

**CAPITAL FUTURES CORPORATION**

**Financial Report**

**For the Years Ended December 31, 2015 and 2014**

**(With Independent Auditors' Report Thereon)**

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安侯建業聯合會計師事務所

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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, 2015 and 2014, and the related statements of comprehensive income, changes in equity and cash flows for the years then ended. The financial report is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial report based on our audits.

We conducted our audits in accordance with Rules Governing Certified Public Accountants' Certification of Financial Statements and Auditing Standards Generally Accepted in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial report. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial report presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial report referred to above present fairly, in all material respects, the financial position of Capital Futures Corporation as of December 31, 2015 and 2014, and the results of its financial performance 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 preparing financial reports for futures enterprises and Regulations Governing the Preparation of Financial Reports by Securities Firms.

KPMG  
Taipei, Taiwan, R.O.C.  
March 23, 2016

### Notice to Readers

The accompanying financial report is intended only to present the financial position, financial performance, and cash flows in accordance with IFRSs endorsed by the FSC and not those of any other jurisdictions. The standards, procedures, and practices to audit such financial report are those generally accepted and applied in the Republic of China.

The independent auditors' report and the accompanying financial report are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language independent auditors' report and financial report, the Chinese version shall prevail.

**CAPITAL FUTURES CORPORATION**  
**BALANCE SHEETS**  
**December 31, 2015 and 2014**

(Expressed in Thousands of New Taiwan Dollars)

ASSETS	December 31, 2015		December 31, 2014		LIABILITIES AND EQUITY	December 31, 2015		December 31, 2014	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Note 6(1))	\$ 2,001,047	10	1,700,090	11	Financial liabilities at fair value through profit or loss-current (Note 6(2))	\$ 92,730	1	70,443	-
Financial assets at fair value through profit or loss - current (Note 6(2))	132,631	1	249,499	2	Futures traders' equity (Note 6(5))	16,683,414	84	11,730,360	80
Customers margin accounts (Note 6(5))	16,695,003	84	11,752,817	80	Accounts payable	40,177	-	25,470	-
Receivable - futures margin	900	-	-	-	Accounts payable - inter co. (Note 7)	14,851	-	13,138	-
Security borrowing margin	77,244	-	-	-	Advance receipts	2,466	-	2,107	-
Accounts receivable	20,516	-	182	-	Receipts under custody	2,813	-	2,350	-
Accounts receivable - inter co. (Note 7)	353	-	302	-	Other payables	114,212	1	85,236	1
Prepayments	6,616	-	4,504	-	Other payables - inter co. (Note 7)	173	-	18,537	-
Other receivables	52,082	-	11,733	-	Current income tax liabilities	36,444	-	28,190	-
Other receivables - inter co. (Note 7)	18	-	8,412	-	Other liabilities - current	5,030	-	15,685	-
Other current assets	1	-	1	-		<u>16,992,310</u>	<u>86</u>	<u>11,991,516</u>	<u>81</u>
	<u>18,986,411</u>	<u>95</u>	<u>13,727,540</u>	<u>93</u>					
<b>NON-CURRENT ASSETS</b>					<b>NON-CURRENT LIABILITIES</b>				
Financial assets measured at cost-non-current (Note 6(2))	128	-	128	-	Provision for liabilities - non-current (Note 6(8))	8,586	-	7,545	-
Available-for-sale financial assets-non-current (Note 6(2))	59,479	-	84,184	1	Deferred income tax liabilities (Note 6(9))	6,396	-	3,650	-
Investments under equity method (Note 6(3))	538,562	3	516,663	4		<u>14,982</u>	<u>-</u>	<u>11,195</u>	<u>-</u>
Property and equipment (Note 6(4))	25,269	-	26,089	-	<b>TOTAL LIABILITIES</b>	<u>17,007,292</u>	<u>86</u>	<u>12,002,711</u>	<u>81</u>
Intangible assets (Note 6(6))	49,711	-	50,871	-					
Other non-current assets	299,661	2	289,668	2	<b>EQUITY</b>				
	<u>972,810</u>	<u>5</u>	<u>967,603</u>	<u>7</u>	Common stock (Note 6(10))	1,223,979	6	1,199,979	8
					Capital surplus	380,185	2	377,709	3
					Legal reserve	253,810	1	224,506	2
					Special reserve	603,172	3	544,565	4
					Unappropriated earnings (Notes 6(10) )	433,016	2	293,036	2
					Other equity	57,767	-	52,637	-
					<b>TOTAL EQUITY</b>	<u>2,951,929</u>	<u>14</u>	<u>2,692,432</u>	<u>19</u>
<b>TOTAL ASSETS</b>	<u>\$ 19,959,221</u>	<u>100</u>	<u>14,695,143</u>	<u>100</u>	<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$ 19,959,221</u>	<u>100</u>	<u>14,695,143</u>	<u>100</u>

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

**CAPITAL FUTURES CORPORATION**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
For the years ended December 31, 2015 and 2014  
(Expressed in Thousands of New Taiwan Dollars, Except For Earnings Per Share)

	2015		2014	
	Amount	%	Amount	%
<b>Income</b>				
Commission income - brokerage (Note 6(12))	\$ 1,396,272	89	\$ 1,057,315	93
Net gains (losses) on sale of trading securities	(563)	-	-	-
Net gains (losses) on measurement of trading securities at fair value through profit or loss	(330)	-	-	-
Net gains (losses) on covering of borrowed securities and bonds with resale agreements	(668)	-	-	-
Net gains (losses) on measurement of borrowed securities and bonds with resale agreements	(498)	-	-	-
Securities commission income	3,610	-	3,033	-
Gain on derivative financial instruments	154,459	10	63,074	6
Futures management revenue	-	-	186	-
Management fee revenue	843	-	249	-
Consulting fee revenue	9,009	1	9,068	1
Other operating revenue	(848)	-	(418)	-
	<u>1,561,286</u>	<u>100</u>	<u>1,132,507</u>	<u>100</u>
<b>Expenses</b>				
Brokerage fees	188,470	12	141,766	13
Brokerage fees - proprietary trading	10,788	1	10,314	1
Financial costs	3,991	-	2,449	-
Futures commission expenses (Note 6(12))	325,049	21	244,649	22
Clearing and settlement expenses	135,052	9	103,223	9
Other operating expenditure	220	-	-	-
Employee benefit expenses (Note 6(12))	277,535	18	237,652	21
Depreciation or amortization expenses (Note 6(12))	21,659	1	26,212	2
Other operating expenses (Note 6(12))	268,972	17	184,040	16
	<u>1,231,736</u>	<u>79</u>	<u>950,305</u>	<u>84</u>
<b>Non-operating income and expenses</b>				
Share of profit (loss) of associates and joint ventures accounted for using equity method	(6)	-	-	-
Share of profit (loss) of subsidiaries, associates and joint ventures under equity method	(9,178)	(1)	(25,074)	(2)
Other income and expenses (Note 6(12))	180,460	12	182,854	16
	<u>171,276</u>	<u>11</u>	<u>157,780</u>	<u>14</u>
<b>Net income before income tax</b>	<u>500,826</u>	<u>32</u>	<u>339,982</u>	<u>30</u>
Income tax expenses (Note 6(9))	(67,899)	(4)	(46,038)	(4)
<b>Net income</b>	<u><b>432,927</b></u>	<u><b>28</b></u>	<u><b>293,944</b></u>	<u><b>26</b></u>
<b>Other comprehensive income:</b>				
<b>Items that will not be reclassified to profit or loss</b>				
Actuarial gain (loss) on defined benefit plans (Note 6(8))	(1,039)	-	(532)	-
Income tax related to the components of other comprehensive income	-	-	-	-
Total items that will not be reclassified subsequently to profit or loss	<u>(1,039)</u>	<u>-</u>	<u>(532)</u>	<u>-</u>
<b>Items that may be reclassified to profit or loss in subsequent periods</b>				
Foreign exchange difference from translating financial reports of foreign operations	16,151	1	18,532	2
Unrealized gain (loss) on available-for-sale financial assets	(8,245)	(1)	14,019	1
Share of other comprehensive income of subsidiaries, associates and joint venture— Items that may be reclassified to profit or loss in subsequent periods	(30)	-	-	-
Income tax related to the components of other comprehensive income (Note 6(9))	(2,746)	-	(3,150)	-
Total items that may be reclassified to profit or loss in subsequent periods	<u>5,130</u>	<u>-</u>	<u>29,401</u>	<u>3</u>
<b>Other comprehensive income (After tax)</b>	<u>4,091</u>	<u>-</u>	<u>28,869</u>	<u>3</u>
<b>Total comprehensive income</b>	<u><b>\$ 437,018</b></u>	<u><b>28</b></u>	<u><b>322,813</b></u>	<u><b>29</b></u>
<b>Basic earnings per share (Dollar) (Note 6(11))</b>	<u><b>\$ 3.54</b></u>		<u><b>2.60</b></u>	
<b>Dilutive earnings per share (Dollar) (Note 6(11))</b>	<u><b>\$ 3.53</b></u>		<u><b>2.60</b></u>	

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

**CAPITAL FUTURES CORPORATION**  
**STATEMENTS OF CHANGES IN EQUITY**  
For the years ended December 31, 2015 and 2014  
(Expressed in Thousands of New Taiwan Dollars)

	Retained earnings					Other equity		Total
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Cumulative translation adjustment	Unrealized gain/loss on available-for-sale financial assets	
<b>Beginning balance, January 1, 2014</b>	\$ 1,000,879	107,625	198,713	499,950	249,963	2,438	20,798	2,080,366
Net income for 2014	-	-	-	-	293,944	-	-	293,944
Other comprehensive income for the year ended December 31, 2014	-	-	-	-	(532)	15,382	14,019	28,869
Total comprehensive income for the year ended December 31, 2014	-	-	-	-	293,412	15,382	14,019	322,813
Appropriation of earnings(Note):								
Legal reserve	-	-	25,793	-	(25,793)	-	-	-
Special reserve	-	-	-	44,615	(44,615)	-	-	-
Cash dividends	-	-	-	-	(179,159)	-	-	(179,159)
Capital increase	199,100	263,480	-	-	-	-	-	462,580
Cost of employee stock option for capital increase	-	6,604	-	-	-	-	-	6,604
Difference between the acquisition or disposal price and the carrying amount of subsidiaries' shares	-	-	-	-	(772)	-	-	(772)
<b>Ending balance, December 31, 2014</b>	1,199,979	377,709	224,506	544,565	293,036	17,820	34,817	2,692,432
Net income for 2015	-	-	-	-	432,927	-	-	432,927
Other comprehensive income for the year ended December 31, 2015	-	-	-	-	(1,039)	13,375	(8,245)	4,091
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	431,888	13,375	(8,245)	437,018
Appropriation of earnings :								
Legal reserve	-	-	29,304	-	(29,304)	-	-	-
Special reserve	-	-	-	58,607	(58,607)	-	-	-
Cash dividends	-	-	-	-	(179,997)	-	-	(179,997)
Stock dividends	24,000	-	-	-	(24,000)	-	-	-
Difference between the acquisition or disposal price and the carrying amount of subsidiaries' shares	-	2,476	-	-	-	-	-	2,476
<b>Ending balance, December 31, 2015</b>	<b>\$ 1,223,979</b>	<b>380,185</b>	<b>253,810</b>	<b>603,172</b>	<b>433,016</b>	<b>31,195</b>	<b>26,572</b>	<b>2,951,929</b>

Note : The remuneration to directors and supervisors \$4,350 and the employee bonuses \$4,350 were both deducted from the statement of comprehensive income for the year ended December 31, 2014.

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

**CAPITAL FUTURES CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**For the years ended December 31, 2015 and 2014**  
**(Expressed in Thousands of New Taiwan Dollars)**

	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities:</b>		
<b>Net income before income tax</b>	\$ 500,826	339,982
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
<b>Income and expenses items with no effect on cash flow:</b>		
Depreciation expenses	16,449	18,505
Amortization expenses	5,210	7,707
Net losses (gains) on financial assets and liabilities at fair value through profit or loss	2,219	35,050
Interest expenses	3,991	2,449
Interest income (Including financial revenue)	(163,734)	(120,663)
Dividend income	(2,704)	(175,948)
Cost of share-based payment awards	-	6,604
Share of loss (profit) of subsidiaries, associates and joint ventures under equity method	9,184	25,074
Gain on disposal of available-for-sale financial assets	(13,769)	-
<b>Total income and expense items with no effect on cash flows</b>	<u>(143,154)</u>	<u>(201,222)</u>
<b>Net changes of assets and liabilities from operating activities:</b>		
<b>Net changes of assets from operating activities:</b>		
Decrease in financial assets at fair value through profit or loss	115,147	128,980
Increase in customers margin accounts	(4,942,186)	(3,131,732)
Increase in receivable - futures margin	(900)	-
Increase in security borrowing margin	(77,244)	-
(Increase) decrease in accounts receivable	(20,334)	1,178
Increase in accounts receivable-inter co.	(51)	(98)
Increase in prepayments	(2,112)	(1,412)
Increase in other receivable	(38,602)	(1,227)
Decrease in other receivable-inter co.	8,412	2,095
Decrease in other current assets	-	15
Increase in operation guarantee deposits	(10,000)	-
(Increase) decrease in clearing and settlement fund	(9,193)	40,461
(Increase) decrease in refundable deposits	9,200	(10,200)
<b>Total net changes of assets from operating activities</b>	<u>(4,967,863)</u>	<u>(2,971,940)</u>
<b>Net changes of liabilities from operating activities:</b>		
Increase in financial liabilities at fair value through profit or loss	21,789	59,888
Increase in futures traders' equity	4,953,054	3,118,258
Increase in accounts payable	14,707	7,856
Increase in accounts payable-inter co.	1,713	5,131
Increase in advance receipts	359	523
Increase in receipts under custody	463	435
Increase in other payables	28,793	8,715
Increase (decrease) in other payables-inter co.	(18,364)	5,497
Increase in provision for liabilities	2	4
Increase (decrease) in other liabilities- current	(10,655)	10,499
<b>Total net changes of liabilities from operating activities</b>	<u>4,991,861</u>	<u>3,216,806</u>
<b>Total net changes of assets and liabilities from operating activities</b>	<u>23,998</u>	<u>244,866</u>
<b>Total adjustments</b>	<u>(119,156)</u>	<u>43,644</u>
<b>Cash flows provided by operating activities</b>	<u>381,670</u>	<u>383,626</u>
Interest collected	161,969	116,853
Dividend received	2,704	175,948
Interest paid	(3,808)	(2,422)
Income tax paid	(59,645)	(30,246)
<b>Net cash provided by operating activities</b>	<u>482,890</u>	<u>643,759</u>
<b>Cash flows from investing activities:</b>		
Proceeds from disposal of available-for-sale financial assets	30,229	-
Purchase of investments under equity method	(36,701)	(348,748)
Purchase of properties and equipments	(15,629)	(9,697)
Purchase of intangible assets	(4,050)	(4,361)
<b>Net cash used in investing activities</b>	<u>(26,151)</u>	<u>(362,806)</u>
<b>Cash flows from financing activities:</b>		
Issuance of cash dividends	(179,997)	(179,159)
Issuance of common stock	-	462,580
Disposition of shares of subsidiaries (Not losing control)	24,215	24,034
<b>Net cash provided by (used in) financing activities</b>	<u>(155,782)</u>	<u>307,455</u>
<b>Increase in cash and cash equivalents</b>	<u>300,957</u>	<u>588,408</u>
<b>Cash and cash equivalents at the beginning of the year</b>	<u>1,700,090</u>	<u>1,111,682</u>
<b>Cash and cash equivalents at the end of the year</b>	<u>\$ 2,001,047</u>	<u>1,700,090</u>

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

**CAPITAL FUTURES CORPORATION**  
**Notes to Financial Report**  
**December 31, 2015 and 2014**

**(Amounts expressed in thousands of new Taiwan dollars unless otherwise specified)**

**1. Company history**

Capital Futures Corporation (the “Company”) was incorporated on February 26, 1997 and registered under the Ministry of Economic Affairs, R.O.C. The address of the Company’s registered office is 32<sup>th</sup> and B1 Fl. No. 97, Tun Hwa South Rd., Sec. 2, Taipei, Taiwan, R.O.C. The Company established the Taichung branch. Furthermore, the official listed date was on April 27, 2009. Managing the following business :

- (1) Futures business.
- (2) Futures advisory business.
- (3) Securities introducing brokerage.
- (4) Futures management business.
- (5) Securities business on a proprietary basis.

**2. Approval date and procedures of the financial report**

The financial report was authorized for issuance by the Board of Directors on March 23, 2016.

**3. New standards and interpretations**

- (1) The impact of the adoption of the new standards, amendments and interpretations to International Financial Reporting Standard (“IFRS”) endorsed by the Financial Supervisory Commission (“FSC”).

The Group adopted the 2013 version of IFRSs (IFRS 9 Financial instruments is excluded) endorsed by the FSC from 2015 in preparing financial statements. The new standards and amendments issued by the International Accounting Standards Board (“IASB”) were as follows:

<u><b>Newly issued, Revised accounting standards and Interpretations</b></u>	<u><b>Effective date per IASB</b></u>
• Amendments to IFRS 1 Limited Exemption from Comparative IFRS7 Disclosures for First - time Adopters	July 1, 2010
• Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First - time Adopters	July 1, 2011
• Amendments to IFRS 1 Government Loans	January 1, 2013
• Amendments to IFRS 7 Disclosure - Transfers of Financial Assets	July 1, 2011
• Amendments to IFRS 7 Disclosure - Offsetting Financial Assets and Financial Liabilities	January 1, 2013



**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

<u>Newly issued, Revised accounting standards and Interpretations</u>	<u>Effective date per IASB</u>
• IFRS 10 Consolidated Financial Statements	January 1, 2013 (Investment Entities amendments, effective January 1, 2014)
• IFRS 11 Joint Arrangements	January 1, 2013
• IFRS 12 Disclosure of Interests in Other Entities	January 1, 2013
• IFRS 13 Fair Value Measurement	January 1, 2013
• Amendments to IAS 1 Presentation of Items of Other Comprehensive Income	July 1, 2012
• Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets	January 1, 2012
• Revision to IAS 19 Employee Benefits	January 1, 2013
• Revision to IAS 27 Separate Financial Statements	January 1, 2013
• Amendments to IAS 32 Offsetting of Financial Assets and Financial Liabilities	January 1, 2014
• Interpretations to IFRS 20 Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013

Except for the following items, the Company believes that the adoption of aforementioned 2013 IFRSs version may not have a significant effect on the Company's parent -company-only financial report.

A. Amendments to IAS 19, "Employee Benefits"

The amendments to IAS 19 require the Company to calculate a "net interest" amount by applying the discount rate to the net defined benefit liability or asset to replace the interest cost and expected return on planned assets used in current IAS19. In addition, the amendments eliminate the accounting treatment of either corridor approach or the immediate recognition of actuarial gains and losses to profit or loss when it incurs, and instead, required to recognize all actuarial gains and losses immediately through other comprehensive income. The past service cost, on the other hand, will be expensed immediately when it incurs and no longer be amortized over the average period before vested on a straight-line basis. A liability and expense for termination benefits is recognized not only when the Company is demonstrably committed to terminating the employment of employees, but also at the earlier of the following dates when the Company can no longer withdraw the offer or when the Company recognizes costs for a restructuring. The Company is not expecting the standard to have significant impact on the financial position and the results of operations. Moreover, the amendments also require a broader disclosure for defined benefit plans.

The Company has changed the accounting policy related to the measure and expression of net defined benefit assets, pension cost and actuarial gains or losses.

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

**B. Amendments to IAS 1, “Presentation of Items of Other Comprehensive Income”**

According to the amendments to IAS 1, the items of other comprehensive income will be grouped into two categories: (1) items that will not be reclassified subsequently to profit or loss; and (2) items that will be reclassified subsequently to profit or loss when specific conditions are met. In addition, income tax on items of other comprehensive income is also required to be allocated on the same basis. The Company will modify the presentation of statement of comprehensive income statement in accordance with the amendment.

**C. IFRS 12, “Disclosure of Interests in Other Entities”**

The Company will increase disclosures on the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Company will increase disclosures on the consolidated and unconsolidated entities in accordance with the standard.

**D. IFRS 13, “Fair Value Measurement”**

The Standard defines fair values, establishes a framework for measuring fair value and requires disclosures about fair value measurement. Under this standard, the Company has increased its disclosures on the measurement of fair value and postponed the adoption of the standard regarding fair value measurement during the transition period of IFRS 13. Comparative information need not be disclosed for periods before initial application. Despite the postponing of the adoption of the standard, there is no significant impact on the fair value measurement of the Company’s assets and liabilities.

**(2) The standards and interpretations new issued but not yet endorsed by the FSC**

A summary of the new standards, amendments and interpretations issued by the IASB, but not yet endorsed by the FSC:

<b>Newly issued, Revised accounting standards and interpretations</b>	<b>Effective date per IASB</b>
· IFRS 9 Financial Instruments	January 1, 2018
Amendment to IFRS 10 and IAS 28 “Sales or contributions of assets between an investor and its associate/joint venture”	Effective date to be determined by IASB
Amendment to IFRS 10, IFRS 12 and IAS 28 “Investment entities: Applying the consolidation exception”	January 1, 2016
Amendment to IFRS 11 “Acquisition of an Interest in a Joint Operation”	January 1, 2016
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendment to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plant”	January 1, 2016
Amendment to IAS 19–“Defined Benefit Plans: Employee Contributions”	July 1, 2014

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

<b>Newly issued, Revised accounting standards and interpretations</b>	<b>Effective date per IASB</b>
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendment to IAS 36 “Recoverable Amount Disclosures for Non-Financial Assets”	January 1, 2014
Amendment to IAS 39 “Novations of Derivatives and Continuing of Hedge Accounting”	January 1, 2014
Annual Improvements to IFRSs 2010–2012 and 2011–2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012–2014 Cycle	January 1, 2016
IFRIC 21 “Levies”	January 1, 2014

The Company continues in evaluating the impact on its financial position and financial performance as a result of the initial adoption of the above standards or interpretations. The related impact will be disclosed when the Company completes the evaluation.

#### **4. Summary of significant accounting policies**

The significant accounting policies presented in the financial report are summarized as follows. The significant accounting policies have been applied consistently to all periods presented in the financial report.

(1) Statement of compliance

The parent-company-only financial report has been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, the related rules of preparing financial reports of futures enterprises and Regulations Governing the Preparation of Financial Reports by Securities Firms.

(2) Basis of preparation

(a) Basis of measurement

The financial report has been prepared on a historical cost basis except for the following material items of balance sheet:

- a. Financial instruments measured at fair value through profit or loss (including derivative instruments);
- b. Available-for-sale financial assets that are measured at fair value; and
- c. The defined benefit asset is recognized as plan assets less the present value of the defined benefit obligation.

(b) Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the Company operates. The parent-company-only financial report is presented in New Taiwan Dollar, which is the Company’s functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

(3) Foreign currency

(a) Foreign currency transaction

Transactions in foreign currencies are translated to the respective functional currencies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for available-for-sale equity investment which are recognized in other comprehensive income arising on the retranslation.

(b) Foreign operations

The assets and liabilities of foreign operations are translated to the Company's functional currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the Company's functional currency at average rate. Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

(4) Classification of current and non-current assets and liabilities

An entity shall classify an asset as current when:

- A. Assets arising from operating activities that are expected to be realized, or are intend to be sold or consumed within the normal operating cycle;
- B. Assets held primarily for the purpose of trading;
- C. Assets that are expected to be realized within twelve months from the balance sheet date;
- D. Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

An entity shall classify all other assets as non-current.

An entity shall classify a liability as current when:

- A. Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;
- B. Liabilities arising primarily for the purpose of trading;
- C. Liabilities that are to be settled within twelve months from the balance sheet date;
- D. Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

An entity shall classify all other liability as non-current.

(5) Cash and cash equivalents

Cash comprises cash on hand, demand deposits and check deposits.

Cash equivalent comprises of time deposit with maturity within 1 year, excess future margin, commercial paper and short-term, highly liquid investments. For an investment to qualify as a cash equivalents it must readily convertible to a known amount of cash and be subjected to an insignificant risk of changes in value.

(6) Financial instruments

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

(a) Financial assets

The Company classifies financial assets into the following categories: financial assets measured at fair value through profit or loss, receivables, and available-for-sale financial assets.

a. Financial assets measured at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. This type of financial asset is measured at fair value at the time of initial recognition, and attributable transaction costs are recognized in profit or loss as incurred. Financial assets measured at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost less impairment losses, and are included in financial assets measured at cost.

b. Available-for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost less impairment losses, and are included in financial assets measured at cost.

Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

c. Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

d. Impairment of financial assets

A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping assets with similar risk characteristics together. In assessing collective impairment, the Company uses the probability of default collected from the historical trend, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

An impairment loss in respect of a financial asset is deducted from the carrying amount, except for trade receivables, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined that a receivable is uncollectible, it is written off from the allowance account. Any subsequent recovery of receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

If, in a subsequent period, the amount of the impairment loss of a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

e. Derecognition of financial assets

The Company derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity – unrealized gains or losses from available-for-sale financial assets is recognized in profit or loss.

The Company separates the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income shall be recognized in profit or loss.

A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts.

(b) Financial liabilities

a. Financial liabilities measured at fair value through profit or loss

A financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. This type of financial liability is measured at fair value at the time of initial recognition, and attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities measured at fair value through profit or loss are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss.

b. Other financial liabilities

Financial liabilities not classified as held-for-trading or designated as measured at fair value through profit or loss, which comprise accounts payable and other payables, are measured at fair value plus any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method.

c. Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or expires. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.



**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

d. Offsetting of financial assets and liabilities

The Company presents financial assets and liabilities on a net basis when the company has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(7) Investments in associates and joint ventures

Associates are those entities in which the Company has significant influence, but not control or joint control.

A holding of 20% or more of the voting power (directly or through subsidiaries) will indicate significant unless it can be clearly demonstrated otherwise. Investments in associates are accounted for using equity method and are recognized initially at cost. The carrying amount of the investment in associates includes goodwill which is arising from the acquisition.

On initial recognition, the investor's share of the investee's profit or loss is recognized in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be required arising from changes in the investee's other comprehensive income.

Any change in ownership interest of the subsidiaries, not resulting in loss of control, is treated as equity transaction.

The investor's share of the changes from foreign exchange translation differences is recognized in net assets/equity of the investor.

(8) Investments in subsidiaries

When preparing parent-company-only financial report, the Company uses equity method in evaluating the control of an investee. Under equity method, the net income or loss for the period of parent-company-only financial report and other comprehensive income of parent-company-only financial report are the same as net income or loss for the period attributed to owners of parents of consolidated report and other comprehensive income attributed to owners of parents of consolidated report, respectively. The equity of the parent-company-only financial report is the same as the equity attributable to the owners of parents of the consolidated report.

Any change in ownership interest of the subsidiaries, not resulting in loss of control, is treated as equity transaction between the owners.

(9) Securities under agreements

The Company engages in securities under repurchase / resell agreements trading and the nature of transaction substance is financing. When entering securities under resell agreements transactions, the company establishes an account "Investment in Bonds with resell agreements" with the actual amount of lending and recognizes financing interest revenue by the interest period of resell agreements and no profit and loss is recognized.

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

When bonds purchased under resell agreements are resold, the amounts are recognized under “bonds purchased under resell agreements-short sales”. Unrealized gain or loss arising from the valuation at the balance sheet date is recognized under “gain or loss on valuation of borrowed securities and bonds with resell agreements”. Gain or loss arising from covering at maturity is recognized under “gain or loss on covering of borrowed securities and bonds with resell agreements”.

(10) Securities borrowing transactions

Engage in securities lending transactions, the amount of the sale of securities borrowing recognized liability, and to distinguish hedging and non-hedging purposes, in accordance with stocks and bonds. The amount paid to redeem shares or bonds borrowed, as a deduction of the subjects, the collateral paid in cash recorded as security borrowing margin, short sales delivered for securities market financing recorded as security borrowing collateral price.

(11) Customers margin accounts and future traders' equity

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 of the balance sheet. 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.

(12) Property and equipment

(a) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of a significant part of an item of property and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as other income and expenses.

(b) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the company. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

(c) Depreciation

The depreciable amount of an asset is determined after deducting its residual values, and it shall be allocated on a systematic basis over its useful life. Items of property and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property and equipment are as follows:

- a. Office equipment                               3 ~ 5 years
- b. Leasehold improvement is depreciated equally over the shorter period of estimated useful life or the lease term.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the change(s) is accounted for as a change in an accounting estimate.

(13) Leases

Operating leases are not recognized in the Company's statement of balance sheet. Payments made under operating lease (excluding insurance and maintenance expenses) are recognized as an expense on a straight-line basis over the lease term. Lease incentives received are recognized as an integral part of the total lease expense on a straight-line basis over the term of the lease. Lease payments under operating lease shall be recognized in renting expenses and disclosed in financial report.

(14) Intangible assets

Intangible assets of the company are the requirements for transacting business on an exchange. The seats are regarded as intangible assets with an indefinite useful life and measured at cost while originally recognized. After initial recognition, an intangible asset shall be carried at its cost less any accumulated impairment losses. As for computer software, it was amortized on a straight-line basis over estimated useful life of three years, and in the meanwhile, the amortization would be recognized in gains or losses. The residual value, amortization period and amortization method for an intangible asset with a finite useful life are reviewed at each financial year-end. The change is accounted for as a change in an accounting estimate.

(15) Revenue recognition

The main revenue is commission income - brokerage and is recognized based on an accrual basis.

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

(16) Employee benefits

(a) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(b) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets should be deducted. The discount rate is the yield at the reporting date market yields of high-quality government bonds on bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. The recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

Remeasurement of net defined benefit liability (asset) includes:

- (1) Actuarial gains and losses
- (2) Return on plan assets except net interests of remeasurement of net defined benefit liability (asset).
- (3) Any changes in the effects of the asset ceiling except net interests of remeasurement of net defined benefit liability (asset)

Remeasurement of net defined benefit liability (asset) is recognized in other comprehensive income. The Company will recognize the remeasurement of net defined benefit plan in retained earnings

The Company recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, and any change in the present value of the defined benefit obligation.

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

(c) Termination benefits

Termination benefits are recognized as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminating the employment of employees before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefit is expensed at the earlier of the date when the entity can no longer withdraw the offer of the termination benefits and the date when the entity recognizes related restructuring costs. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(d) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(17) Share-based payment

The grant-date fair value of share-based payment awards granted to employee is recognized as employee expenses with a corresponding increase in equity, over the period which the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of award that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(18) Income tax

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

Deferred income taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred income taxes shall not be recognized for the exceptions below:

- (a) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.
- (b) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (c) Initial recognition of goodwill.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

- (a) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- (b) The taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
  - a. levied by the same taxing authority; or
  - b. levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched

A deferred income tax asset should be recognized for an unused tax loss carry-forward or unused tax credit if, and only if, it is considered probable that there will be sufficient future taxable profit against which the loss or credit carry-forwards can be utilized. The carrying amount of deferred income tax assets should be reviewed and adjusted at the end of each reporting period.

The Company's 10% surtax on unappropriated earnings is recorded as current expense after the date of the resolution of stockholders' meeting for declaring the distribution of earnings.

(19) Earnings per share ("EPS")

The calculation of basic earnings per share is based on net income, divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on net income, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, such as employee bonus. 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 dilutive potential ordinary shares of the Company include employee bonus and compensation.

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

(20) Segment information

The Company has disclosed the segment information in the consolidated financial report, thus, the Company does not disclose it in this parent -company-only financial report.

**5. Major sources of accounting judgments, estimation and assumptions uncertainty**

The preparation of the parent-company-only financial reports in conformity with Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, the related rules of preparing financial reports for futures enterprises and Regulations Governing the Preparation of Financial Reports by Securities Firms requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The preparation of the parent-company-only financial reports, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next 12 months are included in the following notes:

The impairment of investments accounted for using equity method: The Company performed the impairment test of investments accounted for using equity method annually. The recoverable amount of the cash-generating unit was based on the value in use. The Company chose the appropriate discount rate and estimated the expected cash flows of the cash-generating unit.

**6. Summary of major accounts**

(1) Cash and cash equivalents

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Cash	\$ 60	50
Demand deposits	59,671	26,035
Time deposits	816,700	1,049,280
Futures margin-excess margin	531,370	509,221
Commercial paper	154,916	-
Bonds investment under resell agreements	438,330	115,504
Total	<b>\$ 2,001,047</b>	<b>1,700,090</b>

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

(2) Financial assets and liabilities

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

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Open-ended funds and money-market instruments	\$ 26,340	35,000
Valuation adjustment	(398)	270
Trading securities - proprietary trading	38,252	
Valuation adjustment	(330)	
Investment in securities	-	95,234
Valuation adjustment	-	723
Call options	48,740	37,080
Futures margin-proprietary fund	20,027	81,192
Total	<u>\$ 132,631</u>	<u>249,499</u>

If there is an increase in the securities price of 1% on the reporting date (assume that all other variables remain the same), the impact on comprehensive income for 2015 and 2014 will increase \$379 and \$960, respectively; conversely, if there is a decrease in the securities price of 1% on the reporting date and if it assumes that all other variables remain the same, there will be the same amount but opposite direction of influence.

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

<u>Investee Company</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
CME GROUP	\$ 32,907	49,367
Less: Valuation adjustments	26,572	34,817
Total	<u>\$ 59,479</u>	<u>84,184</u>

The purpose for obtaining the stock of CME GROUP is to acquire the membership of foreign futures exchange. The Company disposed of 10,004 shares of stock of CME GROUP on December 29, 2015, which generated \$13,769 of gain.

For 2015 and 2014, due to changes in fair value, the Company had recognized \$5,446 and \$14,019 in other comprehensive income, respectively. The amount reclassified from equity to net income or loss is \$(13,691) and \$0, respectively.

If there is an increase in the securities price of 1% on the reporting date (assume that all other variables remain the same), the impact on comprehensive income for 2015 and 2014 will increase \$595 and \$842, respectively; conversely, if there is a decrease in the securities price of 1% on the reporting date and if it assumes that all other variables remain the same, there will be the same amount but opposite direction of influence.



**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

(c) Financial assets measured at cost - non-current

<u>Investee Company</u>	<u>December 31, 2015</u>		<u>December 31, 2014</u>	
	<u>Ownership ratio</u>	<u>Amount</u>	<u>Ownership ratio</u>	<u>Amount</u>
Taiwan Futures Exchange Co., Ltd	0.0045%	<u>\$ 128</u>	0.0045%	<u>128</u>

(d) Financial liabilities at fair value through profit or loss-current

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Put options	\$ 47,635	70,443
Liabilities on sale of borrowed securities	44,597	-
Valuation adjustment	498	-
	<u>\$ 92,730</u>	<u>70,443</u>

(3) Investments under Equity Method

Investments under Equity Method on the reporting date were as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Subsidiary	\$ 501,881	516,663
Associate	36,681	-
	<u>\$ 538,562</u>	<u>516,663</u>

(a) Subsidiary

The Company executed capital increase which amounted to HKD 70,000 thousands, in CSC Futures (H.K.) Ltd. on February 6 2014. The Company signed Equity Transfer Agreement on March 5, 2014 and sold 5%, which equals 6,000 thousand shares, of the shares of CSC Futures (H.K.) Ltd. to True Partner Holding Limited, the price for each share was HKD 1.02 and the total proceeds from the shares sold amounted to HKD 6,120 thousands. The base date of the transfer was March 31, 2014. The registration of alteration and the acquisition of relevant documents were completed on April 2, 2014. The difference between the disposal price and the carrying amount of the shares sold, which amounted to \$236, was recognized in capital surplus.

According to article 5 of the agreement "share buy-back", when True Partner Holding Limited sells or transfers (including gift or legal transfer) any shares of the target company, it has to submit a written sale notice to the Company. The Company has the priority to purchase the shares and issues a written purchase notice. True Partner Holding Limited submitted a written sale notice to the Company on December 23, 2014 and the Company also issued a written purchase notice on the same day to buy back the 5% equity which equals 6,000 thousand shares of CSC Futures (H.K.) Ltd. The sale price of the share was HKD 0.99 and the total amount of the proceeds received was HKD 5,940 thousands. The base date of the transfer was December 23, 2014. The

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registration of alteration and the acquisition of relevant documents were completed on December 23, 2014. The difference between the disposal price and the carrying amount of the shares sold, which amounted to \$(1,008), was recognized in capital surplus and undistributed earnings.

The Company established Capital International Information Technology Co., Ltd. per Gin Guan Zheng Qi No.1030038387 letter on November 18, 2014 and remitted share proceeds which amounted to \$50,000 on December 23, 2014. The Company, per Taipei City Government Industry Shang Zhi No. 10391787900 letter registered and established Capital International Information Technology Co., Ltd. on December 29, 2014 and acquired 100% of its shares.

The Company signed Equity Transfer Agreement on January 1, 2015 and sold 5%, which equals 6,000 thousand shares, of the shares of CSC Futures (H.K.) Ltd. to True Partner Holding Limited, the price for each share was HKD 1 and the total proceeds from the shares sold amounted to HKD 6,000 thousands. The base date of the transfer was April 30, 2015. The difference between the disposal price and the carrying amount of the shares sold, which amounted to \$2,476, was recognized in capital surplus. The subsidiary, Capital International Information Technology Co., Ltd., signed Equity Transfer Agreement on January 1, 2015, and acquired 51% of shares from the investee company, Capital True Partner Technology Co., Limited, the total proceeds from the shares sold amounted to HKD 6,000 thousands. The registration of alteration and the acquisition of relevant documents were completed on February 9, 2015.

The accounting figures of investee, which is wholly controlled by the Company, are combined into the consolidated financial report; please refer to the consolidated financial report of 2015.

(b) Associate

The Company acquired 49% of True Partner Capital Advisor Co., Ltd. shares with USD \$1,123 thousands on October 2, 2015, which indicate significant. Below is the relevant information:

Name of associate	Relationship with the Company	Principal place of business/Registrar country of company	Ownership equity and % of right to vote December 31, 2015
True Partner Capital Advisor Co., Ltd.	Its main business is assets management, and it's the Company's strategic alliances to expand assets managing business.	Hong Kong	49.00%

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

The insignificant associate uses equity method and its financial information is summarized as follows. The information is included in the financial report of the Company:

	<b>December 31, 2015</b>
Summerized ending balance of the insignificant associate	<b>\$ 36,681</b>
	<b>October 2-</b>
	<b>December 31, 2015</b>
Shares belong to the Company:	
Net loss of the period of continuing business units	\$ (6)
Other comprehensive income	(14)
Total	<b>\$ (20)</b>

(c) Collateral and pledge

As of December 31, 2015 and 2014, there was no investment under equity method as collateral and pledge.

(4) Property and equipment

For the years ended December 31, 2015 and 2014, the cost and accumulated depreciation of the property and equipment of the Company were as follows:

	<b>Office equipment</b>	<b>Leasehold improvements</b>	<b>Total</b>
<b>Cost:</b>			
Balance at 1 January, 2015	\$ 43,098	28,329	71,427
Additions	15,420	209	15,629
Disposal / Discard	(9,150)	(28,119)	(37,269)
Balance at 31 December, 2015	<b>\$ 49,368</b>	<b>419</b>	<b>49,787</b>
Balance at 1 January, 2014	\$ 48,273	30,043	78,316
Additions	9,697	-	9,697
Disposal / Discard	(14,872)	(1,714)	(16,586)
Balance at 31 December, 2014	<b>\$ 43,098</b>	<b>28,329</b>	<b>71,427</b>
<b>Accumulated depreciation:</b>			
Balance at 1 January, 2015	\$ 21,811	23,527	45,338
Depreciation	11,690	4,759	16,449
Disposal / Discard	(9,150)	(28,119)	(37,269)
Balance at 31 December, 2015	<b>\$ 24,351</b>	<b>167</b>	<b>24,518</b>
Balance at 1 January, 2014	\$ 25,514	17,905	43,419
Depreciation	11,168	7,337	18,505
Disposal / Discard	(14,871)	(1,715)	(16,586)
Balance at 31 December, 2014	<b>\$ 21,811</b>	<b>23,527</b>	<b>45,338</b>

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

	<u>Office equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
<b>Carrying amounts:</b>			
Balance at 31 December, 2015	\$ 25,017	252	25,269
Balance at 31 December, 2014	\$ 21,287	4,802	26,089

As of December 31, 2015 and 2014, there was no property and equipment as collateral and pledge.

(5) Customers margin accounts/ futures traders' equity

As of December 31, 2015 and 2014, the difference between customers' margin accounts and futures traders' equity were reconciled as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Customers margin accounts		
Cash in bank	\$ 13,177,179	8,905,391
Balance of the futures clearing house	1,139,110	1,961,211
Balance of other futures commission merchants	2,377,627	884,273
Securities	1,087	1,942
Per book of customers margin accounts	<u>16,695,003</u>	<u>11,752,817</u>
Plus adjustment items		
Others	-	58
Deduction adjustment items		
Commission income	(5,945)	(5,604)
Futures transaction tax	(792)	(725)
Interest income	(334)	(855)
Temporary credits	(4,330)	(153)
Remittance amount of the customers after the market closed	(188)	(15,178)
Futures traders' equity	<u>\$ 16,683,414</u>	<u>11,730,360</u>

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**Notes To Financial Report (Cont'd)**

(6) Intangible assets

For the years ended December 31, 2015 and 2014, the costs, amortization, and impairment loss of intangible assets were as follows:

	<b>The seats of foreign futures exchanges (Note)</b>	<b>Computer software</b>	<b>Total</b>
<b>Cost:</b>			
Balance at 1 January, 2015	\$ 44,325	20,027	64,352
Acquisition	-	4,050	4,050
Disposal / Discard	-	(11,847)	(11,847)
Balance at 31 December, 2015	<b>\$ 44,325</b>	<b>12,230</b>	<b>56,555</b>
Balance at 1 January, 2014	\$ 44,325	15,666	59,991
Acquisition	-	4,361	4,361
Balance at 31 December, 2014	<b>\$ 44,325</b>	<b>20,027</b>	<b>64,352</b>
<b>Amortization and impairment loss:</b>			
Balance at 1 January, 2015	\$ -	13,481	13,481
Amortization of current period	-	5,210	5,210
Disposal / Discard	-	(11,847)	(11,847)
Balance at 31 December, 2015	<b>\$ -</b>	<b>6,844</b>	<b>6,844</b>
Balance at 1 January, 2014	\$ -	5,877	5,877
Amortization of current period	-	7,604	7,604
Balance at 31 December, 2014	<b>\$ -</b>	<b>13,481</b>	<b>13,481</b>
<b>Carrying value:</b>			
Balance at 31 December, 2015	<b>\$ 44,325</b>	<b>5,386</b>	<b>49,711</b>
Balance at 31 December, 2014	<b>\$ 44,325</b>	<b>6,546</b>	<b>50,871</b>

Note : The Company obtained the seats of foreign futures Exchanges - NYMEX, COMEX, CBOT and CME for business development. In accordance with IAS No. 38 "Intangible Assets" endorsed by the FSC, the seats are regarded as intangible assets with an indefinite useful life.

(7) Operating lease

(a) Lessee

Non-cancellable operating lease payables are as follows:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Within 1 year	\$ 18,497	18,130
1-5 years	14,286	22,619
	<b>\$ 32,783</b>	<b>40,749</b>

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The Company rents several offices under operating lease, the lease terms are within 1 to 5 years and the Company has the preferential renewal options when the lease term expires. For the years ended December 31, 2015 and 2014, the operating lease expenses recognized in profit or loss were \$19,735 and \$18,845 respectively.

(b) Lessor

Non-cancellable operating lease receivables are as follows:

	<b>December 31, 2015</b>
Within 1 year	\$ 146
1-5 years	85
	<b>\$ 231</b>

The Company leases several offices under operating lease, the lease terms are within 1 to 5 years and the Company has the preferential renewal options when the lease term expires. For the year ended December 31, 2015, the renting income was \$146.

(8) Employee benefits

(a) Defined benefit plans

The reconciliation in the present value of the defined benefit obligations and fair value of plan assets were as follows:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Present value of defined benefit obligations	\$ (24,956)	(22,860)
Fair value of plan assets	16,370	15,315
Recognized liabilities for defined benefit obligations	<b>\$ (8,586)</b>	<b>(7,545)</b>

The Company made defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pensions for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive an annual payment based on years of service and average salary for the six months prior to retirement.

a. Composition of plan assets

The Company set aside the pension funds in accordance with Labor Standards Act, are put under the management of the Labor Pension Fund Supervisory Committee. In regards to the utilization of the fund under the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund", the minimum earnings for the annual distribution shall not be less than the accrued earnings attainable from the interest rates of two year time deposit offered by the local banks.

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

The balance of the Company's labor pension preparatory special account in Bank of Taiwan amounted to \$16,370 at the reporting date. The utilization of the labor pension fund includes the assets allocation and yield of the fund. Please refer to the information published on the website under Labor Pension Fund Supervisory Committee of the Council of Labor Affairs Executive Yuan.

b. Movement in present value of defined benefit obligation

The movement in the present value of defined benefit obligation of the Company in 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Defined benefit obligation on January 1	\$ 22,860	21,519
Current service costs and interest	892	700
Remeasurement of net defined benefit obligation		
— Return on plan assets (except net interests of period)	857	-
— Actuarial loss (gain) arising from changes in financial assumptions	347	641
Defined benefit obligation on December 31	<u>\$ 24,956</u>	<u>22,860</u>

c. Movements in fair value of defined benefit plan assets

The movements in fair value of defined benefit plan assets of the Company in 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Fair value of plan assets on January 1	\$ 15,315	14,510
Interest revenue	244	234
Remeasurement of net defined benefit obligation		
— Return on plan assets (except net interests of period)	165	109
Contributions to the plan assets	646	462
Fair value of plan assets on December 31	<u>\$ 16,370</u>	<u>15,315</u>

d. Expense recognized in profit or loss

The expenses recognized in profit or loss of the Company in 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Current service cost	\$ 533	358
Net interest of net defined benefit obligation	115	108
	<u>\$ 648</u>	<u>466</u>

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**Notes To Financial Report (Cont'd)**

- e. Remeasurement of net defined benefit obligation recognized in other comprehensive income

For the years ended December 31, 2015 and 2014, the accumulated remeasurement of net defined benefit obligation recognized in other comprehensive income was as follows:

	<u>2015</u>	<u>2014</u>
Accumulated amount on January 1	\$ 6,789	\$ 6,257
Recognized during the period	1,039	532
Accumulated amount on December 31	<u>\$ 7,828</u>	<u>6,789</u>

- f. Actuarial assumptions

The principal actuarial assumptions at the reporting date were as follows:

	<u>2015</u>	<u>2014</u>
Discount rate	1.32%	1.57%
Expected rate of return on plan assets	1.32%	1.57%
Future salary growth rate	2.50%	2.50%

The expected contribution to the defined benefit plan for the next year is \$482. The weighted average duration of the defined benefit obligation is 5 years.

- g. Sensitivity Analysis

When calculating the present value of the defined benefit obligations, the Company uses judgments and estimations to determine the actuarial assumptions, including discount rate and future salary increases. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligations.

For the years ended December 31, 2015 and 2014, the effects of adopting significant actuarial assumptions to defined benefit obligations were as follows:

	<u>Effects to defined benefit obligations</u>	
	<u>Increase</u>	<u>Decrease</u>
December 31, 2015		
Discount rate (change 0.5%)	751	717
Future salary increase(change 0.5%)	614	594
December 31, 2014		
Discount rate (change 0.5%)	703	670
Future salary increase (change 0.5%)	579	559



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**Notes To Financial Report (Cont'd)**

The sensitivity analysis presented above is based on the condition that other variables are unchanged. In practice, the changes of many assumptions are correlated. The method that the sensitivity analysis adopted is in accordance with the method of calculating net pension liability

The assumptions and methods adopted for current period sensitivity analysis are identical with the previous period.

(b) Defined contribution plans

In accordance with the Labor Pension Act of R.O.C, the Company contributes 6% of the employee's monthly wages to the Bureau of the Labor Insurance. Therefore, the Company has no further legal or constructive obligations to make any additional contribution once the contributions have been paid.

The Company contributed \$8,041 and \$6,753 under defined contribution plan to the Bureau of the Labor Insurance in the year 2015 and 2014, respectively.

(9) Income taxes

(a) Income tax expense

The amount of income tax expense for the years 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Current income tax expense	<u>\$ 67,899</u>	<u>46,038</u>

The amount of income tax expense recognized in other comprehensive income of the Company in 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Foreign exchange difference from translating financial reports of foreign operations	<u>\$ (2,746)</u>	<u>(3,150)</u>

Reconciliation of income tax expense (benefit) and profit before tax of the Company for 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Net income before tax	<u>\$ 500,826</u>	<u>339,982</u>
Income tax expense calculated in accordance with the domestic tax rate which the Company was located	85,140	57,797
Exempt income	(16,859)	(7,396)
Adjustments to prior year's income tax	(801)	(5,262)
10% surtax on undistributed earnings	73	40
Others	346	859
Total	<u>\$ 67,899</u>	<u>46,038</u>

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(b) Deferred tax assets and liabilities

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Recognized deferred tax assets and liabilities:		
Foreign exchange difference from translating financial reports of foreign operations	<b>\$ (6,396)</b>	<b>(3,650)</b>

(c) Income tax assessment status

The Company's income tax returns through 2012 were assessed by the Tax Authority.

(d) The information about imputation system were as follows:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Undistributed earnings:		
Prior to 1997	\$ 106	106
After 1998	432,910	292,930
	<b>\$ 433,016</b>	<b>293,036</b>
Imputation credit account	<b>\$ 61,150</b>	<b>61,033</b>
	<b>2015 (estimated)</b>	<b>2014(actual)</b>
Deductible rate for earnings distributed of dividends to ROC residents	<b>20.51%</b>	<b>20.48%</b>

The above information was calculated based on the Tai-Tsai-Shuei No. 10204562810 issued by the Ministry of Finance, R.O.C. on October 17, 2013.

(10) Capital and other equity

(a) Common stock

The Company, under the resolution of the board of directors, conducted capital addition which amounted to \$199,100 on March 4, 2014. The par value of each share is \$10 dollars and 19,910 thousand shares were issued. The board of directors decided to issue the shares with a price of \$23.30 dollar per share on May 20, 2014. The aforementioned capital addition has been approved by the Financial Supervisory Commission per Gin Guan Zheng Fa Zhi No. 1030014783 letter on May 7, 2014 and the base date is set on June 18, 2014. Relevant issuance cost has been deducted from the stock premium.

Under the resolution of shareholders' meeting, \$24,000 of unallocated surplus capital was transferred and was separated into 2,400 thousand shares of stock on May 20, 2015. It was approved by Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan, R.O.C. on July 3, 2015 and the base date is set on August 11, 2015.

As of December 31, 2015 and 2014, the Company had authorized capital of \$2,500,000 and \$1,200,000 respectively, with par value of \$10 dollar per share; the issued common stock shares were 122,398 thousand and 119,998 thousand shares, respectively.

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

(b) Capital surplus

The detail of the capital surplus of the Company is as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Share premium		
Capital addition-Share premium	\$ 371,105	371,105
Capital addition-Employee stock option	6,604	6,604
Difference between the acquisition or disposal price and the carrying amount of subsidiaries' shares	2,476	-
	<u>\$ 380,185</u>	<u>377,709</u>

In accordance with the ROC Company Act, realized capital surplus can only be used to cover accumulated deficit or to issue new shares or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. The aforementioned capital surplus includes share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital surplus to be capitalized shall not exceed 10 percent of the paid-in capital each year.

The fair value of the issued new shares of the capital addition which are reserved for employees was priced \$3.317 in 2014. The Company applies Black-scholes valuation model and recognized \$6,604 as salary expense for the employee stock option salary cost and adjusted capital surplus simultaneously. The parameters applied in the valuation model are as follows:

Stock price on the share payment date	NT 26.72
Execution price	NT 23.30
Expected volatility rate	9.41%
Expection duration	23 days
Risk-free rate of interest	0.46%

The expected volatility is based on weighted-average historical volatility adjusted by the potential change due to public information; the expected risk-free rate of interest is based on government bonds.

Details of the abovementioned employee stock option certificate are as follows:

	<u>2014</u>	
	<u>Weighted-average execution price</u>	<u>Amount of shares</u>
Shares outstanding on January 1	-	-
Shares paid for the period	23.30	1,991
Shares executed for the period	23.30	(1,836)
Shares past due for the period	23.30	(155)
Shares outstanding on December 31		<u>-</u>

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(c) Retained earnings

a. Legal reserve

According to Company Act, companies shall set aside 10 percent of net income after tax as legal reserve until it equals to the paid-in capital. When companies incur no loss, they are able to distribute new shares or cash dividends through legal reserve under the resolution of stockholders' meeting but companies can only distributed the part that the reserve exceeds 25% of the paid in capital.

b. Special reserve

In accordance with Article 41 of the Securities and Exchange Law, 20 percent of the current year's earnings after tax should be set aside as special reserve. Ruling No. 1010048029 issued by the Financial Supervisory Commission on November 1, 2012, an equivalent amount of special reserve should be set aside from earnings after tax of the current year and the undistributed earnings of the prior period based on the decreased amount of stockholders' equity. For the cumulative deduction in stockholders' equity of the prior period, the equal amount of special reserve set aside based on undistributed earnings should not be distributed. If there is any reversal of the deduction in stockholders' equity, the earnings may be distributed based on the reversal proportion.

In accordance with Ruling No. 1010032090 issued by the Financial Supervisory Commission on July 10, 2012, the balance of reserve for bad debt loss which have been provided but not written-off for January 1, 2013 required reclassifying to special reserve. The special reserve can only be used to offset an accumulated deficit and converted to common stock when it reaches an amount equal to at least one-half of the common stock.

c. Undistributed earnings

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

A. Remuneration to directors and supervisors: 2%;

B. Bonuses to employees: 2%;

C. Bonuses to stockholders: 96%

In accordance with the amended Company Act which was published in May 2015, employee bonuses and remuneration to directors and supervisors are no longer a part of the composition of appropriation and distribution of earnings. The Company will amend the articles of incorporation accordingly within the period prescribed by the Authority.

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

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, 2014 was \$8,700 and recognized in operating expenses for 2014.

According to the resolution of shareholders' meeting on May 20, 2015, the Company's 2014 earnings distribution for employee bonuses, remuneration to directors and supervisors, cash dividends and stock dividends were \$4,250, \$4,250, \$179,997 and \$240,000, respectively. Due to the above changes, the difference between employee bonuses of \$4,350 and remuneration to directors and supervisors of \$4,350 for 2014 financial statements was \$200 in total. The difference was accounted for as changes in accounting estimates and would be reflected in the statement of income in 2015.

The Company's 2013 earnings distribution for employee bonuses, remuneration to directors and supervisors and cash dividends were \$3,732, \$3,732 and \$179,159 under the resolution of shareholders' meeting and the Board's meeting on May 20, 2014. Due to the above changes, the difference of employee bonuses \$3,775 and remuneration to directors and supervisors \$3,775 for 2013 financial statements was \$86 in total. The difference was accounted for as changes in accounting estimates and would be reflected in the statement of income in 2014.

The relevant information on earnings distribution approved by the stockholders' meeting can be accessed through the Market Observation Post System or other sites.

(11) Earnings per share

The calculation of basic and dilutive earnings per share of the Company in 2015 and 2014 were as follows:

(a) Basic earnings per share

	<u>2015</u>	<u>2014</u>
Net income	<u>\$ 432,927</u>	<u>293,944</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	<u>122,398</u>	<u>113,050</u>
Basic earnings per share (dollar)	<u>\$ 3.54</u>	<u>2.60</u>

(b) Dilutive earnings per share

	<u>2015</u>	<u>2014</u>
Net income	<u>\$ 432,927</u>	<u>293,944</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	122,398	113,050
Influence from stock dividends for employee (thousands of shares)	211	179
Weighted-average outstanding shares of dilutive earnings per share (thousands of shares)	<u>122,609</u>	<u>113,229</u>
Dilutive earnings per share (dollar)	<u>\$ 3.53</u>	<u>2.60</u>

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(12) Items of Comprehensive Income

(a) Commission income - brokerage

	<u>2015</u>	<u>2014</u>
Brokerage commission-Domestic futures	\$ 805,602	669,289
Brokerage commission-Foreign futures	590,670	388,026
	<u><u>\$ 1,396,272</u></u>	<u><u>1,057,315</u></u>

(b) Futures commission expenses

	<u>2015</u>	<u>2014</u>
Re-consigned futures trading	\$ 176,237	119,253
Futures introducing broker business	148,812	125,396
	<u><u>\$ 325,049</u></u>	<u><u>244,649</u></u>

(c) Employee benefit, depreciation and amortization expenses

	<u>2015</u>	<u>2014</u>
Employee benefit expenses		
Salary	\$ 249,295	213,113
Labor and health insurance	14,518	12,921
Pension	8,689	7,219
Others	5,033	4,399
Depreciation	16,449	18,505
Amortization	5,210	7,707
	<u><u>\$ 299,194</u></u>	<u><u>263,864</u></u>

(d) Other operating expenses

	<u>2015</u>	<u>2014</u>
Postage expenses	\$ 16,170	14,152
Taxes	56,133	38,262
Rental	19,735	18,845
Information technology service	92,989	74,435
Others	83,945	38,346
	<u><u>\$ 268,972</u></u>	<u><u>184,040</u></u>

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(e) Other income and expenses

	<b>2015</b>	<b>2014</b>
Interest revenue	\$ 163,734	120,663
Dividend revenue	2,704	175,948
Net gain (loss) on non-operating financial instruments at fair value through profit or loss	(1,391)	(35,050)
Gain(loss) on foreign exchange	(2,160)	12,877
Gain (loss) on disposal of investments	12,673	(83,425)
Other non-operating revenue - other	6,682	7,910
Other non-operating expense - other	(1,782)	(16,069)
	<b>\$ 180,460</b>	<b>182,854</b>

(f) Remuneration to employees, directors and supervisors

In accordance with the amended Company Act approved by the Board of Directors but not yet approved by the annual shareholders' meeting, the Company should aside 0.6%-2% of annual profit to be distributed as employees' bonus, and aside not higher than 3% of annual profit to be distributed as remuneration to directors and supervisors. However, the company's accumulated losses should first be covered. People to receive shares or cash include the employees of subsidiaries meeting certain specific requirements.

For the year ended December 31, 2015, the estimated amounts of employee bonuses and remuneration to director and supervisor to be distributed from the Company were \$6,330 and \$6,330, respectively, which were calculated based on the Company' s net profit before tax and the earnings allocation percentage as stated under the Company' s articles of incorporation. It is recognized as operating expense for the year ended December 31, 2015. If the actual amounts subsequently decided after the approval and issuance date of the financial statements in the following year differ from the estimated amounts, the differences would be accounted as changes in accounting estimates and recognized in profit or loss in the following year.

(13) Financial Instruments

(a) Credit risk

The carrying amount of financial assets represents the maximum credit exposure. As of December 31, 2015 and 2014, the maximum credit exposure amounted to \$19,339,062 and \$14,097,015, respectively.

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

(b) Liquidity risk

The following table shows the effect of contract maturity on financial liabilities. The Company predicts the cash flow occurring point or the actual amount of this maturity analysis will not be significantly earlier or different.

	<u>Carrying amount</u>	<u>Contract cash flow</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 year</u>	<u>2-5 year</u>	<u>More than 5 year</u>
<b>December 31, 2015</b>							
Financial liabilities at fair value through profit or loss	\$ 92,730	92,730	92,730	-	-	-	-
Futures traders' equity	16,683,414	16,683,414	16,683,414	-	-	-	-
Accounts payable	55,028	55,028	55,028	-	-	-	-
Other payable	114,385	114,385	114,385	-	-	-	-
	<u><b>\$16,945,557</b></u>	<u><b>16,945,557</b></u>	<u><b>16,945,557</b></u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>Carrying amount</u>	<u>Contract cash flow</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 year</u>	<u>2-5 year</u>	<u>More than 5 year</u>
<b>December 31, 2014</b>							
Financial liabilities measured at fair value through profit or loss	\$ 70,443	70,443	70,443	-	-	-	-
Futures traders' equity	11,730,360	11,730,360	11,730,360	-	-	-	-
Accounts payable	38,608	38,608	38,608	-	-	-	-
Other payable	103,773	103,773	103,773	-	-	-	-
	<u><b>\$11,943,184</b></u>	<u><b>11,943,184</b></u>	<u><b>11,943,184</b></u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>



**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

(c) Currency risk

a. Currency risk exposure

The Company's significant exposure to foreign currency risk of financial assets and liabilities were as follows:

	December 31, 2015		
	Foreign Currency (dollar)	Exchange rate	New Taiwan Dollars
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 234,486,752.94	32.8250	7,697,028
EUR	2,313,076.37	35.8800	82,993
GBP	311,789.24	48.6700	15,175
JPY	853,902,284.00	0.2727	232,859
HKD	64,561,464.59	4.2350	273,418
AUD	530,583.72	23.9850	12,726
SGD	885,316.98	23.2500	20,584
CHF	56,716.10	33.1850	1,882
CNY	7,746,569.01	4.9950	38,694
<u>Non-monetary items</u>			
USD	1,812,000.00	32.8250	59,479
<u>Investments under equity method</u>			
HKD	115,988,425.02	4.2350	491,211
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	\$ 232,957,836.32	32.8250	7,646,841
JPY	854,756,100.00	0.2727	233,092
HKD	62,407,683.83	4.2350	264,297
GBP	312,020.61	48.6700	15,186
EUR	1,986,711.01	35.8800	71,283
SGD	896,523.98	23.2500	20,844
CHF	56,636.10	33.1850	1,879
CNY	7,735,916.27	4.9950	38,641
AUD	530,544.72	23.9850	12,725

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

	<b>December 31, 2014</b>		
	<b>Foreign Currency (dollar)</b>	<b>Exchange rate</b>	<b>New Taiwan Dollars</b>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 122,663,536.71	31.650	3,882,301
EUR	1,650,594.16	38.47	63,498
GBP	506,475.78	49.27	24,954
JPY	208,749,555.00	0.2646	55,235
HKD	36,785,138.82	4.080	150,083
AUD	98,295.15	25.905	2,546
SGD	296,731.25	23.94	7,104
CNY	40,617,767.55	5.092	206,826
<u>Non-monetary items</u>			
USD	2,659,854.60	31.650	84,184
<u>Investments under equity method</u>			
HKD	115,228,633.43	4.080	470,133
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	\$ 121,269,660.33	31.650	3,838,185
JPY	207,315,327.00	0.2646	54,856
HKD	34,967,605.31	4.080	142,668
GBP	506,236.31	49.27	24,942
EUR	1,550,927.87	38.47	59,664
SGD	296,692.45	23.94	7,103
AUD	98,277.15	25.905	2,546

Due to the variety of functional currencies, the Company disclosed the summarized information on exchange gain or loss. The realized and unrealized exchange gain (loss) amounted to (\$2,160) and \$12,877 for the years ended December 31, 2015 and 2014, respectively.

b. Sensitivity analysis

The currency risk of the Company arises mainly from cash and cash equivalents, customers' margin accounts, financial assets at fair value through profit or loss, available-for-sale financial assets and futures traders' equity, which are denominated in foreign currency. Foreign exchange gain or loss occurs as foreign currency was translated to NTD currency. For the years ended December 31, 2015 and 2014, with all other variable factors that remain constant, when NTD currency increases or decreases 1% contrary to other currency, the Company's comprehensive income will increase or decrease \$6,213 and \$8,169, respectively. The analytical basis was the same in both years.

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

(d) Analysis in interest rates

For the years ended December 31, 2015 and 2014, with all other variable factors remain constant, when the interest rate increases or decreases by 100 basis points, the Company's net income will increase or decrease by \$2,884 and \$2,792. This is mainly due to the Company's guaranty deposited for business operations in variable rates and settlement fund in variable rate.

(e) Fair value and hierarchy information

a. Fair value information

(1) General description

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction among market participants at the measurement date.

(2) Definition of fair value hierarchy

A. Level 1

The input of Level 1 is the public quote of the same financial instrument in an active market. An active market is a market that meets all the conditions listed below: Products traded in the market is of homogeneity; it is able to reach buyer and seller anytime in the market and the price information can be accessed by the public. Taiwan government bonds, equity instruments, debt instruments and derivative instruments with public quote in an active market possessed by the Company belong to Level 1.

B. Level 2

The input of Level 2 refers to observable price except public quote in an active market, including direct observable input parameters (such as price) or indirect observable input parameters (derivation from price).

C. Level 3

Level 3 means input in this level are based neither on direct market data nor from the counter party.

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

b. Based on fair value measurement

(1) Hierarchy information of fair value

The Company's financial instruments measured at fair value are evaluated on a recurring basis. The financial assets and liabilities measured at fair value were as follows:

	December 31, 2015			
	Total	Public quote of the same financial instrument in an active market (Level 1)	Observable price except public quote in an active market (Level 2)	Based neither on direct market data nor from the counter party (Level 3)
<b>Non-derivative assets and liabilities</b>				
<b>Assets:</b>				
Financial assets at fair value through profit or loss				
Beneficiary certificate	\$ 25,942	25,942	-	-
Stock investment (warrants and ETF included)	37,922	37,922	-	-
Others	20,027	20,027	-	-
Financial assets available for sale	59,479	59,479	-	-
<b>Liabilities:</b>				
Financial liabilities at fair value through profit or loss	45,095	45,095	-	-
<b>Derivative assets and liabilities</b>				
<b>Assets:</b>				
Financial assets at fair value through profit or loss	\$ 48,740	48,740	-	-
<b>Liabilities:</b>				
Financial liabilities at fair value through profit or loss	47,635	47,635	-	-

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

December 31, 2014				
	Total	Public quote of the same financial instrument in an active market (Level 1)	Observable price except public quote in an active market (Level 2)	Based neither on direct market data nor from the counter party (Level 3)
<b><u>Non-derivative assets and liabilities</u></b>				
<b>Assets:</b>				
Financial assets at fair value through profit or loss				
Beneficiary certificate	\$ 35,270	35,270	-	-
Stock investment	95,957	95,957	-	-
Others	81,192	81,192	-	-
Financial assets available for sale	84,184	84,184	-	-
<b><u>Derivative assets and liabilities</u></b>				
<b>Assets:</b>				
Financial assets at fair value through profit or loss	\$ 37,080	37,080	-	-
<b>Liabilities:</b>				
Financial liabilities at fair value through profit or loss	70,443	70,443	-	-

(2) Valuation techniques

A. Non-derivative financial instruments

Non-derivative financial instruments are measured at quoted market price, mainly are market price announced by Stock Exchange and fund value announced by Association of Investment Trust and Investment Adviser.

B. Derivative financial instruments

Derivative financial instruments are measured at quoted market price, mainly are settled price announced by Stock Exchange.

(3) Transfer between Level 1 and Level 2

There is no transfer between Level 1 and Level 2 for the years ended December 31, 2015 and 2014.

(4) Financial instruments not measured at fair value

For financial instruments not measured at fair value, such as cash and cash equivalents, customers' margin accounts, accounts receivables, deposits, future traders' equity and account payables. The carrying amount is a reasonable approximation of the fair value. Therefore, the Company does not disclose the fair value.

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

(15) Financial risk management

(a) General description

The Company is exposed to risks below due to the application of financial instruments

- a. Credit risk
- b. Liquidity risk
- c. Market risk

The note expresses the exposure, measurement and management target, policy and procedure of the aforementioned risks. Detailed information about the financial instruments has been disclosed as each note to the financial statements.

(b) Risk management structure

To effectively control risks, a management procedure is to build up from top to bottom that includes the Board of Directors, managers of all departments and the employees to participate. From the macroscopic perspective of the Company, qualitative and quantitative approaches are taken to recognize, evaluate, monitor and respond to various potential risks. As a result, the Company may make reasonable risky asset allocation and maximize returns for shareholders within a bearable risk range. On September 21, 2007, the Company deliberated this institution of risk management based on the "Principles of Futures Commission Merchant's Risk Management Practices" and the "Futures Commission Merchant's Self Checklist for the Establishment of Risk Management Mechanism" as promulgated in the letter ref. No. (Taiwan- Futures-Audit) 0940024340 of the Taiwan Futures Exchange. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board of Directors has established the Risk Management Committee, attributable to General Manager' Office and responsible for developing and monitoring Company's risk management policies. The committee reports regularly to the Board of Directors on its activities

(c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer of brokerage business fails to meet its contractual obligations of margin calls or settlement. According to futures trading practices, futures commission merchant can close position in accordance with the prior agreement of both parties due to the system designed such as advance customers margin, intraday in-time clearing and when customers fail to meet its contractual obligations of margin calls. Therefore, the influence is not significant to the credit risk of the Company. Moreover, most brokerage customers are the general investors and professional institutions. The object sources of investors and the amount of investment are widely dispersed, and thus, there is no situation such as concentration of credit risk.

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

Approaches taken to manage credit risk at current stage are as follows:

- a. Credit inquiry and assessment before trade: inquire client's credit and ascertain the legality before transaction
- b. Credit rating management: treat trades with special credit particularly.
- c. Credit supervision after transaction: regularly inspect client's profit and loss of positions. Evaluate and monitor credit enhancement (including collaterals) on a regular basis.
- d. Other effective risk reduction measures: collaterals, guarantee, credit risk netting and offset agreement.

Summarize information on expected credit loss (credit risk exposure amount, counterparty default probability and return rate) and unexpected credit loss, as well as quantify the credit VaR.

(d) Liquidity risk

Liquidity risks are market liquidity risk and capital liquidity risk

a. Market liquidity risk:

Market liquidity risk is the risk which the Company cannot immediately cover or offset the risk of derivative positions. When the condition of insufficient market depth or an unexpected event occurs, it's not easy to obtain trading opportunities or significant spread risk. Due to small trading volume, some domestic futures contracts have this liquidity risk. Therefore, when the proprietary segment of the Company engages in arbitrage trading, it should consider the liquidity risk of goods. Futures commodity liquidity can depend on daily trading volume and open interest (OI) to measure. The more the daily trading volume and open interest as well as the greater liquidity are, the relatively lower the liquidity risk is.

b. Capital liquidity risk:

Capital liquidity risk is the one that the Company fails to meet its contractual obligations when increasing margins is required by settlement or trading. Therefore, the Company should control and manage the allocation of capital in order to avoid the risk of capital liquidity and financial losses of the Company when proprietary segment of the Company engages in futures trading.

Liquidity risk management of the Company includes :

- a. Market liquidity risk management: To avoid loss caused by market liquidity risk, the Company stipulates capital amount budgeted for proprietary trade department in the annual operating plan. Also, a daily report on the Adjusted Net Capital (ANC) ratio is filed to the competent authority. As for other departments and proprietary trade, the risk control office supervises daily trade by comparing actual cash flow and the authorized amount.

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

- b. Capital liquidity risk management : The finance department is independent from other units in transferring financial resources. To control capital liquidity risk and to consider capital needs of various products for domestic and foreign markets, the finance department composes daily reports, such as the “Margin Withdrawal/Deposit List”, “Securities Transaction Applications”, and other management report forms. After reviewing and approving by the management, these reports will be implemented and filed.

(e) Market risk

Market risk is the possibility of loss resulting from trading due to futures price reversal of the Company’s proprietary business. It means that the market price or fluctuation trend is not beneficial to the Company’s profitability, which results in risky events happen.

The Company’s market risk management comprises trading strategy monitoring, loss up limit control, trading margin up limit control, remaining position up limit and open-delta value control, margins ratio control for domestic and foreign remaining positions and the implied volatility inspection of option price.

Quantitative Measurement on Market Risk was as follows:

- a. Statistic-based measurement: the Value at Risk (VaR) of linear products (stocks) is measured by the Variance Co-Variance (Risk Metrics Approach--EWMA), which calculates the maximal probable risk of portfolio under a certain confidence level for the next business day. The Value at Risk of non-linear products (options) is measured by the Delta-Gamma Approximations (the “Greeks”). After offsetting the risks of trade contracts, the measurement vehicle calculates the maximal probable risk of portfolio under a certain confidence level for the next business day. To test the accuracy, back testing approach is taken to try finding out the violations within one year under pre-calculated VaR using the actual valued profit and loss of inventory positions for the previous day (P & L for T-1 day)
- b. Sensitivity analysis measures the sensitivity of the positions to individual risk factors (such as interest rate and exchange rate). The sensitivity analysis on exchange rate variation includes evaluation and analysis on the proprietary overseas capital and service fee revenue from foreign futures products
- d. Stress test emulates and measures the impacts on portfolio value at unusual market change, from which responding actions can be made. The portfolio stress test at current stage aims at the weighted index or targeted stock price within  $\pm 15\%$  change.

(16) Capital management

The Board’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares, capital surplus, and retained earnings of the Company. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

As of December 31, 2015, the Company didn’t change the method of capital management.



**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

**7. Related-party transactions**

(1) Relationships between parents and subsidiaries

The Company's subsidiary was as follows:

	<u>Location</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
CSC Futures (HK) Ltd.	Hong kong	95%	100%
Information Technology Co., Ltd.	Taiwan	100%	100%
Capital True Partner Co., Ltd	China	51%	0%

(2) Parent company and ultimate controlling party

Capital Securities Corporation is both the Parent Company of the Company and the ultimate controlling party of the consolidated entity. It owns 59.01 percent of all shares outstanding of the Company, and has issued the consolidated financial statements available for public use.

(3) Key management personnel compensation

	<u>2015</u>	<u>2014</u>
Short-term employee benefits	\$ 42,320	35,856
Termination benefits	726	691
Share-based payment	-	2,773
Total	<u>\$ 43,046</u>	<u>39,320</u>

(4) Other significant related party transactions

(a) The amounts of futures trading between the Company and related parties in 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
<b><u>Commission income-brokerage</u></b>		
Parent Company	\$ 6,697	4,572
Subsidiary	49,293	31,067
	<u>\$ 55,990</u>	<u>35,639</u>

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
<b><u>Futures traders' equity</u></b>		
Parent Company	\$ 874,376	309,036
Subsidiary	1,111,269	601,302
Other related parties	4	-
	<u>\$ 1,985,649</u>	<u>910,338</u>

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
<b><u>Customers margin accounts-</u></b>		
<b><u>other futures commission merchants</u></b>		
Subsidiary	<u>\$ 146,764</u>	<u>86,686</u>
<b><u>Futures margin</u></b>		
Subsidiary	<u>\$ 5,718</u>	<u>6,179</u>

Transaction terms are the same as those with general clients.

Parent Company deposits margins to the Company for futures proprietary trading, and the Company paid the interest of excess margin annually. In 2015 and 2014, interest expense amounted to \$424 and \$163, respectively.

Subsidiary deposits margins to the Company for futures proprietary trading, and the Company paid the interest of excess margin annually. In 2015 and 2014, interest expense amounted to \$147 and \$51, respectively.

(b) Accounts payable and receivable

	<u>December 31, 2015</u>		<u>December 31, 2014</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<b><u>Accounts receivable</u></b>				
Parent Company	<u>\$ 353</u>	<u>100</u>	<u>302</u>	<u>100</u>
<b><u>Accounts payable</u></b>				
Parent Company	\$ 14,266	96	12,690	97
Subsidiary	585	4	448	3
	<u>\$ 14,851</u>	<u>100</u>	<u>13,138</u>	<u>100</u>
<b><u>Other receivables (Note 1)</u></b>				
Parent Company	<u>\$ 18</u>	<u>100</u>	<u>8,412</u>	<u>100</u>
<b><u>Other payables</u></b>				
Parent Company (Note 2)	\$ 173	100	4,310	23
Subsidiary (Note 3)	-	-	14,227	77
	<u>\$ 173</u>	<u>100</u>	<u>18,537</u>	<u>100</u>

(Note 1) Receivables for stock disposition settlement proceeds and interest from bonds investment under resell agreements

(Note 2) Payables for stock investments settlement proceeds and allocated expense

(Note 3) Payables for information technology fee

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

(c) Futures commission expenses

The Company delegated Parent Company to introducing brokers. In 2015 and 2014, futures commission expenses amounted to \$146,813 and \$120,735, respectively.

The Company delegated the subsidiary for reconsigning foreign futures trading. In 2015 and 2014, futures commission expenses amounted to \$16,855 and \$11,972, respectively.

(d) Lease agreements-rental expense

The Company leased its office and parking lot from Parent Company. The rental expense was based on market price and paid monthly. In 2015 and 2014, rental expense amounted to \$14,389 and \$14,105 respectively, and the guarantee deposits paid for the contract both amounted to \$3,508.

(e) Lease agreements-rental revenue

The subsidiary leased its office from the Company. The rental revenue was based on market price and paid monthly. In 2015, rental revenue amounted to \$146.

(f) Information technology service

Computer information system service contract was signed between the Company and Parent Company. In 2015 and 2014, the service fee amounted to \$18,434 and \$18,020, respectively.

The Company signed an information technology system management service contract with its subsidiary, and the information technology fee for the years 2015 and 2014 amounted to \$25,472 and \$14,227, respectively.

(g) Commission income

The Company was delegated by Parent Company for securities introducing brokers. In 2015 and 2014, commission income amounted to \$3,610 and \$3,033, respectively.

(h) Stock service fee

In 2015 and 2014, the Company paid the stock service fee to Parent Company amounted to \$353 and \$357, respectively.

(i) Human resource and legal service fees

In 2015 and 2014, the Company paid the human resource and legal service fee to Parent Company both amounted to \$ 300.

(j) Securities brokerage charge

In 2015 and 2014, the Company paid the securities brokerage charge to Parent Company amounted to \$212 and \$2,162, respectively.

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

(k) Reconsigning foreign trading charge

In 2015, the Company paid the reconsigning foreign trading charge to Parent Company amounted to \$111.

(l) Bonds under resell agreement

The Company conducted investments with the Parent Company for bonds purchased under resell agreements. In 2015 and 2014, the interest income amounted to \$735 and \$371, respectively. As of December 31, 2015 and 2014, the remaining investment amounted to \$438,330 and \$115,504, respectively. The maturity dates are from January 5 to January 15, 2016 and from January 5 to January 9, 2015, respectively. The agreed interest rate is 0.45% and 0.63%, respectively.

**8. Pledged assets : None**

**9. Material contingent liability and unrecognized contract commitment : None**

**10. Significant catastrophic losses : None**

**11. Significant subsequent events : None**

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

**12. Disclosure of information as related to derivative financial instruments**

As of December 31, 2015 and 2014, the open positions of futures and option contracts were as follows:

December 31, 2015

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	TAIEX Futures	Long	62	\$ 102,645	102,399	
	TAIEX Futures	Short	332	(552,317)	(549,134)	
	Electronic Sector Index Futures	Short	21	(27,203)	(27,392)	
	Finance Sector Index Futures	Long	19	18,764	18,586	
	Non-Finance Non-Electronics Sub-Index Futures	Long	8	8,083	8,240	
	Stock Futures	Long	1,006	116,697	115,481	
	Stock Futures	Short	1,223	(110,855)	(110,690)	
	CL Futures	Long	14	16,659	17,022	
	Futures on coffee	Long	2	3,013	3,119	
	Futures on platinum	Long	2	2,926	2,932	
	Soya bean Futures	Short	4	(5,699)	(5,674)	
	Futures on No.11 futures	Long	5	2,787	2,801	
	Subtotal			(424,500)		
Options contract :						
	Stock Options (Call)	Long	753	\$ 1,575	2,032	
	Stock Options(Call)	Short	77	(177)	(112)	
	Stock Options (Put)	Long	851	1,653	1,640	
	Stock Options (Put)	Short	44	(184)	(183)	
	TAIEX Options (Call)	Short	5,296	(14,887)	(10,036)	
	TAIEX Options (Call)	Long	11,155	24,824	19,779	
	TAIEX Options (Put )	Short	10,601	(40,192)	(33,518)	
	TAIEX Options (Put )	Long	13,662	23,544	18,063	
	TXO Options (Call)	Long	871	728	787	
	TXO Options (Call)	Short	214	(881)	(919)	
	TXO Options (Put)	Short	160	(964)	(899)	
	TXO Options (Put)	Long	1,607	1,843	1,775	
	Electronic Sector Index Options(Call)	Short	140	(434)	(194)	
	Electronic Sector Index Options(Call)	Long	574	3,135	2,536	
	Electronic Sector Index Options(Put)	Long	269	1,195	1,143	
	Electronic Sector Index Options(Put)	Short	58	(829)	(637)	
	Finance Sector Index Options(Call)	Short	475	(935)	(362)	
	Finance Sector Index Options(Call)	Long	174	371	178	
	Finance Sector Index Options(Put)	Long	187	863	656	
	Finance Sector Index Options(Put)	Short	190	(780)	(740)	
	Gold option (call)	Short	12	(10)	(4)	
	Gold option (call)	Long	33	190	150	
	Gold option (put)	Long	1	1	1	
	Gold option (put)	Short	12	(29)	(31)	
	Subtotal			(380)		
Total				\$ (424,880)		

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

December 31, 2014

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/ Short	Number of contracts			
Futures contract :						
	TAIEX Futures	Long	7	\$ 12,177	12,988	
	TAIEX Futures	Short	779	(1,446,102)	(1,445,978)	
	Mini-TAIEX Futures	Long	365	168,381	169,378	
	Electronic Sector Index Futures	Long	10	14,672	14,792	
	Finance Sector Index Futures	Short	51	(54,854)	(55,192)	
	Non-Finance Non-Electronics Sub- Index Futures	Long	37	42,206	42,162	
	Stock Futures	Long	193	18,610	19,035	
	Stock Futures	Short	134	(18,467)	(18,605)	
	Futures on AUD	Short	2	(5,153)	(5,141)	
	CL Futures	Short	3	(5,097)	(5,058)	
	Futures on Gold	Short	4	(15,036)	(14,991)	
	Futures on refined copper	Short	2	(4,517)	(4,471)	
	HSI future	Long	3	14,383	14,473	
	Futures on JPY	Long	1	3,318	3,303	
	Natural gas future	Short	2	(1,931)	(1,829)	
	Soya bean Futures	Short	4	(6,604)	(6,479)	
	Futures on No.11 futures	Long	2	1,043	1,029	
	Futures on CHF	Short	1	(4,039)	(3,986)	
	Wheat Futures	Short	4	(4,004)	(3,733)	
	Mini DJ index futures	Short	6	(16,945)	(16,856)	
	Subtotal			(1,307,959)		
Options contract :						
	Stock Options (Call)	Long	173	\$ 310	612	
	Stock Options (Put)	Short	67	(188)	(102)	
	Stock Options (Put)	Long	52	61	39	
	TAIEX Options (Call)	Short	2,755	(21,358)	(38,090)	
	TAIEX Options (Call)	Long	16,277	18,118	28,955	
	TAIEX Options (Put )	Short	12,512	(52,431)	(26,018)	
	TAIEX Options (Put )	Long	9,371	6,177	2,823	
	TXO Options (Call)	Long	51	7	8	
	TXO Options (Call)	Short	1,711	(2,714)	(2,755)	
	TXO Options (Put)	Short	2,009	(3,230)	(2,776)	
	TXO Options (Put)	Long	1,410	226	248	
	Electronic Sector Index Options(Call)	Short	66	(297)	(496)	
	Electronic Sector Index Options(Call)	Long	280	360	605	
	Electronic Sector Index Options(Put)	Long	301	1,143	320	
	Electronic Sector Index Options(Put)	Short	32	(136)	(54)	
	Finance Sector Index Options(Call)	Short	118	(153)	(62)	
	Finance Sector Index Options(Call)	Long	493	1,418	2,974	
	Finance Sector Index Options(Put)	Long	586	1,088	372	
	Gold option (call)	Short	1	(1)	(1)	
	Gold option (call)	Long	24	48	58	
	Gold option (put)	Short	169	(166)	(89)	
	Gold option (put)	Long	20	80	66	
	Subtotal			(51,638)		
Total				\$ (1,359,597)		

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

**13. Restrictions and enforcement of the Company's various financial ratios under futures trading law**

The restrictions and enforcement of each financial ratio was calculated in accordance with Regulations Governing Futures Commission Merchants as follow:

Art.	Calculation formula	Current Period		Last Period		Standard	Enforcement
		Calculation □	Ratio	Calculation □	Ratio		
17	<u>Stockholders' equity</u> (Total liabilities –futures traders' equity)	2,951,929 / 323,878	9.11	2,692,432 / 272,351	9.89	≥ 1	Satisfactory to requirement
17	<u>Current Assets</u> <u>Current Liabilities</u>	18,986,411 / 16,992,310	1.12	13,727,540 / 11,991,516	1.14	≥ 1	"
22	<u>Stockholders' equity</u> Minimum paid-in capital	2,951,929 /1,115,000	264.75%	2,692,432 / 715,000	376.56%	≥ 60% ≥ 40%	"
22	<u>Post-adjustment net capital</u> Total customer margin deposits required for open positions of customers	2,064,456/ 2,337,827	88.31%	1,860,730 / 2,228,913	83.48%	≥ 20% ≥ 15%	"

**14. 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 is high. 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 occur.

**15. Others : None**

**16. Disclosures Required**

- (1) Information on significant transactions
  - (a) Loans to others : Exhibit 1
  - (b) Endorsement and guarantees for others : None
  - (c) Acquisition of real estate amounting to over NT\$300,000 thousands or 20% of paid-in capital : None
  - (d) Disposal of real estate amounting to over NT\$300,000 thousands or 20% of paid-in capital : None
  - (e) Discount of commissions of handling fees with related parties amounting to over NT\$5,000 thousands : None

**CAPITAL FUTURES CORPORATION**  
**Notes To Financial Report (Cont'd)**

(f) Receivables from related parties amounting to over NT\$100,000 thousands or 20% of paid-in capital : None

(2) Information on reinvestment business (exclude investment in Mainland China)

Names of investor company	Names of investee company	Address	Main business scope	Amount of Original Investment		Ownership as of December 31, 2015			Current income or loss of investee company	Recognized gain (loss) on investment	Note
				Current Period	Last Period	Number of shares	Ratio	Book value			
Capital Futures Corporation	CSC Futures (HK) Ltd.	Hong Kong	Futures brokerage	450,631	474,348	114,000	95.00%	450,925	(9,768)	(10,176)	Subsidiary
Capital Futures Corporation	Capital International Information Technology Co., Ltd.	Taiwan	Consultancy, Information software service	50,000	50,000	5,000	100.00%	50,956	1,525	998	Subsidiary
Capital Futures Corporation	True Partner Capital advisor Co., Ltd.	Hong Kong	Assets Management	36,701	-	245	49.00%	36,681	(13)	(6)	Associate

(3) Information on investments in China:

(a) Investment in Mainland China and related information :

Name of the investee in Mainland China	Major operations	Issued capital	Method of investment (Note 1)	Accumulated remittance as of January 1, 2015	Remittance or recoverable investment this period		Accumulated remittance as of September 30, 2015	Net gains or losses of investee	Direct or indirect shareholdings (%) by the company	Investment gains and losses recognized during this period (Note 2)	Ending balance of investment	Investment income remitted back as of December 31, 2015
					Remittance amount	Recoverable amount						
Capital True Partner Co., Ltd.	Management, consulting and information service business	5,013	C	-	24,372	-	24,372	3,414	51.00%	1,214 B (2)	25,550	-

Note 1: Investment methods are classified into the following three categories:

- A. Directly invest in a company in Mainland China.
- B. Through investing in an existing company in the third area, which then invested in the investee in Mainland China (Please indicate the investee name of the third area).
- C. Through a subsidiary to invest in a company in Mainland China.

Note 2: Investment gains and losses recognized during the period

- A. It should be indicated if the investee was still in the incorporation arrangements and had not yet any profit during this period.
- B. Indicate the basis for investment gains and losses recognition in the number of one of the following three categories:
  - (1) The recognition of investment gains or losses is based on the financial statements audited by international certified public accountant cooperated with certified public accountant of the Republic of China.
  - (2) The recognition of investment gains or losses is based on the financial statements audited by certified public accountant of the Company.
  - (3) The recognition of investment gains or losses is based on the financial statements provided by the investee without audited by certified public account .

Note 3: Above information is expressed in New Taiwan Dollars.

(b) Quota for investment in China:

Unit: NT\$ thousands

Accumulative remittance from Taiwan to Mainland China as of June 30, 2015	Amount of investment approved by Investment Commission, Ministry of Economic Affairs (MOEA)	Limit on the amount of investment in Mainland China by MOEA
24,372	24,372	30,810

## 17. Segment information

Please refer to the consolidated financial report for the year ended December 31, 2015.



**CAPITAL FUTURES CORPORATION**  
**NOTES TO SEPARATE FINANCIAL REPORT (CONT'D)**  
(Amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

Exhibit 1: Loans to others

(In thousands dollars)

No.	Name of the company providing Loans to Others	Party to Transactions	Account Classification	Related Party	Maximum Balance of the Period	Ending Balance	Capital Employed	Range of interest Rate	Type of Loans	Amount of Transactions	Purposes of the Borrowers	Allowance of Doubtful Accounts	Collateral		Limit on loans to a single business	Limit on the Amount of Loans
													Name	Value		
1	CSC Futures (HK) Ltd.	AP CAPITAL INVESTMENT LIMITED	Account receivables - Customer	No	32,589	-	-	5%	2	-	Tradings	-		-	32,589	189,863
2	CSC Futures (HK) Ltd.	KLAW TRADING LIMITED	Account receivables - Customer	No	45,625	16,295	16,295	5%	2	-	Tradings	-		-	45,625	189,863

Remark: The credit line is from USD \$1,000,000 to \$1,400,000. Total credit line is 40% of CSC Futures (HK) Ltd. Net income on Financial report.

Note1: Type of Numbering

1. 0 represents Parent company
2. Invested company is being numbered by company type from 1, same company should have same number.

Note2: Type of Loans

1. Business transactions
2. Necessaries of short-term financing