

Cathay Securities Investment Trust Co., Ltd.
Consolidated Financial Statements
For The Years Ended
31 December 2017 and 2016
With Independent Auditors' Report

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The reader is advised that these consolidated financial statements have been prepared originally in Chinese. These consolidated financial statements do not include additional disclosure information that is required for Chinese-language reports. If there is any conflict between these consolidated financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language consolidated 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 consolidated balance sheets of Cathay Securities Investment Trust Co., Ltd. (“the Company”) and its subsidiaries as of 31 December 2017 and 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended 31 December 2017 and 2016, and notes to the consolidated financial statements, including the summary of significant accounting policies.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of 31 December 2017 and 31 December 2016, and the financial performance and cash flows for the years ended 31 December 2017 and 2016, in conformity with the requirements of the Regulations Governing Securities Investment Trust Enterprises 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 (“FSC”) of the Republic of China (“the ROC”).

Basis for Opinion

We conducted our audits in accordance with “Rules Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and auditing standards generally accepted in the ROC. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with the Norm of Professional Ethics for Certified Public Accountant of the ROC (“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 2017 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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 consolidated financial statements and were therefore considered as a key audit matter in our audit.

With respect to the Company and its subsidiaries' 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 consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the requirements of the Regulations Governing Securities Investment Trust Enterprises 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 FSC of the ROC and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including audit committee or supervisors, are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the ROC will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2017 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young
Taipei, Taiwan
The Republic of China
14 March 2018

Notice to Readers

The accompanying consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with IFRSs which is endorsed and became effective by the Financial Supervisory Commission and not those of any other jurisdictions. The standards, procedures and practice to audit such consolidated 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. and Subsidiaries

Consolidated Balance Sheets

31 December 2017 and 2016

(Expressed in thousands of New Taiwan Dollars)

Assets	Notes	31 December 2017		31 December 2016	
		Amount	%	Amount	%
Current assets					
Cash and cash equivalents	IV, VI and VII	\$1,776,170	62	\$1,728,906	67
Financial assets at fair value through profit or loss-current	IV, VI and VII	2,235	-	164	-
Accounts receivables, net	IV	13,512	-	10,587	-
Accounts receivable - related parties, net	IV and VII	160,465	6	121,690	5
Other receivables	IV	4,222	-	7,768	-
Prepayments	VI and VII	20,458	1	27,551	1
Total current assets		<u>1,977,062</u>	<u>69</u>	<u>1,896,666</u>	<u>73</u>
Non-current assets					
Available-for-sale financial assets-non current	IV, VI and VII	8,362	-	74,695	3
Financial assets at cost-non current	IV and VI	13,986	1	5,745	-
Investments accounted for using equity method	IV and VI	513,502	18	263,243	10
Property and equipment	IV and VI	54,691	2	66,975	3
Intangible assets	IV and VI	8,677	-	9,493	-
Deferred tax assets	IV and VI	16,388	1	14,722	1
Refundable deposits	VI and VII	234,027	8	218,427	8
Other non-current assets	VI and VII	25,293	1	39,432	2
Total non-current assets		<u>874,926</u>	<u>31</u>	<u>692,732</u>	<u>27</u>
Total assets		<u>\$2,851,988</u>	<u>100</u>	<u>\$2,589,398</u>	<u>100</u>

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Investment Trust Co., Ltd. and Subsidiaries
Consolidated Balance Sheets
31 December 2017 and 2016
(Expressed in thousands of New Taiwan Dollars)

Liabilities and equity	Notes	31 December 2017		31 December 2016	
		Amount	%	Amount	%
Current liabilities					
Other payables	IV and VII	\$355,345	12	\$273,636	11
Deferred income	VI	23,502	1	23,502	1
Other current liabilities		6,094	-	5,396	-
Total current liabilities		<u>384,941</u>	<u>13</u>	<u>302,534</u>	<u>12</u>
Non-current liabilities					
Provisions-non current	IV and VI	95,990	3	79,333	3
Long-term deferred income	VI	42,103	2	65,605	3
Total non-current liabilities		<u>138,093</u>	<u>5</u>	<u>144,938</u>	<u>6</u>
Total liabilities		<u>523,034</u>	<u>18</u>	<u>447,472</u>	<u>18</u>
Equity attributable to owners of the parent					
Capital stock					
Common stock	VI	1,500,000	53	1,500,000	58
Capital reserves	VI	13,908	-	13,908	1
Retained earnings	VI				
Legal reserves		379,027	13	349,351	13
Special reserves		36,673	1	9,240	-
Undistributed earnings		439,415	16	296,762	11
Total retained earnings		<u>855,115</u>	<u>30</u>	<u>655,353</u>	<u>24</u>
Other equity		(40,069)	(1)	(27,335)	(1)
Total equity		<u>2,328,954</u>	<u>82</u>	<u>2,141,926</u>	<u>82</u>
Total liabilities and equity		<u>\$2,851,988</u>	<u>100</u>	<u>\$2,589,398</u>	<u>100</u>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Investment Trust Co., Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Income

For the years ended 31 December 2017 and 2016

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

Items	Notes	2017		2016	
		Amount	%	Amount	%
Operating income	IV, VI and VII	\$1,755,727	100	\$1,506,682	100
Operating expenses	VI and VII	(1,256,965)	(72)	(1,135,175)	(75)
Operating profit		498,762	28	371,507	25
Non-operating income and expenses					
Interest income	VII	11,340	1	15,238	1
Other income		105	-	123	-
Gain on disposal of investments	VI	11,292	1	2,322	-
Miscellaneous disbursements		(2)	-	-	-
Loss on disposal of property and equipment		(159)	-	(10)	-
Loss on foreign currency exchange	IV	(5,561)	-	(29,489)	(2)
Gain (Loss) on financial assets at fair value through profit or loss	IV	100	-	(20)	-
Share of profit or loss of associates and joint ventures		9,359	1	(2,469)	-
Total non-operating income and expenses		26,474	3	(14,305)	(1)
Income before income tax		525,236	31	357,202	24
Income tax expense	IV and VI	(85,821)	(5)	(60,440)	(4)
Net income		439,415	26	296,762	20
Other comprehensive income (loss)					
Not to be reclassified to profit or loss in subsequent periods					
Remeasurements of defined benefit plans		(14,304)	(1)	1,838	-
Income tax relating to components of other comprehensive loss (income)		2,432	-	(313)	-
To be reclassified to profit or loss in subsequent periods					
Unrealized gains or losses on available-for-sale financial assets		1,153	-	(1,920)	-
Share of other comprehensive income of associates and joint ventures		(2,015)	-	(25,466)	(2)
Other comprehensive income, net of tax		(12,734)	(1)	(25,861)	(2)
Total comprehensive income		\$426,681	25	\$270,901	18
Net income attributable to:					
Owners of the parent		\$439,415		\$296,762	
Total comprehensive income attributable to:					
Owners of the parent		\$426,681		\$270,901	
Earnings per share (in NT dollars)					
Basic earning per share					
Net income from continuing operations	VI	\$2.93		\$1.98	

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Investment Trust Co., Ltd. and Subsidiaries

Consolidated Statements of Changes in Equity

For the years ended 31 December 2017 and 2016

(Expressed in thousands of New Taiwan Dollars)

Description	Equity attributable to owners of the parent								
	Retained earnings					Other equity			
	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	Total
Balance as of 1 January 2016	\$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
Appropriation and distribution of 2016 earnings:									
Legal reserves	-	-	29,676	-	(29,676)	-	-	-	-
Special reserves	-	-	-	27,433	(27,433)	-	-	-	-
Cash dividends	-	-	-	-	(239,653)	-	-	-	(239,653)
Net income for the year ended 31 December 2017	-	-	-	-	439,415	-	-	-	439,415
Other comprehensive income (loss) for the year ended 31 December 2017	-	-	-	-	-	(2,015)	1,153	(11,872)	(12,734)
Total comprehensive income (loss) for the year ended 31 December 2017	-	-	-	-	439,415	(2,015)	1,153	(11,872)	426,681
Balance as of 31 December 2017	\$1,500,000	\$13,908	\$379,027	\$36,673	\$439,415	\$(14,477)	\$463	\$(26,055)	\$2,328,954

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Investment Trust Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended 31 December 2017 and 2016

(Expressed in thousands of New Taiwan Dollars)

Items	Notes	2017	2016
Cash flows from operating activities:			
Net income before income tax		\$525,236	\$357,202
Adjustments items:			
Income and other adjustments without cash flow effects			
Depreciation	VI	19,087	19,215
Amortization	VI	5,381	7,475
Loss on disposal of property and equipment		159	10
Interest income		(11,340)	(15,238)
Gain on disposal of investments		(11,292)	(2,322)
(Gain) loss on financial assets at fair value through profit or loss		(100)	20
Share of profit or loss of associates and joint ventures	VI	(9,359)	2,469
Net changes in operating assets and liabilities:			
Net changes in operating assets:			
(Increase) decrease in accounts receivables		(2,925)	677
Increase in accounts receivable - related parties		(38,775)	(14,391)
Decrease (increase) in prepayments		7,093	(8,295)
Decrease (increase) in other receivables		677	(701)
Decrease in other current assets		-	824
Decrease in other non-current assets		14,139	14,138
Net changes in operating liabilities:			
Increase in other payables		86,410	8,429
Increase in other current liabilities		698	3,336
Increase (decrease) in provision		2,353	(4,326)
Decrease in long-term deferred income		(23,502)	(23,502)
Cash from operating activities		<u>563,940</u>	<u>345,020</u>
Interest received		14,209	21,558
Income tax paid		(89,757)	(60,826)
Net cash provided by operating activities		<u>488,392</u>	<u>305,752</u>
Cash flows from investing activities:			
Acquisition of financial assets at fair value through profit or loss		(3,646)	(1,123)
Proceeds from disposal of financial assets at fair value through profit or loss		1,675	1,179
Acquisition of available-for-sale financial assets		(24,761)	(46,600)
Proceeds from disposal of available-for-sale financial assets		103,539	33,053
Acquisition of financial assets at cost		(8,241)	(5,745)
Increase in investments accounted for using equity method		(242,914)	-
Acquisition of property and equipment	VI	(6,962)	(33,333)
(Increase) decrease in refundable deposits		(15,600)	23,030
Acquisition of intangible assets	VI	(4,565)	(3,160)
Net cash used in investing activities		<u>(201,475)</u>	<u>(32,699)</u>
Cash flows from financing activities:			
Cash dividends		(239,653)	(280,636)
Net cash used in financing activities		<u>(239,653)</u>	<u>(280,636)</u>
Net increase (decrease) in cash and cash equivalents		47,264	(7,583)
Cash and cash equivalents at beginning of the period		<u>1,728,906</u>	<u>1,736,489</u>
Cash and cash equivalents at end of the period		<u>\$1,776,170</u>	<u>\$1,728,906</u>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Investment Trust Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

31 December 2017 and 2016

(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 consolidated financial statements of the Company and subsidiaries (“the Consolidated Company”) for the years ended 2017 and 2016 were authorized for issue in accordance with the Board of Directors’ resolution on 14 March 2018.

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Cathay Securities Investment Trust Co., Ltd. and Subsidiaries
Notes to Consolidated Financial Statements-continued
(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

III. Newly issued or revised standards and interpretations

1. Changes in accounting policies resulting from first-time adoption of certain standards and amendments.

The Consolidated Company adopted International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are endorsed by FSC and effective for annual periods beginning on or after 1 January 2017. The new standards and amendments have no material impact on the Consolidated Company.

2. Standards or interpretations issued, revised or amended, which are endorsed by FSC, but not yet adopted by the Consolidated Company as at the end of the reporting period 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 consolidated 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.

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Cathay Securities Investment Trust Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements-continued

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

(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.

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. Consequential amendments on the related disclosures also become 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

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Cathay Securities Investment Trust Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements-continued

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

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) *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.

(5) *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.

(6) *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.

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Cathay Securities Investment Trust Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements-continued

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

(7) *IFRS 2 “Shared-Based Payment” — Amendments to IFRS 2*

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

(8) *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

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Notes to Consolidated Financial Statements-continued

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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).

(9) *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.

(10) *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.

(11) *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 and endorsed by FSC are applicable for annual periods beginning on or after 1 January 2018. Apart from the potential impact of the standards and interpretations listed below as (1) and (2), all other standards and interpretations have no material impact on the Consolidated Company:

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- (1) IFRS 15 “Revenue from Contracts with Customers” (including Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”)

In accordance with the requirements of IFRS 15, more extensive disclosure would have to be made.

- (2) IFRS 9 “Financial Instruments”

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

A. Classification and measurement of financial assets

Available-for-sale financial assets

Available-for-sale financial assets according to IAS 39 include stocks and beneficiary certificates. The related explanation of change in classification is as follows:

(a) Stocks

Based on the facts and circumstances that existed as at the date of initial application, the stock investments (which are measured at cost) are not held-for-trading investments. As at the date of initial application, the Consolidated Company will designate the investments to financial assets measured at fair value through other comprehensive income.

(b) Beneficiary certificates

As the cash flow characteristics for beneficiary certificates are not solely payments of principal and interest on the principal amount outstanding, beneficiary certificates are classified as financial assets mandatorily measured at fair value through profit or loss in accordance with IFRS 9. As at the date of initial application, the Consolidated Company will reclassify available-for-sale financial assets to financial assets mandatorily measured at fair value through profit or loss.

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B. Impairment of financial assets

This is applicable to financial assets not measured at fair value through profit or loss. In accordance with IFRS 9, a loss allowance for debt instruments is measured using the expected credit loss model, whereas trade receivables or contract assets that result from transactions that are within the scope of IFRS 15 is measured using the simplified approach. The aforementioned requirements on impairment is different from the current incurred loss model and have no material impact on the Consolidated Company.

C. Effects on the date of initial application

In accordance with classification and measurement of financial assets and impairment assessment in IFRS 9, assets of the Consolidated Company expects to decrease by \$3,734, retained earnings increases by \$463, and other equity decreases by \$4,197 on the date of initial application (1 January 2018), which are mainly from the reclassification of available-for-sale financial assets to financial assets mandatorily measured at fair value through profit or loss and financial assets mandatorily measured at fair value through other comprehensive income.

D. Others

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

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

(1) *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.

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(2) IFRIC 23 “*Uncertainty Over Income Tax Treatments*”

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 “Income Taxes” when there is uncertainty over income tax treatments. The Interpretation is effective for annual periods beginning on or after 1 January 2019.

(3) IFRS 17 “*Insurance Contracts*”

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a company of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

- (a) estimates of future cash flows;
- (b) Discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and
- (c) a risk adjustment for non-financial risk.

The carrying amount of a company of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts. IFRS 17 is effective for annual periods beginning on or after 1 January 2021.

(4) IAS 28 “*Investment in Associates and Joint Ventures*” — *Amendments to IAS 28*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28. In applying IFRS 9, it does not take account of any adjustments that arise from applying IAS 28. The amendment is effective for annual reporting periods beginning on or after 1 January 2019.

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(5) *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income. The amendment is effective for annual reporting periods beginning on or after 1 January 2019.

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

IFRS 3 “Business Combinations”

The amendments clarify that an entity that has joint control of a joint operation shall remeasure its previously held interest in a joint operation when it obtains control of the business. The amendments are effective for annual periods beginning on or after 1 January 2019.

IFRS 11 “Joint Arrangements”

The amendments clarify that an entity that participates in, but does not have joint control of, a joint operation does not remeasure its previously held interest in a joint operation when it obtains joint control of the business. The amendments are effective for annual periods beginning on or after 1 January 2019.

IAS 12 “Income Taxes”

The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. The amendments are effective for annual periods beginning on or after 1 January 2019.

IAS 23 “Borrowing Costs”

The amendments clarify that an entity should treat as part of general borrowings any borrowing made specifically to obtain an asset when the asset is ready for its intended use or sale. The amendments are effective for annual periods beginning on or after 1 January 2019.

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(7) *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*

The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its net defined benefit liability or asset. The amendments are effective for annual periods beginning on or after 1 January 2019.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Consolidated Company's financial statements were authorized for issue, the local effective dates are to be determined by FSC. As the Consolidated Company is still currently determining the potential impact of the standards and interpretations listed under (1), it is not practicable to estimate their impact on the Consolidated Company at this point in time. All other standards and interpretations have no material impact on the Consolidated Company.

IV. Summary of significant accounting policies

1. Statement of compliance

The consolidated financial statements of the Consolidated Company for the years ended 31 December 2017 and 2016 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.

2. Basis of preparation

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

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3. Basis of consolidation

Preparation principle of consolidated financial statements

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

- A. power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- B. exposure, or rights, to variable returns from its involvement with the investee, and
- C. the ability to use its power over the investee to affect its returns

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- A. the contractual arrangement with the other vote holders of the investee
- B. rights arising from other contractual arrangements
- C. the Company's voting rights and potential voting rights

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

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

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

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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If the Company loses control of a subsidiary, it:

- (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- (b) derecognizes the carrying amount of any non-controlling interest;
- (c) recognizes the fair value of the consideration received;
- (d) recognizes the fair value of any investment retained;
- (e) recognizes any surplus or deficit in profit or loss; and
- (f) reclassifies the Company's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are listed as follows:

Investor	Subsidiary	Business Nature	Ownership Interest	
			31 December 2017	31 December 2016
The Company	Cathay Private Equity Co., Ltd. ("Cathay Private Equity")	Private Equity	100.00	-

As of 15 November 2017, the Company established 100% owned subsidiary- Cathay Private Equity Co., Ltd. The main activities of the subsidiary is private equity business.

4. Foreign currency transactions

The Consolidated Company's consolidated financial statements are presented in New Taiwan Dollar, which is also the Company's functional currency. Each entity in the Consolidated Company determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Consolidated 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.

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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.

5. Current and non-current distinction

An asset is classified as current when:

- (1) The Consolidated Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
- (2) The Consolidated Company holds the asset primarily for the purpose of trading
- (3) The Consolidated 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.

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All other assets are classified as non-current.

A liability is classified as current when:

- (1) The Consolidated Company expects to settle the liability in its normal operating cycle
- (2) The Consolidated 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 Consolidated 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.

6. 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.

7. Financial instruments

Financial assets and financial liabilities are recognized when the Consolidated 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 Consolidated Company accounts for regular way purchase or sales of financial assets on the trade date.

Financial assets of the Consolidated 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 Consolidated Company determines the classification of its financial assets at initial recognition.

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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 Consolidated Company is provided internally on that basis to the key management personnel.

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.

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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 Consolidated 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.

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 Consolidated 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.

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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 Consolidated 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.

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Consolidated 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 Consolidated Company determines that no objective evidence of impairment exists for an individually

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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 Consolidated Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred
- (C) The Consolidated 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 Consolidated 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.

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:

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- (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.

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

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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.

8. Fair value measurement

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

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

The principal or the most advantageous market must be accessible to by the Consolidated 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 Consolidated 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.

9. Investments accounted for using equity method

The Consolidated 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 Consolidated 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 Consolidated 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 Consolidated 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 Consolidated Company and the associate or joint venture are eliminated to the extent of the Consolidated 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 Consolidated 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 Consolidated Company interest in an associate or a joint venture is reduced or increased as the Consolidated 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

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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 Consolidated Company disposes the associate or joint venture.

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 Consolidated Company.

In accordance with IAS 39 Financial Instruments: Recognition and Measurement, the Consolidated Company determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired. If this is the case, the Consolidated Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the “Share of profit or loss of an associate” in the statement of comprehensive income as required by IAS 36 Impairment of Assets. If using the investment’s value in use as the recoverable amount, the Consolidated Company determines the value in use based on the following estimates:

- A. future cash flows that the Consolidated Company expects to derive from the investment in the associate or joint venture, including cash flows from the operation of the associate or joint venture and from the ultimate disposal of such investment.
- B. present value of the future cash flows from dividends expected to be received from the associate or joint venture and from the disposal of the investment.

Goodwill is not separately recognized as it is included as part of the carrying amount of an investment in an associate or an investment in a joint venture. It is not tested for impairment separately by applying the requirements for goodwill impairment testing goodwill in IAS 36 Impairment of Assets.

Upon loss of significant influence over the associate or joint venture, the Consolidated 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.

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10. 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 Consolidated 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

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.

11. 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.

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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).

12. Impairment of non-financial assets

The Consolidated 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 Consolidated 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.

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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 Consolidated 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.

13. Recognition of revenue

The Consolidated Company's operating income are mainly from the management fees and sale service fees. The Consolidated Company receives management fees resulting from managing the trust funds. Sale service fees are collected when investors subscribe the securities investment trust funds under the Consolidated Company's management. Operating income are recognized on an accrual basis.

14. Post-employment benefits

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

For the defined contribution plan, the Consolidated Company will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Consolidated Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due.

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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 Consolidated 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.

15. Provisions

Provisions are recognized when the Consolidated 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 Consolidated 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.

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16. 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.

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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:

- 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 Consolidated 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.

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V. Significant accounting judgements, estimates and assumptions

The preparation of the Consolidated Company's consolidated 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 Consolidated Company's accounting policies, the management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated 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 Consolidated 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 Consolidated Company is not yet committed to or

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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.

VI. Contents of significant accounts

1. Cash and cash equivalents

	<u>2017.12.31</u>	<u>2016.12.31</u>
Cash on hand	\$50	\$50
Demand deposits	73,724	39,154
Check deposits	78,396	25,653
Time deposits	1,384,000	1,159,049
Securities purchased under agreements to resell	240,000	505,000
Total	<u>\$1,776,170</u>	<u>\$1,728,906</u>

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

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2. Financial assets

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

	2017.12.31	2016.12.31
Beneficiary certificates – open-end funds	\$2,235	\$164
	\$2,235	\$164

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

	2017.12.31	2016.12.31
Beneficiary certificates – open-end funds	\$8,362	\$74,695
	\$8,362	\$74,695

(3) Financial assets at cost-non current

	2017.12.31	2016.12.31
Available-for-sale financial assets		
Stocks	\$13,986	\$5,745
	\$13,986	\$5,745

The above non-listed (non-OTC-listed) stock investments owned by the Consolidated 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.

3. Investments accounted for using equity method

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

	31 December 2017		31 December 2016	
Investees	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
Investments in associates				
CDBS Cathay Asset Management Co., Ltd.	513,502	33.3%	263,243	33.3%
	513,502		263,243	

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(1) The shares of the subsidiaries and associates that the Company invested in are not publicly traded. The subsidiaries and 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.

(2) Investment in associates

The summarized financial information of the associate is as follows:

	<u>2017.12.31</u>	<u>2016.12.31</u>
Current assets	\$1,526,284	\$775,556
Non-current assets	94,139	87,918
Current liabilities	<u>(78,377)</u>	<u>(72,955)</u>
Equity	1,542,046	790,519
Proportion of the Company's ownership	<u>33.3%</u>	<u>33.3%</u>
Carrying amount of the investment	<u>\$513,502</u>	<u>\$263,243</u>

For the years ended 31

December

	<u>2017</u>	<u>2016</u>
Operating revenue	\$71,024	\$110,559
Profit or loss from continuing operations	28,105	(7,414)
Other comprehensive income	-	-
Total comprehensive income	28,105	(7,414)

(3) The Company acquired 33.3% shareholding of CDBS Cathay Asset Management Co., Ltd. for CNY 66.6 million in August 2013. The investment has been approved by the Investment Commission, Ministry of Economic Affairs (MOEAIC). The Company invested additional CNY 53.28 million as capital increase of CDBS in September 2017 which has been approved by the MOEAIC. For investment in Mainland China, please refer to Note XII.

(4) No investment in associates was pledged as of 31 December 2017 and 2016.

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4. Property and equipment

	<u>Computer equipment</u>	<u>Office equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
Cost:				
2017.1.1	\$35,292	\$10,945	\$64,778	\$111,015
Additions	4,298	-	2,664	6,962
Disposals	(598)	(1,160)	-	(1,758)
2017.12.31	<u>\$38,992</u>	<u>\$9,785</u>	<u>\$67,442</u>	<u>\$116,219</u>
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>
Depreciation and impairment:				
2017.1.1	\$(19,973)	\$(6,216)	\$(17,851)	\$(44,040)
Depreciation	(4,536)	(932)	(13,619)	(19,087)
Disposals	598	1,001	-	1,599
2017.12.31	<u>\$(23,911)</u>	<u>\$(6,147)</u>	<u>\$(31,470)</u>	<u>\$(61,528)</u>
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>
Net carrying amount as at:				
2017.12.31	<u>\$15,081</u>	<u>\$3,638</u>	<u>\$35,972</u>	<u>\$54,691</u>
2016.12.31	<u>\$15,319</u>	<u>\$4,729</u>	<u>\$46,927</u>	<u>\$66,975</u>

No property and equipment was pledged.

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5. Intangible assets

	2017.1.1	Addition- acquired separately	Amortization	2017.12.31
Computer software				
Cost	\$61,189	\$4,565	\$-	\$65,754
Amortization and impairment	(51,696)	-	(5,381)	(57,077)
Net carrying amount	<u>\$9,493</u>	<u>\$4,565</u>	<u>\$(5,381)</u>	<u>\$8,677</u>

	2016.1.1	Addition- acquired 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>

6. Refundable deposits

	2017.12.31	2016.12.31
Lease deposits	\$10,357	\$10,357
Security deposits (Note1)	173,670	158,070
Operating deposits (Note2)	50,000	50,000
Total	<u>\$234,027</u>	<u>\$218,427</u>

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

Note 2: Operating deposits are 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 Consolidated 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 costs, which were recognized as deferred income and expenses, respectively. The Consolidated 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 2017, 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 \$25,293, 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 \$42,103, 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 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.

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 2017 and 2016 are \$15,115 and \$14,410, 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 \$1,584 to its defined benefit plan during the 12 months beginning after 31 December 2017.

The average duration of the defined benefits plan obligation as at 31 December 2017 and 2016, both are expected to expire in 2030.

Pension costs recognized in profit or loss for the years ended 31 December 2017 and 2016:

	<u>For the years ended 31 December</u>	
	<u>2017</u>	<u>2016</u>
Current period service costs	\$(2,788)	\$(2,232)
Net interest expense	(1,150)	(1,274)
Total	<u>\$(3,938)</u>	<u>\$(3,506)</u>

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

	<u>2017.12.31</u>	<u>2016.12.31</u>
Defined benefit obligation	\$(112,328)	\$(93,889)
Plan assets at fair value	23,088	21,306
Net defined benefit liabilities recognized on the balance sheets	<u>\$(89,240)</u>	<u>\$(72,583)</u>

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	Defined benefit obligation	Fair value of plan assets	Net defined benefit asset (liability)
2016.1.1	\$ (95,217)	\$ 16,471	\$ (78,746)
Current period service costs	(2,232)	-	(2,232)
Net interest income (expense)	(1,562)	288	(1,274)
Subtotal	<u>(3,794)</u>	<u>288</u>	<u>(3,506)</u>
Remeasurements of the net defined benefit asset (liability):			
Actuarial gains and losses arising from changes in demographic assumptions	573	-	573
Actuarial gains and losses arising from changes in financial assumptions	7,458	-	7,458
Experience adjustments	(6,059)	-	(6,059)
Return on plan assets	-	(134)	(134)
Subtotal	<u>1,972</u>	<u>(134)</u>	<u>1,838</u>
Payments from the plan	3,150	(3,150)	-
Contributions by employer	-	7,831	7,831
2016.12.31	<u>(93,889)</u>	<u>21,306</u>	<u>(72,583)</u>
Current period service costs	(2,788)		(2,788)
Net interest income (expense)	(1,533)	383	(1,150)
Subtotal	<u>(4,321)</u>	<u>383</u>	<u>(3,938)</u>
Remeasurements of the net defined benefit asset (liability):			
Actuarial gains and losses arising from changes in demographic assumptions	(529)	-	(529)
Actuarial gains and losses arising from changes in financial assumptions	(11,025)	-	(11,025)
Experience adjustments	(2,564)	-	(2,564)
Return on plan assets	-	(185)	(185)
Subtotal	<u>(14,118)</u>	<u>(185)</u>	<u>(14,303)</u>
Contributions by employer	-	1,584	1,584
2017.12.31	<u><u>\$ (112,328)</u></u>	<u><u>\$ 23,088</u></u>	<u><u>\$ (89,240)</u></u>

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

	2017.12.31	2016.12.31
Discount rate	1.39%-1.60%	1.50%-1.80%
Expected rate of salary increases	3.00%	2.50%

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A sensitivity analysis for significant assumption is as shown below:

	For the years ended 31 December			
	2017		2016	
	Increase on defined benefit obligation	Decrease on defined benefit obligation	Increase on defined benefit obligation	Decrease on defined benefit obligation
Discount rate increases by 0.5%	\$-	\$7,275	\$-	\$6,185
Discount rate decreases by 0.5%	7,915	-	7,088	-
Future salary increases by 0.5%	7,756	-	6,993	-
Future salary decreases by 0.5%	-	7,208	-	6,168

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

	Decommissioning, restoration and rehabilitation	Employee benefit liability	Total
1 Jan 2017	\$6,750	\$72,583	\$79,333
Arising during the period	-	18,241	18,241
Unused provision reversed	-	(1,584)	(1,584)
31 Dec 2017	\$6,750	\$89,240	\$95,990

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.

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10. Equity

(1) Common Stock

As of 31 December 2017 and 31 December 2016, 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 2017 and 31 December 2016, 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. In accordance with Order No. Financial-Supervisory-Securities-Investment-1010055977 issued on 12 December 2012, the Company shall set aside an equal amount of special reserve for the net decreased amount of other equity in current year. In accordance with Order No. Financial-Supervisory-Securities-Investment-10500278285 issued on 5 August 2016, the Company shall appropriate 0.5% to 1% of net income as special reserve when distributing earnings of 2016 to 2018 for the development of fintech.

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(5) Retained earnings and dividend policies

According to the Company's Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

- a. Payment of all taxes and dues;
- b. Offset prior years' operation losses;
- c. Set aside 10% of the remaining amount after deducting items (a) and (b) as legal reserve; and
- d. Set aside or reverse special reserve in accordance with law and regulations.

According to the Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The 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 the shareholders.

According to the Company's Articles of Incorporation, 1% of profit of the current year is distributable as employees' compensation. Please refer to Note VI (12) for further details about employees' compensation.

The Company distributes dividends in cash under the principle of promoting financial stability and maintaining shareholders' interests.

11. Operating income

	For the years ended 31 December	
	2017	2016
Management fees income	\$1,735,535	\$1,501,399
Sales and Advisory service fees income	20,192	5,283
Total	<u>\$1,755,727</u>	<u>\$1,506,682</u>

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12. Operating expenses

Summary statement of employee benefits, depreciation and amortization expenses by function during the years ended 31 December 2017 and 2016:

	For the years ended 31 December	
	2017	2016
Personnel expenses		
Salary	\$541,897	\$466,481
Insurance	31,515	29,514
Pension	19,053	17,916
Other employee benefits	14,333	12,615
Depreciation	19,087	19,215
Amortization	5,381	7,475

According to the Article of Incorporation, 1% of profit of the current year is distributable as employees' compensation. However, the Company's accumulated losses shall have been covered. 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.

Based on profit of current year, the Company estimated the amounts of the employees' compensation for the year ended 31 December 2017 and 2016 to be 1% of profit of current year recognized \$5,306 and \$3,608, 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 7 March 2017, the amount of employees' compensation resolved at the Board of Directors meeting to be paid for the year ended 31 December 2016 was \$3,608. There was no material difference between the estimated amount and the actual distribution of the employees' compensation for the year ended 31 December 2016.

As of 31 December 2017 and 2016, the number of employees of the Consolidated Company are 266 and 271, respectively.

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13. Components of other comprehensive income

For the year ended 31 December 2017

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$ (14,304)	\$ -	\$ (14,304)	\$ 2,432	\$ (11,872)
To be reclassified to profit or loss in subsequent periods:					
Unrealized gains on available-for-sale financial assets	(10,139)	11,292	1,153	-	1,153
Share of other comprehensive income of associate accounted for using the equity method	(2,015)	-	(2,015)	-	(2,015)
Total of other comprehensive income	\$(26,458)	\$11,292	\$(15,166)	\$2,432	\$(12,734)

For the year ended 31 December 2016

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

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14. Income tax

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

	For the years ended 31	
	December	
	2017	2016
<u>Income tax expense recognized in profit or loss</u>		
Current income tax expense:		
Current income tax charge	\$84,743	\$63,901
Adjustments in respect of current income tax of prior periods	312	7
Deferred tax (income) expense:		
Deferred tax (income) expense relating to origination and reversal of temporary differences	766	(3,468)
Income tax expense	\$85,821	\$60,440

	For the years ended 31	
	December	
	2017	2016
<u>Income tax relating to components of other comprehensive income</u>		
Deferred tax (income) expense:		
Remeasurements of defined benefit plans	\$(2,432)	\$313

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

	For the years ended 31	
	December	
	2017	2016
Accounting profit before tax from continuing operations	\$525,236	\$357,202
Tax at the domestic rates applicable to profits in the country concerned (17%)	89,294	\$60,724
Adjustments in respect of current income tax of prior periods	312	7
Tax effect of deferred tax assets/liabilities	(1,612)	100
Tax effect of revenue exempt from taxation	(2,173)	(391)
Tax effect of expenses not deductible for tax purposes	\$85,821	\$60,440

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

For the year ended 31 December 2017

	Beginning balance as at 1 January 2017	Deferred tax income recognized in profit or loss	Deferred tax income recognized in other comprehensive income	Ending balance as at 31 December 2017
Temporary differences				
Defined benefit liability	\$12,339	\$400	\$2,432	\$15,171
Unrealized (gains) losses on foreign currency exchange	2,014	(1,964)	-	50
Decommissioning costs	249	229	-	478
Unrealized salary expenses	120	569	-	689
Deferred tax income		<u>\$(766)</u>	<u>\$2,432</u>	
Net deferred tax assets	<u>\$14,722</u>			<u>\$16,388</u>
Reflected in balance sheets as follows:				
Deferred tax assets	<u>\$14,722</u>			<u>\$16,388</u>
Deferred tax liabilities	<u>\$-</u>			<u>\$-</u>

For the year ended 31 December 2016

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

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(4) Imputation credit account:

	<u>2017.12.31</u>	<u>2016.12.31</u>
Balance of imputation credit account	Note	\$-

The actual creditable ratio for the years ended 31 December 2016 and 31 December 2015 were both 0%. For 2016, the imputation credit ratio for individual stockholders residing in R.O.C. is half of the original ratio according to Article 66-6 of Income Tax Act.

Note: The amendments to the Income Tax Act that part of imputation system for integrated income tax system will be abolished were passed by the Legislative Yuan on 18 January 2018 and announced by the President on 7 February 2018.

Components of undistributed earnings:

	<u>2017.12.31</u>	<u>2016.12.31</u>
After 1998	\$439,415	\$296,762

(5) The assessment of income tax returns

As of 31 December 2017, the Company's income tax returns for the years prior to 2012 have been assessed by tax authority.

15. Earnings per share

Basic earnings per share are 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 does not issue any dilutive potential ordinary shares. Therefore, the Company does not need to adjust diluted earnings per share.

	For the years ended 31 December	
	<u>2017</u>	<u>2016</u>
Profit attributable to ordinary equity holders of the Company (in thousand NT\$)	<u>\$439,415</u>	<u>\$296,762</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	<u>150,000</u>	<u>150,000</u>
Basic earnings per share (NT\$)	<u>\$2.93</u>	<u>\$1.98</u>

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

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VII. Related party transactions

Information of the related parties that had transactions with the Consolidated Company during the financial reporting period is as follows:

1. Relationship to the Company

Name	Nature of the relationship
Cathay Financial Holding Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Other related party
Cathay United Bank Co., Ltd.	Other related party
Cathay Century Insurance Co., Ltd.	Other related party
Conning Asia Pacific Limited	Other related party
Conning, Inc.	Other related party
Cathay Securities Investment Consulting Co., Ltd.	Other related party
Symphox Information Co., Ltd.	Other related party

2. Significant transactions with related parties

(1) Cash in bank

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

	<u>2017.12.31</u>	<u>2016.12.31</u>
Other related parties		
Cathay United Bank Co., Ltd.		
Cash in bank	\$143,477	\$53,766
Refundable deposits	\$86,300	\$114,800

	<u>For the years ended 31 December</u>			
	<u>2017</u>		<u>2016</u>	
<u>Related parties</u>	<u>Amounts</u>	<u>%</u>	<u>Amounts</u>	<u>%</u>
Cathay United Bank Co., Ltd.				
Interest income (accounted as non-operating income and expenses)	\$252	-	\$473	-

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(2) Management fees income and accounts receivable

Management fees income

Related parties	For the years ended 31 December			
	2017		2016	
	Amounts	%	Amounts	%
Other related parties				
The funds managed by the Company	\$1,445,593	82	\$1,275,642	85
Discretionary Investment Account-Cathay				
Life Insurance Co., Ltd.	152,394	9	109,201	7
Discretionary Investment Account-Cathay				
Century Insurance Co., Ltd.	5,391	-	4,468	-
Total	<u>\$1,603,378</u>	<u>91</u>	<u>1,389,311</u>	<u>92</u>

Accounts receivable resulting from management fees income to related-parties as of 31 December 2017 and 31 December 2016 are summarized as follows:

Related parties	2017.12.31		2016.12.31	
	Amounts	%	Amounts	%
	Other related parties			
The funds managed by the Company	\$145,162	84	\$111,523	84
Discretionary Investment Account-Cathay				
Life Insurance Co., Ltd.	14,576	8	9,834	8
Discretionary Investment Account-Cathay				
Century Insurance Co., Ltd.	387	-	303	-
Total	<u>\$160,125</u>	<u>92</u>	<u>\$121,660</u>	<u>92</u>

(3) Advisory services income

Related parties	For the years ended 31 December			
	2017		2016	
	Amounts	%	Amounts	%
Other related parties				
Cathay United Bank Co., Ltd	\$4,200	-	\$-	-

There is no accounts receivable resulting from Advisory services income to related-parties as of 31 December 2017 and 31 December 2016.

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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:

	<u>For the years ended 31 December</u>	
	<u>2017</u>	<u>2016</u>
Other related parties		
Cathay Life Insurance Co., Ltd.	<u>\$45,132</u>	<u>\$45,039</u>

Refundable deposits of the office premises from Cathay Life Insurance Co., Ltd. were both \$10,093 as of 31 December 2017 and 31 December 2016.

(5) Available-for-sale financial assets

<u>Related parties</u>	<u>2017.12.31</u>	
	<u>Account balance</u>	<u>Unit</u>
Other related parties		
The funds managed by the Company	<u>\$8,362</u>	<u>413,058.4</u>

<u>Related parties</u>	<u>2016.12.31</u>	
	<u>Account balance</u>	<u>Unit</u>
Other related parties		
The funds managed by the Company	<u>\$74,695</u>	<u>3,981,696.2</u>

(6) Prepaid expenses (Note 1)

<u>Related parties</u>	<u>2017.12.31</u>	<u>2016.12.31</u>
Other related parties		
Cathay Life Insurance Co., Ltd.	<u>\$13,272</u>	<u>\$13,272</u>

(7) Other non-current assets-other (Note 1)

<u>Related parties</u>	<u>2017.12.31</u>	<u>2016.12.31</u>
Other related parties		
Cathay Life Insurance Co., Ltd.	<u>\$24,584</u>	<u>\$37,856</u>

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(8) Other payables

Related parties	2017.12.31	2016.12.31
Parent Company		
Cathay Financial Holding Co., Ltd. (Note2)	\$57,089	\$61,790
Other related parties		
Cathay Life Insurance Co., Ltd.	20,278	20,567
Conning Asia Pacific Limited (Note3)	28,419	18,893
Cathay United Bank Co., Ltd.	9,288	2,730
Total	<u>\$115,074</u>	<u>\$103,980</u>

(9) Operating Expenses

Related parties	Transaction types	For the years ended 31 December	
		2017	2016
Other related parties			
Cathay United Bank Co., Ltd.	Selling expenses and service fees	\$38,319	\$32,222
Cathay Life Insurance Co., Ltd. (Note1)	Selling expenses	103,693	105,257
Conning Asia Pacific Limited (Note 3)	Consulting expenses	90,805	57,004
Conning Inc.	Consulting expenses	10,635	4,851
Cathay Securities Investment Consulting Co., Ltd.	Consulting expenses	-	35,000
Symphox Information Co., Ltd.	Data transferring expenses	5,575	6,551
Total		<u>\$249,027</u>	<u>\$240,885</u>

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.

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

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(10) Key management personnel compensation

	For the years ended 31	
	December	
	2017	2016
Short-term employee benefit	\$68,460	\$77,136
Post-employment benefits	1,824	1,645
Total	<u>\$70,284</u>	<u>\$78,781</u>

VIII. Assets pledged as security

None.

IX. Commitments and contingencies

Operating lease commitments – The Consolidated Company as lessee

The Consolidated 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 2017 and 31 December 2016 are as follows:

	2017.12.31	2016.12.31
Not later than one year	\$43,792	\$37,528
Later than one year and not later than five years	43,050	1,379
Total	<u>\$87,022</u>	<u>\$38,907</u>

X. Losses due to major disasters

None.

XI. Significant subsequent events

The amendments to the Income Tax Act were passed by the Legislative Yuan on 18 January 2018 and announced by the President on 7 February 2018. The amendments raised the corporate income tax rate for companies from 17% to 20%. After the change of the tax rate, the deferred tax assets will increase by NT\$4,840, and deferred tax liabilities will not be affected.

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XII. Others

1. Categories of financial instruments

Financial assets

	<u>2017.12.31</u>	<u>2016.12.31</u>
Financial assets at fair value through profit or loss:	\$2,235	\$164
Available-for-sale financial assets	8,362	74,695
Financial assets at cost	13,986	5,745
Loans and receivables:		
Cash and cash equivalents (exclude cash on hand)	1,776,120	1,728,856
Receivables	178,199	140,045
Refundable deposits	234,027	218,427
Subtotal	<u>2,188,346</u>	<u>2,087,328</u>
Total	<u>\$2,212,929</u>	<u>\$2,167,932</u>

Financial liabilities

	<u>2017.12.31</u>	<u>2016.12.31</u>
Financial liabilities at amortized cost:		
Payables	<u>\$355,345</u>	<u>\$273,636</u>

2. Financial risk management objectives and policies

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

The Consolidated 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 Consolidated 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).

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.

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Foreign currency risk

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

When NTD strengthens/weakens against foreign currency USD by 1%, the profit for the years ended 31 December 2017 and 2016 is decreased/increased by \$498 and \$551, respectively.

When NTD strengthens/weakens against foreign currency CNY by 1%, the profit for the years ended 31 December 2017 and 2016 is decreased/increased by \$2 and \$2,019, 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 Consolidated 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 Consolidated Company's net income of 31 December 2017 and 2016, 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 Consolidated 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 2017 and 2016, amounts receivables from top ten customers represent 72.67% and 68.48% of the total accounts receivables of the Consolidated Company, respectively. The credit concentration risk of other accounts receivables is insignificant.

The Consolidated 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.

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Cathay Securities Investment Trust Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements-continued

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

5. Liquidity risk management

The Consolidated 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 2017 and 2016, debts of the Consolidated Company are mature within a year. The Consolidated 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 Consolidated 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).

(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 Consolidated Company's financial assets and liabilities measured at amortized cost approximate their fair value.

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

2017.12.31

	<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	\$2,235	\$-	\$-	\$2,235
Available-for-sale financial assets				
Beneficiary certificates-open-end funds	\$8,362	\$-	\$-	\$8,362

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

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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, MOEAIC authorized the Company to remit CNY 66,600 thousand 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 thousand 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. The FSC and the MOEAIC authorized the investment on 16 May 2017 and 9 June 2017, respectively. As of 31 December 2017, the Company has remitted CNY 119,880 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 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.

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Notes to Consolidated Financial Statements-continued

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

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.