Securities industry outlook: exemplified by KGI Securities
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1. Company profile
Second largest securities company in Taiwan
Leading in innovation & internationalism

Summary Title

- A wholly-owned subsidiary of China Development Financial Holdings Corp. (CDF; 2883 TT). In June 2013, KGI further merged with Grand Cathay Securities, CDF’s other securities subsidiary.

- Second largest securities firm in Taiwan in terms of market share. Principal activities are brokerage, investment banking and proprietary trading. All businesses rank in leading positions.

- Expansion into other Asian countries since 1996, earlier than and more successfully than peers. Presence in Hong Kong, Thailand and Singapore.

Key financial figures (as of June 30)

<table>
<thead>
<tr>
<th>Financial Figure</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets (NT$bn)</td>
<td>154.56</td>
</tr>
<tr>
<td>Shareholders’ equity (NT$bn)</td>
<td>65.47</td>
</tr>
<tr>
<td>BVPS (NT$)</td>
<td>14.24</td>
</tr>
<tr>
<td>Profit (NT$bn)</td>
<td>1.47</td>
</tr>
<tr>
<td>EPS (NT$)</td>
<td>0.32</td>
</tr>
<tr>
<td>ROE (%)</td>
<td>4.42%</td>
</tr>
<tr>
<td>No. of branches- Taiwan</td>
<td>105</td>
</tr>
<tr>
<td>Overseas</td>
<td>26</td>
</tr>
<tr>
<td>Credit rating- Taiwan Rating</td>
<td>twAA-</td>
</tr>
<tr>
<td>S&amp;P</td>
<td>BBB</td>
</tr>
</tbody>
</table>
# Leading position of KGI

KGI leads peers in all categories

<table>
<thead>
<tr>
<th>Business category</th>
<th>Indicator (market share)</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Distribution channel</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Branches</td>
<td>105/ no. of branches</td>
<td>2</td>
</tr>
<tr>
<td>Brokerage</td>
<td>9.1%</td>
<td>2</td>
</tr>
<tr>
<td>Margin loan</td>
<td>10.6%</td>
<td>2</td>
</tr>
<tr>
<td>FINI</td>
<td>5.2%</td>
<td>1</td>
</tr>
<tr>
<td>Futures &amp; options</td>
<td>13.8%</td>
<td>2</td>
</tr>
<tr>
<td><strong>Innovation capability</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Warrant</td>
<td>10.8%</td>
<td>2</td>
</tr>
<tr>
<td>ASW</td>
<td>34.2%</td>
<td>2</td>
</tr>
<tr>
<td>IRS</td>
<td>30.0%</td>
<td>1</td>
</tr>
<tr>
<td>ELN</td>
<td>47.6%</td>
<td>1</td>
</tr>
<tr>
<td>OTC Opt.</td>
<td>48.1%</td>
<td>1</td>
</tr>
<tr>
<td><strong>Investment Banking</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock underwriting</td>
<td>28.5%</td>
<td>1</td>
</tr>
<tr>
<td>Stock underwriting</td>
<td>34/ no. of deals</td>
<td>1</td>
</tr>
<tr>
<td>Lead manager</td>
<td>9/ no. of deals</td>
<td>1</td>
</tr>
</tbody>
</table>
Organizational chart of KGI Group

Full-service financial platforms in Taiwan
History of local and overseas growth

Growth in size and quality via M&A and efficient management

1998-95: Establishment & listing in Taiwan
- Established in 1988
- Listed in Gretai market (OTC) in 1995
- No. of branches grew from 1 to 9; market share of 1.8%
- No presence overseas

1996-2004: Diversified growth strategy locally & overseas
- Grew local market share to 4.3% via M&A
- Developed non-brokerage businesses
- Engaged overseas markets by acquiring peers in Hong Kong, Thailand and Korea during Asia financial crises

2005-08: Reaping profit overseas
- Well operated cross-country management system
- Overseas profit accounted for over 30% (except 2005)
- Divested Korean subsidiary in 2008, for gain of NT$2bn
- Searched for local M&A candidate with strong financial resources

2009-12: Ranked No. 2 in Taiwan; merged by CDF
- Became No. 2 by acquiring Taishin Securities in 2009; market share rose from 3.4% to 7-8%
- Foreign holdings 30-40%
- CDF merged KGI in June 2012; KGI delisted in January 2013
- Futures brokerage commenced in Singapore in May 2013

2013-15: To become Greater China regional leader, backed by resources of CDF
- Synergies from merger with CDF
- Strengthened fixed income and derivatives platforms in HK
- New growth driver – Entered China market in 2H13
- New growth driver – Overseas Securities Unit from 4Q13
**Strong business deployment in Asia**

Pursuing growth & diversification in Greater China & Southeast Asia

### China
- Equity research teams in Shanghai & Shenzhen
- Source of future growth

### Thailand*
- SHE: THB$4.8bn; 16 branches
- Top 10 local broker
- Warrant business leader
- Proprietary trading one of the major profit contributors

*Note 1: * 35% ownership

2: THB4.8bn = US$155mn

### Taiwan
- SHE: NT$65.5bn; 105 branches
- Ranked No. 2 in brokerage
- No. 1 in FINI among local peers in terms of 2013 market share
- No. 1 in investment banking in 2013 deal size
- No. 1 in fixed income

### Hong Kong
- SHE: US$252mn; 7 branches
- Brokerage as the major business
- Strengthened trading teams and platforms in fixed income and derivatives
- Regional trading platform and product center

### Singapore
- Futures brokerage commenced in 2013

*Note 3: SHE- Shareholders’equity

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Highest overseas profit contribution among peers

Geographically diversified revenue sources a stabilization factor

Profit contribution from overseas

<table>
<thead>
<tr>
<th>KGI</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Jun-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic profit (%)</td>
<td>74%</td>
<td>78%</td>
<td>85%</td>
<td>78%</td>
<td>83%</td>
</tr>
<tr>
<td>Overseas profit (%)</td>
<td>26%</td>
<td>22%</td>
<td>15%</td>
<td>22%</td>
<td>17%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic profit (%)</td>
<td>89%</td>
<td>85%</td>
<td>35%</td>
<td>80%</td>
<td>83%</td>
</tr>
<tr>
<td>Overseas profit (%)</td>
<td>11%</td>
<td>15%</td>
<td>65%</td>
<td>20%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Overseas Net Profit Contribution

<table>
<thead>
<tr>
<th>Region</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>H1 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong (incl. SG)</td>
<td>(NT$mn)</td>
<td>456</td>
<td>471</td>
<td>251</td>
<td>396</td>
</tr>
<tr>
<td>Thailand</td>
<td>(NT$mn)</td>
<td>71</td>
<td>245</td>
<td>170</td>
<td>134</td>
</tr>
<tr>
<td>Overseas Total</td>
<td>(NT$mn)</td>
<td>527</td>
<td>716</td>
<td>421</td>
<td>530</td>
</tr>
</tbody>
</table>

Note: 2011 overseas contribution reached 65% mainly due to NTD 1.4bn losses in GC-TW.
2. Industry growth drivers: offshore securities unit (OSU) & China market
Offshore Securities Unit (OSU) in Taiwan

OSU and further opening of China expected to be the new growth drivers

- An analogy using beef noodle: OBU FX business is the noodle…..
Onshore growth momentum: OSU
OSU business scope and tax benefit

- Noodle is required for beef noodle, chicken noodle, duck noodle, and etc…

<table>
<thead>
<tr>
<th>Business scope</th>
<th>Tax benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>To operate foreign currency denominated security and financial product related services as:</td>
<td></td>
</tr>
<tr>
<td>- Agents</td>
<td>- Exemptions from business income, business and stamp taxes, as well as no tax withholding on interest payments to OSU clients</td>
</tr>
<tr>
<td>- Dealers</td>
<td></td>
</tr>
<tr>
<td>- Underwriters</td>
<td>- Such exemptions effect for 15 years</td>
</tr>
<tr>
<td>- Asset management</td>
<td></td>
</tr>
<tr>
<td>- Discretionary account services</td>
<td></td>
</tr>
</tbody>
</table>

To further enlarge income source by expanding OSU business
Offshore growth momentum: China market
To engage China market via joint venture

Short term goal: to build operation
- To build operation with the partner with combined resources and advantages of CDF and KGI to increase brand awareness in China

Mid term goal: to enlarge scale
- To acquire licenses of new businesses and further develop revenue and profit of the selected businesses

Long term goal: to become a leader
- To become a market leader in China in the strategic businesses

Partner in China
2. Awards and honors
Recent awards & honors (partial)

Acclaim from major international & local financial media and organizations

**Equities**
- Asia Money 2012
  - #2 Best local broker
  - #3 Overall country research
- Asia Money 2011
  - #2 Best local broker
  - #7 Overall country research

**Fixed income**
- The Asset Magazine 2012
  - Top bank in the secondary market for gov’t bonds
- Asia Money, the Asset Magazine and Finance Asia 2011
  - Best domestic bond house
- Central Bank of Taiwan 2011
  - Best gov’t bond dealer
- The Asset Magazine 2010
  - Best domestic bond house

**Investment banking**
- Taiwan Stock Exchange 2012
  - Outstanding innovation award
- World Finance 2011
  - Best Investment bank
- GreTai Securities Market 2011
  - (Golden Laureate Award)
  - Excellent stock underwriter
  - Excellent issue of new financial products
- Golden Goblet Award 2011
  - Outstanding financial innovation

**Corporate**
- The Banker 2013
  - Top 500 most valuable banking brands
- Interbrand 2011
  - Top 20 Taiwan global brands
- GreTai Securities Market 2011
  - First class award in risk management assessment
4. Q&A