

CAPITAL FUTURES CORPORATION
FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
AND
INDEPENDENT AUDITORS' REPORT

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CAPITAL FUTURES CORPORATION
FINANCIAL STATEMENTS
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Independent Auditors' Report

The Board of Directors
Capital Futures Corporation

We have audited the accompanying balance sheets of Capital Futures Corporation as of December 31, 2011 and 2010, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and "Rules Governing Certified Public Accountants' Certification of Financial Statements" of the Republic of China (R.O.C.). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on test basis, evidences supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capital Futures Corporation as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, the related rules of preparation financial reports of futures management business, and accounting principles generally accepted in the Republic of China.

Please refer to the consolidated financial statements of Capital Futures Corporation as of December 31, 2010, for which have issued an unqualified opinion.



Taipei, Taiwan, R.O.C.
March 19, 2012

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

CAPITAL FUTURES CORPORATION
STATEMENTS OF INCOME

For the years ended December 31, 2011 and 2010

(New Taiwan Dollars in Thousands, Except Share and Per Share Data)

	2011		2010	
	Amount	%	Amount	%
Income				
Commission income - brokerage (Note 5)	\$ 1,026,794	84	895,675	81
Commission income - clearing and settlement (Note 5)	4,429	-	17,572	2
Gain on derivative financial instruments (Note 4(K))	85,601	7	125,786	11
Consulting fee	4,519	-	1,245	-
Other operating revenue (Note 5)	3,179	-	701	-
Non-operating revenue (Note 4(L))	99,574	9	63,924	6
	<u>1,224,096</u>	<u>100</u>	<u>1,104,903</u>	<u>100</u>
Expense				
Brokerage fees	(160,348)	(13)	(138,815)	(13)
Brokerage fees - proprietary trading	(4,950)	-	(4,166)	-
Futures commission expenses (Note 5)	(196,163)	(16)	(172,424)	(15)
Clearing and settlement expenses	(114,619)	(9)	(108,553)	(10)
Loss on derivative financial instruments (Note 4(K))	(93,963)	(8)	(106,054)	(10)
Operating expenses (Note 5)	(364,847)	(30)	(345,166)	(31)
Non-operating expenses	(11,256)	(1)	(6,982)	(1)
	<u>(946,146)</u>	<u>(77)</u>	<u>(882,160)</u>	<u>(80)</u>
Continuing operations' income before tax	277,950	23	222,743	20
Less : Income tax expense (Notes 2 and 4(H))	(56,666)	(5)	(44,581)	(4)
Continuing operations' income after tax	221,284	18	178,162	16
Net income	<u>\$ 221,284</u>	<u>18</u>	<u>178,162</u>	<u>16</u>
	Before Tax	After Tax	Before Tax	After Tax
Basic earnings per share (Note 4(J))	<u>\$ 3.01</u>	<u>2.40</u>	<u>2.63</u>	<u>2.10</u>
Basic earnings per share - restroactively stated (Note 4(J))			<u>2.41</u>	<u>1.93</u>
Diluted earnings per share (Note 4(J))	<u>\$ 3.01</u>	<u>2.39</u>	<u>2.63</u>	<u>2.10</u>
Diluted earnings per share - restroactively stated (Note 4(J))			<u>2.41</u>	<u>1.93</u>

(The accompanying notes are an integral part of the financial statements)

CAPITAL FUTURES CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the years ended December 31, 2011 and 2010
(New Taiwan Dollars in Thousands)

	Capital stock	Capital surplus	Retained earnings		Unappropriated earnings	Unrealized gains/losses on securities	Total
			Legal reserve	Special reserve			
Beginning balance, January 1, 2010	\$ 752,268	107,625	116,717	233,434	211,141	-	1,421,185
Net income for 2010	-	-	-	-	178,162	-	178,162
Appropriation of 2009 earnings(Note 1):							
Legal reserve	-	-	18,822	-	(18,822)	-	-
Special reserve	-	-	-	37,644	(37,644)	-	-
Cash dividends	-	-	-	-	(37,613)	-	(37,613)
Capital increase out of retained earnings	94,034	-	-	-	(94,034)	-	-
Ending balance, December 31, 2010	846,302	107,625	135,539	271,078	201,190	-	1,561,734
Net income for 2011	-	-	-	-	221,284	-	221,284
Appropriation of 2010 earnings(Note 2):							
Legal reserve	-	-	17,816	-	(17,816)	-	-
Special reserve	-	-	-	35,632	(35,632)	-	-
Cash dividends	-	-	-	-	(8,463)	-	(8,463)
Capital increase out of retained earnings	76,167	-	-	-	(76,167)	-	-
Unrealized gains/losses on available-for-sale financial assets	-	-	-	-	-	(5,104)	(5,104)
Transferred from reserve for trading losses and default losses	-	-	-	90,394	-	-	90,394
Ending balance, December 31, 2011	\$ 922,469	107,625	153,355	397,104	284,396	(5,104)	1,859,845

Note 1 : The remuneration to directors and supervisors and the employee bonuses were both \$2,743 which were deducted from the statement of income.

Note 2 : The remuneration to directors and supervisors and the employee bonuses were both \$1,763 which were deducted from the statement of income.

(The accompanying notes are an integral part of the financial statements)

CAPITAL FUTURES CORPORATION
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2011 and 2010
(New Taiwan Dollars in Thousands)

	2011	2010
Cash flows from operating activities:		
Net income	\$ 221,284	178,162
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	12,164	7,984
Amortization	3,097	4,190
Provision for trading losses	-	1,644
Provision for default	-	17,914
Investment loss under the equity method	-	2,058
Loss (gain) on disposal of premises and property	986	(17)
Gain on disposal of investments	(38)	-
Valuation gain from financial assets	(954)	(712)
Net changes of operating assets and liabilities:		
Net changes of operating assets:		
Decrease in financial assets measured at fair value through profit or loss	79,807	75,755
Decrease (increase) in customers margin accounts	(3,146,830)	726,988
Decrease (increase) in futures margin receivable	(3,033)	240
Decrease (increase) in accounts receivable	(5,886)	5,133
Increase in accounts receivable-inter co.	(33)	(100)
Decrease (increase) in prepayments	(2,352)	652
Increase in other receivable	(1,664)	(3,650)
Decrease (increase) in other receivable-inter co.	335	(329)
Decrease in pledged assets	-	10,000
Decrease in deferred income tax assets-non-current	-	653
Decrease (increase) in other current assets	(35)	174
Total net changes of operating assets	(3,079,691)	815,516
Net changes of operating liabilities:		
Increase (decrease) in financial liabilities measured at fair value through profit or loss	5,735	(3,349)
Increase (decrease) in futures traders' equity	3,142,521	(736,759)
Decrease in accounts payable	(2,395)	(5,865)
Increase (decrease) in accounts payable-inter co.	(3,585)	2,504
Increase in advance receipts	1,242	72
Increase (decrease) in receipts under custody	(574)	786
Increase in other payables	19,874	514
Increase (decrease) in other payables-inter co.	25	(574)
Increase in accrued pension liabilities	14	11
Increase in other liabilities- current	8,254	5,575
Total net changes of operating liabilities	3,171,111	(737,085)
Net cash provided by operating activities	327,959	289,654
Cash flows from investing activities:		
Purchase of available-for-sale financial assets	(49,367)	(38)
Proceeds from capital reduction of investments under the equity method	144	53,136
Purchase of premises and property	(38,223)	(13,972)
Proceeds from sale of premises and property	-	350
Increase in guaranty deposit for business operation	-	(40,000)
Increase in clearing and settlement fund	(6,000)	(21,000)
Increase in guaranty deposits paid	(5,099)	(645)
Increase in deferred debits	(4,963)	(350)
Purchase of Intangible assets	(19,358)	-
Net cash used in investing activities	(122,866)	(22,519)
Cash flows from financing activities:		
Cash dividends	(8,463)	(37,613)
Net cash used in financing activities	(8,463)	(37,613)
Net increase in cash and cash equivalents	196,630	229,522
Cash and cash equivalents at beginning of year	1,268,119	1,038,597
Cash and cash equivalents at end of year	\$ 1,464,749	1,268,119
Cash paid for interest	\$ 2,548	2,142
Cash paid for income tax	\$ 45,510	46,199

(The accompanying notes are an integral part of the financial statements)

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(NEW TAIWAN DOLLARS IN THOUSANDS)

(1) OVERVIEW

Capital Futures Corporation (the “Company”) established its preparatory office on January 4, 1997, officially incorporated on February 26, 1997 and started operation on July 29, 1997. On December 11, 2000, the Company established the Taichung branch. Furthermore, the Company was adopted Securities OTC Listings Review on December 23, 2008 and the official listed date was on April 27, 2009. Managing the following business :

- (A) Futures business.
- (B) Futures advisory business.
- (C) Securities introducing brokerage.
- (D) Futures management business.

The parent company is Capital Securities Corporation. The futures management business started operation on September 29, 2010. As of December 31, 2011 and 2010, the numbers of employees were 169 and 153, respectively.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared in the local currency and in Chinese. These financial statements have been translated into English. The translated information is in consistent with the Chinese language financial statements from which it is derived.

The financial statements of the Company were prepared in accordance with Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, the related rules of preparation financial reports of futures management business, and accounting principles generally accepted in the Republic of China. Summary of significant accounting policies were as follows:

(A) Accounting Estimates

The preparation of the accompanying financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(B) Foreign Currency Transactions

The Company recorded transactions in New Taiwan Dollar. The non-derivative foreign currency transactions of the Company are recorded at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange ruling at the balance sheet date. Any exchange differences resulting from fair value variation through profit and loss are included in the income statement, and exchange differences resulting from fair value variation through equity are accounted for as equity adjustments.

(C) Principles of classifying assets and liabilities as current and non-current

Cash or cash equivalents that are not restricted in use, assets held for the purpose of trade, or assets that will be held short-term and are expected to be converted to cash within 12 months of the balance sheet date are classified as current assets; otherwise, they are classified as non-current assets.

Liabilities that must be fully liquidated within 12 months after the balance sheet date are classified as current liabilities; otherwise, they are classified as non-current liabilities.

(D) Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and with maturity dates that do not present significant risks on changes in value resulting from changes in interest rates, including commercial paper with original maturities of three months or less.

(E) Financial assets measured at fair value through profit or loss

Financial assets are classified as held for trading if they have been acquired principally for the purpose of selling or repurchasing in the near term. The derivative financial instruments held by the Company, except for those designated as hedging instruments, are classified under this account. Financial instruments are recorded on trading date and initially recognized at fair value plus transaction costs. At each balance sheet date, the fair value is remeasured and the resulting gain or loss from such remeasurement is recognized in profit and loss. During regular course of buying and selling these financial assets, trade date accounting is used.

These financial assets should be classified as current and non-current according to liquidity. Non-current financial assets should be reclassified under funds and investments as financial assets measured at fair value through profit or loss- non-current. Financial assets are classified as held for trading as follows:

- (a) Financial assets acquired primarily for the purpose of selling in the near term.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

- (b) Assets that are part of a group of distinct financial product portfolios under comprehensive management, where there is evidence that in the near term the group is in fact being managed for short-term profit.
- (c) Derivative financial assets.

Financial assets held for trading should be stated under their respective categories, according to trading purpose, as open-ended funds, money-market instruments, option contract and futures margin fund. Financial assets measured at fair value through profit or loss should be measured at fair value. For open-ended funds, fair value refers to the net asset value of the fund on the balance sheet date. Margins are required when trading futures or options. Changes in the margin balance of futures and options due to daily valuation are reflected under "futures margin-proprietary trading" and "call options" or "put options." When offsetting a futures or options position, the settlement difference is included in current earnings, and the difference between the settlement prices and average prices of open positions at the balance sheet date is also included in current earnings.

The accounting treatments on the date of reclassification are summarized as follows:

- (a) Financial assets classified as assets measured at fair value through profit or loss upon initial recognition that would have met the definition of loans and receivables shall be reclassified at their value on the date of reclassification, which will become their new cost or amortized cost, as applicable, if the entity has the intention and ability to hold the financial assets for the foreseeable future or until maturity. Any previous gain or loss already recognized in profit or loss shall not be reversed.
 - (b) Financial assets classified as assets measured at fair value through profit or loss upon initial recognition which do not meet the preceding criterion may be reclassified out of the fair value through profit or loss category only in rare circumstances and shall be reclassified at their fair value on the date of reclassification, which will become their new cost or amortized cost, as applicable. Any previous gain or loss already recognized in profit or loss shall not be reversed.
- (F) Available-for-sale financial assets:

These financial instruments recorded on trading date, initially recognized at fair value with transaction costs and measured at fair value. The unrealized gain and loss thereon are recognized as an adjustment item of stockholders' equity. These financial assets should be classified as current and non-current according to liquidity. Non-current financial assets should be reclassified under funds and investments as financial assets measured at fair value through profit or loss- non-current. Investments in non-listed (or non-over-the-counter) companies in which the Company is unable to exercise significant influence over the investee's operations, financial policies are accounted for by the cost method at each balance date.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

Financial assets classified as available-for-sale that would have met the definition of loans and receivables shall be reclassified at their fair value on the date of reclassification, which will become their new cost or amortized cost, as applicable, if the entity has the intention and ability to hold the financial assets for the foreseeable future or until maturity. For any previous gain or loss on a financial asset that has been recognized directly in equity, if the financial asset has a fixed maturity, the gain or loss should be amortized to current profit or loss over the remaining life of the financial asset; if not, the gain or loss remains in equity.

(G) Asset Impairment

The Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there is indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

(H) Customers Margin Accounts

The customers' margin refers to the guarantee deposits and premiums collected from futures customers and also the spread calculated based on the market prices everyday. It is reflected under current assets.

(I) Futures Traders' Equity

Futures traders' equity refers to futures customers deposit the guarantee deposits and option premiums and also the spread calculated based on the market prices everyday. It is reflected under current liabilities. The loss is offset only against the balance of the same customers' own margin accounts. If a customer incurs a loss in excess of the margin account balance, the excess is recognized a receivable.

(J) Allowance for Doubtful Accounts

An allowance for doubtful accounts is provided based on a review of account receivables and other receivables at the end of each reporting period. The assessment for impairment of receivable by the Company is subject to the third amendment of SFAS No. 34 "Financial Instruments: Recognition and Measurement". In 2010, the recognition of the allowance for doubtful accounts depends on the collectibility of accounts receivables and other receivables.

(K) Premises and Property, and Depreciation

Premises and property are stated at cost. Gains or losses on disposal of premises and property are included in non-operating revenues or expenses.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

Depreciation of premises and property is provided by the straight-line method over the estimated useful life prescribed by the government. Assets still in service after full depreciation are depreciated by the estimated useful lives that remain. Estimated useful lives of major property are the following:

Transportation equipment	3 to 5 years
Office facilities	3 to 5 years
Leasehold improvements	3 years

Leasehold improvements are amortized over the lesser of lease terms or the useful lives of such improvement.

(L) Intangible Assets

Intangible assets of the company are the requirements for transacting business on an exchange. The accounting standard SFAS 37 requires an entity to choose the cost model as its accounting policy. After initial recognition, an intangible asset shall be carried at its cost less any accumulated impairment losses. The seats are regarded as intangible assets with an indefinite useful life.

(M) Deferred Debits and Amortization

Telephone line charges, computer software cost and network constructions are amortized equally over 3 years.

(N) Guaranty Deposit for Business Operation

In compliance with regulations governing futures commission merchants, the Company deposited the following amounts with a financial institution designated by the Securities and Futures Bureau (SFB):

(a) futures brokerage merchants: \$50,000.

(b) futures proprietary merchants: \$10,000.

Where a futures commission merchant applying for the establishment of branch offices, the deposit amount shall be increased by \$10,000 for each branch to be established.

(c) operation of futures advisory business: \$10,000.

(d) securities introducing brokerage: \$10,000.

Where a futures commission merchant applying for the establishment of branch offices, the deposit amount shall be increased by \$5,000 for each branch to be established.

(e) futures management business: \$25,000.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(O) Clearing and Settlement Fund

The Company became the general clearing members of Taiwan Futures Exchange Corporation on March 12, 1998. In compliance with "Taiwan Futures Exchange Corporation Criteria for Clearing Membership", the clearing member shall make a deposit to the clearing and settlement fund equal to 20 percent of its paid-in capital or designated operating funds, but of an amount no more than \$40,000. For each additional futures commission merchant consigning the Company to handle clearing and settlement operations, the Company shall deposit of \$3,000 or \$1,000. And for each additional branch established by a consigning futures commission merchant, or for each additional futures trading introducing broker consigned by the Company or for each additional branch established by such introducing broker, the Company shall deposit of \$1,000.

(P) Guaranty Deposits Paid

The guaranty deposits paid included the self-regulatory fund deposit to Chinese National Futures Association. According to the regulation, the guaranty deposits can be applied to refund when the Company withdraws from the association.

(Q) Financial liabilities measured at fair value through profit and loss

Financial liabilities measured at fair value through profit or loss is the gain or loss computed as the price announced by Taiwan Futures Exchange when premium collected when the company sells the option contract, and is recognized as the current income.

(R) Reserve for Bad Debt

Per SFB regulations, the Company shall make appropriate provision, within 4 year starting from July 1, 1999 for bad debt at 3% of sales turnover of the principal lines on a monthly basis that is recorded as "other liabilities".

According to the SFB Ruling Letter No.0920003132, the Company stopped to provide the above 3% of reserve for bad debts since July 1, 2003. The balance of "reserve for bad debt", if any, would be maintained on the book for the future write-off of overdue doubtful accounts only in according to the SFB Ruling Letter No. 91625.

(S) Special Reserve

Per SFB regulations, futures commission merchants are required to set aside 20% of net income as special reserve, until such amount is equal to its paid-in capital. On January 11, 2011, SFB regulations were revised by the Financial Supervisory Commission. According to the SFB Ruling Letter No.1000000289, both reserves for trading losses and default losses are no longer required. The remaining balances of reserve for trading losses and default losses should be reclassified as special reserve in 2011. The special reserve can only be used to offset deficit or reclassified as capital when it reaches 50% of the amount of paid-in capital, and only half of the amount of such special reserve may be capitalized.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(T) Pension Plan

The Company adopted the SFAS No. 18, "Accounting for Pensions" to recognize pension costs on the basis of actuarial report and accrues the minimum pension liability when the accumulated benefit obligation exceeds the fair value of the fund assets. And made all necessary disclosures on the related benefit obligation.

The Labor Pension Act of R.O.C. ("the Act") takes effect from July 1, 2005. In accordance with the Act, employees of the Company may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, which adopts a defined contribution scheme, the Company shall make monthly contributions to the employees' individual pension accounts with the Bureau of Labor Insurance on a basis no less than 6% of the employees' monthly wages. However, the employee retirement plan maintained by the Company has not yet been amended to conform to the Act.

(U) Income Tax

The Company adopted SFAS No. 22 "Accounting for Income Tax" to reflect inter and intra-period income tax allocation. Income tax effects from taxable temporary differences are reported as deferred income tax liabilities, and deductible temporary differences, prior years' loss carry forwards, and investment tax credits are reflected as deferred income tax assets. Deferred income tax assets are recognized subject to management's judgment that realization is more likely than not.

Deferred income tax asset or liability is classified as current or non-current by the nature of underlying asset or liability or the expected time of realization.

Adjustments for under or over estimates of prior year's income tax expenses are reflected as current income tax expense.

The 10% surtax on undistributed earnings is reflected as current expense on the date of stockholders' meeting to resolve on earnings distribution

(V) Earnings per Share ("EPS")

EPS is based on the weighted-average number of outstanding shares. In the event of capital increase through capitalization of retained earnings, or capital surplus, EPS is retroactively adjusted by the approved capitalization ratio, regardless of the outstanding period when incremental shares are issued.

The Company's employee bonuses issued by stocks were dilutive potential common shares. If the potential common shares have a non-dilutive effect, the Company should only disclose the basic earnings per share. On the contrary, if the potential common shares have a dilutive effect, the Company should disclose both the basic and diluted earnings per share. In calculating the diluted earnings per share which should take the effect of potential common shares to net income and the weighted-average number of common shares outstanding share into consideration is based on the assumption that all dilutive potential common shares are outstanding and of the current period.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(W) Employee Bonuses and Directors' Remunerations

Employee bonuses and directors' remunerations are accounted for by Interpretation 2007-052 issued by the Accounting Research and Development Foundation ("ARDF"). The Company estimates the amount of employee bonuses and directors' remunerations according to the Interpretation and recognizes it as expenses. Differences between the amounts approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss.

(X) Operating Segment Financial Information

Operating segments are components of the Company that have the following characteristics:

- (a) Engage in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the operating segments);
- (b) Whose operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and.
- (c) For which discrete financial information is available.

(3) REASONS FOR AND EFFECT OF ACCOUNTING CHANGES :

- (1) Since January 1, 2011, the Company adopted the third amendment of SFAS No. 34 "Financial Instruments: Recognition and Measurement". The initial recognition of receivables should apply to the regulations of recognition, sequent valuation and impairment. And troubled debt restructuring, or negotiated debt restructuring, or the negotiated debt instruments with new contracts or modification of term incurred, should be applied to the third amendment of SFAS No. 34. This change in accounting principles had no significant effect on net income and EPS for the year ended December 31, 2011.
- (2) Since January 1 2011, the Company adopted SFAS No. 41 "The disclosure of the information of operating segments". According to SFAS No. 41, the Company should disclose its financial information to enable user to evaluate the nature and financial effects of the business activities in which it engages and the economic environment in which it operates. The determination and the expression of operating segments are based on the information provided to the chief operating decision maker internally. The newly issued SFAS No. 41 supersedes SFAS No. 20 "Segment Reporting". This accounting change had no effect on the Company's financial statements for the year ended December 31, 2011. The comparative operating segment information has been presented accordingly.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(4) SUMMARY OF MAJOR ACCOUNTS

(A) Cash and Cash Equivalents

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Cash	\$ 50	40
Demand deposits	9,199	33,284
Time deposits	1,452,500	1,224,800
Cash equivalent		
Commercial paper	3,000	9,995
Total	<u>\$ 1,464,749</u>	<u>1,268,119</u>

As of December 31, 2011 and 2010, the due date of the commercial paper was on January 2, 2012 and January 3, 2011, respectively.

(B) Financial Assets Measured at Fair Value through Profit or Loss-Current

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Financial assets held for trading:		
Open-ended funds and money-market instruments	\$ -	79,893
Valuation adjustment	-	(953)
Subtotal	-	78,940
Financial Instruments :		
Call options	9,523	107
Futures margin-proprietary fund	129,536	138,865
Subtotal	139,059	138,972
Total	<u>\$ 139,059</u>	<u>217,912</u>

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(C) Customers Margin Accounts

<u>December, 31, 2011</u>	<u>Foreign Currency (dollar)</u>		<u>Amount</u>
Cash in bank	USD	78,887,203.23	\$ 2,388,310
	JPY	9,860,520.00	3,851
	GBP	3,891.09	182
	HKD	23,327,632.05	90,908
	SGD	52.55	1
	-		5,223,196
Subtotal			<u>7,706,448</u>
Balance of the futures	USD	16,926,994.50	512,465
Clearing house			578,865
Subtotal			<u>1,091,330</u>
Balance of other futures	USD	5,407,277.52	163,705
Commission merchants	JPY	15,627,397.00	6,104
	GBP	238,712.93	11,155
	HKD	13,796,683.60	53,765
	EUR	126,597.77	4,961
	AUD	126.31	4
	SGD	6,358.27	148
Subtotal			<u>239,842</u>
Total			<u><u>\$ 9,037,620</u></u>
<u>December, 31, 2010</u>	<u>Foreign Currency (dollar)</u>		<u>Amount</u>
Cash in bank	USD	22,119,276.48	\$ 644,335
	JPY	23,795,684.00	8,524
	GBP	8,465.93	383
	HKD	1,508,639.18	5,654
	EUR	4,728.99	184
	AUD	474.43	14
	SGD	797.28	18
	-		3,807,188
Subtotal			<u>4,466,300</u>
Balance of the futures	USD	9,476,994.50	276,065
Clearing house			940,616
Subtotal			<u>1,216,681</u>
Balance of other futures	USD	5,855,921.71	170,583
Commission merchants	JPY	33,837,038.00	12,120
	GBP	174,177.85	7,871
	HKD	4,162,860.62	15,602
	EUR	33,381.65	1,300
	AUD	443.44	13
	SGD	14,075.69	320
Subtotal			<u>207,809</u>
Total			<u><u>\$ 5,890,790</u></u>

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

As of December 31, 2011 and 2010, the difference between customers margin accounts and futures traders' equity are the commission revenue from the customers \$4,137 and \$7,570, respectively, futures tax of \$1,054 and \$1,645, respectively, interest revenue \$238 and \$96, respectively, temporary credits \$379 and \$347, respectively, and remittance amount of the customers after the market closed \$21,072 and \$12,913, respectively.

(D) Long-Term Investments

(a) Long-term investments under equity method

<u>Investee Company</u>	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	<u>Ownership ratio</u>	<u>Amount</u>	<u>Ownership ratio</u>	<u>Amount</u>
Capital Futures Management Corp. (The original investment is \$8,364 in 2010.)	- %	\$ -	61.50%	<u>106</u>

In 2010, the loss on investments accounted for under the equity method based on audited investee financial statements was \$2,058. Majority-owned affiliates are accounted for under the equity method and combined into the consolidated financial statements.

The invested company - Capital Futures Management Corp. applied for dissolution registration under the resolution of board's meeting on July 9, 2010, and set record date of dissolution as August 31, 2010. Capital Futures Management Corp. finished the procedure on September 13, 2010, and returned partial shares of stock to stockholders on December 10, 2010. The Company received the returned amount of \$53,136 proportionally. Capital Futures Management Corp. completed the settlement procedure on March 29, 2011 and returned the rest shares of stock to stockholders. The Company received the returned amount of \$144 proportionally and recognized the gains on disposal of investments amounted to \$38.

(b) Available-for-sale financial assets-non-current

<u>Investee Company</u>	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	<u>Ownership ratio</u>	<u>Amount</u>	<u>Ownership ratio</u>	<u>Amount</u>
Taiwan Futures Exchange Corp.	0.0045%	\$ 128	0.0045%	128
CME GROUP	0.0011%	49,367	- %	-
Less: Value adjustments		(5,104)	- %	-
		<u>\$ 44,391</u>		<u>128</u>

(E) Intangible Assets

The Company obtained the seats of foreign futures Exchanges for business development. In accordance with SFAS No.37 "Intangible Assets", the seats are regarded as intangible assets with an indefinite useful life. As of December 31, 2011, the book value of the intangible assets was \$19,358.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(F) Futures Traders' Equity

Currency	Foreign Currency Amount (dollar)	Amount
December 31, 2011		
USD	101,173,864.26	\$ 3,063,039
JPY	24,473,167.00	9,559
GBP	242,569.02	11,335
HKD	37,107,456.74	144,608
EUR	126,597.77	4,960
SGD	6,278.41	146
NTD		5,777,093
Total		\$ 9,010,740
December 31, 2010		
USD	37,370,701.63	\$ 1,088,609
JPY	56,827,797.00	20,356
GBP	181,431.80	8,199
HKD	5,633,975.89	21,116
EUR	38,096.78	1,483
AUD	813.00	24
SGD	14,215.46	323
NTD		4,728,109
Total		\$ 5,868,219

(G) Pension Plan

(a) The Company reserves pension cost expense benefit in 2011 and 2010 were as follows:

	2011	2010
Provision for defined benefit plan	\$ 548	388
Provision for defined contribution plan	6,471	5,670
	\$ 7,019	6,058

(b) The contribution to the pension fund (interest included) in 2011 and 2010 amounted to \$689 and \$574 respectively. As of December 31, 2011 and 2010, the balances of pension fund were \$13,307 and \$12,618, respectively.

(c) Actuarial assumptions used to calculate net pension costs were as follows:

	2011	2010
Discount rate	1.83%	3.00%
Future salary increase rate	2.50%	2.50%
Projected long-term rate of return on pension assets	1.50%	1.50%

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

- (d) Reconciliation between funded status and accrued pension liability per book were as follows:

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Vested benefit obligation	\$ (1,179)	-
Non-vested benefit obligation	(11,207)	(10,076)
Accumulated benefit obligation	(12,386)	(10,076)
Effect of future salary increases	(1,690)	(1,658)
Expected benefit obligation	(14,076)	(11,734)
Fair value of pension fund assets	13,307	12,618
Funded status	(769)	884
Unrecognized net transitional benefit obligation	81	89
Unrecognized loss (gain) of pension fund	383	(1,264)
Accrued pension liabilities	<u>\$ (305)</u>	<u>(291)</u>

- (e) In 2011 and 2010, components of net pension cost were as follows:

	<u>2011</u>	<u>2010</u>
Service cost	377	336
Interest cost	352	280
Actual return on pension fund assets	\$ (154)	(198)
Loss (gain) on pension fund assets	(35)	18
Expected return on pension fund assets	(189)	(180)
Amortization of unrecognized loss (gain) on pension fund	-	(56)
Amortization of unrecognized net transitional benefit obligation	8	8
Net pension cost	<u>548</u>	<u>388</u>

(H) Income Tax

According to amendment of Income Tax Law which announced on June 15, 2010, the Company's income tax rate would be changed to 17% effective from January 1, 2010. In 2011 and 2010, the Company's income tax rates were both 17%. The Company calculated the minimum tax expenses according to "Alternative Minimum Tax Rule."

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
(a) Total deferred income tax assets	<u>\$ 5,669</u>	<u>23,839</u>

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	<u>Amount</u>	<u>Tax Effects</u>	<u>Amount</u>	<u>Tax Effects</u>
(b) Temporary differences which resulted in deferred income tax assets:				
Deductible temporary difference from provision for default loss reserve	\$ -	-	106,881	18,170
Deductible temporary difference from provision for bad debt reserve	33,350	5,669	33,350	5,669
	<u>\$ 33,350</u>	<u>5,669</u>	<u>140,231</u>	<u>23,839</u>

(c) Reconciliation between the current income tax and income tax expense were as follows:

1. The composition of income tax expense in 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Current income tax	\$ 52,792	42,500
Adjustments to prior years' income tax	(134)	1,417
Income tax effects due to temporary differences	-	(3,021)
Cumulative effect of changes in income tax rate	-	3,674
10% surtax on undistributed earnings	4,008	11
Income tax expense	<u>\$ 56,666</u>	<u>44,581</u>

2. The difference between income tax computed on financial income at statutory tax rate and income tax were as follows:

	<u>2011</u>	<u>2010</u>
Income tax computed on financial income at statutory tax rate	\$ 47,252	37,866
Income tax effects due to permanent differences	5,540	1,613
Income tax effects due to temporary differences	-	3,021
Current income tax	<u>\$ 52,792</u>	<u>42,500</u>

(d) The Company's income tax returns through 2008 were assessed by the Tax Authority.

(e) The information about imputation system was as follows:

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
1. Information regarding undistributed earnings:		
Undistributed earnings prior to 1997	\$ 106	106
Undistributed earnings after 1998	284,290	201,084
Total	<u>\$ 284,396</u>	<u>201,190</u>
2. Imputation credit account	<u>\$ 63,060</u>	<u>51,250</u>

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

	2011	2010
	(estimated)	(actual)
3. Deductible rate for earnings distributed of cash dividends to ROC residents	24.60%	23.63%
4. Deductible rate for earnings distributed of stock dividends to ROC residents	24.60%	25.04%

(I) Earnings Distribution

(a) Capital

On June 22, 2011, the Company's stockholders resolved to transfer un-appropriated earnings of \$76,167 and issued 7,617 thousand shares of common stock. The capital increase with effective date of August 14, 2011, was approved by the Financial Supervisory Commission, Executive Yuan on July 18, 2011. As of December 31, 2011 the paid-in capital was \$922,469.

On May 27, 2010, the Company's stockholders resolved to transfer un-appropriated earnings of \$94,034 and issued 9,403 thousand shares of common stock. The capital increase with effective date of July 19, 2010, was approved by the Financial Supervisory Commission, Executive Yuan on June 25, 2010.

(b) Capital surplus

According to the Company Act, where the Company Incurs no loss, it may distribute the capital surplus. Pursuant to the amendment of the Company Act which was published in January 2012, the Company can transfer realized capital surplus into capital or distribute cash dividends after the capital surplus be used to offset a deficient. In compliance with the resolution, realized capital surplus includes the income derived from the issuance of new shares at a premium and the income from endowments received by the company.

According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, when capital reserve is capitalized, the combined amount of any portions capitalized in any one year may not exceed 10% of paid-in capital.

(c) According to the Company's Articles of Incorporation, after-tax earnings should first offset cumulative losses, and then 10% and 20% of the remainder should be appropriated as legal reserve and special reserve, respectively. The rest may be distributed in the ratio specified below:

1. Remuneration to directors and supervisors: 2%.
2. Employee bonuses: 2%.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

3. Dividends: 96%.

Net income after tax subtracted 10% legal reserve, 20% special reserve and multiplied by 4% of employee bonus and remuneration to directors and supervisors percentage was the estimation of the bonus and remunerations to supervisors. The estimation as of December 31, 2011 and 2010 was \$6,420 and \$5,183 respectively. Difference between the amount approved at the shareholders' meeting and the estimation were accounted for as changes in accounting estimates and will be reflected in the statement of income in the following year.

(d) Legal reserve

According to the Company Act, when the company allocating surplus profits after having paid all taxes and dues, shall first set aside 10 percent of said profits as legal reserve. Where such legal reserve amounts to the total authorized capital this provision should not apply. Where the company incurs no loss, the company is able to distribute new shares and cash dividends passed by the stockholders' meeting but the amount is no more than 25% of legal reserve.

(e) The company's 2010 earnings distribution for employee bonuses, remuneration to directors and supervisors, cash dividends and stock dividends were \$1,763, \$1,763, \$8,463 and \$76,167 under the resolution of shareholders' meeting and the board's meeting on June 22, 2011. The shareholders' meeting authorized the board of directors and the board of directors authorized the chairman to set record date of earning distribution of cash dividends and stock dividends as July 19, 2011 and August 14, 2011. Due to the above changes, the difference of employee bonuses \$2,592 and remuneration to directors and supervisors \$2,591 for 2010 financial statements was \$1,657 in total. The difference was accounted for as changes in accounting estimates and would be reflected in the statement of income in 2011.

(f) The company's 2009 earnings distribution for employee bonuses, remuneration to directors and supervisors, cash dividends and stock dividends were \$2,743, \$2,743, \$37,613 and \$94,034 under the resolution of shareholders' meeting and the board's meeting on May 27, 2010. The shareholders' meeting authorized the board of directors and the board of directors authorized the chairman to set record date of earning distribution of cash dividends and stock dividends as June 25, 2010 and July 19, 2010. Due to the above changes, the difference of employee bonuses \$3,213 and remuneration to directors and supervisors \$3,213 for 2009 financial statements was \$940 in total. The difference was accounted for as changes in accounting estimates and would be reflected in the statement of income in 2010.

(g) The company announces the information about the employee bonuses and remuneration to directors and supervisors on the Market Observation Post System.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(J) Earnings per Share

	2011		2010	
	<u>Before Tax</u>	<u>After Tax</u>	<u>Before Tax</u>	<u>After Tax</u>
Net Income	<u>\$ 277,950</u>	<u>221,284</u>	<u>222,743</u>	<u>178,162</u>
Outstanding shares at end of year(thousands of shares)	<u>92,247</u>	<u>92,247</u>	<u>84,630</u>	<u>84,630</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	<u>92,247</u>	<u>92,247</u>	<u>84,630</u>	<u>84,630</u>
Capital increase from retained earnings in 2010-retroactively stated (thousands of shares)			<u>92,247</u>	<u>92,247</u>
Basic Earnings per share (dollar)	<u>\$ 3.01</u>	<u>2.40</u>	<u>2.63</u>	<u>2.10</u>
Basic Earnings per share (dollar) – restroactively stated			<u>2.41</u>	<u>1.93</u>
Dilutive potential ordinary share (thousands of shares) (Note)	<u>150</u>	<u>150</u>	<u>86</u>	<u>86</u>
Weighted Average outstanding shares of dilutive earnings per share (thousands of shares)	<u>92,397</u>	<u>92,397</u>	<u>84,716</u>	<u>84,716</u>
Dilutive earnings per share(dollar)	<u>\$ 3.01</u>	<u>2.39</u>	<u>2.63</u>	<u>2.10</u>
Dilutive shares - Capital increase from retained earnings in 2010-retroactively stated (thousands of shares)			<u>92,333</u>	<u>92,333</u>
Dilutive earnings per share(dollar)- retroactively stated			<u>2.41</u>	<u>1.93</u>

(Note) The shares were calculated based on the closing price at the balance sheet date.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(K) Financial Instruments

(a) Information of Fair Value

1. As of December 31, 2011 and 2010, the fair value of the Company's financial assets and financial liabilities were as follows:

Financial Instruments	December 31, 2011			December 31, 2010		
	Book value	Quoted market price in active market	Determined by using certain valuation techniques	Book value	Quoted market price in active market	Determined by using certain valuation techniques
Financial assets						
Cash and cash equivalents	\$ 1,464,749	-	1,464,749	1,268,119	-	1,268,119
Financial assets measured at fair value through profit and loss-current	-	-	-	78,940	78,940	-
Derivatives Financial Instruments-call options	9,523	9,523	-	107	107	-
Derivatives Financial Instruments- futures margin	129,536	-	129,536	138,865	-	138,865
Customers margin accounts	9,037,620	-	9,037,620	5,890,790	-	5,890,790
Accounts receivable-net	18,337	-	18,337	8,056	-	8,056
Available-for sale financial asset	44,391	44,263	128	128	-	128
Guaranty deposit for business operation	120,000	-	120,000	120,000	-	120,000
Clearing and settlement fund	131,000	-	131,000	125,000	-	125,000
Guaranty deposits paid	8,693	-	8,693	3,594	-	3,594
Financial liabilities						
Financial liabilities measured at fair value through profit and loss-current						
Derivatives Financial Instruments-put options	6,477	6,477	-	742	742	-
Futures traders' equity	9,010,740	-	9,010,740	5,868,219	-	5,868,219
Accounts payable	115,574	-	115,574	101,655	-	101,655

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

2. Fair Value of Derivative Financial Instruments:

The derivatives financial transactions of the company were futures and options, the related information was as follows:

December 31, 2011					
Derivatives Financial Instruments	Notional principal / Nominal amount	Credit Risk	Paid for (received from) Premium	Fair Value	Evaluation Adjustment
Futures-Long	\$ 56,026	-	-	56,312	286
Futures-Short	(53,465)	-	-	(53,942)	(477)
Options-Long	-	-	8,709	9,523	814
Options-Short	-	-	(5,282)	(6,477)	(1,195)

December 31, 2010					
Derivatives Financial Instruments	Notional principal / Nominal amount	Credit Risk	Paid for (received from) Premium	Fair Value	Evaluation Adjustment
Options-Long	\$ -	-	119	107	(12)
Options-Short	-	-	(803)	(742)	61

(b) Methods and assumptions used in estimating the fair value of financial instruments were specified below:

1. The carrying amounts of cash and cash equivalents, futures margin, futures margin receivable, accounts receivable, other receivable, notes and accounts payable, other payable, customers margin accounts and futures traders' equity, approximate their fair values because of the short maturities of these instruments.
2. Market quotes of financial assets and liabilities are used as their fair values if available; otherwise financial or other information will be used to establish their fair values.
3. If the available-for-sale financial assets have market value, taking this market value as the fair value, if don't, using the evaluation method to estimate. The investment of non-listed(or non-over-the-counter) stocks are accounted for by cost method.
4. Financial instruments such as guaranty deposit for business operation, clearing and settlement fund, guaranty deposits paid are necessary for the continuing operation of the Company. Since it is not difficult to estimate the fair value until the exchange of assets, the carrying amounts approximate their fair values.

(c) The fair value of the Company's financial assets and liabilities, which were determined by using certain valuation techniques, did not recognize any gain or loss on the financial statements in 2011 and 2010.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(d) As of December 31, 2011 and 2010, the Company's financial assets with fair value risk due to interest rate fluctuation were \$1,269,300 and \$529,100, respectively. The Company's financial assets with cash flow risk due to interest rate fluctuation were \$443,399 and \$973,984, respectively.

(e) Financial Risk Information:

1. Market risk

Market risk of trading futures and options results from the fluctuation of stock index. Since the fair values of futures and options are available, and stop-loss points are established to manage risk, the Company can confine loss to a predictable range. Therefore there is no significant market risk.

2. Credit risk

As the Company's futures and options contracts are traded through Futures Exchange Corporation and all investor have to maintain proper margins according to the fluctuation of the market price. The Company does not expect the counterparty will default. Therefore, the credit risk is low.

3. Liquidity risk

The Company has sufficient operating funds to meet the liquidity requirement.. The futures and options contract are all traded through Futures Exchange Corporation and with quoted market price .The risk of selling the contracts in the active market rapidly with quoted market price is low.

4. Purpose for holding derivative financial instruments

The futures and options contract are all held for trading.

5. Presentation of financial derivatives

The margins and premiums of the futures and options contract are reflected as "futures margin-proprietary trading ", "call options" and "put options" in the financial statements. When offsetting the futures or options position, the settlement difference is included in current year's earnings.

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Realized gain on futures	\$ 31,701	66,325
Unrealized gain on futures	286	-
Realized gain on options	52,800	59,400
Unrealized gain on options	814	61
Realized loss on futures	(46,601)	(68,790)
Unrealized loss on futures	(477)	-
Realized loss on options	(45,690)	(37,252)
Unrealized loss on options	(1,195)	(12)
Financial assets measured at fair value through profit and loss	139,059	138,972
Financial liabilities measured at fair value through profit and loss	(6,477)	(742)

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(L) Non-operating revenue

	<u>2011</u>	<u>2010</u>
Interest revenue	\$ 95,191	58,715
Other income	2,436	1,121
Gain on valuation of financial assets	954	-
Foreign exchange gains	618	-
Dividend income	375	10
Gain on sale of investments	-	4,078
Total	\$ 99,574	63,924

(5) RELATED PARTY TRANSACTIONS

(A) Name of Related Party and Relationship with the Company

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
Capital Securities Corporation	Parent company
CSC Futures (H.K.) Ltd.	The ultimate parent company is the same as the Company's parent company
Taiwan International Securities Corporation	The ultimate parent company is the same as the Company's parent company (Note) Capital Securities had completed the merger with TIS on May 2, 2011.
All the Directors, Supervisors, President and Vice Presidents	Major Management personnel of the Company

(B) Significant Transactions with Related Parties

(a) Futures trading

	<u>2011</u>	<u>2010</u>
<u>Commission income- brokerage</u>		
Capital Securities Corporation	\$ 7,577	4,541
<u>Commission income - clearing and settlement</u>		
Capital Securities Corporation	\$ -	20
	<u>December 31,2011</u>	<u>December 31,2010</u>
<u>Futures traders' equity</u>		
Capital Securities Corporation	\$ 212,785	97,043
Taiwan International Securities Corporation	-	15,000
	<u>\$ 212,785</u>	<u>112,043</u>
<u>Customers margin accounts – other futures commission merchants</u>		
CSC Futures (H.K.) Ltd.	\$ 58,984	37,449

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

Transaction terms are the same as those with general clients.

Capital Securities Corporation deposits margins to the Company for futures proprietary trading, and the Company paid the interest of excess margin annually. In 2011 and 2010, interest expense amounted to \$125 and \$65, respectively.

(b) Accounts payable and receivable

	December 31, 2011		December 31, 2010	
	Amount	%	Amount	%
<u>Accounts receivable</u>				
Capital Securities Corporation	<u>\$ 138</u>	<u>100.00%</u>	<u>105</u>	<u>100.00%</u>
<u>Accounts payable</u>				
Capital Securities Corporation	\$ 7,585	100.00%	7,435	66.56%
Taiwan International Securities Corporation	-	- %	3,735	33.44%
	<u>\$ 7,585</u>	<u>100.00%</u>	<u>11,170</u>	<u>100.00%</u>
<u>Other receivables</u>				
Capital Securities Corporation	\$ 10	100.00%	-	- %
Taiwan International Securities Corporation	-	- %	345	100.00%
	<u>\$ 10</u>	<u>100.00%</u>	<u>345</u>	<u>100.00%</u>
<u>Other payables (Note)</u>				
Capital Securities Corporation	<u>\$ 165</u>	<u>100.00%</u>	<u>140</u>	<u>100.00%</u>

(Note) Other payables were receipts under custody and payments for other between related parties.

(c) Futures commission expenses

The Company delegated Capital Securities Corporation for introducing brokers. In 2011 and 2010, futures commission expenses amounted to \$111,962 and \$97,373, respectively.

The Company delegated CSC Futures (H.K.) Ltd. for reconsigning foreign futures trading. In 2011 and 2010, futures commission expenses amounted to \$3,447 and \$3,123, respectively.

The Company delegated Taiwan International Securities Corporation for introducing brokers. In 2011 and 2010, futures commission expenses amounted to \$16,263 and \$9,812, respectively.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(d) Lease agreements

The Company leased its office from Capital Securities Corporation. The rental expense was based on market price and paid monthly. In 2011 and 2010, rental expense amounted to \$9,212 and \$5,572, respectively, and the deposits collected for the contract amounted to \$3,508 and \$900, respectively.

(e) Information technology service

Capital Securities Corporation agreed to provide information technology service. In 2011 and 2010, the service fee amounted to \$24,000 and \$20,105, respectively.

(f) Commission income (accounted other operating revenue)

The Company was delegated by Capital Securities Corporation for securities introducing brokers. In 2011 and 2010, commission income amounted to 2,855 and \$263, respectively.

(g) Stock service fee

In 2011 and 2010, the Company paid the stock service fee to Capital Securities Corporation amounted to \$292 and \$309, respectively.

(C) Remunerations of directors, supervisors, presidents and vice presidents

In 2011 and 2010, information on remunerations paid to directors, supervisors, presidents and vice presidents by the Company were as follows:

	<u>2011</u>	<u>2010</u>
Salaries	\$ 20,486	18,785
Incentives and compensation	7,843	4,275
Professional practice	716	885
Employee bonuses	530	863
Total	<u>\$ 29,215</u>	<u>24,808</u>

The amount mentioned above included the estimation of employee bonuses and remuneration to directors and supervisors. (The estimation please refer to Note 4 (I) for details.)

(6) PLEDGED ASSETS : NONE.

(7) SIGNIFICANT COMMITMENTS AND CONTINGENCIES

- a. The Company has a lease contract for the Taipei business office, and the lease period is from August 1, 2011 to July 31, 2014. The monthly rental expense is \$1,169. As of December 31, 2011, the rental payable is \$36,252 for the left contract period.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

- b. The Company has a lease contract for the Taichung business office, and the lease period is from January 21, 2011 to January 21, 2016. The monthly rental expense is \$127. As of December 31, 2011, the rental payable is \$6,096 for the left contract period.
- c. On June 22, 2011, the Company was prosecuted for the misbehavior of its ex-employee's customer (Mr. Li) for illegally operated discretionary accounts for futures. Although the Company spontaneously reported to the authority, the concern is that the ex-employee may have some misbehavior related to his job and thus the Company was prosecuted for its contributory negligence (Plaintiff: Securities and Futures Investor Protection Center) and claimed for NT\$46,750,520. Due to the investors of this lawsuit are lower than 20 people, but if Securities and Futures Investor Protection Center intends to file a lawsuit for investors, the number of people must be over 20, the lawsuit was considered illegal for Securities and Futures Investor Protection Center being the plaintiff. The lawsuit was overruled and recorded in November 2011 by Taipei District Court. However, six investors were still unsatisfied and filed a lawsuit with Taiwan Shihlin District Court. They claimed that the Company shall be jointly responsible with its ex-employee Mr. Hsu and be liable for the compensation amounted to NT\$41,057,546. It is under the trial of Taiwan Shihlin District Court. In addition, the Company acquired a ruling (Tai Rong No. 1010106) on January 6, 2012 which stated that "the lawsuit resulted from the investors of this case who handed over their account and password of their transaction accounts to Mr. Li and enabled Mr. Li to conduct the illegal discretionary account operation. The job-related behavior of Mr. Hsu shall not be held liable for this action, and therefore Capital Futures Corporation is not responsible for the contributory negligence. Even if Capital Futures Corporation is held responsible for this illegal behavior, the investors are also considered partially responsible for the action and this allows Capital Futures Corporation to request the court to mitigate its obligation."

(8) SIGNIFICANT CATASTROPHIC LOSSES : NONE.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(9) DISCLOSURE OF INFORMATION AS RELATED TO DERIVATIVE FINANCIAL INSTRUMENTS

As of December 31, 2011 and 2010, the open positions of futures and options contracts were as follows:

December 31, 2011

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
(HKD)	TAIEX FUTURE	Long	40	\$ 56,026	56,312	
	HSI FUTURE	Short	15	(53,465)	(53,942)	
	Subtotal			2,561		
Options contract :						
	TAIEX option (Call)	Long	1,024	8,065	8,937	
	TAIEX option (Put)	Long	104	644	586	
	TAIEX option (Call)	Short	1,044	(4,764)	(5,959)	
	TAIEX option (Put)	Short	127	(518)	(518)	
	Subtotal			3,427		
Total				\$ 5,988		

December 31, 2010

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Options contract :						
	TAIEX option (Call)	Long	105	\$ 48	71	
	TAIEX option (Put)	Long	155	71	36	
	TAIEX option (Call)	Short	142	(221)	(240)	
	TAIEX option (Put)	Short	270	(582)	(502)	
Total				\$ (684)		

The information related to derivative financial instruments in 2011 and 2010, please refer to Note 4 (K) "Disclosure of Financial Instruments".

**CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)**

(10) RESTRICTIONS AND ENFORCEMENT OF THE COMPANY'S VARIOUS FINANCIAL RATIOS UNDER FUTURES TRADING LAW

Art.	Calculation formula	Current Period		Last Period		Standard	Enforcement
		Calculation	Ratio	Calculation	Ratio		
17	<u>Stockholders' equity</u> (Total liabilities –futures traders' equity- reserve for default losses - reserve for trading losses)	1,859,845/181,119	10.27	1,561,734/152,529	10.24	≥ 1	Satisfactory to requirement
17	<u>Current Assets</u> <u>Current Liabilities</u>	10,665,481/9,158,500	1.16	7,388,206/5,987,098	1.23	≥ 1	"
22	<u>Stockholders' equity</u> Minimum paid-in capital	1,859,845/715,000	260.12%	1,561,734/715,000	218.42%	≥ 60% ≥ 40%	"
22	<u>Post-adjustment net capital</u> Total customer margin deposits required for open positions of customers	1,729,625/1,112,947	155.41%	1,608,932/1,183,010	136.00%	≥ 20% ≥ 15%	"

(11) UNIQUE RISKS TO SPECIFIC FUTURES COMMISSION MERCHANT SERVICES

Transactions in futures and options carry a high degree of risk because of the amount of initial margin is small relative to the value of the futures contract, meaning that transactions are heavily leveraged, the fluctuation of underlying markets is unpredictable, and the variance risk of the exchange rate. Futures industry thus bears higher operation risk than other industries. If the customers can't exercise the contract or maintain the proper margin, in order to dealing with such abrupt condition, the Company needs sufficient liquidity to cover the transactions and suffer the loss may occurred.

The unique risk of the Company consigned to proceed with futures and option trading is the drastic fluctuation of market price may occur the unexpected loss. Per SFB rule, the Company has already provided default indemnity reserve of 2% of brokerage commissions on a monthly basis (From July 1, 1999 to June 30, 2003, provision may be suspended as SFB regulations), bad debt reserve of 3% of sales turnover of the principal lines (stop accrue from June 30, 2003 as SFB regulations) and 10% of realized net gains on futures trading as reserve for futures trading losses.

On January 11, 2011, SFB regulations were revised by the Financial Supervisory Commission. According to the SFB Ruling Letter No.1000000289, both reserves for trading losses and default losses are no longer required. The remaining balances of reserve for trading losses and default losses should be reclassified as special reserve in 2011. The special reserve can only be used to offset deficit or reclassified as capital when it reaches 50% of the amount of paid-in capital, and only half of the amount of such special reserve may be capitalized.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(12) OPERATING SEGMENT FINANCIAL INFORMATION

(A) Operating segment information:

The futures brokerage business is the company's reportable segment. The income tax expenses and infrequently occurred gains and losses of the company shall not be distributed to the reportable segment and the disclosed amount is the same as the financial statement used by chief executive officer. The accounting policy of the segment is the same as the summary of significant accounting policies as stated in Note 2. The profits of the operating segment were the basis of performance assessment, and evaluated by income before tax which excludes infrequently occurred gains and losses and exchange gains and losses.

2011	Futures Brokerage Business	Others	Adjustments	Total
Income				
Segment revenue				
Commission income- broking	\$ 1,026,131	663	-	1,026,794
Commission income- clearing and settlement	-	4,429	-	4,429
Gain on derivative financial instruments	-	-	85,601	85,601
Consulting fee	-	-	4,519	4,519
Other operating revenue	77,486	7,611	(81,918)	3,179
Non-operating revenue	346	13,060	86,168	99,574
	<u>1,103,963</u>	<u>25,763</u>	<u>94,370</u>	<u>1,224,096</u>
Expense				
Brokerage fees	160,207	141	-	160,348
Brokerage fees- proprietary trading	-	4,950	-	4,950
Futures commission expenses	195,355	808	-	196,163
Clearing and settlement expenses	108,817	5,802	-	114,619
Loss on derivative financial instruments	-	8,362	85,601	93,963
Operating expenses	137,154	132,000	95,693	364,847
Other operating expenses	93,555	4,578	(98,133)	-
Non-operating expenses	41	6	11,209	11,256
	<u>695,129</u>	<u>156,647</u>	<u>94,370</u>	<u>946,146</u>
Continuing operations' income before tax	408,834	(130,884)	-	277,950
Income tax expense	-	(56,666)	-	(56,666)
Continuing operations' income after tax	<u>\$ 408,834</u>	<u>(187,550)</u>	<u>-</u>	<u>221,284</u>
Net income of each segment	<u>\$ 408,834</u>	<u>(187,550)</u>	<u>-</u>	<u>221,284</u>
Total assets of each segment	<u>\$ -</u>	<u>-</u>	<u>11,051,704</u>	<u>11,051,704</u>

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

<u>2010</u>	<u>Futures Brokerage Business</u>	<u>Others</u>	<u>Adjustments</u>	<u>Total</u>
Income				
Segment revenue				
Commission income- brokerage	\$ 887,896	7,779	-	895,675
Commission income- clearing and settlement	-	17,572	-	17,572
Gain on derivative financial instruments	-	19,732	106,054	125,786
Consulting fee	-	-	1,245	1,245
Other operating revenue	43,198	5,150	(47,647)	701
Non-operating revenue	4,054	8,396	51,474	63,924
	<u>935,148</u>	<u>58,629</u>	<u>111,126</u>	<u>1,104,903</u>
Expense				
Brokerage fees	138,039	776	-	138,815
Brokerage fees- proprietary trading	-	4,166	-	4,166
Futures commission expenses	166,668	5,756	-	172,424
Clearing and settlement expenses	93,710	14,843	-	108,553
Loss on derivative financial instruments	-	-	106,054	106,054
Operating expenses	119,732	109,888	115,546	345,166
Other operating expenses	108,572	8,863	(117,435)	-
Non-operating expenses	21	-	6,961	6,982
	<u>626,742</u>	<u>144,292</u>	<u>111,126</u>	<u>882,160</u>
Continuing operations' income before tax	308,406	(85,663)	-	222,743
Income tax expense	-	(44,581)	-	(44,581)
Continuing operations' income after tax	<u>\$ 308,406</u>	<u>(130,244)</u>	<u>-</u>	<u>178,162</u>
Net income of each segment	<u>\$ 308,406</u>	<u>(130,244)</u>	<u>-</u>	<u>178,162</u>
Net assets of each segment	<u>\$ -</u>	<u>-</u>	<u>7,691,045</u>	<u>7,691,045</u>

(B) Geographic segments information:

The Company operates solely in Taiwan.

(C) Information of major customers:

No single customer represents 10% or more of the futures brokerage fees in 2011 and 2010.

(13) SIGNIFICANT SUBSEQUENT EVENTS : NONE.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(14) INFORMATION RELATED TO SIGNIFICANT TRANSACTIONS

- (A) Loans to others: None.
- (B) Endorsements and guarantee for others: None.
- (C) Acquisition of real estate over \$100,000 or 20% of paid-in capital: None.
- (D) Disposal of real estate over \$100,000 or 20% of paid-in capital: None.
- (E) Discount on commissions of transactions with related parties over \$5,000: None.
- (F) Receivables from related parties over \$100,000 or 20% of paid-in capital: None.

(15) INFORMATION ON REINVESTMENT BUSINESS

- (A) Disclosure required of investee companies: None.
- (B) Loans to others: None.
- (C) Endorsements and guarantee for others: None.
- (D) Acquisition of real estate over \$100,000 or 20% of paid-in capital: None.
- (E) Disposal of real estate over \$100,000 or 20% of paid-in capital: None.
- (F) Discount on commissions of transactions with related parties over \$5,000: None.
- (G) Receivables from related parties over \$100,000 or 20% of paid-in capital: None.

(16) INFORMATION ON INVESTMENTS IN CHINA: NONE

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(17) OTHER

(A) Information regarding personnel, depreciation, and amortization expense were as follows:

Categorized as: Nature	Year ended December 31, 2011			Year ended December 31, 2010		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Personnel expenses						
Payroll	-	176,897	176,897	-	159,404	159,404
Health and labor insurance expense	-	10,275	10,275	-	8,735	8,735
Pension expense	-	7,019	7,019	-	6,058	6,058
Other expense	-	3,021	3,021	-	2,834	2,834
Depreciation expense	-	12,164	12,164	-	7,984	7,984
Amortization expense	-	3,097	3,097	-	4,190	4,190

(B) Information regarding significant foreign assets and liabilities were as follows:

	December 31, 2011			December 31, 2010		
	Foreign	Exchange	NTD	Foreign	Exchange	NTD
	currency (dollar)	rate		currency (dollar)	rate	
Financial assets						
Monetary Items						
USD	\$ 101,395,848.19	30.275	3,069,760	38,218,114.99	29.13	1,113,294
EUR	128,592.18	39.18	5,038	42,105.04	38.92	1,639
GBP	253,413.55	46.73	11,859	232,627.01	45.19	10,513
JPY	30,100,001.00	0.3906	11,757	63,687,826.00	0.3582	22,813
HKD	37,291,558.87	3.897	145,325	6,385,110.13	3.748	23,931
AUD	138.04	30.735	4	917.87	29.68	27
SGD	6,910.82	23.31	161	14,872.97	22.73	338
None-monetary Items						
USD	1,959,659.38	30.275	59,329	70,051.47	29.13	2,040
HKD	1,339,144.00	3.8970	5,218	-	-	-
Financial liabilities						
Monetary Items						
USD	\$ 101,173,864.26	30.275	3,063,039	37,370,701.63	29.13	1,088,609
EUR	126,597.77	39.18	4,960	38,096.78	38.92	1,483
GBP	242,569.02	46.73	11,335	181,431.80	45.19	8,199
JPY	24,473,167.00	0.3906	9,559	56,827,797.00	0.3582	20,356
HKD	37,107,456.74	3.897	144,608	5,633,975.89	3.748	21,116
AUD	-	-	-	813.00	29.68	24
SGD	6,278.41	23.31	146	14,215.46	22.73	323

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

- (C) At October 31, 2011, MF Global had filed for bankruptcy protection. MF Global Futures (Singapore) has been assigned a provisional liquidator. The information indicated that, according to the company's official website, the provisional liquidator has controlled 83% of the disputed customers' margin (If including the U.S. \$20,000 of customers' margin in its Taiwan branch, the provisional liquidator could control around 87% of the disputed customers' margin). The remaining assets are also actively liquidated, and the part of the margin is expected to be returned in 2012 to Taiwan futures commission merchant. The impact of brokerage operation for the Company's customer margin is \$41,819, among that, \$5,987 customers' deposits were withdrawn by the futures investors and recognized as accounts receivable. In addition, the impact of dealer operation for the Company's futures margin is \$395.

The appointed lawyer from Chinese National Futures Association assessed the possibility of retrieving the customer margin amounting of U.S. \$65,000 that deposited in the MF Global Futures (Singapore), in the lawyer' letter (101) L10101 with the letter dated January 3, 2012. The condensed content of letter are as follows:

- (1) For the approximately U.S. \$65,000 of the aforementioned customer margin, the possibility of getting back the full amount of U.S. \$20,000 which deposited in the MF Global Futures (Singapore), should be certain.
- (2) For the remaining of customer margin deposited in the MF Global Futures (Singapore) (Excluding the aforementioned approximately U.S. \$20,000 the remaining amount is around U.S. \$45,000), the estimated maximum amount which cannot be recovered is approximately U.S. \$5,850 (\$177,000).
- (3) Although there could be above mentioned possible loss of \$177,000. Taking into consideration of MF Global Futures (Singapore) Taiwan branch having a working capital of \$300,000, as of the end of November 30, 2011, the net value of the branch over amounting of \$370,000, the domestic futures commission merchants can exercise recourse rights to the branch for \$300,000 working capital, and has the priority of payment rights over the company's business arising out of act of debt. Therefore, the aforementioned possible loss could be fully recovered.

After considering above lawyer's opinion, the Company determined that there is high possibility of collecting full amount of accounts receivable which is related to this case. Thus, there is no need to make related losses provision.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(D) Under No.0990014302 letter issued by Financial Supervisory Commission, Executive Yuan, R.O.C. (FSC), starting from 2013, franchised futures trader are required to prepare financial reports in conformity with International Financial Reporting Standards (IFRSs) and the explanations of the Standing Interpretations Committee (SICs) and the International Financial Reporting Interpretations Committee (IFRICs) accepted by the FSC. In compliance with the adjustment, the Company has formed a special task and established an IFRSs adoption plan. The senior manager of financial department, Lin Li-Chuan, is responsible for the conversion plan. Significant plan content, expected completion schedule, and current status are as below:

Project content	Major execution unit	Current process
1. Establishing IFRSs task force	The senior manager of financial department and IFRSs task force	Completed
2. Establishing IFRSs Conversion Project	"	Completed
3. Identifying differences between current accounting policies and IFRSs	"	Completed
4. Choosing IFRSs related accounting policies	"	Completed
5. Adjusting the business procedures, financial reporting procedures and information systems	"	Completed
6. Testing the new system and evaluating the modification of operating procedures and systems	"	Completed
7. Preparing opening balance sheet in accordance with IFRS1	"	In progress (will be completed in Mar, 2012)
8. Completing the evaluation of the expected modification of internal control	"	In progress (will be completed in Jun, 2012)
9. Preparing financial statements in accordance with IFRSs	"	In progress (will be completed in Mar, 2012)
10. Completing the manual of accounting in accordance with IFRSs	"	In progress (will be completed in Dec, 2012)

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

- (E) The evaluation of the major differences between the current accounting policies and the IFRSs is listed below:

<u>Accounting Issue</u>	<u>Difference</u>
1. Income tax	IAS 12 prohibits the companies making the distinction between current and non-current in its deferred tax assets or deferred tax liabilities. An entity is allowed to recognize deferred tax assets only if there is evidence shows that the company experiences a gain for deductible temporary difference.
2. Employee benefits: defined benefit plan	According to the regulation of the SFAS No. 18, the company amortizes the unrecognized gain or loss of the defined benefit plan by the "corridor" approach. However, after adopting of IAS 19, the company will recognize other comprehensive gains or losses as actuarial gains or losses occurred.
3. Employee benefits: annual leave with salary	Since the current accounting principle does not require to accrue paid leave, the company recognizes the expenses when employees make a leave request. However, according to IAS 19, the company shall measure its obligation based on service which employee provided in the past on balance sheet date.

- (F) The Company has conducted the abovementioned evaluation in accordance with IFRSs and IAS approved by the FSC. The estimated significant differences drawn from the evaluation are the result of considering the current business environment. Thus, the actual differences in the future may be different, depending on business environment in the future.