreign currency (thousand dollars)	Exchange rate	NTD
<u>Non-monetary Items</u>						
USD	1,944,146	30.74	59,751,690	1,996,658	30.71	61,311,957
EUR	3,630	34.03	123,528	747	32.71	24,431
CNY	948,079	4.33	4,106,510	950,455	4.41	4,189,417
<u>Investments</u>						
<u>accounted for using the equity method</u>						
USD	91,205	30.74	2,803,191	89,057	30.71	2,734,751
<u>Financial liabilities</u>						
<u>Monetary Items</u>						
USD	5,601,009	30.74	172,134,529	5,420,728	30.71	166,460,683
HKD	308,668	3.93	1,212,789	181,974	3.94	716,614
JPY	5,056,938	0.22	1,098,412	787,748	0.23	183,073
EUR	504,768	34.03	17,177,139	500,656	32.71	16,376,474
CNY	12,489	4.33	54,089	7,777	4.41	34,281
ZAR	47,032	1.66	78,026	11,185	1.81	20,267
KRW	648,788	0.02	15,735	648,788	0.02	15,735
AUD	5,641	21.01	118,524	7,212	20.83	150,205
<u>Non-monetary Items</u>						
USD	354,417	30.74	10,893,010	538,720	30.71	16,543,009
EUR	408	34.03	13,890	634	32.71	20,726

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 gains 46,301 thousand dollars and losses 847,848 thousand dollars for the years ended December 31, 2023 and 2022, respectively.

(6) The reconciliation of liabilities from financing activities

For the year ended December 31, 2023

	Short-term borrowings	Commercial paper payable	Lease liabilities
January 1, 2023	\$13,229,271	\$12,169,751	\$1,467,630
Cash flows	4,409,373	3,939,422	(524,294)
Non-cash movement			
Lease movement	-	-	201,453
Foreign exchange differences and other movement	-	(8,728)	928
December 31, 2023	<u>\$17,638,644</u>	<u>\$16,100,445</u>	<u>\$1,145,717</u>

For the year ended December 31, 2022

	Short-term borrowings	Commercial paper payable	Lease liabilities
January 1, 2022	\$17,299,940	\$816,022	\$1,195,006
Cash flows	(4,070,669)	11,361,503	(527,720)
Non-cash movement			
Lease movement	-	-	705,904
Foreign exchange differences and other movement	-	(7,774)	94,440
December 31, 2022	<u>\$13,229,271</u>	<u>\$12,169,751</u>	<u>\$1,467,630</u>