

**Cathay Securities Investment Trust Co., Ltd.**  
**Financial Statements**  
**For The Years Ended**  
**31 December 2016 and 2015**  
**With Independent Auditors' Report**

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The reader is advised that these financial statements have been prepared originally in Chinese. These financial statements do not include additional disclosure information that is required for Chinese-language reports. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language financial statements shall prevail.

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English Translation of Report Originally Issued in Chinese

**Report of Independent Auditors**

The Board of Directors  
Cathay Securities Investment Trust Co., Ltd.

**Opinion**

We have audited the accompanying balance sheets of Cathay Securities Investment Trust Co., Ltd. (the “Company”) as of 31 December 2016 and 2015, and the related statements of comprehensive income, changes in equity and cash flows for the years ended 31 December 2016 and 2015, and notes to the financial statements, including the summary of significant accounting policies.

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2016 and 31 December 2015, and the financial performance and cash flows for the years ended 31 December 2016 and 2015, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China.

**Basis for Opinion**

We conducted our audits in accordance with “Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants” and auditing standards generally accepted in the Republic of China (“R.O.C.”). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**

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

Management Fee Revenue

The management fee revenue shall refer to the fee charged from managing securities investment trust funds, futures trust funds, and discretionary investment services account. The management fee revenue was significant to the Company’s financial statements and were therefore considered as a key audit matter in our audit.

With respect to the Company’s management fee revenue, we performed the following audit procedures, including but not limited to: evaluating the appropriateness of the accounting policy about

management fee revenue, and performing tests of control during internal control audit as well as selecting samples to re-test management fee revenue.

We also considered the appropriateness of the management fee revenues disclosure as referred to Notes IV, VI, and VII in the financial statements.

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

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

In preparing the financial statements, management is responsible for assessing the ability to continue as a going concern of the Company, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company 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.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

1. Identify and assess the risks of material misstatement of the 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.

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. 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 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 to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the accompanying notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

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



Ernst & Young  
Taipei, Taiwan  
The Republic of China  
7 March 2017

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with IFRSs recognized by the Financial Supervisory Commission and not those of any other jurisdictions. The standards, procedures and practice to audit such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese  
Cathay Securities Investment Trust Co., Ltd.

Balance Sheets

31 December 2016 and 2015

(Expressed in thousands of New Taiwan Dollars)

| Assets  | Notes          | 31 December 2016   |            | 31 December 2015   |            |
|---|----------------|--------------------|------------|--------------------|------------|
|   |                | Amount             | %          | Amount             | %          |
| <b>Current assets</b>   |                |                    |            |                    |            |
| Cash and cash equivalents                                     | IV, VI and VII | \$1,728,906        | 67         | \$1,736,489        | 66         |
| Financial assets at fair value through profit or loss-current | IV, VI and VII | 164                | -          | 240                | -          |
| Accounts receivables, net                                     | IV             | 10,587             | -          | 11,264             | -          |
| Accounts receivable - related parties, net                    | IV and VII     | 121,690            | 5          | 107,299            | 4          |
| Other receivables   | IV             | 7,768              | -          | 13,386             | -          |
| Prepayments   | VI and VII     | 27,551             | 1          | 19,257             | 1          |
| Other current assets  |                | -                  | -          | 824                | -          |
| <b>Total current assets</b>                                   |                | <b>1,896,666</b>   | <b>73</b>  | <b>1,888,759</b>   | <b>71</b>  |
| <b>Non-current assets</b>                                     |                |                    |            |                    |            |
| Available-for-sale financial assets-non current               | IV, VI and VII | 74,695             | 3          | 60,746             | 2          |
| Financial assets at cost-non current                          | IV and VI      | 5,745              | -          | -                  | -          |
| Investments accounted for using equity method                 | IV and VI      | 263,243            | 10         | 291,178            | 11         |
| Property and equipment  | IV and VI      | 66,975             | 3          | 84,179             | 3          |
| Intangible assets   | IV and VI      | 9,493              | -          | 13,808             | 1          |
| Deferred tax assets   | IV and VI      | 14,722             | 1          | 13,422             | 1          |
| Refundable deposits   | VI and VII     | 218,427            | 8          | 241,457            | 9          |
| Other non-current assets                                      | VI and VII     | 39,432             | 2          | 53,570             | 2          |
| <b>Total non-current assets</b>                               |                | <b>692,732</b>     | <b>27</b>  | <b>758,360</b>     | <b>29</b>  |
| <b>Total assets</b>   |                | <b>\$2,589,398</b> | <b>100</b> | <b>\$2,647,119</b> | <b>100</b> |

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

English Translation of Financial Statements Originally Issued in Chinese  
 Cathay Securities Investment Trust Co., Ltd.  
 Balance Sheets (continued)  
 31 December 2016 and 2015  
 (Expressed in thousands of New Taiwan Dollars)

|                               | Notes      | 31 December 2016 |     | 31 December 2015 |     |
|-------------------------------|------------|------------------|-----|------------------|-----|
|                               |            | Amount           | %   | Amount           | %   |
| Liabilities and equity        |            |                  |     |                  |     |
| Current liabilities           |            |                  |     |                  |     |
| Other payables                | IV and VII | \$273,636        | 11  | \$293,438        | 11  |
| Deferred income               | VI         | 23,502           | 1   | 23,502           | 1   |
| Other current liabilities     |            | 5,396            | -   | 2,060            | -   |
| Total current liabilities     |            | 302,534          | 12  | 319,000          | 12  |
| Non-current liabilities       |            |                  |     |                  |     |
| Provisions-non current        | IV and VI  | 79,333           | 3   | 85,496           | 3   |
| Deferred tax liabilities      | VI         | -                | -   | 1,855            | -   |
| Long-term deferred income     | VI         | 65,605           | 3   | 89,107           | 4   |
| Total non-current liabilities |            | 144,938          | 6   | 176,458          | 7   |
| Total liabilities             |            | 447,472          | 18  | 495,458          | 19  |
| Capital stock                 |            |                  |     |                  |     |
| Common stock                  | VI         | 1,500,000        | 58  | 1,500,000        | 57  |
| Capital reserves              | VI         | 13,908           | 1   | 13,908           | -   |
| Retained earnings             | VI         |                  |     |                  |     |
| Legal reserves                |            | 349,351          | 13  | 317,990          | 12  |
| Special reserves              |            | 9,240            | -   | 7,627            | -   |
| Undistributed earnings        |            | 296,762          | 11  | 313,610          | 12  |
| Total retained earnings       |            | 655,353          | 24  | 639,227          | 24  |
| Other equity                  |            | (27,335)         | (1) | (1,474)          | -   |
| Total equity                  |            | 2,141,926        | 82  | 2,151,661        | 81  |
| Total liabilities and equity  |            | \$2,589,398      | 100 | \$2,647,119      | 100 |

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Investment Trust Co., Ltd.

Statements of Comprehensive Income

For the years ended 31 December 2016 and 2015

(Expressed in thousands of New Taiwan Dollars, except for share and per share data)

| Items  | Notes          | 2016               |             | 2015               |             |
|--|----------------|--------------------|-------------|--------------------|-------------|
|  |                | Amount             | %           | Amount             | %           |
| Operating income   | IV, VI and VII | \$1,506,682        | 100         | \$1,405,507        | 100         |
| Operating expenses   | VI and VII     | <u>(1,135,175)</u> | <u>(75)</u> | <u>(1,075,974)</u> | <u>(76)</u> |
| Operating profit   |                | <u>371,507</u>     | <u>25</u>   | <u>329,533</u>     | <u>24</u>   |
| Non-operating income and expenses                                      |                |                    |             |                    |             |
| Interest income  | VII            | 15,238             | 1           | 22,650             | 1           |
| Other income   |                | 123                | -           | 194                | -           |
| Gain on disposal of investments  | VI             | 2,322              | -           | 11,087             | 1           |
| Loss on disposal of property and equipment                             |                | (10)               | -           | (1,292)            | -           |
| Loss on foreign currency exchange                                      | IV             | (29,489)           | (2)         | (510)              | -           |
| (Loss) gain on financial assets at fair value through profit or loss   | IV             | (20)               | -           | 7                  | -           |
| Share of profit or loss of associates and joint ventures               |                | <u>(2,469)</u>     | <u>-</u>    | <u>11,932</u>      | <u>1</u>    |
| Total non-operating income   |                | <u>(14,305)</u>    | <u>(1)</u>  | <u>44,068</u>      | <u>3</u>    |
| Income before income tax   |                | 357,202            | 24          | 373,601            | 27          |
| Income tax expense   | IV and VI      | <u>(60,440)</u>    | <u>(4)</u>  | <u>(59,598)</u>    | <u>(4)</u>  |
| Net income   |                | <u>296,762</u>     | <u>20</u>   | <u>314,003</u>     | <u>23</u>   |
| Other comprehensive income (loss)                                      |                |                    |             |                    |             |
| Not to be reclassified to profit or loss in subsequent periods         |                |                    |             |                    |             |
| Remeasurements of defined benefit plans                                |                | 1,838              | -           | (24,954)           | (2)         |
| Income tax relating to components of other comprehensive (income) loss |                | (313)              | -           | 4,242              | -           |
| To be reclassified to profit or loss in subsequent periods             |                |                    |             |                    |             |
| Unrealized gains or losses on available-for-sale financial assets      |                | (1,920)            | -           | (4,067)            | -           |
| Share of other comprehensive income of associates and joint ventures   |                | <u>(25,466)</u>    | <u>(2)</u>  | <u>(579)</u>       | <u>-</u>    |
| Other comprehensive income, net of tax                                 |                | <u>(25,861)</u>    | <u>(2)</u>  | <u>(25,358)</u>    | <u>(2)</u>  |
| Total comprehensive income   |                | <u>\$270,901</u>   | <u>18</u>   | <u>\$288,645</u>   | <u>21</u>   |
| Earnings per share (in NT dollars)                                     |                |                    |             |                    |             |
| Basic earning per share  |                |                    |             |                    |             |
| Net income from continuing operations                                  | VI             | <u>\$1.98</u>      |             | <u>\$2.09</u>      |             |

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Investment Trust Co., Ltd.

Statements of Changes in Equity

For the years ended 31 December 2016 and 2015

(Expressed in thousands of New Taiwan Dollars)

| Description   | Retained earnings |                  |                |                  |                        | Other equity   |   |   | Total       |
|---|-------------------|------------------|----------------|------------------|------------------------|--|---|---|-------------|
|   | Capital stock     | Capital reserves | Legal reserves | Special reserves | Undistributed earnings | Exchange differences resulting from translating the financial statements of foreign operations | Unrealized gains or losses on available-for-sale financial assets | Remeasurements of defined benefit plans |             |
| Balance as of 1 January 2015  | \$1,500,000       | \$13,908         | \$283,417      | \$7,357          | \$345,337              | \$14,196   | \$4,684   | \$5,004                                 | \$2,173,903 |
| Appropriation and distribution of 2014 earnings:                      |                   |                  |                |                  |                        |  |   |   |             |
| Legal reserves  | -                 | -                | 34,573         | -                | (34,573)               | -  | -   | -                                       | -           |
| Special reserves  | -                 | -                | -              | 270              | (270)                  | -  | -   | -                                       | -           |
| Cash dividends  | -                 | -                | -              | -                | (310,887)              | -  | -   | -                                       | (310,887)   |
| Net income for the year ended 31 December 2015                        | -                 | -                | -              | -                | 314,003                | -  | -   | -                                       | 314,003     |
| Other comprehensive income (loss) for the year ended 31 December 2015 | -                 | -                | -              | -                | -                      | (1,192)  | (3,454)   | (20,712)                                | (25,358)    |
| Total comprehensive income (loss) for the year ended 31 December 2015 | -                 | -                | -              | -                | 314,003                | (1,192)  | (3,454)   | (20,712)                                | 288,645     |
| Balance as of 31 December 2015  | 1,500,000         | 13,908           | 317,990        | 7,627            | 313,610                | 13,004   | 1,230   | (15,708)                                | 2,151,661   |
| Appropriation and distribution of 2015 earnings:                      |                   |                  |                |                  |                        |  |   |   |             |
| Legal reserves  | -                 | -                | 31,361         | -                | (31,361)               | -  | -   | -                                       | -           |
| Special reserves  | -                 | -                | -              | 1,613            | (1,613)                | -  | -   | -                                       | -           |
| Cash dividends  | -                 | -                | -              | -                | (280,636)              | -  | -   | -                                       | (280,636)   |
| Net income for the year ended 31 December 2016                        | -                 | -                | -              | -                | 296,762                | -  | -   | -                                       | 296,762     |
| Other comprehensive income (loss) for the year ended 31 December 2016 | -                 | -                | -              | -                | -                      | (25,466)   | (1,920)   | 1,525                                   | (25,861)    |
| Total comprehensive income (loss) for the year ended 31 December 2016 | -                 | -                | -              | -                | 296,762                | (25,466)   | (1,920)   | 1,525                                   | 270,901     |
| Balance as of 31 December 2016  | \$1,500,000       | \$13,908         | \$349,351      | \$9,240          | \$296,762              | \$(12,462)   | \$(690)   | \$(14,183)                              | \$2,141,926 |

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Investment Trust Co., Ltd.

Statements of Cash Flows

For the years ended 31 December 2016 and 2015

(Expressed in thousands of New Taiwan Dollars)

| Items   | Notes | 2016               | 2015               |
|---|-------|--------------------|--------------------|
| Cash flows from operating activities:   |       |                    |                    |
| Net income before income tax  |       | \$357,202          | \$373,601          |
| Adjustments items:  |       |                    |                    |
| Income and other adjustments without cash flow effects                          |       |                    |                    |
| Depreciation  | VI    | 19,215             | 7,342              |
| Amortization  | VI    | 7,475              | 7,092              |
| Loss on disposal of property and equipment                                      |       | 10                 | 1,292              |
| Interest income   |       | (15,238)           | (22,650)           |
| Gain on disposal of investments   |       | (2,322)            | (11,087)           |
| Loss (gain) on financial assets at fair value through profit or loss            |       | 20                 | (7)                |
| Share of profit or loss of associates and joint ventures                        | VI    | 2,469              | (11,932)           |
| Net changes in operating assets and liabilities:                                |       |                    |                    |
| Net changes in operating assets:  |       |                    |                    |
| Decrease in accounts receivables  |       | 677                | 953                |
| Increase in accounts receivable - related parties                               |       | (14,391)           | (3,189)            |
| Increase in prepayments   |       | (8,295)            | (205)              |
| Decrease (increase) in other current assets                                     |       | 824                | (660)              |
| Decrease in other non-current assets  |       | 14,138             | 14,139             |
| Net changes in operating liabilities:   |       |                    |                    |
| Increase in other payables  |       | 8,429              | 12,224             |
| Increase (decrease) in other current liabilities                                |       | 3,336              | (2,318)            |
| (Decrease) increase in provision  |       | (4,326)            | 791                |
| Decrease in long-term deferred income   |       | (23,502)           | (23,502)           |
| Cash from operating activities  |       | <u>345,721</u>     | <u>341,884</u>     |
| Interest received   |       | 21,558             | 11,546             |
| Income tax paid   |       | (60,826)           | (71,928)           |
| Net cash provided by operating activities                                       |       | <u>306,453</u>     | <u>281,502</u>     |
| Cash flows from investing activities:   |       |                    |                    |
| Acquisition of financial assets at fair value through profit or loss            |       | (1,123)            | (1,871)            |
| Proceeds from disposal of financial assets at fair value through profit or loss |       | 478                | 1,631              |
| Acquisition of available-for-sale financial assets                              |       | (46,600)           | (71,333)           |
| Proceeds from disposal of available-for-sale financial assets                   |       | 33,053             | 144,333            |
| Acquisition of financial assets at cost   |       | (5,745)            | -                  |
| Acquisition of property and equipment   | VI    | (33,333)           | (39,221)           |
| Proceeds from disposal of property and equipment                                |       | -                  | 4                  |
| Decrease (increase) in refundable deposits                                      | VI    | 23,030             | (2,349)            |
| Acquisition of intangible assets  | VI    | (3,160)            | (8,234)            |
| Net cash (used in) provided by investing activities                             |       | <u>(33,400)</u>    | <u>22,960</u>      |
| Cash flows from financing activities:   |       |                    |                    |
| Cash dividends  |       | (280,636)          | (310,887)          |
| Net cash used in financing activities   |       | <u>(280,636)</u>   | <u>(310,887)</u>   |
| Net decrease in cash and cash equivalents                                       |       | (7,583)            | (6,425)            |
| Cash and cash equivalents at beginning of the period                            |       | <u>1,736,489</u>   | <u>1,742,914</u>   |
| Cash and cash equivalents at end of the period                                  |       | <u>\$1,728,906</u> | <u>\$1,736,489</u> |

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Investment Trust Co., Ltd.

Notes to Financial Statements

31 December 2016 and 2015

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

I . Organization and Operations

Cathay Securities Investment Trust Co., Ltd. (the “Company”) was authorized to be established in Taipei on 11 February 2000. The Company was enfranchised by the Securities and Futures Bureau, Financial Supervisory Commission (“FSC”) in the Republic of China (“the ROC”) on 9 March 2000.

In order to provide immediate services to clients in southern Taiwan, the Company established Kaohsiung branch on 18 September 2008 under permission of Explanatory Letter No. Financial-Supervisory-Securities-IV-0970049791 of the FSC and started its main operating business on 15 December 2008. The Company obtained the business license authorized to establish branches and started its main operating business in Hsinchu and Taichung in June 2011 and May 2010, respectively.

The Company has become one of the subsidiaries of Cathay Financial Holding Co., Ltd. as the former stockholders sold all shares to Cathay Financial Holding Co., Ltd. on 24 June 2011.

The Company has been approved to conduct business in (1) raising securities investment trust funds through issuance of beneficiary certificates to invest in securities and related products ; (2) discretionary investment services ; (3) futures trust business ; (4) securities investment consulting business ; (5) other business permitted by the Securities and Futures Bureau, FSC in the ROC.

II . Date and procedures of authorization of financial statements for issue

The financial statements of the Company for the years ended 2016 and 2015 were authorized for issue in accordance with the Board of Directors’ resolution on 7 March 2017.

III. Newly issued or revised standards and interpretations

1. Standards or interpretations issued, revised or amended, which are recognized by FSC, but not yet adopted by the Group at the date of issuance of the Group's financial statements are listed below.

(1) *IAS 36 "Impairment of Assets" (Amendment)*

This amendments relate to the amendment issued in May 2011 and requires entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendment also requires detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement. The amendments are effective for annual periods beginning on or after 1 January 2014.

(2) *IFRIC 21 "Levies"*

This interpretation provides guidance on when to recognize a liability for a levy imposed by a government (both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain). The interpretation is effective for annual periods beginning on or after 1 January 2014.

(3) *IAS 39 "Financial Instruments: Recognition and Measurement" (Amendment)*

Under the amendments, there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The interpretation is effective for annual periods beginning on or after 1 January 2014.

(4) *IAS 19 "Employee Benefits" (Defined benefit plans: employee contributions)*

The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to provide a policy choice for a simplified accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendments are effective for annual periods beginning on or after 1 July 2014.

(5) *Improvements to International Financial Reporting Standards (2010-2012 cycle):*

*IFRS 2 “Share-based Payment”*

The annual improvements amend the definitions of 'vesting condition' and 'market condition' and add definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition'). The amendments prospectively apply to share-based payment transactions for which the grant date is on or after 1 July 2014.

*IFRS 3 “Business Combinations”*

The amendments include: (1) deleting the reference to "other applicable IFRSs" in the classification requirements; (2) deleting the reference to "IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or other IFRSs as appropriate", other contingent consideration that is not within the scope of IFRS 9 shall be measured at fair value at each reporting date and changes in fair value shall be recognized in profit or loss; (3) amending the classification requirements of IFRS 9 *Financial Instruments* to clarify that contingent consideration that is a financial asset or financial liability can only be measured at fair value, with changes in fair value being presented in profit or loss depending on the requirements of IFRS 9. The amendments apply prospectively to business combinations for which the acquisition date is on or after 1 July 2014.

*IFRS 8 “Operating Segments”*

The amendments require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments. The amendments also clarify that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly. The amendments are effective for annual periods beginning on or after 1 July 2014.

*IFRS 13 “Fair Value Measurement”*

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

IAS 16 “Property, Plant and Equipment”

The amendments clarify that when an item of property, plant and equipment is revalued, the accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendments are effective for annual periods beginning on or after 1 July 2014.

IAS 24 “Related Party Disclosure”

The amendments clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. The amendments are effective for annual periods beginning on or after 1 July 2014.

IAS 38 “Intangible Assets”

The amendments clarify that when an intangible asset is revalued, the accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendments are effective for annual periods beginning on or after 1 July 2014.

(6) *Improvements to International Financial Reporting Standards (2011-2013 cycle):*

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

The amendments clarify that an entity, in its first IFRS financial statements, has the choice between applying an existing and currently effective IFRS or applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early application.

IFRS 3 “Business Combinations”

This amendments clarify that paragraph 2(a) of IFRS 3 *Business Combinations* excludes the formation of all types of joint arrangements as defined in IFRS 11 *Joint Arrangements* from the scope of IFRS 3; and the scope exception only applies to the financial statements of the joint venture or the joint operation itself. The amendments are effective for annual periods beginning on or after 1 July 2014.

IFRS 13 “Fair Value Measurement”

The amendments clarify that paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. The objective of the amendments is to clarify that this portfolio exception applies to all contracts within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 *Financial Instruments: Presentation*. The amendments are effective for annual periods beginning on or after 1 July 2014.

IAS 40 “Investment Property”

The amendments clarify the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property; in determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 *Business Combinations* and investment property as defined in IAS 40 *Investment Property*, separate application of both standards independently of each other is required. The amendments are effective for annual periods beginning on or after 1 July 2014.

(7) *IFRS 14 “Regulatory Deferral Accounts”*

IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRSs. However, to enhance comparability with entities that already apply IFRSs and do not recognize such amounts, the Standard requires that the effect of rate regulation must be presented separately from other items. IFRS 14 is effective for annual periods beginning on or after 1 January 2016.

(8) *IFRS 11 “Joint Arrangements” (Accounting for Acquisitions of Interests in Joint Operations)*

The amendments provide new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments require the entity to apply all of the principles on business combinations accounting in IFRS 3 “Business Combinations”, and other IFRSs (that do not conflict with the guidance in IFRS 11), to the extent of its share in a joint operation acquired. The amendments also require certain disclosure. The amendments are effective for annual periods beginning on or after 1 January 2016.

(9) *IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” — Clarification of Acceptable Methods of Depreciation and Amortization*

The amendments clarify that the use of revenue-based methods to calculate depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, such as selling activities and change in sales volumes or prices. The amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The amendments are effective for annual periods beginning on or after 1 January 2016.

(10) *IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” — Agriculture: Bearer Plants*

The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 *Property, Plant and Equipment*, because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, and the produce growing on bearer plants will remain within the scope of IAS 41. The amendments are effective for annual periods beginning on or after 1 January 2016.

(11) *IAS 27 “Separate Financial Statements” — Equity Method in Separate Financial Statements*

The IASB restored the option to use the equity method under IAS 28 for an entity to account for investments in subsidiaries and associates in the entity’s separate financial statements. In 2003, the equity method was removed from the options. This amendments remove the only difference between the separate financial statements prepared in accordance with IFRSs and those prepared in accordance with the local regulations in certain jurisdictions. The amendments are effective for annual periods beginning on or after 1 January 2016.

(12) *Improvements to International Financial Reporting Standards (2012-2014 cycle):*

*IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”*

The amendments clarify that a change of disposal method of assets (or disposal groups) from disposal through sale or through distribution to owners (or vice versa) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. The amendment also requires identical accounting treatment for an asset (or disposal group) that ceases to be classified as held for sale or as held for distribution to owners. The amendments are effective for annual periods beginning on or after 1 January 2016.

*IFRS 7 “Financial Instruments: Disclosures”*

The amendments clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset and therefore the disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety under IFRS 7 “*Financial Instruments: Disclosures*” is required. The amendments also clarify that whether the IFRS 7 disclosure related to the offsetting of financial assets and financial liabilities are required to be included in the condensed interim financial report would depend on the requirements under IAS 34 *Interim Financial Reporting*. The amendments are effective for annual periods beginning on or after 1 January 2016.

*IAS 19 “Employee Benefits”*

The amendments clarify the requirement under IAS 19.83, that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. The amendments are effective for annual periods beginning on or after 1 January 2016.

*IAS 34 “Interim Financial Reporting”*

The amendments clarify what is meant by “elsewhere in the interim financial report” under IAS 34; the amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendments are effective for annual periods beginning on or after 1 January 2016

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(13) *Disclosure Initiative — Amendment to IAS 1 “Presentation of Financial Statements”:*

The amendments contain (1) clarifying that an entity must not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments reemphasize that, when a standard requires a specific disclosure, the information must be assessed to determine whether it is material and, consequently, whether presentation or disclosure of that information is warranted, (2) clarifying that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated, and how an entity shall present additional subtotals, (3) clarifying that entities have flexibility as to the order in which they present the notes to financial statements, but also emphasize that understandability and comparability should be considered by an entity when deciding on that order, (4) removing the examples of the income taxes accounting policy and the foreign currency accounting policy, as these were considered unhelpful in illustrating what significant accounting policies could be, and (5) clarifying that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2016.

(14) *IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities”, and IAS 28 “Investments in Associates and Joint Ventures” — Investment Entities: Applying the Consolidation Exception*

The amendments contain (1) clarifying that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity when the investment entity measures all of its subsidiary at fair value, (2) clarifying that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated when all other subsidiaries of an investment entity are measured at fair value, and (3) allowing the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendments are effective for annual periods beginning on or after 1 January 2016.

The abovementioned standards and interpretations are issued by IASB and recognized by FSC so that they are applicable for annual periods beginning on or after 1 January 2017. As the Company is currently determining the potential impact of the standards and interpretations listed under (12) and (13), it is not practicable to estimate their impact on the Company at this point in time. The remaining standards and interpretations have no material impact on the Company.

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

(1) *IFRS 15 "Revenue from Contracts with Customers"*

The core principle of the new Standard is for companies to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity performs obligations

The new Standard includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Standard is effective for annual periods beginning on or after 1 January 2018.

(2) *IFRS 9 "Financial Instruments"*

The IASB has issued the final version of IFRS 9, which combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will replace IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9 *Financial Instruments* (which include standards issued on classification and measurement of financial assets and liabilities and hedge accounting).

**Classification and measurement:** Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore there is requirement that 'own credit risk' adjustments are not recognized in profit or loss.

**Impairment:** Expected credit loss model is used to evaluate impairment. Entities are required to recognize either 12-months or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

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Hedge accounting: Hedge accounting is more closely aligned with risk management activities and hedge effectiveness is measured based on the hedge ratio.

The new standard is effective for annual periods beginning on or after 1 January 2018.

- (3) *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.

The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

- (4) *IFRS 16 “Leases”*

The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Lessor accounting still uses the dual classification approach: operating lease and finance lease. The Standard is effective for annual periods beginning on or after 1 January 2019.

- (5) *IAS 12 “Income Taxes” — Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify how to account for deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after 1 January 2017.

- (6) *Disclosure Initiative — Amendment to IAS 7 “Statement of Cash Flows”:*

The amendments relate to changes in liabilities arising from financing activities and to require a reconciliation of the carrying amount of liabilities at the beginning and end of the period. The amendments are effective for annual periods beginning on or after 1 January 2017.

(7) *IFRS 15 “Revenue from Contracts with Customers” — Clarifications to IFRS 15*

The amendments clarify how to identify a performance obligation in a contract, determine whether an entity is a principal or an agent, and determine whether the revenue from granting a license should be recognized at a point in time or over time. The amendments are effective for annual periods beginning on or after 1 January 2018.

(8) *IFRS 2 “Share-Based Payment” — Amendments to IFRS 2*

The amendments contain (1) clarifying that vesting conditions (service and non-market performance conditions), upon which satisfaction of a cash-settled share-based payment transaction is conditional, are not taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, these are taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction, (2) clarifying if tax laws or regulations require the employer to withhold a certain amount in order to meet the employee’s tax obligation associated with the share-based payment, such transactions will be classified in their entirety as equity-settled share-based payment transactions if they would have been so classified in the absence of the net share settlement feature, and (3) clarifying that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date and is recognized in equity, on the modification date, to the extent to which goods or services have been received. The liability for the cash-settled share-based payment transaction as at the modification date is derecognized on that date. Any difference between the carrying amount of the liability derecognized and the amount recognized in equity on the modification date is recognized immediately in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2018.

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### (9) *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts — Amendments to IFRS 4*

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

### (10) *Transfers of Investment Property — Amendments to IAS 40*

The amendments relate to the transfers of investment property. The amendments clarify that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use, the entity should transfer property into and out of investment property accordingly. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. The amendments are effective for annual periods beginning on or after 1 January 2018.

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

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

The amendments revise and amend transition requirements relating to certain standards and *delete* short-term exemptions under Appendix E for first-time adopter. The amendments are effective for annual periods beginning on or after 1 January 2018.

#### *IFRS 12 “Disclosure of Interests in Other Entities”*

The amendments clarify that the disclosure requirements stated in IFRS 12, other than in paragraphs B10–B16, apply to an entity’s interests that are classified as held for sale or discontinued operations. The amendments are effective for annual periods beginning on or after 1 January 2017.

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### *IAS 28 “Investments in Associates and Joint Ventures”*

The amendments clarify that when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and other qualifying entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9 “Financial Instruments” on an investment-by-investment basis. Besides, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries on an investment-by-investment basis. The amendments are effective for annual periods beginning on or after 1 January 2018.

### (12) *IFRIC 22 “Foreign Currency Transactions and Advance Consideration”*

The interpretation clarifies that when applying paragraphs 21 and 22 of IAS 21 “The Effects of Changes in Foreign Exchange Rates”, in determining the spot exchange rate on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation is effective for annual periods beginning on or after 1 January 2018.

The abovementioned standards and interpretations issued by IASB have not yet been endorsed by FSC at the date when the Company’s financial statements were authorized for issue; the local effective dates are to be determined by FSC. As the Company is currently determining the potential impact of the standards and interpretations listed under (2), (4) and (6), it is not practicable to estimate their impact on the Company at this point in time. All other standards and interpretations have no material impact on the Company.

## IV. Summary of significant accounting policies

### 1. Statement of compliance

The financial statements of the Company for the years ended 31 December 2016 and 2015 have been prepared in accordance with the Regulations Governing Securities Investment Trust Enterprises, International Financial Reporting Standards, International Accounting Standards, and relevant interpretations and interpretative bulletins recognized by the FSC.

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### 2. Basis of preparation

The financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The financial statements are expressed in thousands of New Taiwan Dollars unless otherwise stated.

### 3 Foreign currency transactions

The Company's financial statements are presented in New Taiwan Dollar, which is also the Company's functional currency.

Transactions in foreign currencies are initially recorded by the Company at its functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

- (1) Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- (2) Foreign currency items within the scope of IAS 39 Financial Instruments: Recognition and Measurement are accounted for based on the accounting policy for financial instruments.
- (3) Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

4. Current and non-current distinction

An asset is classified as current when:

- (1) The Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
- (2) The Company holds the asset primarily for the purpose of trading
- (3) The Company expects to realize the asset within twelve months after the reporting period
- (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 Company expects to settle the liability in its normal operating cycle
- (2) The Company holds the liability primarily for the purpose of trading
- (3) The liability is due to be settled within twelve months after the reporting period
- (4) The Company does not have an unconditional right to defer settlement of the liability 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.

5. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments (including within twelve months' time deposits) that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

6. Financial instruments

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

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

(1) Financial assets

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. A financial asset 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 asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

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

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Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment). If financial assets do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheets and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

### Available-for-sale financial assets

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

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

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

### Held-to-maturity financial assets

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

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

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### Loans and receivables

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

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

### Impairment of financial assets

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

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

Other loss events include:

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

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For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

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

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

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### Derecognition of financial assets

A financial asset is derecognized when:

- (A) The rights to receive cash flows from the asset have expired
- (B) The Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred
- (C) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

### (2) Financial liabilities and equity

#### Classification between liabilities or equity

The Company 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 (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

#### Financial liabilities

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

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### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. A financial liability is classified as held for trading if:

- (A) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- (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 at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

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

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid are recognized in profit or loss.

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

### Financial liabilities 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.

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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.

## 7. 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.

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.

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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 uses 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.

### 8. Investments accounted for using the equity method

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

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's 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 has 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 the associate or joint venture are eliminated to the extent of the Company's 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's percentage of ownership interests in the associate or joint venture, the Company recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate or joint venture on a pro rata basis.

When the associate or joint venture issues new stock, and the Company interest in an associate or a joint venture is reduced or increased as the Company fails 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 disposes the associate or joint venture.

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

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate 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 the associate or joint venture, the Company measures and recognizes 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.

### 9. Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property and equipment are required to be replaced in intervals, the Company recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 *Property, plant and equipment*. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

|                        |              |
|------------------------|--------------|
| Computer equipment     | 3 - 6 years  |
| Office equipment       | 5 - 10 years |
| Leasehold improvements | 3 - 5 years  |

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An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

### 10. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit ("CGU") level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

#### Computer software

The cost of computer software is amortized on a straight-line basis over the estimated useful life (3 to 5 years).

11. Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 *Impairment of Assets* may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where 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.

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 estimates the asset's or CUG'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, had no impairment loss been recognized for the asset in prior years.

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

12. Recognition of revenue

The Company's operating income mainly comprise management fee income and sales charge income. The Company receives management fees resulting from managing the trust funds. Sales charge income earned when the client subscribe the trust fund. The abovementioned income are recognized on an accrual basis.

13. Post-employment benefits

All regular employees of the Company 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. Therefore fund assets are not included in the Company's financial statements.

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For the defined contribution plan, the Company 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.

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. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to other equity in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

- (a) the date of the plan amendment or curtailment, and
- (b) the date that the Company recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

### 14. Provisions

Provisions are recognized when the Company has 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. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. 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 finance cost.

#### Provision for decommissioning, restoration and rehabilitation costs

The provision for decommissioning, restoration and rehabilitation costs arose on construction of a property, plant 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 finance 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.

15. Income taxes

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

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.

The 10% surtax on undistributed retained earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- i. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- ii. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

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- i. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- ii. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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 deferred tax 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.

Cathay Financial Holding Co., Ltd. has adopted the consolidated income tax return for income tax filings with its qualified subsidiaries, including the Company.

### V. Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements require the management to make judgements, 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 asset or liability affected in future periods.

#### 1. Judgements

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

The classification of financial assets

The management must make judgement for the classification of financial assets which would affect the method of accounting and the financial position and the result of operation of the Company.

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) Impairment of non-financial assets

An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs that would be directly attributable to the disposal of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows projections are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

(2) Income tax

Deferred tax assets are recognized for all carryforward 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.

(3) Pension benefits

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

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VI. Contents of significant accounts

1. Cash and cash equivalents

|   | 2016.12.31  | 2015.12.31  |
|---|-------------|-------------|
| Cash on hand                                    | \$50        | \$50        |
| Demand deposits                                 | 39,154      | 23,658      |
| Check deposits                                  | 25,653      | 6,487       |
| Time deposits                                   | 1,159,049   | 1,502,366   |
| Securities purchased under agreements to resell | 505,000     | 203,928     |
| Total   | \$1,728,906 | \$1,736,489 |

Time deposits were within twelve months' readily convertible to known amounts of cash and be subjected to an insignificant risk of changes in value.

2. Financial assets

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

|  | 2016.12.31 | 2015.12.31 |
|--|------------|------------|
| Beneficiary certificates— open-end funds | \$164      | \$240      |

(2) Available-for-sale financial assets – non-current

|  | 2016.12.31 | 2015.12.31 |
|--|------------|------------|
| Beneficiary certificates— open-end funds | \$74,695   | \$60,746   |

(3) Financial assets at cost-non current

|                                     | 2016.12.31 | 2015.12.31 |
|-------------------------------------|------------|------------|
| Available-for-sale financial assets |            |            |
| Stocks                              | \$5,745    | \$-        |

The above non-listed (non-OTC-listed) stock investments owned by the Company were unable to be measured by their fair value given the significant interval of the reasonable estimates of the fair value and the probability of the estimates cannot be reasonably calculated. These investments were measured at cost.

No financial asset was pledged.

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3. Investments accounted for using the equity method

The following lists the investments accounted for using the equity method of the Company:

|  |                 | 31 December 2016            |  |
|--|-----------------|-----------------------------|--|
| Investees                              | Carrying amount | Percentage of ownership (%) |  |
| <b>Investments in associates</b>       |                 |                             |  |
| CDBS Cathay Asset Management Co., Ltd. | \$263,243       | 33.3%                       |  |
|  |                 | 31 December 2015            |  |
| Investees                              | Carrying amount | Percentage of ownership (%) |  |
| <b>Investments in associates</b>       |                 |                             |  |
| CDBS Cathay Asset Management Co., Ltd. | \$291,178       | 33.3%                       |  |

The summarized financial information of the associate is as follows:

|   | 2016.12.31 | 2015.12.31 |
|---|------------|------------|
| Current assets                            | \$775,556  | \$754,608  |
| Non-current assets                        | 87,918     | 181,652    |
| Current liabilities                       | (72,955)   | (50,258)   |
| Non-current liabilities                   | -          | (11,594)   |
| Equity                                    | 790,519    | 874,408    |
| Proportion of the Company's ownership     | 33.3%      | 33.3%      |
| Carrying amount of the investment         | \$263,243  | \$291,178  |
| For the years ended 31                    |            |            |
| December                                  |            |            |
|   | 2016       | 2015       |
| Operating revenue                         | \$110,559  | \$71,821   |
| Profit or loss from continuing operations | (7,414)    | 35,831     |
| Other comprehensive income                | -          | -          |
| Total comprehensive income                | (7,414)    | 35,831     |

(1) The Company acquired 33.3% shareholding of CDBS Cathay Asset Management Co., Ltd. for CNY 66.6 million in August 2013. The reinvestment has approved by the Investment Commission, Ministry of Economic Affairs (MOEAIC). For investment in Mainland China, please refer to Note XII.

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(2) The shares of the associates that the Company invested in do not have a quoted market price and the associates are not significantly restricted in term of ability to transfer funds to the investors in the form of cash dividends, repayment of loans or advances.

(3) No investment in associates was pledged as of 31 December 2016 and 2015.

4. Property and equipment

|                              | <u>Computer<br/>equipment</u> | <u>Office<br/>equipment</u> | <u>Leasehold<br/>improvements</u> | <u>Total</u>      |
|------------------------------|-------------------------------|-----------------------------|-----------------------------------|-------------------|
| Cost:                        |                               |                             |                                   |                   |
| 2016.1.1                     | \$34,297                      | \$10,679                    | \$64,624                          | \$109,600         |
| Additions                    | 1,294                         | 573                         | 154                               | 2,021             |
| Disposals                    | (299)                         | (307)                       | -                                 | (606)             |
| 2016.12.31                   | <u>\$35,292</u>               | <u>\$10,945</u>             | <u>\$64,778</u>                   | <u>\$111,015</u>  |
| 2015.1.1                     | \$25,278                      | \$7,639                     | \$28,182                          | \$61,099          |
| Additions                    | 11,170                        | 3,110                       | 62,838                            | 77,118            |
| Disposals                    | (2,151)                       | (70)                        | (26,396)                          | (28,617)          |
| 2015.12.31                   | <u>\$34,297</u>               | <u>\$10,679</u>             | <u>\$64,624</u>                   | <u>\$109,600</u>  |
| Depreciation and impairment: |                               |                             |                                   |                   |
| 2016.1.1                     | \$(15,709)                    | \$(5,363)                   | \$(4,349)                         | \$(25,421)        |
| Depreciation                 | (4,556)                       | (1,157)                     | (13,502)                          | (19,215)          |
| Disposals                    | 292                           | 304                         | -                                 | 596               |
| 2016.12.31                   | <u>\$(19,973)</u>             | <u>\$(6,216)</u>            | <u>\$(17,851)</u>                 | <u>\$(44,040)</u> |
| 2015.1.1                     | \$(14,184)                    | \$(4,547)                   | \$(26,669)                        | \$(45,400)        |
| Depreciation                 | (3,402)                       | (871)                       | (3,069)                           | (7,342)           |
| Disposals                    | 1,877                         | 55                          | 25,389                            | 27,321            |
| 2015.12.31                   | <u>\$(15,709)</u>             | <u>\$(5,363)</u>            | <u>\$(4,349)</u>                  | <u>\$(25,421)</u> |
| Net carrying amount as at:   |                               |                             |                                   |                   |
| 2016.12.31                   | <u>\$15,319</u>               | <u>\$4,729</u>              | <u>\$46,927</u>                   | <u>\$66,975</u>   |
| 2015.12.31                   | <u>\$18,588</u>               | <u>\$5,316</u>              | <u>\$60,275</u>                   | <u>\$84,179</u>   |

No property and equipment was pledged.

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5. Intangible assets

|                             | 2016.1.1        | Addition-<br>acquired<br>separately | Amortization     | 2016.12.31     |
|-----------------------------|-----------------|-------------------------------------|------------------|----------------|
| Computer software           |                 |                                     |                  |                |
| Cost                        | \$58,029        | \$3,160                             | \$-              | \$61,189       |
| Amortization and impairment | (44,221)        | -                                   | (7,475)          | (51,696)       |
| Net carrying amount         | <u>\$13,808</u> | <u>\$3,160</u>                      | <u>\$(7,475)</u> | <u>\$9,493</u> |

|                             | 2015.1.1        | Addition-<br>acquired<br>separately | Amortization     | 2015.12.31      |
|-----------------------------|-----------------|-------------------------------------|------------------|-----------------|
| Computer software           |                 |                                     |                  |                 |
| Cost                        | \$49,795        | \$8,234                             | \$-              | \$58,029        |
| Amortization and impairment | (37,129)        | -                                   | (7,092)          | (44,221)        |
| Net carrying amount         | <u>\$12,666</u> | <u>\$8,234</u>                      | <u>\$(7,092)</u> | <u>\$13,808</u> |

6. Refundable deposits

|                            | 2016.12.31       | 2015.12.31       |
|----------------------------|------------------|------------------|
| Lease deposits             | \$10,357         | \$19,387         |
| Security deposits (Note1)  | 158,070          | 172,070          |
| Operating deposits (Note2) | 50,000           | 50,000           |
| Total                      | <u>\$218,427</u> | <u>\$241,457</u> |

Note 1: Security deposits were used as collaterals in certain discretionary contracts.

Note 2: Operating deposits were aiming to operate the futures trust business and discretionary investment in according to “Standards Governing the Establishment of Futures Trust Enterprises” and “Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises”.

7. Deferred expenses and income

On 6 August 2014, 24 October 2013 and 26 October 2012, the Company organized principal protected investment trust funds, and received fund management fees incomes of the contract amounted to \$170,631 (calculated by raised scale accordingly) and paid distributors \$102,644 for sales charge, which were recognized as deferred income and expenses, respectively. The Company offered management service, in accordance with the contracts and transferred deferred income and expenses to management fees income and operating expenses over time.

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For the year ended 31 December 2016, prepayments which will be transferred to expenses in one year and other non-current assets which will be transferred to expenses one year later are amounted to \$14,139 and \$39,432, respectively. Deferred income which will be transferred to revenue in one year and long-term deferred income which will be transferred to revenue one year later are amounted to \$23,502 and \$65,605, respectively. The amounts that have been transferred to management fees income and operating expenses amounted to \$23,502 and \$14,139, respectively.

For the year ended 31 December 2015, prepayments which will be transferred to expenses in one year and other non-current assets which will be transferred to expenses one year later are amounted to \$14,139 and \$53,570, respectively. Deferred income which will be transferred to revenue in one year and long-term deferred income which will be transferred to revenue one year later are amounted to \$23,502 and \$89,107, respectively. The amounts that have been transferred to management fees income and operating expenses amounted to \$23,502 and \$14,139, respectively.

### 8. Post-employment benefits

#### Defined contribution plan

The Company adopt a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company and its domestic subsidiaries will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company have made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Operating expenses under the defined contribution plan for the years ended 31 December 2016 and 2015 are \$14,410 and \$14,179, respectively.

#### Defined benefits plan

The Company adopts 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 one month's average wage of the worker at the time when his or her retirement is approved. 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 contributes 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. Before the end of each year, the Company assesses the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the following year, the Company will make up the difference in one appropriation before the end of March of the following year.

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The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandatory, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes control and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Company expects to contribute \$4,680 to its defined benefit plan in upcoming 12 months beginning after 31 December 2016.

The average duration of the defined benefits plan obligation as at 31 December 2016 and 2015, both are expected to expire in 2030.

Pension costs recognized in profit or loss for the years ended 31 December 2016 and 2015:

|                              | <u>For the years ended 31 December</u> |                  |
|------------------------------|--|------------------|
|                              | <u>2016</u>                            | <u>2015</u>      |
| Current period service costs | \$(2,232)                              | \$(1,997)        |
| Net interest expense         | (1,274)                                | (1,192)          |
| Total                        | <u>\$(3,506)</u>                       | <u>\$(3,189)</u> |

Reconciliation of asset (liability) of the defined benefit plan were as follows:

|  | <u>2016.12.31</u> | <u>2015.12.31</u> |
|--|-------------------|-------------------|
| Defined benefit obligation                                       | \$(93,889)        | \$(95,217)        |
| Plan assets at fair value  | <u>21,306</u>     | <u>16,471</u>     |
| Net defined benefit liabilities recognized on the balance sheets | <u>\$(72,583)</u> | <u>\$(78,746)</u> |

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|   | Defined<br>benefit<br>obligation | Fair value of<br>plan assets | Net defined<br>benefit asset<br>(liability) |
|---|----------------------------------|------------------------------|---|
| 2015.1.1  | \$(69,913)                       | \$16,911                     | \$(53,002)                                  |
| Current period service costs  | (1,997)                          | -                            | (1,997)                                     |
| Net interest income (expense)   | (1,573)                          | 381                          | (1,192)                                     |
| Subtotal  | (3,570)                          | 381                          | (3,189)                                     |
| Remeasurements of the net defined benefit asset<br>(liability):               |                                  |                              |   |
| Actuarial gains and losses arising from<br>changes in demographic assumptions | (1,209)                          | -                            | (1,209)                                     |
| Actuarial gains and losses arising from<br>changes in financial assumptions   | (18,302)                         | -                            | (18,302)                                    |
| Experience adjustments  | (5,508)                          | -                            | (5,508)                                     |
| Return on plan assets   | -                                | 65                           | 65  |
| Subtotal  | (25,019)                         | 65                           | (24,954)                                    |
| Payments from the plan  | 3,285                            | (3,285)                      | -   |
| Contributions by employer   | -                                | 2,399                        | 2,399                                       |
| 2015.12.31  | (95,217)                         | 16,471                       | (78,746)                                    |
| Current period service costs  | (2,232)                          | -                            | (2,232)                                     |
| Net interest income (expense)   | (1,562)                          | 288                          | (1,274)                                     |
| Subtotal  | (3,794)                          | 288                          | (3,506)                                     |
| Remeasurements of the net defined benefit asset<br>(liability):               |                                  |                              |   |
| Actuarial gains and losses arising from<br>changes in demographic assumptions | 573                              | -                            | 573   |
| Actuarial gains and losses arising from<br>changes in financial assumptions   | 7,458                            | -                            | 7,458                                       |
| Experience adjustments  | (6,059)                          | -                            | (6,059)                                     |
| Return on plan assets   | -                                | (134)                        | (134)                                       |
| Subtotal  | 1,972                            | (134)                        | 1,838                                       |
| Payments from the plan  | 3,150                            | (3,150)                      | -   |
| Contributions by employer   | -                                | 7,831                        | 7,831                                       |
| 2016.12.31  | \$(93,889)                       | \$21,306                     | \$(72,583)                                  |

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The following significant actuarial assumptions are used to determine the present value of the defined benefit plan:

|                                   |                   |                   |
|-----------------------------------|-------------------|-------------------|
|                                   | <u>2016.12.31</u> | <u>2015.12.31</u> |
| Discount rate                     | 1.50%-1.80%       | 1.50%-1.75%       |
| Expected rate of salary increases | 2.50%             | 3.00%             |

A sensitivity analysis for significant assumption is as shown below:

|                                 |   |   |   |   |
|---------------------------------|---|---|---|---|
|                                 | <u>For the years ended 31 December</u>          |   |   |   |
|                                 | <u>2016</u>                                     |   | <u>2015</u>                                     |   |
|                                 | Increase on<br>defined<br>benefit<br>obligation | Decrease on<br>defined<br>benefit<br>obligation | Increase on<br>defined<br>benefit<br>obligation | Decrease on<br>defined<br>benefit<br>obligation |
| Discount rate increases by 0.5% | \$-   | \$6,185   | \$-   | \$6,480   |
| Discount rate decreases by 0.5% | 7,088   | -   | 7,155   | -   |
| Future salary increases by 0.5% | 6,993   | -   | 7,023   | -   |
| Future salary decreases by 0.5% | -   | 6,168   | -   | 6,430   |

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

9. Provisions

|   |                   |                   |
|---|-------------------|-------------------|
|   | <u>2016.12.31</u> | <u>2015.12.31</u> |
| Decommissioning, restoration and rehabilitation | \$6,750           | \$6,750           |
| Benefit liability                               | 72,583            | 78,746            |
| Total   | <u>\$79,333</u>   | <u>\$85,496</u>   |

Decommissioning, restoration and rehabilitation

A provision has been recognized for decommissioning costs associated with the office. The Company is committed to decommissioning the site as a result of the construction of the office.

10. Equity

(1) Common Stock

As of 31 December 2016 and 31 December 2015, the authorized and issued capital of the Company both were \$1,500,000, at par value of \$10 New Taiwan Dollar divided into 150,000 thousand shares.

(2) Capital reserves

As of 31 December 2016 and 31 December 2015, capital surplus of the Company both were \$13,908.

According to the Company Act, the capital reserve shall not be used except for making good the deficit of the company. When a company incurs no loss, it may distribute the capital reserves related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

(3) Legal reserves

According to the Company Act, 10% of the Company's after-tax net income in the current year must be appropriated to legal reserve unless where such legal reserve amounts to the total authorized capital. This legal reserve can be used to make good the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal reserve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of shareholders.

(4) Special reserves

According to the Rules Governing Future Trust Enterprises, the Company shall appropriate 20% of the current year after income tax earnings as special reserve. Once the special reserve reaches the paid-in capital, it shall not be appropriated.

(5) Retained earnings

Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior year's operating losses and then 10% of the remaining amount shall be set aside as legal reserve and appropriate in specific ratio of special reserve. The remaining earnings should be appropriated in accordance with the board meetings, the Company shall appropriate 1% as employees' bonus and remaining amount with prior years' accumulated undistributed earnings use as retained earnings and if any, shall appropriate as special reserve for business need.

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However, according to the addition of Article 235-1 of the Company Act announced on 20 May, 2015, the Company shall provide a fixed amount or percentage of the actual profit of the current year to be distributed as employees' compensation. On 4 November 2015, the Company held the Board of Directors meeting to pass the resolution of amendment to the Articles of Incorporation. According to the amended Articles of Incorporations, 1% of profit shall be set aside and distributed as employees' compensation if the Company makes the profit for the year and accumulated losses have been offset. Please refer to Note VI (12) for further details on employees' compensation.

11. Operating income

|  | For the years ended 31<br>December |                    |
|--|------------------------------------|--------------------|
|  | 2016                               | 2015               |
| Management fees income                 | \$1,501,399                        | \$1,396,363        |
| Sales and Advisory service fees income | 5,283                              | 9,144              |
| Total                                  | <u>\$1,506,682</u>                 | <u>\$1,405,507</u> |

12. Operating expenses

Summary statement of employee benefits, depreciation and amortization expenses by function during the years ended 31 December 2016 and 2015:

|                         | For the years ended 31<br>December |           |
|-------------------------|------------------------------------|-----------|
|                         | 2016                               | 2015      |
| Personnel expenses      |                                    |           |
| Salary                  | \$466,481                          | \$482,781 |
| Insurance               | 29,514                             | 30,085    |
| Pension                 | 17,916                             | 17,368    |
| Other employee benefits | 12,615                             | 8,939     |
| Depreciation            | 19,215                             | 7,342     |
| Amortization            | 7,475                              | 7,092     |

A resolution was passed at a Board of Directors meeting of the Company held on 4 November 2015 to amend the Articles of Incorporation of the Company. According to the resolution, 1% of profit of the current year is distributable as employees' compensation. However, the Company's accumulated losses shall have been offset. The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in cash.

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Based on profit of current year, the Company estimated the amounts of the employees' compensation for the year ended 31 December 2016 and 2015 to be 1% of profit of current year recognized \$3,608 and \$3,766, respectively, as employee benefits expense. If the estimated amounts differ from the actual distribution resolved by the Board of Directors, the Company will recognize the difference as an adjustment to current income.

On 16 March 2016, the amount of employees' compensation resolved at the Board of Directors meeting to be paid for the year ended 31 December 2015 was \$3,770. There was no material difference between the estimated amount and the actual distribution of the employee' compensation for the year ended 31 December 2015.

13. Components of other comprehensive income

For the year ended 31 December 2016

|  | Arising during<br>the period | Reclassification<br>adjustments<br>during the period | Other<br>comprehensive<br>income, before tax | Income tax relating<br>to components of<br>other comprehensive<br>income | Other<br>comprehensive<br>income, net of tax |
|--|------------------------------|--|--|--|--|
| Not to be reclassified to profit or loss in<br>subsequent periods:                           |                              |  |  |  |  |
| Remeasurements of defined benefit plans  | \$1,838                      | \$-  | \$1,838                                      | \$(313)  | \$(1,525)                                    |
| To be reclassified to profit or loss in subsequent<br>periods:                               |                              |  |  |  |  |
| Unrealized gains on available-for-sale financial<br>assets                                   | 402                          | (2,322)  | (1,920)                                      | -  | (1,920)                                      |
| Share of other comprehensive income of<br>associate accounted for using the equity<br>method | (25,466)                     | -  | (25,466)                                     | -  | (25,466)                                     |
| <b>Total of other comprehensive income</b>   | <b>\$(23,226)</b>            | <b>\$(2,322)</b>                                     | <b>\$(25,548)</b>                            | <b>\$(313)</b>   | <b>\$(25,861)</b>                            |



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- (2) A reconciliation between tax expense and the product accounting profit multiplied by applicable tax rates is as follows:

|  | For the year ended 31 |           |
|--|-----------------------|-----------|
|  | December              |           |
|  | 2016                  | 2015      |
| Accounting profit before tax from continuing operations                        | \$357,202             | \$373,601 |
| Tax at the domestic rates applicable to profits in the country concerned (17%) | \$60,724              | \$63,512  |
| Adjustments in respect of current income tax of prior periods                  | 7                     | -         |
| Tax effect of deferred tax assets/liabilities                                  | 100                   | (2,028)   |
| Tax effect of revenue exempt from taxation                                     | (391)                 | (1,886)   |
| Tax effect of expenses not deductible for tax purposes                         | -                     | -         |
| Total income tax expense recognized in profit or loss                          | \$60,440              | \$59,598  |

- (3) Deferred tax assets (liabilities) relate to the following:

For the year ended 31 December 2016

|   | Beginning<br>balance as at 1<br>January 2016 | Deferred tax<br>income<br>recognized in<br>profit or loss | Deferred tax<br>income<br>recognized in<br>other<br>comprehensive<br>income | Ending<br>balance as at<br>31 December<br>2016 |
|---|--|---|---|--|
| Temporary differences                                     |  |   |   |  |
| Defined benefit liability                                 | \$13,387                                     | \$(735)   | \$(313)   | \$12,339                                       |
| Unrealized (gains) losses on<br>foreign currency exchange | (1,855)                                      | 3,869   | -   | 2,014  |
| Decommissioning costs                                     | 19   | 230   | -   | 249  |
| Unrealized salary expenses                                | 16   | 104   | -   | 120  |
| Deferred tax income                                       |  | \$3,468   | \$(313)   |  |
| Net deferred tax assets                                   | \$11,567                                     |   |   | \$14,722                                       |
| Reflected in balance sheets as follows:                   |  |   |   |  |
| Deferred tax assets                                       | \$13,422                                     |   |   | \$14,722                                       |
| Deferred tax liabilities                                  | \$(1,855)                                    |   |   | \$-  |

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For the year ended 31 December 2015

|   | Beginning<br>balance as at 1<br>January 2015 | Deferred tax<br>income<br>recognized in<br>profit or loss | Deferred tax<br>income<br>recognized in<br>other<br>comprehensive<br>income | Ending<br>balance as at<br>31 December<br>2015 |
|---|--|---|---|--|
| Temporary differences                                     |  |   |   |  |
| Defined benefit liability                                 | \$9,011                                      | \$134   | \$4,242   | \$13,387                                       |
| Unrealized (gains) losses on<br>foreign currency exchange | (1,947)                                      | 92  | -   | (1,855)  |
| Decommissioning costs                                     | -  | 19  | -   | 19   |
| Unrealized salary expenses                                | -  | 16  | -   | 16   |
| Deferred tax income                                       |  | \$261   | \$4,242   |  |
| Net deferred tax assets                                   | \$7,064                                      |   |   | \$11,567                                       |
| Reflected in balance sheets as<br>follows:                |  |   |   |  |
| Deferred tax assets                                       | \$9,011                                      |   |   | \$13,422                                       |
| Deferred tax liabilities                                  | \$(1,947)                                    |   |   | \$(1,855)                                      |

(4) Imputation credit account:

|                                      | 2016.12.31 | 2015.12.31 |
|--------------------------------------|------------|------------|
| Balance of imputation credit account | \$-        | \$-        |

The estimated and actual creditable ratio for the years ended 31 December 2016 and 31 December 2015 were 0% and 0%, respectively.

Components of undistributed earnings:

|            | 2016.12.31 | 2015.12.31 |
|------------|------------|------------|
| After 1998 | \$296,762  | \$313,610  |

(5) The assessment of income tax returns

As of 31 December 2016, the Company's income tax returns for the years prior to 2011 have been assessed by tax authority.

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15. Earnings per share

Basic earnings per share were calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

The Company did not issue any dilutive potential ordinary shares. Therefore, the Company did not need to adjust diluted earnings per share.

|   | For the years ended 31<br>December |           |
|---|------------------------------------|-----------|
|   | 2016                               | 2015      |
| Profit attributable to ordinary equity holders of the Company<br>(in thousand NT\$)                   | \$296,762                          | \$314,003 |
| Weighted average number of ordinary shares outstanding for<br>basic earnings per share (in thousands) | 150,000                            | 150,000   |
| Basic earnings per share (NT\$)   | \$1.98                             | \$2.09    |

There had been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date the financial statements were authorized for issue.

VII. Related party transactions

1. Cash in bank

The Company's deposits and related interest income and interest receivable in Cathay United Bank Co., Ltd are as follows:

|  | 2016.12.31 | 2015.12.31 |
|--|------------|------------|
| Other related parties  |            |            |
| Cathay United Bank Co., Ltd.                                     |            |            |
| Cash in bank   | \$53,766   | \$6,754    |
| Refundable deposits  | \$114,800  | \$136,100  |
| Interest income (accounted as non-operating income and expenses) | \$473      | \$1,474    |

2. Management fees income and accounts receivable

Management fees income

|  | For the years ended 31 December |    |             |    |
|--|---------------------------------|----|-------------|----|
|  | 2016                            |    | 2015        |    |
|  | Amounts                         | %  | Amounts     | %  |
| Other related parties                        |                                 |    |             |    |
| The funds managed by the Company             | \$1,275,642                     | 85 | \$1,131,997 | 81 |
| Discretionary Investment Account-Cathay Life | 109,201                         | 7  | 124,013     | 9  |

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| Related parties                          | For the years ended 31 December |           |                    |           |
|--|---------------------------------|-----------|--------------------|-----------|
|  | 2016                            |           | 2015               |           |
|  | Amounts                         | %         | Amounts            | %         |
| Insurance Co., Ltd.                      |                                 |           |                    |           |
| Discretionary Investment Account-Cathay  | 4,468                           | -         | 1,760              | -         |
| Century Insurance Co., Ltd.              |                                 |           |                    |           |
| Discretionary Investment Account-Cathay  | 377                             | -         | 254                | -         |
| Charity Foundation                       |                                 |           |                    |           |
| Discretionary Investment Account- Cathay | -                               | -         | 4                  | -         |
| Cultural Foundation                      |                                 |           |                    |           |
| <b>Total</b>                             | <b>\$1,389,688</b>              | <b>92</b> | <b>\$1,258,028</b> | <b>90</b> |

Accounts receivable resulting from management fees income to related-parties as of 31 December 2016 and 31 December 2015 are summarized as follows:

| Related parties                         | 2016.12.31       |           | 2015.12.31       |           |
|---|------------------|-----------|------------------|-----------|
|   | Amounts          | %         | Amounts          | %         |
| Other related parties                   |                  |           |                  |           |
| The funds managed by the Company        | \$111,523        | 84        | \$97,496         | 82        |
| Discretionary Investment Account-Cathay | 9,834            | 8         |                  |           |
| Life Insurance Co., Ltd.                |                  |           | 9,602            | 8         |
| Discretionary Investment Account-Cathay | 303              | -         |                  |           |
| Century Insurance Co., Ltd.             |                  |           | 140              | -         |
| Discretionary Investment Account-Cathay | 22               | -         |                  |           |
| Charity Foundation                      |                  |           | 16               | -         |
| <b>Total</b>                            | <b>\$121,682</b> | <b>92</b> | <b>\$107,254</b> | <b>90</b> |

3. Advisory services income

| Related parties                                       | For the years ended 31 December |   |         |   |
|---|---------------------------------|---|---------|---|
|   | 2016                            |   | 2015    |   |
|   | Amounts                         | % | Amounts | % |
| Other related parties                                 |                                 |   |         |   |
| The fund investment with the Company's decision right | \$408                           | - | \$181   | - |

Accounts receivable resulting from Advisory services income to related-parties as of 31 December 2016 and 31 December 2015 are summarized as follows:

| Related parties                                       | 2016.12.31 |   | 2015.12.31 |   |
|---|------------|---|------------|---|
|   | Amounts    | % | Amounts    | % |
| Other related parties                                 |            |   |            |   |
| The fund investment with the Company's decision right | \$8        | - | \$45       | - |

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4. Rental expense and refundable deposits

Details of rental expense of the office and car leased from related parties were as follows:

|                                 | For the years ended 31<br>December |          |
|---------------------------------|------------------------------------|----------|
|                                 | 2016                               | 2015     |
| Other related parties           |                                    |          |
| Cathay Life Insurance Co., Ltd. | \$45,039                           | \$41,609 |

Refundable deposits of the office premises from Cathay Life Insurance Co., Ltd. were \$10,093 and \$19,123 as of 31 December 2016 and 31 December 2015, respectively.

5. Financial assets at fair value through profit or loss

| Related parties                  | 2016.12.31      |          |
|----------------------------------|-----------------|----------|
|                                  | Account balance | Unit     |
| Other related parties            |                 |          |
| The funds managed by the Company | \$164           | 10,118.0 |

| Related parties                  | 2015.12.31      |          |
|----------------------------------|-----------------|----------|
|                                  | Account balance | Unit     |
| Other related parties            |                 |          |
| The funds managed by the Company | \$240           | 13,238.0 |

6. Available-for-sale financial assets

| Related parties                  | 2016.12.31      |             |
|----------------------------------|-----------------|-------------|
|                                  | Account balance | Unit        |
| Other related parties            |                 |             |
| The funds managed by the Company | \$74,695        | 3,981,696.2 |

| Related parties                  | 2015.12.31      |             |
|----------------------------------|-----------------|-------------|
|                                  | Account balance | Unit        |
| Other related parties            |                 |             |
| The funds managed by the Company | \$60,746        | 2,448,129.7 |

7. Prepaid expenses (Note 1)

| Related parties                 | 2016.12.31 | 2015.12.31 |
|---------------------------------|------------|------------|
| Other related parties           |            |            |
| Cathay Life Insurance Co., Ltd. | \$13,272   | \$13,272   |

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8. Other non-current assets-other (Note 1)

| Related parties                 | 2016.12.31 | 2015.12.31 |
|---------------------------------|------------|------------|
| Other related parties           |            |            |
| Cathay Life Insurance Co., Ltd. | \$37,856   | \$51,129   |

9. Other payables

| Related parties                            | 2016.12.31 | 2015.12.31 |
|--|------------|------------|
| Parent Company                             |            |            |
| Cathay Financial Holding Co., Ltd. (Note2) | \$61,790   | \$58,709   |
| Other related parties                      |            |            |
| Cathay Life Insurance Co., Ltd.            | 20,567     | 23,608     |
| Symphox Information Co., Ltd.              | 228        | 18,727     |
| Conning Asia Pacific Limited (Note3)       | 18,893     | 4,591      |
| Cathay United Bank Co., Ltd.               | 2,730      | 4,495      |
| Total                                      | \$104,208  | \$110,130  |

10. Operating Expenses

| Related parties                                   | Transaction types                 | For the years ended 31<br>December |           |
|---|-----------------------------------|------------------------------------|-----------|
|   |                                   | 2016                               | 2015      |
| Other related parties                             |                                   |                                    |           |
| Cathay United Bank Co., Ltd.                      | Selling expenses and service fees | \$32,222                           | \$38,623  |
| Cathay Life Insurance Co., Ltd. (Note1)           | Selling expenses                  | 105,257                            | 118,122   |
| Cathay Securities Investment Consulting Co., Ltd. | Consulting expenses               | 35,000                             | 3,750     |
| Symphox Information Co., Ltd.                     | Data transferring expenses        | 6,551                              | 5,068     |
| Conning Asia Pacific Limited (Note 3)             | Consulting expenses               | 57,004                             | 10,267    |
| Conning Inc.                                      | Consulting expenses               | 4,851                              | -         |
| Total   |                                   | \$240,885                          | \$175,830 |

Note 1: The Company paid sales cost of fund and recognized it as deferred expenses (Note VI. 7.); however, Cathay Life Insurance Co., Ltd. recognized as current revenue when transaction occurred. Therefore, the Company still have related assets yet recognized as expenses.

Note 2: Payables for allocation of linked-tax system.

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Note 3: Conning Asia Pacific Limited, formerly Cathay Conning Asset Management Limited, was renamed on 18 April 2016.

11. Key management personnel compensation

|                             | For the years ended 31<br>December |                 |
|-----------------------------|------------------------------------|-----------------|
|                             | 2016                               | 2015            |
| Short-term employee benefit | \$77,136                           | \$71,715        |
| Post-employment benefits    | 1,645                              | 1,250           |
| Total                       | <u>\$78,781</u>                    | <u>\$72,965</u> |

12. Other

Property and equipment and intangible assets arising from construction planning and design maintenance services fees paid to Symphox Information Co., Ltd. amounted to \$377 and \$18,530 for the year ended 31 December 2016 and 2015, respectively.

VIII. Assets pledged as security

None.

IX. Commitments and contingencies

Operating lease commitments – The Company as lessee

The Company has entered into commercial property leases from two to five years. Future minimum rentals payable under non-cancellable operating leases as at 31 December 2016 and 31 December 2015 are as follows:

| Related parties                                   | 2016.12.31      | 2015.12.31      |
|---|-----------------|-----------------|
| Not later than one year                           | \$37,528        | \$44,107        |
| Later than one year and not later than five years | 1,379           | 36,382          |
| Total   | <u>\$38,907</u> | <u>\$80,489</u> |

X. Losses due to major disasters

None.

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XI. Significant subsequent events

None.

XII. Others

1. Categories of financial instruments

Financial assets

|   | <u>2016.12.31</u>  | <u>2015.12.31</u>  |
|---|--------------------|--------------------|
| Financial assets at fair value through profit or loss | \$164              | \$240              |
| Available-for-sale financial assets                   | 74,695             | 60,746             |
| Financial assets at cost                              | 5,745              | -                  |
| Loans and receivables:                                |                    |                    |
| Cash and cash equivalents (exclude cash on hand)      | 1,728,856          | 1,736,439          |
| Receivables   | 140,045            | 131,949            |
| Refundable deposits                                   | 218,427            | 241,457            |
| Subtotal  | <u>2,087,328</u>   | <u>2,109,845</u>   |
| Total   | <u>\$2,167,932</u> | <u>\$2,170,831</u> |

Financial liabilities

|  | <u>2016.12.31</u> | <u>2015.12.31</u> |
|--|-------------------|-------------------|
| Financial liabilities at amortized cost: |                   |                   |
| Payables                                 | <u>\$273,636</u>  | <u>\$293,438</u>  |

2. Financial risk management objectives and policies

The Company's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Company identifies measures and manages the aforementioned risks based on the Company's policy and risk appetite.

The Company has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors must be carried out based on related protocols and internal control procedures. The Company complies with its financial risk management policies at all times.

3. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk, interest rate risk and other price risk (such as equity risk).

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In practice, it is rarely the case that a single risk variable will change independently from other risk variable, there is usually interdependencies between risk variables. However the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

### Foreign currency risk

The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense are denominated in a different currency from the Company's functional currency).

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Company's profit is performed on significant monetary items denominated in foreign currencies as at the end of the reporting period. The Company's foreign currency risk is mainly related to the volatility in the exchange rates for foreign currency CNY.

When NTD strengthens/weakens against foreign currency CNY by 1%, the profit for the years ended 31 December 2016 and 2015 is decreased/increased by \$2,019 and \$3,192, respectively.

### Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company manages its interest rate risk by having a balanced portfolio of fixed income investments.

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as at the end of the reporting period, including fixed income investments. There are no significant effect to the Company's net income of 31 December 2016 and 2015, when a change of interest rate in a reporting period.

#### 4. Credit risk management

Credit risk is the risk that a counterparty will not meet its obligations under a contract, leading to a financial loss. The Company is exposed to credit risk from operating activities (primarily for accounts receivables and notes receivables) and from its financing activities, including bank deposits and other financial instruments.

As of 31 December 2016 and 2015, amounts receivables from top ten customers represent 68.48% and 68.62% of the total accounts receivables of the Company, respectively. The credit concentration risk of other accounts receivables is insignificant.

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The Company only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions, companies and government entities with good credit rating and with no significant default risk. Consequently, there is no significant credit risk for these counterparties.

### 5. Liquidity risk management

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents and highly liquid equity investments.

As of 31 December 2016 and 2015, debts of the Company are mature within a year. The Company does not have any financial liabilities based on the contractual payment.

### 6. Fair values of financial instruments

(1) The methods and assumptions applied in determining the fair value of financial instruments:

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 following methods and assumptions were used by the Company to measure or disclose the fair values of financial assets and financial liabilities:

(A) The carrying amount of cash and cash equivalents, accounts receivables, accounts payable approximate their fair value due to their short maturities.

(B) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities and bonds) at the reporting date.

(C) Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).

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(D) The fair value of other financial assets and liabilities is determined using discounted cash flow analysis, the interest rate and discount rate are selected with reference to those of similar financial instruments.

### (2) Fair value of financial instruments measured at amortized cost

The carrying amount of the Company's financial assets and liabilities measured at amortized cost approximate their fair value.

## 7. Fair value measurement hierarchy

### (1) Fair value measurement hierarchy

All asset and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

### (2) Fair value measurement hierarchy of the Company's assets and liabilities

The Company does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Company's assets and liabilities measured at fair value on a recurring basis is as follows:

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|   |          |                |                |                |
|---|----------|----------------|----------------|----------------|
| 2016.12.31  |          |                |                |                |
|   |          | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|   |          |                |                | <u>Total</u>   |
| Financial assets:                                     |          |                |                |                |
| Financial assets at fair value through profit or loss |          |                |                |                |
| Beneficiary certificates-open-end funds               | \$164    | \$-            | \$-            | \$164          |
| Available-for-sale financial assets                   |          |                |                |                |
| Beneficiary certificates-open-end funds               | \$74,695 | \$-            | \$-            | \$74,695       |
| 2015.12.31  |          |                |                |                |
|   |          | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|   |          |                |                | <u>Total</u>   |
| Financial assets:                                     |          |                |                |                |
| Financial assets at fair value through profit or loss |          |                |                |                |
| Beneficiary certificates-open-end funds               | \$240    | \$-            | \$-            | \$240          |
| Available-for-sale financial assets                   |          |                |                |                |
| Beneficiary certificates-open-end funds               | \$60,746 | \$-            | \$-            | \$60,746       |

During the years ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements.

8. Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies are listed below:

|                         | <u>2016.12.31</u>         |                              |            |
|-------------------------|---------------------------|------------------------------|------------|
|                         | <u>Foreign currencies</u> | <u>Foreign exchange rate</u> | <u>NTD</u> |
| <u>Financial assets</u> |                           |                              |            |
| Monetary items:         |                           |                              |            |
| USD                     | \$1,706                   | 32.2790                      | \$55,503   |
| CNY                     | 43,521                    | 4.6448                       | 202,145    |
| Non-monetary items:     |                           |                              |            |
| CNY                     | 56,675                    | 4.6448                       | 263,243    |
|                         |                           |                              |            |
|                         | <u>2015.12.31</u>         |                              |            |
|                         | <u>Foreign currencies</u> | <u>Foreign exchange rate</u> | <u>NTD</u> |
| <u>Financial assets</u> |                           |                              |            |
| Monetary items:         |                           |                              |            |
| USD                     | \$2,162                   | 33.0660                      | \$71,501   |
| CNY                     | 62,715                    | 5.0921                       | 319,352    |
| Non-monetary items:     |                           |                              |            |
| CNY                     | 57,182                    | 5.0921                       | 291,178    |

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|  | For the years ended 31<br>December |           |
|--|------------------------------------|-----------|
|  | 2016                               | 2015      |
| Foreign exchange gains or losses on monetary financial assets<br>and financial liabilities |                                    |           |
| CNY  | \$(21,725)                         | \$(1,269) |
| USD  | (995)                              | 706       |

The above information is disclosed based on the carrying amount of foreign currency (after conversion to functional currency).

9. Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

10. Information regarding investment in Mainland China

On 9 January 2012, the MOEAIC authorized the Company to remit CNY 66,600 thousands as the registered capital to establish CDBS Cathay Asset Management Co., Ltd., a China-based fund management business, in the form of a joint venture with China Development Bank Securities Co., Ltd. The joint venture company has acquired a business license of an enterprise as legal person on 16 August 2013 with an authorized capital of CNY 200,000 thousands and the Company acquired 33.3% shareholding. A resolution was passed at a Board of Directors meeting of the Company held on 9 November 2016 to increase capital in joint venture CDBS Cathay Asset Management Co., Ltd., by cash of CNY 53,280 thousand or USD equivalent in accordance with original contribution ratio. However, the proposal will not be implemented until obtaining approval by both Taiwan and China authorities. As of 31 December 2016, the Company has remitted CNY 66,600 thousand in total.

XIII. Segment information

1. General information

(1) The Company's operating segment report consists with the internal report to primary operating decision makers. The primary operating decision makers means an individual or a team that assign resource to the operating segment and evaluate the performance of

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the operating segment. The Company's Board of directors are the primary operating decision makers.

- (2) The Company's Board of Directors (primary operating decision makers) reviewed the operating results of the operating segment periodically and make decisions about resource allocation and performance assessment.

2. Evaluation of segment information

- (1) The Company operates under a single business strategy. The Company's Board of Directors makes decisions based on resource allocation and performance assessment of the Company as a whole, the Company has only one reportable operating segment.
- (2) Operating results of the Company's operating segment are mainly from management fees income. The Company's Board of Directors evaluates the performance based on net income before and after income tax.
- (3) The Company has only one reportable segment and not to disclose the information of segment profit, assets and liabilities.

3. Geographical information

Revenue from external customers

|                 | For the years ended 31 |                    |
|-----------------|------------------------|--------------------|
|                 | December               |                    |
|                 | 2016                   | 2015               |
| Taiwan          | \$1,506,274            | \$1,405,326        |
| Other countries | 408                    | 181                |
| Total           | <u>\$1,506,682</u>     | <u>\$1,405,507</u> |

The revenue information above is based on the location of the customer.