# 2016 Annual Report

證券櫃檯買賣中心 Taipei Exchange

YUSHAN MAIN PEAK IS TAIWAN'S HIGHEST MOUNTAIN AT 3,952M.

# 2016 TPEx Annual Report

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# Part I MESSAGE FROM THE CHAIRMAN



### Message from the Chairman

For over twenty years, Taipei Exchange (TPEx) has strived to bring benefits to our society by strengthening its services, building efficient financing channels, fostering the growth of SMEs, and promoting corporate social responsibility.

TPEx has built a multi-tiered market structure to meet the fund-raising needs along the life cycle of enterprises. As of year-end 2016, there were 732 companies listed on the Main Board, 271 companies registered on the Emerging Stock Board, and 78 companies registered on GISA (Go Incubation Board for Startup and Acceleration Firms). By supporting key industries such as cultural and creative industry, agribusiness, smart machinery, wind and green energy, and aerospace, we helped enrich the industry value chain in the TPEx market.

TPEx puts considerable effort into developing the international bond market as well. In 2016, the issuance of international bonds reached US\$49 billion. TPEx also built up a bond ETF market in 2016, and the first ETF that tracks the foreign bond index was listed in January 2017.

To bolster gold trading services, in 2016 TPEx introduced extendable callable bull/bear contracts with gold as the underlying asset. These new products give investors greater investment flexibility through the leverage feature of warrants, and are expected to increase turnover in the secondary gold market.

In relation to international exchanges, TPEx signed MOUs with the BSE India, Indonesia Stock Exchange and The Stock Exchange of Thailand in 2016. To promote communication between industrial counterparts in Taiwan and Japan, TPEx accepted the invitation from the Japan Exchange Group and Okinawa J-Adviser, and led a number of listed and GISA companies to participate in the Okinawa Venture Market. Through extended international networking, TPEx is gaining greater international visibility and can assist domestic enterprises in further developing business opportunities.

Looking to 2017, TPEx will continue to promote the entry of quality enterprises into its multi-tiered market, while developing diverse financial products. We will promote corporate governance, bolster market supervision and strengthen the compliance and risk-management capabilities of securities firms. TPEx will continue to champion innovation and supervision in order to steer Taiwan's capital market towards steady development and sustainable growth.

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Philip Chen CHAIRMAN

# Part II INTRODUCTION

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Timeline Organization Products and Services

# TIMELINE

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1994/11	I PEX established
<b>◆</b> 1996/07	TPEx trading opened to foreign investment
<b>•</b> 1999/01	Margin trading launched
2000/07	Electronic Bond Trading System (EBTS) launched for outright trading
<b>◆</b> 2002/01	Emerging Stock Board (ESB) established
◆2002/05	Joined International Organization of Securities Commissions (IOSCO) as an Affiliate Member
<b>◆</b> 2003/09	Emerging Stock Electronic Negotiation Clicking System (ESENC) introduced
◆2005/03	Bond Repo Trading Platform launched (integrated into the Electronic Bond Trading System)
2005/09	Number of TPEx listed companies reached 500
<b>◆</b> 2006/11	Formosa Bonds launched
<b>\$</b> 2009/05	First ESB registration by a foreign enterprise
<b>◆</b> 2010/04	Became World Federation of Exchanges (WFE) Affiliate Member
<b>◆</b> 2010/04	Launched TPEx 50 Index and Taiwan Treasury Benchmark Index
◆2010/06	First primary listing of shares by a foreign enterprise on the TPEx
◆2010/12	Information Platform for the Chain of Industrial Value

◆2011/01	TPEx 50 ETF and Taiwan Government Bond ETF listed on the TPEx
◆2011/02	First TPEx listing of Taiwan depositary receipts (TDRs) of foreign enterprise
<b>◆</b> 2011/07	Launched the callable bull/bear contract (CBBC)
◆2011/10	Gained full membership in World Federation of Exchanges (WFE)
◆2012/01	Launched TPEx "online gaming sector index"
<b>◆</b> 2012/04	"OTC derivatives trade repository" (TR) formally launched
<b>◆</b> 2013/03	First Renminbi-denominated bond launched, named Formosa Bond
<b>◆</b> 2013/04	Joined Asian and Oceanian Stock Exchanges Federation (AOSEF) as a member
<b>◆</b> 2013/08	"Gofunding Zone" officially launched
<b>◆</b> 2013/09	Joined the Global Association of Central Counterparties (CCP12) as a member
<b>◆</b> 2014/01	"Go Incubation Board for Startup and Acceleration Firms" (GISA) launched
<b>◆</b> 2015/01	Launched gold trading platform
◆2015/04	Launched "Equity Crowdfunding Conducted by Securities Firms" business
<b>◆</b> 2016/08	Launched the extendable warrants
<b>◆</b> 2016/09	Launched gold warrants

# ORGANIZATION

## Funding

(In New Taiwan Dollars)

#### **Initial Fund**

Sponsor	Donation Amount
Taiwan Securities Association	\$170,450,000
Taiwan Stock Exchange Corporation	\$120,000,000
Taiwan Depository & Clearing Corporation	\$60,000,000
Total	\$350,450,000
Aggregate Transfer from Surplus	\$4,242,636,461
Current Fund Size	\$4,593,086,461

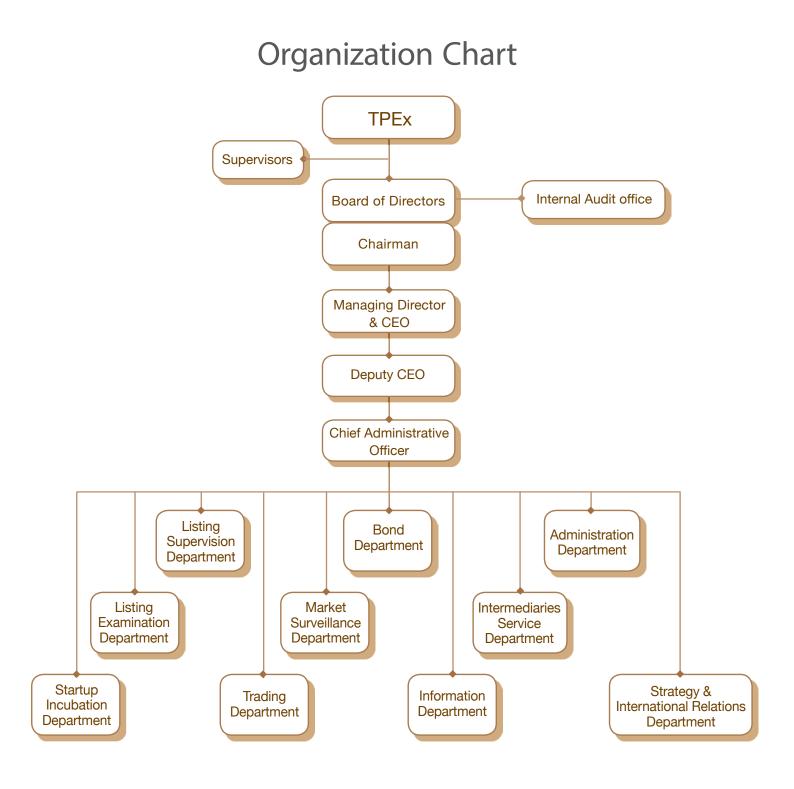
### Workforce

TPEx currently has 293 employees, including 141 males and 152 females. In terms of the makeup of our workforce, 40.61% of our employees are in their forties, and 72.01% of employees have a master's degree.

### **Organization Structure**

The board of directors is the highest executive body of the Taipei Exchange. The chairman convenes and presides over board meetings, and represents the organization. Under the board, there is one MD & CEO who manages organization business, along with two deputy CEOs and one Chief Administrative Officer who assist the MD & CEO.

The Taipei Exchange is divided into ten departments, namely Startup Incubation, Listing Examination, Listing Supervision, Trading, Market Surveillance, Bond, Information, Intermediaries Service, Administration, and Strategy & International Relations.



# ORGANIZATION

## **Department functions**

#### Startup Incubation Department

• Promote the Gofunding Zone and the Go Incubation Board for Startup and Acceleration Firms (GISA)

#### Listing Examination Department

• Examine stocks and derivatives under application for TPEx listing or Emerging Stock Board (ESB) registration

#### Listing Supervision Department

Supervise and administer stock issuers

#### **Trading Department**

• Manage trading and settlement operations for TPEx traded stocks and derivatives, gold, and listed open-ended funds

#### Market Surveillance Department

 Market surveillance of TPEx-traded products (including listing stocks, emerging stocks, warrants, bonds, and derivative products)

#### **Bond Department**

- Handle the TPEx listing of bonds and derivative products and administration of their issuers
- Manage trading and settlement operations for bonds and derivatives

#### Information Department

- Administer TPEx trading data, files, and servers
- Develop computer systems for TPEx-traded products

#### Intermediaries Service Department

- Financial/Operational supervision and auditing of securities firms
- Servicing and managing securities firms

#### Administration Department

- Human resources
- Accounting affairs
- Legal affairs
- Corporate documents and file archives

#### Strategy & International Relations Department

- Marketing, research, and strategic planning
- International cooperations
- Public and media relations

#### Internal Audit Office

• Internal auditing and internal controls of the TPEx

# ORGANIZATION

## **Directors and Supervisors**

Title	Name	Company	Current position
Chairman	Philip Chen	Taipei Exchange	Chairman
Directors	Yu-Ching Su	Taipei Exchange	Managing Director & CEO
	Yung-Hsin Wang	Securities and Futures Bureau, Financial Supervisory Commission	Director-General
	Conrad C. Chang	Department of Accountancy , National Taipei University	Professor
	Suming Lin	Department of Accounting, College of Management, National Taiwan University	Professor
	Rebecca Chung-Fern Wu	Department of Accounting, College of Management, National Taiwan University	Professor
	Yung-Sheng Wu	Legal Affairs Office, Ming Chuan University	Director
	Chien-Fu Lin	Department of Economics , National Taiwan University	Professor
	Ming-Hong Ho	Yuanta Securities	Chairman
	Daw-Yi Hsu	KGI Securities Co. Ltd.	Chairman
	Chi-Hsien Lee	Taiwan Stock Exchange Corporation	President
	Sherman H.M. Lin	Taiwan Depository & Clearing Corporation	Chairman
	Alex Jiunn-Chih Wang	Capital Securities Corp.	Chairman
	Lee-Chiou Chang	Yuanta Securities Finance	Chief Advisor
	Thomas K.H. Wu	Taishin Securities Co., Ltd.	Consultant
Supervisors	s Kuei-Tseng Wang	Reliance Securities Co.,Ltd.	Consultant
	Edward Chow	National Chengchi University	Principal
	Yo-Phy Huang	Department of Public Finance and Tax Administration, National Taipei University of Business	Professor
	Yin-Hua Yeh	Department of Information Management and Finance, National Chiao Tung University	Professor
	Chun-Hong Chen	Masterlink Securities Corp.	Chairman

Note : Ms. Yu-Ching Su took over from Ms. Li-Chen Chang as TPEx public interest director on January 16, 2017, and succeeded as TPEx Managing Director & CEO on January 20, 2017.

# PRODUCTS and SERVICES

#### Computerized Auto-matching (Order-driven)

- Listed stocks
- Taiwan depositary receipts (TDR)
- Convertible/exchangeable corporate bonds
- Call (put) warrants
- Exchange-traded funds (ETF)

#### Computerized Auto-negotiation (Quote-driven)

- Emerging stocks
- Listed open-ended funds
- Gold

#### Computerized Auto-negotiation, Over-the-counter negotiation

- Bonds
  - Government bonds
  - Financial debentures
  - Straight corporate bonds
  - Stripped bonds
  - Securitized products
  - Beneficiary securities
  - · Corporate bonds with warrants
  - Foreign bonds
  - International bonds

- Derivatives
  - Interest rate derivatives
  - Credit derivatives
  - Bond derivatives
  - Convertible bond asset swap
  - Equity derivatives
  - Structured notes

#### **Equity Crowdfunding Services**

- Go Incubation Board for Startup and Acceleration Firms (GISA)
- Equity Crowdfunding Platform (FSC authorizes TPEx to manage)

#### **Information Platforms**

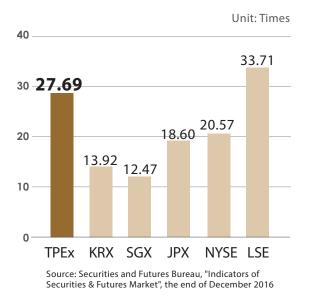
- Gofunding Zone (TPEx cooperates with crowdfunding platforms)
- Information Platform for the Chain of Industrial Value Creation

# Part III BUSINESS PERFORMANCE

Steadily growing stock market on TPEx Foreign investment and international dialogue Diverse bond market Innovative market mechanisms Implementation of corporate social responsibility



STEADILY-GROWING STOCK-MARKET ON TPEX

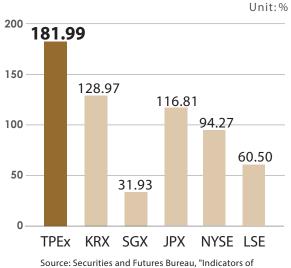


## **High P/E Ratio**



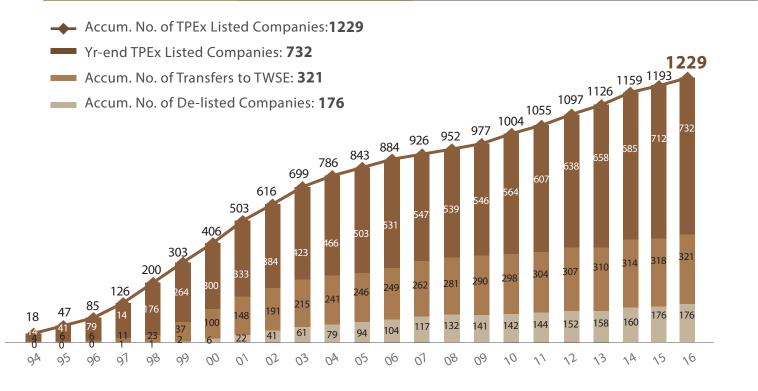
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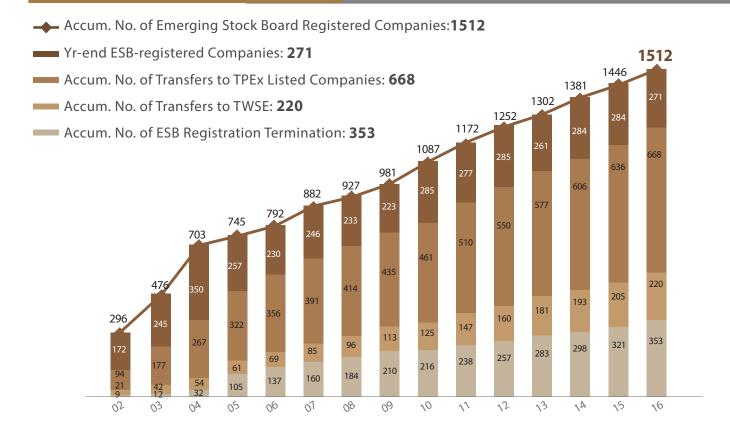


Securities & Futures Market", the end of December 2016

# **TPEx Listing**

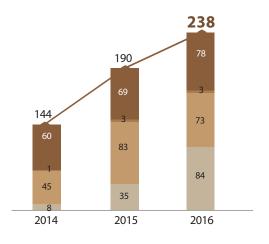


# ESB registration



# GISA

- Accum. No. of GISA Applicants: 238
- Yr-end GISA-registered Companies: 78
- Accum. No. of Companies Going Public: 3
- Yr-end Companies Under Pre-GISA Counseling: 73



# Number of TPEx listed companies steadily increased

In 2016, 36 companies were successfully listed on TPEx, an increase of 6% compared to the previous year, contributing to the steady growth of the total number of TPEx listed companies. Damped by weak global economic growth and a myriad of "black swan" events on the international scene, the TPEx index closed at 125.18 on the last trading day in 2016, decreasing 3% from the end of 2015. Total market capitalization was US\$84.50 billion at the end of 2016, a slight decrease of 0.30% from US\$84.76 billion at the end of 2015.

### **Performance of TPEx listed companies**

TPEx listed companies had a profitable year in 2016. As many as 119 companies reported an EPS above NT\$3 during the first three quarters of 2016, accounting for 16.25% of all TPEx listed companies. Moreover, 198 TPEx listed companies delivered a dividend yield greater than 5% in 2016, accounting for 27.04% of all TPEx listed companies, underscoring the fact that many TPEx listed companies have strong fundamentals.

#### BUSINESS PERFORMANCI



### Turnover rate ranking: 3rd in the world

According to the statistics in December 2016, the TPEx ranked 41st among the 66 members of WFE in terms of market capitalization, 26th in terms of trade volume, and 3rd in terms of turnover rate.

### New listing category "agricultural technology"

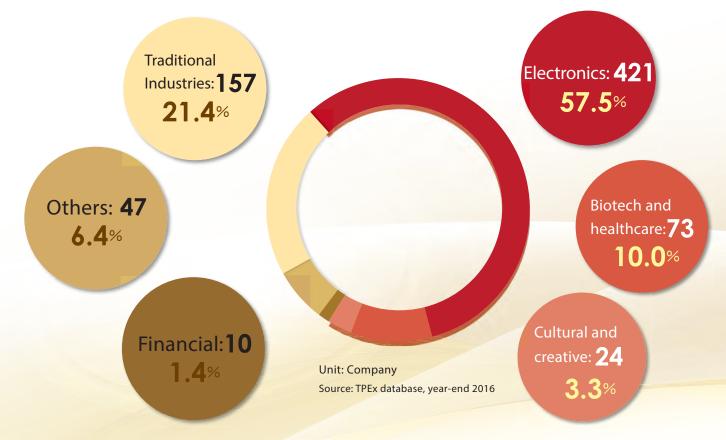
To increase the visibility of agrotechnology firms in the market, TPEx added a new listing category "Agricultural Technology Industry" in 2016. As of year-end 2016, there were 8 emerging stock companies and 2 TPEx listed companies classified under the "Agricultural Technology Industry", indicating that the efforts of TPEx to elevate the level of industry development, and furthermore, enhance industry competitiveness have panned out.

## STEADILY GROWING STOCK MARKET ON TPEX CONTINUED -

### Innovative technology firms: 70.8%

The TPEx has long been dedicated to incubating innovative and high-tech industries. In 2016, innovative and high-tech companies represented 70.8% of the total companies listed on the TPEx (see graph below). This covers a broad variety of industries such as electronics, biotech/healthcare, and cultural/creative industries. Most of these companies are young, technology oriented, and innovative.

Through continuous promotions, the TPEx has attracted a considerable number of companies in featured industries to register on



### **Industry Distribution of TPEx Listed Companies**

the ESB or list on the TPEx Main Board. As more companies of the same sector are listed on the TPEx, there are now several industry clusters on the TPEx (e.g. biotech/healthcare, cultural/creative, and online gaming industry). This not only facilitates investors' comparisons and valuations of companies in the same sector but also becomes a distinct advantage to attracting companies to join the TPEx.

## Strengthened emerging stock trading system

The Emerging Stock Board (ESB) is an important and unique market in Taiwan. To strengthen the market-making responsibility of recommending securities firms on the ESB, TPEx adjusted the obligations of market makers on August 15, 2016 and added a trading suspension mechanism for emerging stocks with price irregularity. As of year-end 2016, the average daily turnover on ESB was NT\$1,151 million.

# Number of foreign companies newly registered on ESB increased

Eight foreign companies newly registered on the ESB in 2016, an increase of 100% in comparison with 2015. Half of those new ESB registrants are in TPEx featured industries, indicating TPEx's efforts to promote listing (registration) on TPEx (ESB) by well-run foreign enterprises have taken shape.

### 6,182 warrants issued

A total of 6,182 warrants were issued on TPEx in 2016. To enrich product lines and offer investors more asset allocation options, we announced the rules for gold warrants and extendable bull/bear warrants on August 24, 2016. As of year-end 2016, four extendable callable bull contracts for equity, one extendable callable bull contract for gold, and one extendable callable bear contract for gold were listed.

# FOREIGN INVESTMENT and INTERNATIONAL DIALOGUE

### Foreign investments over 20%

Prior to the financial crisis, foreign investors accounted for 10%– 11% of the TPEx's market capitalization (including direct and indirect investments); this percentage has been consistently increasing in recent years. As of the end of 2016, foreign investors accounted for 20.16% of the TPEx's market capitalization. In terms of trade value, foreign investors represented 9.76% at year-end 2016, which was considerably higher than the 4.5% prior to the financial crisis.

## Number of MOUs: 22

TPEx signed MOUs with the BSE India, Indonesia Stock Exchange, and The Stock Exchange of Thailand in 2016. Over the years, TPEx has signed MOUs with 22 foreign exchanges, which have helped build closer communication channels between Taiwan and the international capital markets. In 2016, TPEx received visitors from the Indonesia Stock Exchange in conjunction with efforts to promote the internationalization of our securities market. In addition, TPEx accepted the invitation from the Japan Exchange Group and Okinawa J-Adviser and led a number of listed and GISA companies to participate in the Okinawa Venture Market. This endeavor enhanced the level of communication and exchange between industrial counterparts in the two countries.

## **Diversification of the international bond market**

The TPEx international bond market continued to shine in 2016 with US\$49.37 billion of bonds issued for the whole year, an increase of 46% from 2015. The outstanding balance of international bonds reached US\$93.59 billion at the end of 2016. Aside from the rapid growth of issuance amount and outstanding balance, the international bond market has become more diversified in terms of seniority, maturity, and coupon rate in comparison with the situation in the past, where bonds issued were predominantly Renminbi-denominated Formosa Bonds and 30-year USD fixed-rate bonds.

## **Bond ETF market system strengthened**

In a move to create a bond ETF market and improve the liquidity of the secondary market, TPEx opened bond ETF as underlying for repo transactions on January 30, 2016, to make it easier for investors and securities firms to obtain investment financing.

# - INNOVATIVE MARKET MECHANISMS

# Go Incubation Board for Startup and Acceleration Firms (GISA)

As of year-end 2016, ninety-four enterprises in key industries including cultural and creative industry, agribusiness, social enterprises, and e-commerce have applied for registration on GISA. Thirty-nine of these are now successfully registered after receiving counseling, making up about 40% of registrants on GISA. With assistance from the integrative counseling mechanism and capital raising function offered by GISA, those companies have implemented systems essential for operations and put their business on track. They have also garnered greater name recognition because of GISA registration. It is hoped with the functions of GISA coming into play, it will help drive our industry towards diversification and innovation.

## Industry Distribution of Accumulated GISA Applicants



Unit: Company Source: TPEx database, year-end 2016

Cultural and creative	46
Agribusiness	14
Social enterprises	5
E-commerce	29
Electronics	61
Biotech and healthcare	50
Others •	33

## **Gold warrant**

Market investors have responded favorably to the TPEx measure of allowing investors to buy and sell spot gold directly through their securities accounts, as launched in 2015. In a move to increase gold investment channels and flexibility, TPEx further launched the gold warrant. TPEx started accepting applications for warrant issuance from securities firms on September 19, 2016. Currently, there are 2 gold warrants listed.

#### **Gold warrant information** :

V	Varrant Code	Warrant Name	Underlying Asset	Price at Issuance(NT\$)	Date Listed	Expiration Date	Exercise Ratio	Time to Expiration at Issuance
7	0001X	9901YT63X01	Bank of Taiwan Gold (AU9901)	4.104	2016/9/29	2017/3/28	1 : 0.002	6 months(Extend if over 20% in-the-money at
7	0001Y	9902YT63Y01	First Bank Gold (AU9902)	3.581	2016/9/29	2017/3/28	1:0.001	maturity. Number of extension is unlimited.

# Cash purchase and redemption mechanism for domestic equity ETF

To meet investor needs for cash purchase or redemption, TPEx implemented the cash ETF purchase (redemption) mechanism on January 16, 2017, signifying an improvement of our ETF market system.

## CORPORATE SOCIAL RESPONSIBILITY



To achieve sustainable development, we devote ourselves to risk assessment and management to secure our operation and capital market stability. We also implement employee benefit, social care, and environmental protection measures. Furthermore, we encourage market participants to live up to their corporate social responsibilities.

# Improving corporate governance to build a sustainable business environment

- We promoted the corporate governance review system.
- We held seminars for TPEx listed companies to advocate good faith management and corporate social responsibility.
- We held insider shareholding workshops for TPEx listed and ESB registered companies.

# CORPORATE SOCIAL RESPONSIBILITY CONTINUED -

## Stepping up supervision of TPEx listed companies and securities firms to safeguard the interests of investors

- We continue to revise supervisory mechanisms.
- We endeavor to enhance the supervision of TPEx listed companies, both on the finance and business fronts.
- We endeavor to enhance corporate information disclosure and transparency.
- We audited and assisted securities firms in the implementation of highrisk stocks/customers control.
- We conducted risk-management assessment of integrated securities firms and established a comprehensive securities firm rating system.

# Strengthening financial literacy and investment education

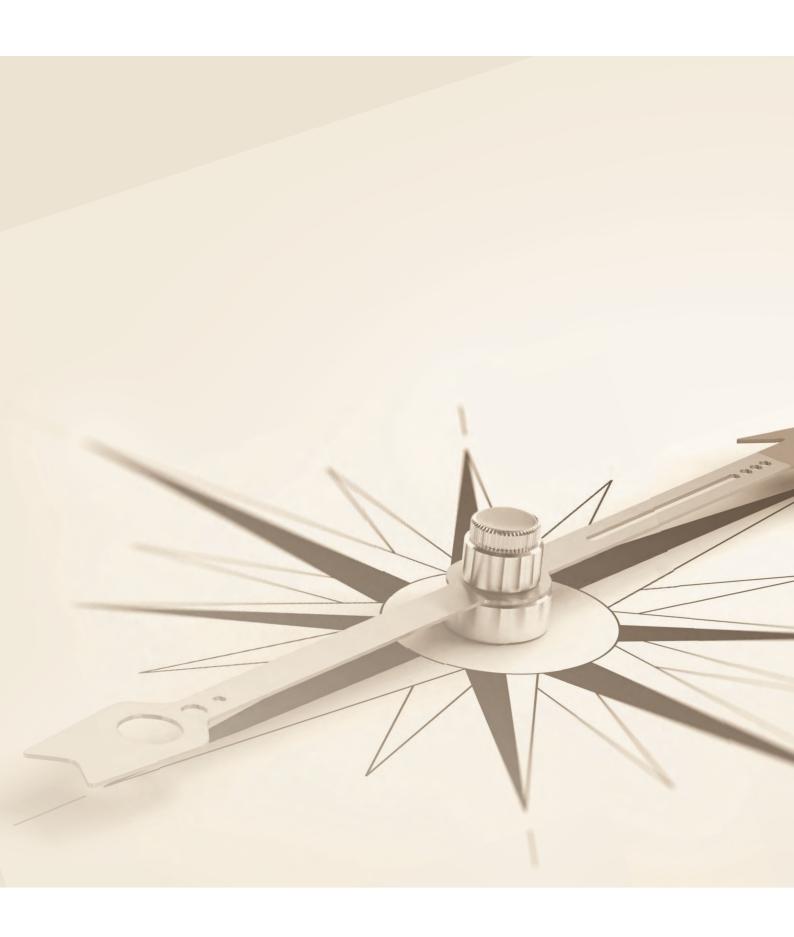
- We held "Financial Elite Camp for the Youth" for university students to further their financial knowledge.
- We advocated financial knowledge when receiving domestic and foreign delegations.
- We promoted awareness of financial products, systems, and investor selfprotection in the mass media.
- We held workshops to introduce products, new trading systems, and TPEx services.

#### BUSINESS PERFORMANCI



# Remaining committed to social responsibility and environmental protection

- In the efforts to fulfill our corporate social responsibility, we participated in many public interest activities. We sponsored activities that promote sports, arts and culture, welfare of senior citizens, and education for disadvantaged students. We also donated food to disadvantaged families, mobile clinics to hospitals, and books to schools in remote areas.
- Out of our concerns for people in urgent need, we made donations to help earthquake victims in Tainan, Taiwan and Kumamoto, Japan, as well as victims of Typhoon Nepartak.
- To support the environmental protection policy and cut down on paper use, we promoted electronic publishing (e.g. annual reports and other publications) and electronic administrative procedures.
- We adopted organic farmland in Yilan through contract farming to support organic farming and help maintain the ecosystem. We also donated the harvested organic rice to social welfare organizations that help disadvantaged groups in our society.
- We held a stair-climbing activity in support of the 422 Earth Day and held a "TPEx Car Free LOHAS Day" in support of 922 World Car Free Day.



# Part IV BUSINESS OUTLOOK

Multi-tiered Market Market Operations Bond Market IT System & Trading Services International Expansion Corporate Social Responsibility

# MULTI-TIERED MARKET

## TPEx Market as A Main Board for Listing, and an Emerging Stock Board (ESB) for Pre-listing Preparation

- We will help enterprises with growth potential to apply for listing on the TPEx, registration on ESB, or apply for counseling for pre-listing preparation.
- We will promote the listing (registration) of companies in green energy, biotech and healthcare, smart machinery, national defense, Asia Silicon Valley businesses, cultural and creative industry, and agricultural technologies. These make up the seven featured industries on the TPEx. To this end, we will strengthen cooperation with government agencies, competent authorities for relevant industries, and trade associations. By fostering enterprises with high potential, we hope to boost industry development, speed up industry upgrade, and enrich industry value chains.
- We will host or participate in forums, seminars, and workshops, as well as visit well-run enterprises at home and abroad to help them make listing (registration) applications.
- We will host TPEx fellowship gatherings and discussion forums as a venue to promote interactions among TPEx listed, ESB registered, and GISA companies. We will listen to the suggestions for the formulation of relevant policies, rules, and regulations.

 We will invite recommended securities firms, CPA firms, and law firms to attend discussion sessions, soliciting their views and suggestions on improving the listing mechanism. We will also review the listing examination and supervision rules in a timely manner for the TPEx Main Board and ESB, and propose revisions. Thus, we hope to strengthen market supervision and ensure sound market development.

## A Go Incubation Board for Startup and Acceleration Firms (GISA) for Micro and Small Innovative Enterprises

- Acting as the organizer, we will integrate the resources from governments at or above county (city) level (including central government agencies) or underlying foundations, incubation centers of universities, CPA firms, and trade associations to jointly implement the GISA integrative counseling mechanism.
- We will assist innovative companies in disclosing their basic corporate information on GISA and in carrying out capital raising.

# MARKET OPERATIONS

## **Corporate Governance**

- We will conduct corporate governance evaluation with the aim of steering the flow of funds into well-governed companies and helping TPEx listed companies improve their business performance.
- We will continue to push for the adoption of International Financial Reporting Standards (IFRSs) by TPEx listed companies to enhance the quality of financial information disclosure.
- We will encourage TPEx listed companies to strengthen the role and function of their boards of directors, independent directors, and remuneration committees. In addition, we will assist TPEx listed companies in the implementation of corporate social responsibility and ethical corporate management.

## **Market Supervision**

- We will host investor conferences, workshops, and seminars to further promote information transparency of TPEx listed companies.
- We will review and amend supervisory rules in line with the development of TPEx listed and ESB registered companies to step up supervision over company finance and business.
- We will assist securities firms in strengthening their compliance and risk management.

## **Trading and Settlement System**

- We will continue to promote the gold trading platform to broaden the usefulness of existing securities accounts and make spot gold investment more convenient.
- We will continue to draft system reform measures to enhance market efficiency and liquidity. For TPEx listed stocks, we will increase the matching frequency of the electronic trading system. For emerging stocks, we will improve the price negotiation mechanism.

## **Product Diversification**

- We will promote TPEx-featured ETF products to provide investors with more investment options.
- Following the signing of an index development contract with Taiwan Index Plus Corporation (TIP) in December 2016, we plan to work with TIP in 2017 on the compilation of a cross-market index, which will include both TWSE and TPEx listed stocks. We will promote the listing and trading of ETF that tracks the cross-market index on TPEx.

# BOND MARKET

- We will promote the listing and trading of bond ETFs.
- We will establish a listing system for green bonds.
- We will build the valuation model for USD-denominated zero coupon callable bonds.

# IT SYSTEM & TRADING SERVICES

- We will establish a more convenient and efficient information system.
- We will enhance the ICT (information and communications technology) security mechanism to protect information systems security.
- We will boost the efficiency of our information systems and ensure their stability.

# INTERNATIONAL EXPANSION

- We will maintain close relationships with foreign exchanges and institutions through visits and communication. Hence, we hope to create more opportunities for reciprocal collaborations, exchange programs, and experience sharing on the development of an SME market.
- We will actively participate in the activities of major international securities organizations, including the International Organization of Securities Commissions (IOSCO), World Federation of Exchanges (WFE), Asian and Oceanian Stock Exchanges Federation (AOSEF), and the Global Association of Central Counterparties (CCP12). We will also strengthen our relationships and communication with global markets and hence enhance our visibility and speed up our pace of globalization.

# **CORPORATE SOCIAL RESPONSIBILITY**

- We will be involved in public interest activities. For instance, we plan to support educational programs that benefit children in remote villages.
- We will join with other financial institutions for the "Financial Industry Scholarship" program. Through the program, we will provide financial aid to students from low-income and disadvantaged families and host seminars on campuses to promote financial literacy.
- We will hold "Financial Elite Camp for the Youth" to enhance the professional financial knowledge of college students.

Part V INTERNAL CONTROL & FINANCIALS H1 09 v H1 08 Revenue (2%

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# INTERNAL CONTROL

## Internal Control Statement

March 24, 2017

The Taipei Exchange states the following with regard to its internal control system during the vear of 2016 based on the results of self-evaluation:

- 1. TPEx is fully aware that the establishment, implementation, and maintenance of the internal control system are the responsibility of the board of directors and management. TPEx has established such a system with the objective to reasonably ensure the achievement of goals with respect to the effectiveness and efficiency of business operations (including profitability, performance and security of assets), reliability, timeliness, and transparency of financial reporting, and compliance with relevant regulatory requirements.
- 2. An internal control system has its inherent limitations. No matter how perfect the system is in design, an effective internal control system can only provide reasonable assurance for the attainment of the 3 goals described above. However TPEx internal control system is equipped with the function of self-monitoring, that TPEx will take immediate action once a deficiency is identified.
- 3. TPEx determines if the design and implementation of its internal control system are effective based on the criteria provided in the Regulations Governing the Establishment of Internal Control System by Service Enterprises in Securities and Future Markets (referred to as the Guidelines hereunder). Said criteria divides internal control into 5 elements based on the process of management control: (1) Control Environment, (2) Risk Assessment, (3) Control Activities, (4) Information and Communication, and (5) Monitoring Activities. Each element contains several items. Please refer to the Guidelines.
- 4. TPEx has evaluated the validity of the design and implementation of its internal control system based on the aforesaid criteria.
- 5. Based on the results of aforementioned evaluation, it is found that the internal control system of TPEx in December 31, 2016 was effective in design and implementation, that it reasonably assures the attainment of aforesaid goals, including the effectiveness and efficiency of business operations, reliability, timeliness, and transparency of financial reporting, and compliance with relevant regulatory requirements.
- 6. Any false representation or concealment in this Statement shall be subjected to legal consequences as stipulated in Articles 174 of the Securities & Exchange Law.
- 7. This statement has been passed by the board of directors in the meeting held on March 24, 2017, where none of the 14 attending directors voiced any dissenting view to the content of this statement.

**Taipei Exchange** 

Chairman: flilly Clen

Managing Director & CEO: Auching

# FINANCIAL STATEMENT-

## **BALANCE SHEETS**

(In New Taiwan Dollars)

	December 21	2016	December 31 0	015	
ASSETS	December 31, 2 A m o u n t	<u>2016</u> %	December 31, 2 A m o u n t	<u>015</u> %	
CURRENT ASSETS			<u></u>		
Cash and cash equivalent	\$195,103,838	2	\$140,706,562	1	
Available-for-sale financial assets	200,882,200	2	-	-	
Notes and accounts receivable	52,459,087	-	84,333,111	-	
Other financial assets	2,961,326,223	24	2,685,330,483	22	
Other current assets	37,551,800	-	88,703,907	1	
Securities settlement debit	6,355,071,077	53	6,909,465,257	56	
Total current assets	9,802,394,225	81	9,908,539,320	80	
NON-CURRENT ASSETS					
Available-for-sale financial assets	134,876,599	1	637,092,096	5	
Held-to-maturity financial assets	1,400,000,000	12	1,100,000,000	9	
Financial assets at cost	30,000,000	-	30,000,000	-	
Special securities settlement fund	400,000,000	3	400,000,000	3	
Default damage fund	122,289,797	1	122,289,797	1	
Property and equipment	88,117,238	1	28,681,609	-	
Prepayment for equipment	5,659,300	-	72,309,590	1	
Refundable deposits	13,547,570	-	46,189,398	1	
Other assets	59,368,898	1	40,052,050		
Total non-current assets	2,253,859,402	19	2,476,614,540	20	
TOTAL	<u>\$12,056,253,627</u>	<u>100</u>	<u>\$ 12,385,153,860</u>	100	
liabilities and funds and net assets					
CURRENT LIABILITIES					
Accounts payable	\$17,833,671	-	\$36,191,877	-	
Other payable	302,430,431	2	275,227,784	2	
Current income tax liabilities	20,069,708	-	39,211,419	-	
Other current liabilities	76,078,135	1	75,420,807		
Securities settlement credit	6,355,071,077	<u> </u>	6,909,465,257	56	
Total current liabilities	6,771,483,022	56	7,335,517,144	59	
NON-CURRENT LIABILITIES					
Net defined benefit liabilities	244,325,761	2	234,551,482	2	
Provisions	6,434,649	-	5,840,838	-	
Guarantee deposit received	23,056,192	-	22,751,132	-	
Deferred tax liabilities			45,515		
Total non-current liabilities	273,816,602	2	263,188,967	2	
Total liabilities	7,045,299,624	58	7,598,706,111	61	
FUNDS AND NET ASSETS Funds					
Initial fund	345,450,000	3	345,450,000	3	
Donated fund	5,000,000	-	5,000,000	-	
Surplus transferred to fund	4,242,636,461	35	3,983,455,461	32	
Total funds	4,593,086,461	38	4,333,905,461	35	
Accumulated surplus	394,103,104	4	453,752,734	4	
Unrealized gain (loss) from available-	0, 1,100,104	Т	100,702,704	-1	
for-sale financial assets	23,764,438	-	(1,210,446)	-	
Total funds and net assets	5,010,954,003	42	4,786,447,749	39	
TOTAL	\$12,056,253,627	100	\$12,385,153,860	100	
	<u>\$12,000,200,02/</u>		<u> </u>		

## STATEMENTS OF COMPREHENSIVE INCOME

(In New Taiwan Dollars)

	2016 <u>A m o u n t</u>	%	<u>2015</u> <u>A m o u n t</u>	%
OPERATING REVENUES	\$1,527,090,230	100	\$1,618,316,340	100
OPERATING EXPENSES	1,429,222,514	94	1,408,399,108	87
NET OPERATING INCOME	97,867,716	6	209,917,232	13
NON-OPERATING INCOME AND EXPENSE	120,160,439	8	100,193,606	6
SURPLUS BEFORE INCOME TAX	218,028,155	14	310,110,838	19
INCOME TAX EXPENSE	18,465,110	1	37,290,000	2
SURPLUS AFTER INCOME TAX	199,563,045	13	272,820,838	17
OTHER COMPREHENSIVE INCOME (NET, AFTER TAX )	24,943,209	2	( <u>61,284,990</u> )	( <u>4</u> )
TOTAL COMPREHENSIVE INCOME	\$224,506,254	<u>    15</u>	\$211,535,848	13

## Part VI Glossory

#### ESB

Emerging Stock Board, on which companies preparing for listing are required to register

#### ETF

Exchange-traded fund

#### FSC

Financial Supervisory Commission, the competent authority of financial markets and financial service enterprises in Taiwan

#### GISA, pre-GISA counseling

Go Incubation Board for Startup and Acceleration Firms, the TPEx's platform for micro and small-sized non-public innovative companies to raise needed capital. Eligible GISA applicants are required to receive integrative counseling (or "pre-GISA counseling") organized by TPEx before they are admitted to GISA

#### **Gofunding Zone**

TPEx's webpage that synchronizes funding project information disclosed on partner crowdfunding platforms

#### OTC

Over-the-counter trading is negotiated trading between counterparts

#### SME

Small and medium enterprise

#### TDR

Taiwan Depositary Receipt— a foreign company's publicly traded shares listed and traded in Taiwan

**TPEx listed companies** Companies that list their shares on TPEx's Main Board

#### **TPEx listed stocks**

Stocks listed on TPEx's Main Board

#### TWSE

Taiwan Stock Exchange is the other major exchange in Taiwan

Secure · Efficient · Transparent · Innovative



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