



## ANNUAL REPORT

Capital Securities Corporation

### Notice to readers

This English-version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

# ANNUAL REPORT

## ■ Spokesperson

Name: TAN, DE-CHENG  
Title: Executive Vice President  
Tel: 886-2-8789-8888  
E-mail: [spokesman@capital.com.tw](mailto:spokesman@capital.com.tw)

## ■ Deputy Spokesperson

Name: XIE, YU-LIN;  
HUANG, CHI-MING  
Title: Senior Vice President;  
Executive Vice President  
Tel: 886-2-8789-8888  
E-mail: [spokesman@capital.com.tw](mailto:spokesman@capital.com.tw)

## ■ Headquarters & Branches

Headquarters  
Address: Capital Center, No.101, Songren Rd.,  
Xinyi Dist., Taipei City 11073, Taiwan, R.O.C.  
Tel: 886-2-8789-8888

Branches  
Address & Tel: Please refer to Section X  
Addresses & Telephone Numbers of the Headquarters,  
Branches & Affiliates.

## ■ Stock Transfer Agent

Name: Registrar Agency Department of Capital Securities Corporation  
Address: B2, No.97, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 10601, Taiwan, R.O.C.  
Tel: 886-2-2703-5000  
Website: <http://www.capital.com.tw/agency/>

## ■ Auditors in the most recent year

KPMG  
Auditors: Dannie Lee; Phoebe D.D. Chung  
Address: 68F, TAIPEI 101 TOWER, No. 7, Sec. 5, Xinyi Road, Taipei, 11049, Taiwan, R.O.C.  
Tel.: 886-2-8101-6666  
Website: [www.kpmg.com.tw](http://www.kpmg.com.tw)

## ■ Corporate Website

<http://www.capital.com.tw>

## ■ Overseas Securities Exchange

N/A

<b>I. Letter to Shareholders</b>	<b>02~03</b>
<b>II. Company Profile</b>	<b>04</b>
<b>III. Corporate Governance Report</b>	<b>05~72</b>
3.1. Organization chart	
3.2. Background information of Directors, Supervisors, President, Executive Vice Presidents, Senior Vice Presidents, and heads of various departments and branches	
3.3. Corporate governance	
3.4. Disclosure of CPAs' remuneration	
3.5. Change of CPA	
3.6. Disclosure of any of the Company's Chairman, President, or managers responsible for financial or accounting affairs being employed by the auditor's firm or any of its affiliated company in the last year, including their names, job titles, and the periods during which they were employed by the auditor's firm or any of its affiliated company	
3.7. Transfer and pledge of shares by Directors, Supervisors, Managers and Major shareholders	
3.8. Relationships among top-10 shareholders	
3.9. Investments jointly held by the Company, the Company's directors, supervisors, managers, and enterprises directly or indirectly controlled by the Company	
<b>IV. Funding Status</b>	<b>73~78</b>
4.1~4.7 Share capital, corporate bonds, preferred shares, depository receipts, employee stock options, restricted employee shares, and merger/acquisition	
4.8 Progress on planned use of capital	
<b>V. Business Performance</b>	<b>79~92</b>
5.1 Business activities	
5.2. Market and sales overview	
5.3. Employee information	
5.4. Contribution to environmental protection	
5.5. Labor-management relations	
5.6. Major contracts	
5.7. The Company's Workplace Environment and Employee Safety Measures	
5.8. Employees' behaviors and moral principles	
<b>VI. Financial Summary</b>	<b>93~251</b>
6.1 Summary balance sheet and statement of comprehensive income for the last 5 years	
6.2. Financial analysis for the last 5 years	
6.3. Audit Committee's review report for the most recent years	
6.4. Financial statements for the most recent years	
6.5. Standalone financial statements audited & certified by Accountants in the most recent years	
6.6. Financial insolvency incidents encountered by the Company and affiliates in the last year, up till the publication date of this annual report	
<b>VII. Review of Financial Position, Business Performance and Risk Issues</b>	<b>252~259</b>
7.1 Financial position	
7.2. Financial performance	
7.3. Cash flow	
7.4. Impacts of major capital expenditures in the last year to financial performance	
7.5. Causes of profit or loss incurred on investments in the last year, and any improvements or investments planned for the next year	
7.6. Analysis of risk factors	
7.7. Other material issues	
<b>VIII. Special Remarks</b>	<b>260~267</b>
8.1 Information of affiliated companies	
8.2 Private placement of securities in the last year up till the publication date of this annual report	
8.3 Holding or disposal of the Company's shares by subsidiaries in the last financial year, up till the publication date of this annual report	
8.4 Other supplementary information	
<b>IX. Occurrences of Significant Impact on Shareholders' Equity or Security Prices</b>	<b>268</b>
<b>X. Contact Information of Head Office, Branches and Affiliated Enterprises</b>	<b>269~271</b>

## Dear Shareholders:

In the first half of 2016, the Taiwan Capitalization Weighted Stock Index (TAIEX) fell below 8,000 points to 7,627 points under the circumstances that stocks in China activated a circuit breaker and the interest rate in the United States was raised. Thanks to the remaining global quantitative easing environment that encouraged foreign investments which overbought for the amount of NT\$320 billion within the year, the index gradually climbed and closed at 9,253 points. In the whole year, the TAIEX increased by 915 points, a ratio of 10.98%. This was the third time that the TAIEX closed above 9,000 points, and the total market value at the closing date was a record high of 27.2 trillion.

As foreign investments overbuy, the ratio of domestic and foreign corporations closing deals in TAIEX was at a record high, which stabilized the fluctuation of the TAIEX. However, the overall market was not as energetic as before. The return of large amount of funds that flew out to avoid capital gains tax on securities transactions is limited and the domestic investment was not aggressive, which caused the annual turnover volume to be less than NT\$24 trillion. The average daily turnover volume for TWSE and TPEx listed stocks was only NT\$97.8 billion, a decrease of 41.92% compared to NT\$168.4 billion in 2007. Stocks with a transaction volume less than 100 board lots and the stocks with a market value less than the net value accounted for of the total stocks. The operation of the securities industry is facing severe challenges.

Capital Securities Corporation (hereinafter "Capital Securities") consistently and steadily develops based on the faith of sustainable operation. Despite the external environment being severe, our colleagues from all departments strove to create operational performance of the Company. In 2016, the overall operational net profits before taxation were NT\$1,368,094 thousand, and the net profit after taxation was NT\$1,196,756 thousand.

Capital Securities cherishes customers and employees, which are critical assets to the growth of the corporation. We continue to comprehensively care about the demands of customers, increase the professionalism of employees, create a better investment environment, and maintain the endurance of profits. The quality of services provided by Capital Securities are well recognized by the competent authority and investors. Chairman Alex Jiunn-Chih Wang was awarded "The Best Businessman of 2016" from the Ministry of Economic Affairs. In 2016, Capital Securities won the Best Brand Image Award for Non-Financial Holdings in the "2016 Excellence Rating for Financial Securities Service" held by Excellence Magazine and the Excellence Award for the Best Wealth Management Securities in the "2016 Evaluation on Wealth Management Banks and Securities" held by Business Today. Also in 2016, we received the award of the third place in the turnover amount of warrant trading from the Taiwan Stock Exchange (TWSE). CSC International Holdings Ltd., Shanghai Office and Capital Investment Management Corporation were selected in first place in "Media Stock Selection Capacity" and in third place in "Automobile Stock Selection Capacity" in the Asia Pacific region in 2016 by StarMine of Thomson Reuters respectively. Capital Securities strives to develop intelligent finance to provide more optimized financial services. The self-developed "GOODi Intelligent Wealth Management Robot" received a "Top 100 Innovative Products of 2016 Information Technology Month" award, and Capital Securities was also the only financial firm to receive the award.

The operation of all businesses in 2016 is described as follows:

**I. Brokerage:** The annual average market share in the centralized trading market was 3.8281%, the market share in the TPEx market was 5.5502%, and the overall market share was 4.2090%. The business scale ranked No. 5 among all securities firms and No. 1 in independent securities. The annual trading volume for the sub-brokerage of foreign securities ranked No. 8 among domestic securities firms.

**II. Investment Banking:** In 2016, Capital Securities conducted the IPOs of Shenghua Entertainment, Nyquest Technology, and Syngen Biotech Corporation listed on the TPEx. In the secondary market, we also conducted the SPO financing of convertible bonds and issuance of common stock for cash for Posiflex Technology Inc. and issuance of common stock for cash for Easywell Biomedicals. Our team has rich experience in different scales and types of cases domestically and internationally.

**III. Derivatives Products:** In 2016, the amount of warrants issued was NT\$38.78 billion with 3,439 warrants issued. The issuance amount and the number of warrants issued were both ranked No. 2 in the industry. The issuance of structured products was NT\$7.07 billion.

**IV. Fixed income:** In 2016, the bond risk was properly controlled, and we lowered the target number of cases undertaken in the super-low interest rate region. In 2016, Capital Securities participated in the bidding for the issuance of 4 ordinary corporate bonds, and the market share was 8%, ranking at No. 5 among all securities firms. For conducting the bidding of domestic ordinary corporate bonds, the accumulated issuance amount was NT\$11.15 billion, and the market share was 9.15%, ranking at No. 5 among all securities firms. For underwriting corporate bonds, the large underwriting cases came from famous corporations like Highwealth Construction, Foxconn, Eva Air and Far East One.

When looking into 2017, global challenges remain. However, under the circumstances where the consumption expenses increase along with the employment rate stabilizing in the United State, the U.S. GDP growth rate in 2017 is expected to be YoY 2.1%, which is better than 1.6% in 2016. On the other hand, Taiwan's exports will increase as U.S. economic growth increases, the GDP growth of Taiwan is expected to be 1.8%, which is better than 1.1% in 2016. Besides, the domestic and international potential changes that require extra attention include: Will the new policies from the Trump government lead to trade disputes between China and the United States; the result of national elections in Italy, Germany, and France in the Eurozone; the negotiation progress of the U.K.'s withdrawal from the European Union; whether China's economic growth remains stable, and the direction of currency policy for all major central banks in the world. In 2017, the domestic capital market is still full of challenges and opportunities.

The Company regards employees as a critical component of the Company. We encourage our employees to work hard while paying attention to physical health and promote the life attitude of eco-friendly and LOHAS. Capital Securities strives to create a healthy and safe working environment. We were awarded the "Sports Corporation Certification" by the Sports Administration, Ministry of Education and "Certification for Healthy Working Environment and Good Health Certificate" by the Health Promotion Administration, Ministry of Health and Welfare. The Company held a series of activities, including mountain hiking family day that encourages employees and their family to go mountain hiking and a singing competition "classic era, my music story" that encourages employees of Capital Securities to show their talents. The Company also held "Lovely Babies Audition" to create precious memories for our employees and their children. These interesting activities allow our employees to relax and be healthy, increase working efficiency, and create affectionate communication of a large family in the Company.

The brand value of Capital Securities is "Capital Care." For a long period of time, Capital Securities has been serving the role of corporate citizen, including holding blood donation charity events, collaborating with the Welfare Association for the Visually Impaired in New Taipei City that provides massages by visually impaired people to our employees every week. The Company promotes "Love Reading Program" to provide care for the education in remote areas. The reading volunteers of Capital Securities go to adopted elementary schools to tell stories, and children love it! In 2016, we held "Capital Securities Loves Reading, Flipping New Vision," taking students of Da Chen Elementary School to Cloud Gate Dance Theatre in Tamsui for a "City Reading Tour" and providing cultural excitements that are hard to reach remote areas in order to raise the interest in readings for students. In the future, Capital Securities will uphold our consistent faith to implement our vision and social care, to establish a long-term partnership and mutual growth relations with the customers, and to provide financial services with high-added values that are beyond customers' expectation.

**Alex Jiunn- Chih Wang**

Chairman  
Capital Securities Corporation

## II Company Profile

### 1. Date of establishment and registration: June 21, 1988

### 2. Amount of Capital: NT\$21.691 billion

### 3. History:

In 1988, realizing the importance of the capital market to financing in the domestic market and promoting the industry upgrade, the founder of the Company invited famous people from domestic corporations to establish Capital Securities. The amount of Capital in the early years was NT\$300,000, and the Company was a professional securities broker. The Company has become an international integrated securities firm, and its businesses are brokerage, trading, underwriting, stock affairs agent, bonds, credit trading, and derivatives. Our businesses in the primary and secondary market rank among the best. For the purpose of providing comprehensive financial services to domestic and international corporations and ordinary investors, we successively established affiliated companies, including Capital Futures Corporation, Capital Investment Management Corporation, Capital Insurance Agency Corporation, and Capital Insurance Advisory Corporation, CSC (HK) Ltd., and CSC International Holdings. In 2016, the Company invested and established Capital Entrepreneurship Investment Corporation to extend its services to corporations before listing in TPEX. Apart from major cities in Taiwan, the Group also established branches and offices in financial centers like Hong Kong and Shanghai. With the support of all shareholders and directors and supervisors, the Group was able to develop business with all its strength and to march toward the goal of becoming a professional and international investment bank.

Ever since its establishment, the Company has been awarded by the competent authority and other agencies: The Company has been selected as "The Best Securities Firm" and "The Securities Firm with the Highest Professional and Research Standard" by the world famous FinanceAsia, Euromoney, Asiamoney and The Asset Magazine. In 2008, Capital Securities was selected as the No. 1 brand in securities firms in the "Best Consumer Brands of 2008" by Management Magazine.

In 2014, CSC International Holdings Ltd., Shanghai Rep. Office won seven awards including "No.1 in the Best Profits Forecast in the Industry" in the Asia Pacific region, Mainland China and Hong Kong by the global analysts of StarMine. In the same year, Capital Securities won the best brand image award for non-financial holdings in "2016 Excellence Rating for Financial Securities Service" held by Excellence Magazine and the best service award in securities group in "2014 Evaluation on Wealth Management Banks" by Business Today. In the 13th Golden Goblet Award of 2015, Yun-Fei Chao, the President of the Company, won "Excellent Corporate Leader Award." In the same year, the Company won the best securities firm for non-financial holdings in the "2015 Evaluation on Excellence Financial Securities Service" held by Excellence Magazine. CSC International Holdings Ltd., Shanghai Rep. Office was selected in the No. 1 place in the "Best Profits Forecast in Mass Media Industry" in the Asia Pacific region in 2015 by StarMine. Chairman Jiunn-Chih Wang was awarded "The Best Businessman of 2016" by the Ministry of Economic Affairs. In 2016, Capital Securities won the Best Brand Image Award for Non-Financial Holdings in the "2016 Excellence Rating for Financial Securities Service" held by Excellence Magazine and the Excellence Award for the Best Wealth Management Securities in the "2016 Evaluation on Wealth Management Banks and Securities" held by Business Today. CSC International Holdings Ltd., Shanghai Office and Capital Investment Management Corporation were selected in first place in the "Media Stock Selection Capacity" and in third place in the "Automobile Stock Selection Capacity" in the Asia Pacific region in 2016 by StarMine of Thomson Reuters respectively. Capital Securities strives to develop intelligent finance to provide more optimized financial services. The self-developed "GOODi Intelligent Wealth Management Robot" received the "Top 100 Innovative Products of 2016 Information Technology Month," and Capital Securities was also the only financial firm to receive the award.

In 1989, the amount of capital of the Company was increased to NT\$1.6 billion, and the Company acquired the license of underwriter and trading business in September and October respectively of the same year, which made the Company an integrated securities firm. By the end of 1989, the Company started an over-the-counter market trading business. To cope with the overall and long-term development of the Company and to cope with the trend of the market, the capital amount of the company was increased to NT\$2 billion in 1991. The business scope was extended, in which financing and margin business were added. In July, 1993, the Company merged with Hung Tai Securities, and the amount of capital was increased to NT\$3.28 billion. In April, 1995, the Company conducted a capital increase out of earnings, capital surplus and employee bonus respectively, and the amount of capital was increased to NT\$4.08 billion. In August of the same year, the Company's stock was listed on the TPEX.

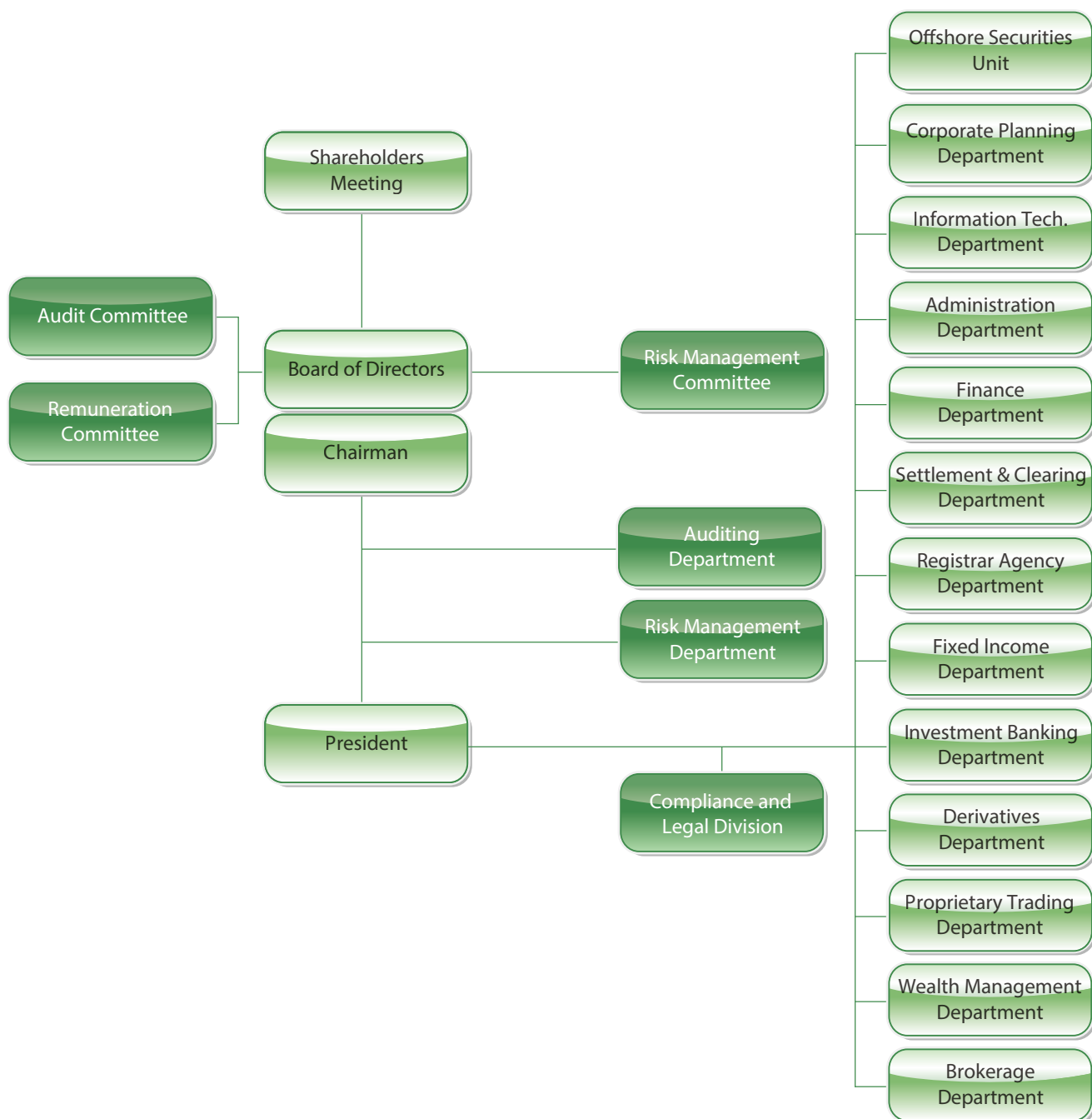
In November, 2005, the Company's stock was officially listed on the TWSE. In March, 2010, the Company completed the merger with Antay Securities, and the paid-in capital was increased to NT\$18.797 billion. In August, 2010, the Company conducted a capital increase out of earnings, and the paid-in capital was increased to NT\$20.375 billion. In October, 2010, the Company completed the public tender offer of the shares of Taiwan International Securities Corporation and issued new shares of NT\$2.682 billion, and the paid-in capital was increased to NT\$23.057 billion. In May, 2011, the Company merged with Taiwan International Securities Corporation, and the paid-in capital was increased to NT\$23.341 billion. In July, 2011, the Company conducted a capital increase of NT\$350 million out of earnings, and the paid-in capital was increased to NT\$23.691 billion. In November of 2015 and January of 2016, the Company repurchased treasury stock and decreased capital by 500 million respectively, and the paid-in capital was deducted to NT\$22.691 billion. In January, 2017, the Company repurchased treasury stock and decreased capital by 1 billion, and the paid-in capital was deducted to NT\$21.691 billion.

In February, 1999, the Head Office of the Group was moved to the Capital Financial Building, which made the Company the second financial group to station itself in the Xinyi District of Taipei. Xinyi District is the international financial center in the planning of the government, and moving the Head Office to this district indicated the Company's determination to strive to develop as a comprehensive international financial institution. In December of the same year, the Company officially moved the Business Office of the Brokerage Department to the same building, and the original site of Business Office of the Brokerage Department located on Zhongxiao E. Road was transformed into Zhongxiao Branch. In 2005, the Company was transferred for Da Shing Securities, and Yiland and Da Shing Branch was established. In September, 2011, the Company was officially renamed as Capital Securities Corporation.

When looking into 2017, in order to cope with the development trend of globalization and grouping in financial service industry, the Company will display the concept of FinTech to optimize the service quality and operational performance of all business offices and will aim at fully satisfying the demand of the public and becoming a comprehensive securities firm with humanity and digitization service. The Company continues to uphold the faith of "the interest of the public is our priority" and to provide financial services with high-added value that are beyond customers' expectation.

## 3.1 Organization chart

### Capital Securities Corporation





## 3.2 Background information of Directors, Supervisors, President, Executive Vice Presidents, Senior Vice Presidents, and heads of various departments and branches:

### 3.2.1 Background of Directors and Supervisors (1)

March 31, 2017

Title (Note 1)	Nationality or place of registration	Name	Gender	Elected/ appointed date	Service term	First elected/ appointed date (Note 2)	Shareholding at time of election		Current shareholding		Shares held by spouse and underage children		Shares held by proxy		Major career (academic) achievements (Note 3)	Concurrent duties in the Company and in other companies	Spouse or relatives of second degrees or closer acting as Directors, Supervisors, or department heads	
							Shares	Shareholding percentage	Shares	Shareholding percentage	Shares	Shareholding percentage	Shares	Shareholding percentage			Title	Relationship
Chairman	Republic of China	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	Male	2016.06.27	3 year(s)	2013.06.25 2012.09.03	7,514,033 0	0.33% 0.00%	7,514,033 0	0.34% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	Central Trust of China - General Manager EnTie Commercial Bank Co., Ltd. - President Bankers Association of the Republic of China - Secretary General Hua Nan Commercial Bank, Ltd. - President	Capital Futures Corp. - Director CSC International Holdings Ltd. - Director Capital Securities (Hong Kong) Ltd. - Director CSC Securities (HK) Ltd. - Director CSC Futures (HK) Ltd. - Director CSC Venture Capital Corporation - Chairman	None	None
Director	Republic of China	Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-FSUN	Male	2016.06.27	3 year(s)	2013.06.25 1994.01.01	7,514,033 0	0.33% 0.00%	7,514,033 0	0.34% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	Master of Business Administration, Golden Gate University, San Francisco, USA Capital Securities Corporation - Vice Chairman Capital Securities Corporation - Chairman	Capital Futures Corp. - Director	None	None
Director	Republic of China	Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIH-MING	Male	2016.06.27	3 year(s)	2016.06.27 2011.10.27	7,967,750 0	0.35% 0.00%	7,967,750 0	0.36% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	Yu Chun Enterprise Co., Ltd. - Chairman Fu Tai Construction Corporation - Chairman Hong Chang Enterprise Co., Ltd. - Chairman Chuan Yi Investment Co., Ltd. - Chairman Cheng Da Investment Co., Ltd. - Chairman Financial Information Corporation - Chairman Tsai Chiang Corporation - Chairman Hong Tai Construction Co., Ltd. - Director Hong Ye Investment Co., Ltd. - Director Hong Nan Enterprise Co., Ltd. - Director Chia Shan Yue Construction Co., Ltd. - Director Cooperative Construction Co., Ltd. - Supervisor Chen Chen Co., Ltd. - Supervisor Chao Long Investment Co., Ltd. - Supervisor Yu Bao Enterprise Co., Ltd. - Supervisor Liang Chi Enterprise Co., Ltd. - Supervisor Tai Fa Investment Co., Ltd. - Supervisor Collins Co., Ltd. - Supervisor	Yu Chun Enterprise Co., Ltd. - Chairman Fu Tai Construction Corporation - Chairman Hong Chang Enterprise Co., Ltd. - Chairman Chuan Yi Investment Co., Ltd. - Chairman Cheng Da Investment Co., Ltd. - Chairman Financial Information Corporation - Chairman Tsai Chiang Corporation - Chairman Hong Tai Construction Co., Ltd. - Director Hong Ye Investment Co., Ltd. - Director Hong Nan Enterprise Co., Ltd. - Director Chia Shan Yue Construction Co., Ltd. - Director Cooperative Construction Co., Ltd. - Supervisor Chen Chen Co., Ltd. - Supervisor Chao Long Investment Co., Ltd. - Supervisor Yu Bao Enterprise Co., Ltd. - Supervisor Liang Chi Enterprise Co., Ltd. - Supervisor Tai Fa Investment Co., Ltd. - Supervisor Collins Co., Ltd. - Supervisor	None	None
Director	Republic of China	Tai Chun Enterprise Co., Ltd. Representative: LIN, CHUN-YU	Male	2016.06.27	3 year(s)	2016.06.27 2013.12.30	7,967,750 0	0.35% 0.00%	7,967,750 0	0.36% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	Bachelor of Economics, National Taiwan University Capital Securities Corporation - Supervisor	Kun Chi Venture Capital Co., Ltd. - Director Rui Cheng Construction Co., Ltd. - Director Chuan Yi Investment Co., Ltd. - Director Hong Yuan Construction Co., Ltd. - Director Tai Chun Enterprise Co., Ltd. - Director Yu Bao Enterprise Co., Ltd. - Director Hong Chu Construction Management Co., Ltd. - Director Ou Hua Venture Capital Co., Ltd. - Supervisor	None	None



Title (Note 1)	Nationality or place of registration	Name	Gender	Elected/ appointed date	Service term	First elected/ appointed date (Note 2)	Shareholding at time of election		Current shareholding		Shares held by spouse and underage children		Shares held by proxy		Major career (academic) achievements (Note 3)	Concurrent duties in the Company and in other companies	Spouse or relatives of second degree or closer acting as Directors, Supervisors, or department heads		
							Shares	Shareholding percentage	Shares	Shareholding percentage	Shares	Shareholding percentage	Shares	Shareholding percentage			Title	Name	Relationship
Director	Republic of China	Tai Chun Enterprise Co., Ltd. Representative: TSAI, I-CHING	Male	2016.06.27	3 year(s)	2016.06.27 2012.03.05	7,967,750 0	0.35% 0.00%	7,967,750 0	0.36% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	Master of Law, Soochow University The Chinese Commercial and Industrial Coordination Society - Deputy Secretary- General	Cross-strait Commercial Services Co., Ltd. - Supervisor Taiwan Federation of Commerce - Deputy Secretary-General	None	None	None
Director	Republic of China	Kwang Hsing Industrial Co., Ltd. Representative: YANG, CHE-HUNG	Male	2016.06.27	3 year(s)	2001.04.03 2015.11.02	9,261,919 0	0.41% 0.00%	9,261,919 0	0.42% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	National Kaohsiung University of Applied Sciences Kwang Yang Motor Co., Ltd. - Deputy Section Chief Finance Department	Kwang Yang Motor Co., Ltd. - Deputy Section Chief Finance Department	None	None	None
Director	Republic of China	San Ho Enterprise Co., Ltd. Representative: ANGEL CHANG	Female	2016.06.27	3 year(s)	2007.06.15 2013.06.25	3,561,900 0	0.16% 0.00%	3,561,900 0	0.16% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	Business Administration, Royal Roads University, Canada Capital Securities Corporation - Supervisor	None	None	None	None
Director	Republic of China	Hung Lung Enterprise Co., Ltd. Representative: KUO, YUH-CHYI	Male	2016.06.27	3 year(s)	2016.06.27 2010.06.15	47,543,260 0	2.09% 0.00%	47,543,260 252,020	2.19% 0.00%	0 3,300	0.00% 0.00%	0 0	0.00% 0.00%	Department of Co-operative Economics, National Taipei University Capital Securities Corporation - Supervisor	None	None	None	None
Independent Director	Republic of China	SHEA, JIA-DONG	Male	2016.06.27	3 year(s)	2015.05.20	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Director, Institute of Economics, Academia Sinica Professor of Economics, National Taiwan University National Bank of the Republic of China - Deputy Governor Ministry of Finance - Minister Central Trust of China - Chairman Taiwan Academy of Banking and Finance - Chairman	Capital Futures Corp. - Independent Director	None	None	None
Independent Director	Republic of China	LIN, HSIN-HUI	Male	2016.06.27	3 year(s)	2007.06.15	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Ph.D of Industrial Engineering, Iowa State University National Sun Yat-sen University - Dean and Professor of Information Management National Sun Yat-sen University - Head of Academic Affairs, Secretary- General National Sun Yat-sen University - Deputy Dean, College of Management	None	None	None	None
Independent Director	Republic of China	HWANG, JYH-DEAN	Male	2016.06.27	3 year(s)	2009.06.10	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Ph.D of Economics, University of Wisconsin- Madison National Taiwan University - Associate Professor of International Business	Hyies International Co., Ltd. - Independent Director	None	None	None

Note 1: For corporate shareholders, the names and representatives are stated individually (for representatives, the names of the respective corporate shareholders they represent are stated separately), and additional disclosures are made in Table 1.

Note 2: Any disruption of duty as a director or supervisor after the date first elected are addressed in a separate remark.

Note 3: The work experiences of anyone above relating to their current roles, e.g. previous employment in the CPA's firm or employment in a related company, are disclosed with detailed job titles and responsibilities.

# III Corporate Governance Report

Table 1: Major shareholders of corporate shareholders

March 31, 2017

Name of corporate shareholder (Note 1)	Major shareholders of the corporate shareholder (Note 2)	
Yin Feng Enterprise Co., Ltd.	Chuan Yi Investment Co., Ltd.	17.49%
	Hong Ye Investment Co., Ltd.	15.79%
	Feng Yang Investment Co., Ltd.	11.63%
	Wei Wang Investment Co., Ltd.	9.22%
	Tai Jian Investment Co., Ltd.	7.58%
	Tai Lian Investment Co., Ltd.	7.44%
	Chen Huei Enterprise Co., Ltd.	6.38%
	Bao Qing Investment Co., Ltd.	5.06%
	Fu Ding Investment Co., Ltd.	3.67%
	Bao Sheng Investment Co., Ltd.	3.66%
Tai Chun Enterprise Co., Ltd.	Chuan Yi Investment Co., Ltd.	15.44%
	Bao Qing Investment Co., Ltd.	15.06%
	Bao Zuo Investment Co., Ltd.	12.64%
	Hong Ye Investment Co., Ltd.	11.70%
	Cheng Da Investment Co., Ltd.	11.44%
	Tai Lian Investment Co., Ltd.	10.01%
	Bao Sheng Investment Co., Ltd.	4.66%
	Fu Ding Investment Co., Ltd.	3.70%
	Tai Jian Investment Co., Ltd.	3.43%
	Tai Sheng Investment Co., Ltd.	3.42%
Kwang Hsing Industrial Co., Ltd.	Kwang Yang Motor Co., Ltd.	100%
San Ho Enterprise Co., Ltd.	CHEN TIEN-WEN	41%
	LI A-XUE	39%
	CHEN TIEN-XING	20%
Hung Lung Enterprise Co., Ltd.	Chuan Yi Construction Co., Ltd.	14.64%
	Financial Information Corporation	14.24%
	Hong Yuan Construction Co., Ltd.	12.84%
	Yu Bao Enterprise Co., Ltd.	12.71%
	Lian Mao Investment Co., Ltd.	11.92%
	Fu Tai Construction Corporation	11.70%
	Chen Huei Enterprise Co., Ltd.	9.23%
	Run Hsiang Enterprise Co., Ltd.	7.19%
	De Ye Apartment Building Management and Maintenance Co., Ltd.	3.18%
	Han Bao Enterprise Co., Ltd.	2.34%

Note 1: Where Directors and Supervisors are representatives of corporate shareholders, the names of corporate shareholders are displayed.

Note 2: The above table shows the names and shareholding percentages of major shareholders (top 10 shareholders) in each of the Company's corporate shareholders. Table 2 below is used if the major shareholder is also a corporate entity.

Table 2: Major shareholders of major corporate shareholders listed in Table 1

March 31, 2017

Name of corporate entity (Note 1)	Major shareholders of the corporate entity (Note 2)	
Chuan Yi Construction Co., Ltd.	hao Long Investment Co., Ltd.	28.62%
	Tai Hsiang Investment Co., Ltd.	21.74%
	Tai He Investment Co., Ltd.	11.59%
	Wang Hsing Enterprise Co., Ltd.	6.33%
	Hong Sheng Enterprise Co., Ltd.	6.33%
	Chuan Yi Construction Co., Ltd.	5.98%
	Tai Fa Investment Co., Ltd.	5.44%
	Yu Chun Enterprise Co., Ltd.	4.57%
	Chen Huei Enterprise Co., Ltd.	3.44%
	Hong Long Enterprise Co., Ltd.	3.35%
Hong Yeh Investment Co., Ltd.	Chao Long Investment Co., Ltd.	41.25%
	Tai Fa Investment Co., Ltd.	18.58%
	Tai Hsiang Investment Co., Ltd.	18.54%
	Tai He Investment Co., Ltd.	9.73%
	Hong Chia Investment Co., Ltd.	3.28%
	Tai He Construction Management Co., Ltd.	1.74%
	Tai Lian Investment Co., Ltd.	1.72%
	Bao Zuo Investment Co., Ltd.	1.52%
	Fu Ding Investment Co., Ltd.	1.52%
	Tai Chun Investment Co., Ltd.	0.93%
Feng Yang Investment Co., Ltd.	Tai Fa Investment Co., Ltd.	38.73%
	Tai Hsiang Investment Co., Ltd.	18.23%
	Chao Long Investment Co., Ltd.	18.23%
	Tai He Investment Co., Ltd.	6.84%
	Hong Tai Construction Co., Ltd.	2.44%
	Hong Sheng Enterprise Co., Ltd.	2.36%
	Bao Zuo Investment Co., Ltd.	2.28%
	Tai Sheng Investment Co., Ltd.	2.28%
	Tai Chun Enterprise Co., Ltd.	2.19%
	Wang Hsing Enterprise Co., Ltd.	2.15%

### III Corporate Governance Report

Name of corporate entity (Note 1)	Major shareholders of the corporate entity (Note 2)	
Wei Wang Investment Co., Ltd.	Tai He Investment Co., Ltd.	36.76%
	Chao Long Investment Co., Ltd.	26.10%
	Tai Fa Investment Co., Ltd.	12.87%
	Tai Hsiang Investment Co., Ltd.	8.20%
	Tseng Mao Investment Co., Ltd.	4.26%
	Bao Qing Investment Co., Ltd.	2.24%
	Hong Sheng Construction Co., Ltd.	2.05%
	Tai Chun Investment Co., Ltd.	1.86%
	Chuan Yi Investment Co., Ltd.	1.83%
	Han Bao Enterprise Co., Ltd.	1.53%
Tai Chien Investment Co., Ltd.	Chao Long Investment Co., Ltd.	42.92%
	Tai Fa Investment Co., Ltd.	18.07%
	Tai Hsiang Investment Co., Ltd.	18.07%
	Tai He Investment Co., Ltd.	11.29%
	Tai Chun Enterprise Co., Ltd.	1.93%
	Hong Sheng Enterprise Co., Ltd.	1.80%
	Kai Da Enterprise Co., Ltd.	1.68%
	Min Huei Enterprise Co., Ltd.	1.56%
	Chen Huei Enterprise Co., Ltd.	1.34%
	Run Hsiang Enterprise Co., Ltd.	1.34%
Tai Lian Investment Co., Ltd.	Tai Hsiang Investment Co., Ltd.	43.02%
	Chao Long Investment Co., Ltd.	16.65%
	Tai Fa Investment Co., Ltd.	15.27%
	Tai He Investment Co., Ltd.	8.33%
	Yin Feng Enterprise Co., Ltd.	3.26%
	Han Bao Enterprise Co., Ltd.	3.26%
	Hong Sheng Enterprise Co., Ltd.	3.26%
	Kai Da Enterprise Co., Ltd.	3.26%
	Fu Tai Construction Corporation	3.23%
	Hong Tai Construction Co., Ltd.	0.44%
Chen Hui Enterprise Co., Ltd.	Tai Lian Investment Co., Ltd.	16.82%
	Tai Chun Investment Co., Ltd.	14.22%
	Bao Qing Investment Co., Ltd.	9.88%
	Feng Yang Investment Co., Ltd.	9.88%
	Cheng Da Investment Co., Ltd.	9.45%
	Lian Mao Investment Co., Ltd.	8.64%
	Wei Wang Investment Co., Ltd.	8.64%
	Yu Bao Enterprise Co., Ltd.	8.43%
	Hong Ye Investment Co., Ltd.	5.00%
	Tai Sheng Investment Co., Ltd.	4.54%

Name of corporate entity (Note 1)	Major shareholders of the corporate entity (Note 2)	
Pao Qing Investment Co., Ltd.	Tai Fa Investment Co., Ltd.	19.72%
	Tai Hsiang Investment Co., Ltd.	19.43%
	Chao Long Investment Co., Ltd.	19.43%
	Chuan Yi Construction Co., Ltd.	6.93%
	Fu Tai Construction Corporation	6.93%
	Hong Long Enterprise Co., Ltd.	5.51%
	Run Hsiang Enterprise Co., Ltd.	5.51%
	Tai He Investment Co., Ltd.	4.93%
	Bao Zuo Investment Co., Ltd.	4.35%
	Tai Sheng Investment Co., Ltd.	4.35%
Fu Ting Investment Co., Ltd.	Chao Long Investment Co., Ltd.	24.73%
	Tai Fa Investment Co., Ltd.	13.02%
	Tai Hsiang Investment Co., Ltd.	9.76%
	Bao Qing Investment Co., Ltd.	6.51%
	Hong Chia Investment Co., Ltd.	6.51%
	Yu Chun Enterprise Co., Ltd.	6.03%
	Fu Tai Construction Corporation	5.80%
	Tai He Investment Co., Ltd.	5.21%
	Tai Chun Enterprise Co., Ltd.	4.28%
	Run Hsiang Enterprise Co., Ltd.	4.27%
Pao Sheng Investment Co., Ltd.	Tai Fa Investment Co., Ltd.	18.36%
	Tai Hsiang Investment Co., Ltd.	18.36%
	Chao Long Investment Co., Ltd.	18.36%
	Tai He Investment Co., Ltd.	12.85%
	Tai Chun Enterprise Co., Ltd.	5.43%
	Hong Sheng Enterprise Co., Ltd.	4.44%
	Kai Da Enterprise Co., Ltd.	4.28%
	Chen Huei Enterprise Co., Ltd.	3.94%
	Yu Bao Enterprise Co., Ltd.	3.79%
	Yin Feng Enterprise Co., Ltd.	3.62%
Bao Zuo Investment Co., Ltd.	Chao Long Investment Co., Ltd.	21.83%
	Chen Huei Enterprise Co., Ltd.	18.43%
	Tai Hsiang Investment Co., Ltd.	12.16%
	Hong Sheng Enterprise Co., Ltd.	10.55%
	Kai Da Enterprise Co., Ltd.	10.55%
	Hong Long Enterprise Co., Ltd.	9.91%
	Tai Fa Investment Co., Ltd.	7.74%
	Tai Sheng Investment Co., Ltd.	7.74%
	Tai Jian Investment Co., Ltd.	1.93%
	Tai He Investment Co., Ltd.	1.38%

### III Corporate Governance Report

Name of corporate entity (Note 1)	Major shareholders of the corporate entity (Note 2)	
Cheng Da Investment Co., Ltd.	Tai Fa Investment Co., Ltd.	39.58%
	Tai Hsiang Investment Co., Ltd.	32.56%
	Chao Long Investment Co., Ltd.	18.60%
	Tai He Investment Co., Ltd.	4.65%
	Tai Jian Investment Co., Ltd.	1.81%
	Hong Long Enterprise Co., Ltd.	0.92%
	Rui Cheng Construction Co., Ltd.	0.49%
	Hong Sheng Enterprise Co., Ltd.	0.46%
	Bao Sheng Investment Co., Ltd.	0.46%
	Feng Yang Investment Co., Ltd.	0.46%
Tai Sheng Investment Co., Ltd.	Tai He Investment Co., Ltd.	23.93%
	Chao Long Investment Co., Ltd.	19.86%
	Tai Fa Investment Co., Ltd.	11.01%
	Tai Hsiang Investment Co., Ltd.	10.29%
	Yu Bao Enterprise Co., Ltd.	5.98%
	Han Bao Enterprise Co., Ltd.	5.27%
	Chen Huei Enterprise Co., Ltd.	4.42%
	Yu Chun Enterprise Co., Ltd.	4.40%
	Fu Tai Construction Corporation	3.77%
	Chuan Yi Construction Co., Ltd.	3.54%
Kwang Yang Motor Co., Ltd.	Hsin Sheng Investment Co., Ltd.	11.31%
	Kuang Chou Investment Co., Ltd.	6.66%
	Da Ming Investment Co., Ltd.	6.54%
	Kuang Hsing Enterprise Co., Ltd.	5.39%
	Hong Kuang Investment Co., Ltd.	4.68%
	Ching Yang Investment Co., Ltd.	3.43%
	Yu Chi Investment Co., Ltd.	1.34%
	Hsiao-Hsiung Ko	1.21%
	Hong Sheng Investment Co., Ltd.	1.09%
	Hung-Ming Ko	1.03%
Chuan Yi Construction Co., Ltd.	Tai Chun Investment Co., Ltd.	12.57%
	Lian Mao Investment Co., Ltd.	12.00%
	Wei Wang Investment Co., Ltd.	12.00%
	Tai Sheng Investment Co., Ltd.	11.92%
	Yu Chun Enterprise Co., Ltd.	9.66 %
	Hong Ye Investment Co., Ltd.	9.35%
	Cheng Da Investment Co., Ltd.	9.35%
	Tai Lian Investment Co., Ltd.	8.04%
	Tai Jian Investment Co., Ltd.	3.97%
	Bao Sheng Investment Co., Ltd.	3.31%

Name of corporate entity (Note 1)	Major shareholders of the corporate entity (Note 2)	
Financial Information Corporation	Rui Cheng Construction Co., Ltd.	18.14%
	Chuan Shun Construction and Development Co., Ltd.	18.14%
	Hong Yong Construction Co., Ltd.	17.05%
	Tai Jian Investment Co., Ltd.	13.59%
	Han Bao Enterprise Co., Ltd.	11.17%
	Bao Qing Investment Co., Ltd.	8.07%
Hong Yuan Construction Co., Ltd.	Tai Chun Investment Co., Ltd.	13.16%
	Chuan Yi Investment Co., Ltd.	13.16%
	Hong Ye Investment Co., Ltd.	13.16%
	Bao Qing Investment Co., Ltd.	12.00%
	Feng Yang Investment Co., Ltd.	11.47%
	Tai Lian Investment Co., Ltd.	10.53%
	Cheng Da Investment Co., Ltd.	7.89%
	Bao Sheng Investment Co., Ltd.	5.53%
	Tai Jian Investment Co., Ltd.	5.26%
	Tai Ye Enterprise Co., Ltd.	2.95%
Yu Bao Enterprise Co., Ltd.	Tai Chun Investment Co., Ltd.	13.25%
	Lian Mao Investment Co., Ltd.	12.29%
	Wei Wang Investment Co., Ltd.	12.29%
	Chuan Yi Investment Co., Ltd.	10.46%
	Chuan Yi Construction Co., Ltd.	10.31%
	Cheng Da Investment Co., Ltd.	8.38%
	Hong Ye Investment Co., Ltd.	6.99%
	Feng Yang Investment Co., Ltd.	5.44%
	Fu Ding Investment Co., Ltd.	4.20%
	Tai Chun Enterprise Co., Ltd.	3.44%
Lien Mao Investment Co., Ltd.	Tai He Investment Co., Ltd.	45.16%
	Chao Long Investment Co., Ltd.	23.23%
	Tai Fa Investment Co., Ltd.	9.03%
	Tai Hsiang Investment Co., Ltd.	8.39%
	Tai Lian Investment Co., Ltd.	3.55%
	Hong Wei Construction Co., Ltd.	2.15%
	Tai Sheng Investment Co., Ltd.	1.84%
	Tai Jian Investment Co., Ltd.	1.45%
	Feng Yang Investment Co., Ltd.	1.45%
	Tai Chun Enterprise Co., Ltd.	1.35%



### III Corporate Governance Report

Name of corporate entity (Note 1)	Major shareholders of the corporate entity (Note 2)	
Fu Tai Construction Corporation	Bao Zuo Investment Co., Ltd.	16.88%
	Lian Mao Investment Co., Ltd.	16.50%
	Wei Wang Investment Co., Ltd.	16.50%
	Tseng Mao Investment Co., Ltd.	14.96%
	Chuan Yi Investment Co., Ltd.	10.35%
	Hong Chia Investment Co., Ltd.	4.67%
	Tai Chun Enterprise Co., Ltd.	4.48%
	Bao Sheng Investment Co., Ltd.	4.32%
	Tai Ye Enterprise Co., Ltd.	2.66%
	Tai Jian Investment Co., Ltd.	1.45%
Run Hsiang Enterprise Co., Ltd.	Chuan Yi Investment Co., Ltd.	15.90%
	Hong Ye Investment Co., Ltd.	3.82%
	Cheng Da Investment Co., Ltd.	13.82%
	Yu Chun Enterprise Co., Ltd.	11.72%
	Tai Lian Investment Co., Ltd.	9.94%
	Feng Yang Investment Co., Ltd.	8.395%
	Lian Mao Investment Co., Ltd.	5.20%
	Tai Sheng Investment Co., Ltd.	5.07%
	Bao Zuo Investment Co., Ltd.	4.97%
	Wei Wang Investment Co., Ltd.	8.64%
De Ye Apartment Building Management and Maintenance Co., Ltd.	Wei Wang Investment Co., Ltd.	19.17%
	Hong Ye Investment Co., Ltd.	17.67%
	Lian Mao Investment Co., Ltd.	18.33%
	Hong Chia Investment Co., Ltd.	10.83%
	Chuan Yi Investment Co., Ltd.	10.83%
	Cheng Da Investment Co., Ltd.	10.17%
	Bao Zuo Investment Co., Ltd.	8.75%
	Chuan Yi Construction Co., Ltd.	4.08%
Han Bao Enterprise Co., Ltd.	Tai Jian Investment Co., Ltd.	16.21%
	Cheng Da Investment Co., Ltd.	14.60%
	Bao Zuo Investment Co., Ltd.	14.59%
	Lian Mao Investment Co., Ltd.	8.73%
	Feng Yang Investment Co., Ltd.	8.33%
	Tai Chun Investment Co., Ltd.	8.29%
	Hong Ye Investment Co., Ltd.	7.90%
	Bao Sheng Investment Co., Ltd.	5.85%
	Run Hsiang Enterprise Co., Ltd.	4.95%
	Tai Lian Investment Co., Ltd.	3.41%

Note 1: Where major shareholders listed in Table 1 are corporate entities, the names of the corporate entities are displayed.

Note 2: The above table shows the names and shareholding percentages of major shareholders (top 10 shareholders) in the respective corporate entities.

### 3.2.1 Background of Directors and Supervisors (2)

March 31, 2017

Criteria  Name (Note 1)	Having more than 5 years work experience and the following qualifications			Compliance of independence (Note 2)										Number of positions as Independent Director in other public companies
	Lecturer (or above) of commerce, law, finance, accounting, or any subject relevant to the Company's operations in a public or private tertiary institution	Certified judge, attorney, lawyer, accountant, or holder of professional qualification relevant to the Company's operations	Commercial, legal, financial, accounting or other work experiences relevant to business operations as required to perform the assigned duties	1	2	3	4	5	6	7	8	9	10	
Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	✓		✓			✓	✓	✓	✓	✓	✓	✓		N/A
Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN			✓	✓		✓	✓	✓	✓	✓	✓	✓		N/A
Kwang Hsing Industrial Co., Ltd. Representative: YANG, CHE-HUNG			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		N/A
Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIH-MING			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		N/A
Tai Chun Enterprise Co., Ltd. Representative: TSAI, I-CHING			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		N/A
Tai Chun Enterprise Co., Ltd. Representative: LIN, CHUN-YU			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		N/A
Hung Lung Enterprise Co., Ltd. Representative: KUO, YUH-CHYI			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		N/A
San Ho Enterprise Co., Ltd. Representative: ANGEL CHANG			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		N/A
SHEA, JIA-DONG	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
LIN, HSIN-HUI	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	N/A
HWANG, JYH-DEAN	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1

# III Corporate Governance Report

Note1: Adjust the number of columns as needed.

Note 2: A "V" is placed in the box if the Director or Supervisor met the following conditions during active duty and two years prior to the date elected.

1. Not employed by the Company or any of its affiliated companies.
2. Not a director or supervisor of any of the Company's related companies (this restriction does not apply to independent director positions in the Company, its parent company or subsidiary, which have been appointed in accordance with local laws or laws of the registered country).
3. Does not hold more than 1% of the Company's outstanding shares in their own names or under the name of spouse, underage children, or proxy shareholder; nor is a top-10 natural-person shareholder of the Company.
4. Not a spouse, relative of second degree or closer, or direct blood relative of third degree or closer to any person listed in the three preceding criteria.
5. Not a director, supervisor, or employee of any company that has 5% or higher ownership interest in the Company; nor a director, supervisor, or employee of any of the top-5 corporate shareholders.
6. Not a director, supervisor, manager, or shareholder with more than 5% ownership interest in any companies or institutions that have financial or business relationship with the Company.
7. Not a professional who provides commercial, legal, financial, accounting, or consulting services to the Company or its affiliates, nor is an owner, partner, director, supervisor, or manager, or the spouse of any of the above, of a sole proprietorship, partnership, company, or organization that provides such services to the Company or its affiliates. However, this excludes members of the Remuneration Committee who have been appointed to exercise duties in accordance with Article 7 of Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.
8. Not a spouse or relative of second degree or closer to any other directors.
9. Does not meet any of the conditions stated in Article 30 of The Company Act.
10. Not elected as a government or corporate representative, as described in Article 27 of The Company Act.

## 3.2.2 President, Executive Vice Presidents, Senior Vice Presidents, Department Heads & Branch Heads

March 31, 2017

Title	Nationality	Name	Gender	Date elected / appointed	Current shareholding		Shares held by spouse and underage children		Shares held by proxy		Main career (academic) achievements	Concurrent positions in other companies	Spouse or relatives of second degree or closer acting as managers		
					Shares held	Shareholding percentage	Shares held	Shareholding percentage	Shares held	Shareholding percentage			Title	Name	Relationship
President	Republic of China	CHAO, YONG-FEI	Male	2012/12/20	0	0.00%	0	0.00%	0	0.00%	Department of Accounting, Chihlee Institute of Technology	CSC Venture Capital Corporation - Director CSC Venture Capital Corporation - President			
Senior Vice President	Republic of China	LIN, JING-HUA	Female	2007/01/01	245,606	0.01%	0	0.00%	0	0.00%	Master of Commerce, University of Washington	CSC International Holdings Ltd. Shanghai Representative Office - Representative			
Vice President	Republic of China	LAI, AI-WEN	Female	2015/01/01	20	0.00%	0	0.00%	0	0.00%	Department of Law, Soochow University				
Senior Vice President	Republic of China	YAO, ZHONG-ZHI	Male	2008/9/15	0	0.00%	0	0.00%	0	0.00%	Master of Business Administration, University of Rochester	Capital Securities (Hong Kong) - Director			
Senior Vice President	Republic of China	ZHANG, DUN-FU	Male	2011/5/2	137,568	0.01%	0	0.00%	0	0.00%	Department of Economics, National Taiwan University	Csc Securities (HK) Ltd.- Director Capital Securities Nominee - Director CSC Futures (HK) - Director			

Title	Nationality	Name	Gender	Date elected / appointed	Current shareholding		Shares held by spouse and underage children		Shares held by proxy		Main career (academic) achievements	Concurrent positions in other companies	Spouse or relatives of second degree or closer acting as managers		
					Shares held	Shareholding percentage	Shares held	Shareholding percentage	Shares held	Shareholding percentage			Title	Name	Relationship
Executive Vice President	Republic of China	WENG, CHIN-NENG	Male	2003/06/19	20,696	0.00%	0	0.00%	0	0.00%	Department of Insurance, Tam Kang University	Capital Insurance Advisory - Director Capital Insurance Agency - Director CSC International Holdings - Director Capital Securities (Hong Kong) - Director Capital Securities Nominee - Director CSC Futures (HK) - Director Taiwan International Securities (B.V.I.) - Director Taiwan International Capital (HK) - Director TIS Securities (HK) Limited - Director			
Senior Vice President	Republic of China	XIE, XIU-YING	Female	2013/05/02	0	0.00%	0	0.00%	0	0.00%	Department of Statistics, National Chung Hsing University				
Executive Vice President	Republic of China	HUANG, CHI-MING	Male	2012/06/01	300,130	0.01%	0	0.00%	0	0.00%	EMBA, National Chengchi University				
Senior Vice President	Republic of China	LIN, SHU-CHUAN	Female	2013/09/01	16,880	0.00%	0	0.00%	0	0.00%	EMBA, National Chengchi University				
Senior Vice President	Republic of China	FANG, CHIH-HUNG	Male	2014/06/18	0	0.00%	0	0.00%	0	0.00%	MBA, The City University of New York				
Executive Vice President	Republic of China	ZHANG, PEI-WEN	Female	2013/09/01	0	0.00%	0	0.00%	0	0.00%	Department of Banking and Insurance, Ming Chuan University	Capital Insurance Advisory - Director Capital Insurance Agency - Director			
Senior Vice President	Republic of China	WANG, YA-FANG	Female	2010/04/01	0	0.00%	0	0.00%	0	0.00%	Department of Business Administration, Tamkang University				
Senior Vice President	Republic of China	LIN, BO-WEI	Male	2014/04/01	0	0.00%	0	0.00%	0	0.00%	Master of Industrial Management, National Taiwan University of Science and Technology				
Executive Vice President	Republic of China	GUO, MEI-LING	Female	2012/06/01	165,823	0.01%	0	0.00%	0	0.00%	EMBA, National Chengchi University				
Senior Vice President	Republic of China	QIU, JIAN-HUA	Male	2004/12/01	70,401	0.00%	0	0.00%	0	0.00%	Department of Statistics, National Chung Hsing University				
Senior Vice President	Republic of China	LIU, SHU-RU	Female	2013/05/10	21,000	0.00%	0	0.00%	0	0.00%	Department of Information Management, National Central University				

# III Corporate Governance Report

Title	Nationality	Name	Gender	Date elected / appointed	Current shareholding		Shares held by spouse and underage children		Shares held by proxy		Main career (academic) achievements	Concurrent positions in other companies	Spouse or relatives of second degree or closer acting as managers		
					Shares held	Shareholding percentage	Shares held	Shareholding percentage	Shares held	Shareholding percentage			Title	Name	Relationship
Senior Vice President	Republic of China	WU, YUN-WEN	Male	2014/04/01	0	0.00%	1,390	0.00%	0	0.00%	Department of Industrial Engineering, Feng Chia University				
Executive Vice President	Republic of China	TAN, DE-CHENG	Male	2008/11/01	171,014	0.01%	0	0.00%	0	0.00%	Master of Accounting, Drexel University	Capital Insurance Advisory - Supervisor Capital Insurance Agency - Supervisor Capital Securities (Hong Kong) - Director CSC Venture Capital Corporation - Supervisor			
Senior Vice President	Republic of China	HUANG, ZI-RONG	Female	2011/05/02	0	0.00%	0	0.00%	0	0.00%	Master of Finance, TamKang University				
Senior Vice President	Republic of China	HOU, LE-PING	Female	2000/07/01	550,023	0.02%	0	0.00%	0	0.00%	MBA, Armstrong University				
Senior Vice President	Republic of China	XIE, YU-LIN	Female	2000/07/01	849,471	0.03%	0	0.00%	0	0.00%	Department of Accounting, Soochow University				
Senior Vice President	Republic of China	YAO, MING-QING	Male	2015/04/01	0	0.00%	0	0.00%	0	0.00%	Master of Accounting, National Chung Cheng University				
Executive Vice President	Republic of China	YANG, JIE-BIN	Male	2002/11/01	9,570	0.01%	0	0.00%	0	0.00%	Master of Finance, University of London				
Senior Manager	Republic of China	YANG, ZONG-MU	Male	2014/12/02	0	0.00%	0	0.00%	0	0.00%	Master of Finance, National Taiwan University				
Senior Vice President	Republic of China	XU, TSUI-YUN	Female	2016/04/01	13,106	0.00%	0	0.00%	0	0.00%	Master of Finance, Chaoyang University of Technology				
Senior Vice President	Republic of China	ZHOU, XIU-ZHEN	Female	2010/04/01	0	0.00%	0	0.00%	0	0.00%	Department of Accounting, National Taiwan University				
Senior Vice President	Republic of China	ZHANG, JIA-WEN	Female	2014/04/01	330	0.00%	0	0.00%	0	0.00%	MBA, Tarleton State University				
Senior Vice President	Republic of China	CHEN, YI-REN	Male	2015/04/01	655	0.00%	0	0.00%	0	0.00%	MBA, Bernard M. Baruch College of the City University of New York				
Senior Vice President	Republic of China	WENG, SHU-LING	Female	2011/05/02	0	0.00%	0	0.00%	0	0.00%	Master of Finance, National Chengchi University				
Senior Vice President	Republic of China	YE, YI-LING	Female	2015/04/01	566	0.00%	0	0.00%	0	0.00%	Department of Finance, National Taiwan University				
Senior Vice President	Republic of China	WU, JUN-MING	Male	2011/05/02	0	0.00%	0	0.00%	0	0.00%	Department of Accounting, Soochow University				

Title	Nationality	Name	Gender	Date elected / appointed	Current shareholding		Shares held by spouse and underage children		Shares held by proxy		Main career (academic) achievements	Concurrent positions in other companies	Spouse or relatives of second degree or closer acting as managers		
					Shares held	Shareholding percentage	Shares held	Shareholding percentage	Shares held	Shareholding percentage			Title	Name	Relationship
Senior Vice President	Republic of China	LAI, JUN-FU	Male	2013/05/20	0	0.00%	0	0.00%	0	0.00%	Department of Electronic Engineering, Tunghan University				
Executive Vice President	Republic of China	LIN, YAN-FEN	Male	2014/04/01	0	0.00%	0	0.00%	0	0.00%	MBA, Drexel University				
Senior Vice President	Republic of China	CHEN, PEI-QI	Female	2008/04/08	1,441	0.00%	0	0.00%	0	0.00%	Master of International Business Administration, University of St. Thomas - Minnesota				
Senior Vice President	Republic of China	WANG, JUAN-HUI	Female	2004/08/12	7,697	0.00%	0	0.00%	0	0.00%	EMBA, Postgraduate Institute of International Commerce, Tamkang University				
Senior Vice President	Republic of China	ZHENG, SHU-FEN	Female	2000/08/25	241,921	0.01%	0	0.00%	0	0.00%	Department of Economics, Tunghai University				
Executive Vice President	Republic of China	MA, JIA-HUAN	Male	2009/09/01	100,000	0.01%	0	0.00%	0	0.00%	EMBA, National Chengchi University				
Senior Vice President	Republic of China	ZHONG, XUAN-FENG	Male	2011/05/22	27,643	0.00%	0	0.00%	0	0.00%	EMBA, National Chengchi University				
Senior Vice President	Republic of China	HUANG, DONG-HE	Male	2011/05/02	0	0.00%	0	0.00%	0	0.00%	Department of Business Administration, Soochow University				
Senior Vice President	Republic of China	LI, MU-XIAN	Male	2011/05/02	0	0.00%	0	0.00%	0	0.00%	Department of Law, Fu Jen Catholic University				
Senior Vice President	Republic of China	CHEN, YI-RU	Female	2014/04/01	251,550	0.01%	0	0.00%	0	0.00%	Department of Hospitality Management, Chung Hwa University of Medical Technology				
Senior Vice President	Republic of China	HUANG, ZHI-HUA	Female	2014/04/01	272,782	0.01%	0	0.00%	0	0.00%	Department of International Trade, National Tamkang University				
Senior Vice President	Republic of China	ZHAO, FENG-RONG	Male	2011/05/02	0	0.00%	0	0.00%	0	0.00%	Master of Economics, University Of California				
Senior Vice President	Republic of China	ZHENG, YU-LING	Female	2003/06/19	417,793	0.01%	0	0.00%	0	0.00%	Department of International Trade, Open Junior College				
Senior Vice President	Republic of China	WENG, HE-MING	Male	2002/04/24	439	0.00%	0	0.00%	0	0.00%	EMBA, National Chengchi University				

# III Corporate Governance Report

Title	Nationality	Name	Gender	Date elected / appointed	Current shareholding		Shares held by spouse and underage children		Shares held by proxy		Main career (academic) achievements	Concurrent positions in other companies	Spouse or relatives of second degree or closer acting as managers		
					Shares held	Shareholding percentage	Shares held	Shareholding percentage	Shares held	Shareholding percentage			Title	Name	Relationship
Vice President	Republic of China	WU, HONG-ZHI	Male	2003/05/01	0	0.00%	0	0.00%	0	0.00%	Department of Mechanical Engineering, Nanya Institute of Technology				
Vice President	Republic of China	ZHENG, YU-CHANG	Male	2003/06/23	1,012	0.00%	0	0.00%	0	0.00%	Department of Applied Mathematics, Chung Yuan Christian University				
Assistant Vice President	Republic of China	WU, CHEN-MING	Male	2016/10/01	0	0.00%	0	0.00%	0	0.00%	Master of Finance, National Yunlin University of Science and Technology				
Assistant Vice President	Republic of China	WU, CHEN-YI	Male	2016/09/01	0	0.00%	0	0.00%	0	0.00%	EMBA, National Taipei College of Business School of Open Education				
Vice President	Republic of China	ZHU, DE-REN	Male	2004/06/01	22,183	0.00%	0	0.00%	0	0.00%	Master of Business Administration, Tamkang University				
Vice President	Republic of China	YANG, ZHI-KAI	Male	2011/07/01	0	0.00%	0	0.00%	0	0.00%	Department of Electrical Engineering, Cheng Shiu University				
Vice President	Republic of China	WEI, YU-MEI	Female	2015/06/01	0	0.00%	0	0.00%	0	0.00%	Department of Land Economics, National Chengchi University				
Vice President	Republic of China	LIN, LI-KAI	Female	2006/03/01	659	0.00%	0	0.00%	0	0.00%	Department of Accounting and Statistics, Jinou Girls High School				
Vice President	Republic of China	HUANG, XIU-YU	Female	2011/08/10	39,813	0.00%	0	0.00%	0	0.00%	Department of Economics, Fu Jen Catholic University				
Vice President	Republic of China	LIN, JIANG-HE	Male	2013/09/01	10,816	0.00%	560	0.00%	0	0.00%	Department of Statistics, National Tamkang University				
Vice President	Republic of China	LI, XIANG-JUN	Male	2004/04/20	0	0.00%	0	0.00%	0	0.00%	Department of Finance, Tamkang University				
Vice President	Republic of China	MA, SHAO-HONG	Female	2015/04/01	0	0.00%	0	0.00%	0	0.00%	MBA, Chung Yuan Christian University				
Vice President	Republic of China	CHEN, LI-ZHUN	Female	2002/07/11	312,576	0.01%	2,718	0.00%	0	0.00%	EMBA, Fu Jen Catholic University				
Vice President	Republic of China	WANG, WAN-QI	Female	2014/02/05	0	0.00%	0	0.00%	0	0.00%	Department of Finance, Southern Taiwan University of Science and Technology				
Vice President	Republic of China	YU, XIAO-MEI	Female	2002/10/07	0	0.00%	0	0.00%	0	0.00%	Department of Tourism Management, Chinese Culture University				



Title	Nationality	Name	Gender	Date elected / appointed	Current shareholding		Shares held by spouse and underage children		Shares held by proxy		Main career (academic) achievements	Concurrent positions in other companies	Spouse or relatives of second degree or closer acting as managers		
					Shares held	Shareholding percentage	Shares held	Shareholding percentage	Shares held	Shareholding percentage			Title	Name	Relationship
Vice President	Republic of China	XU, HONG-BO	Male	2011/07/01	18,890	0.00%	0	0.00%	0	0.00%	Department of Economics, Kansai University				
Vice President	Republic of China	PENG, GUI-CONG	Male	2000/01/24	0	0.00%	0	0.00%	0	0.00%	Department of Business Administration, Tatung Institute of Technology				
Assistant Vice President	Republic of China	WU, ZHENG-HAN	Male	2015/08/01	0	0.00%	0	0.00%	0	0.00%	Department of Finance, Hsuan Chuang University				
Assistant Vice President	Republic of China	CHEN, ZHENG-YANG	Male	2014/10/01	0	0.00%	0	0.00%	0	0.00%	Master of Business Administration, Feng Chia University				
Vice President	Republic of China	ZHANG, MING-YI	Male	2015/04/01	0	0.00%	0	0.00%	0	0.00%	Master of Business Administration, National Chung Hsing University				
Assistant Vice President	Republic of China	HUANG, YI-LIAN	Female	2015/08/03	0	0.00%	0	0.00%	0	0.00%	Department of Business Administration, Feng Chia University				
Vice President	Republic of China	LIN, HUI-JING	Female	2000/11/25	34,235	0.00%	0	0.00%	0	0.00%	Department of Textile Engineering, National Taipei Institute of Technology				
Vice President	Republic of China	CHEN, XUAN-ZHI	Male	2008/05/17	0	0.00%	0	0.00%	0	0.00%	EMBA, Yu Da University of Science and Technology				
Vice President	Republic of China	ZHANG, XUE-HE	Male	2006/07/20	25,491	0.00%	0	0.00%	0	0.00%	Department of Political Study, Fu Hsing Kang College				
Vice President	Republic of China	ZHAO, ZHI-MING	Male	2003/07/28	6,413	0.00%	0	0.00%	0	0.00%	Department of Mechanical Engineering, Tatung University				
Assistant Vice President	Republic of China	YANG, KUN-LONG	Male	2015/02/01	0	0.00%	0	0.00%	0	0.00%	Department of Psychology, Chung Yuan Christian University				
Vice President	Republic of China	CAI, QING-FEN	Female	2006/11/15	13,213	0.00%	0	0.00%	0	0.00%	Master of Finance, On-job Master Program, National Taiwan University				
Vice President	Republic of China	ZHANG, TIAN-MU	Male	2003/07/28	492	0.00%	0	0.00%	0	0.00%	Department of Tourism Management, Chinese Culture University				
Vice President	Republic of China	XU, LI-FEN	Female	2003/03/31	11,685	0.00%	0	0.00%	0	0.00%	Department of Business Administration, Chihlee Institute of Technology				

# III Corporate Governance Report

Title	Nationality	Name	Gender	Date elected / appointed	Current shareholding		Shares held by spouse and underage children		Shares held by proxy		Main career (academic) achievements	Concurrent positions in other companies	Spouse or relatives of second degree or closer acting as managers		
					Shares held	Shareholding percentage	Shares held	Shareholding percentage	Shares held	Shareholding percentage			Title	Name	Relationship
Vice President	Republic of China	TIAN, DA-ZHONG	Male	2004/10/01	0	0.00%	0	0.00%	0	0.00%	Department of Broadcast Media, World College of Journalism				
Vice President	Republic of China	SU, RUI-YI	Female	2011/09/01	224	0.00%	0	0.00%	0	0.00%	Department of English, Tamkang University				
Vice President	Republic of China	WEI, WEN-JIN	Male	2004/02/16	425	0.00%	0	0.00%	0	0.00%	Master of Business Administration, Shih Hsin University				
Assistant Vice President	Republic of China	XIE, JIA-JUN	Male	2013/01/01	0	0.00%	0	0.00%	0	0.00%	Master of Finance, On-job Master Program, National Taipei University				
Vice President	Republic of China	CHEN, BO-XUN	Male	2005/01/03	0	0.00%	0	0.00%	0	0.00%	Department of Navigation, Taipei College of Maritime Technology				
Assistant Vice President	Republic of China	CHEN, MEI-RU	Female	2014/07/19	0	0.00%	0	0.00%	0	0.00%	Department of Accounting and Statistics, I-Lan Commercial Vocational Senior High School				
Vice President	Republic of China	CAO, HOU-SHENG	Male	2004/08/02	0	0.00%	0	0.00%	0	0.00%	Master of Labour Research, National Chengchi University				
Vice President	Republic of China	CHEN, ZHI-ZHONG	Male	2002/08/08	488	0.00%	0	0.00%	0	0.00%	Department of Chinese Literature, National Chengchi University				
Assistant Vice President	Republic of China	YEN, HSIU-RONG	Female	2016/04/01	0	0.00%	0	0.00%	0	0.00%	Master of Applied Economics, National Taiwan Ocean University				
Vice President	Republic of China	TANG, WEN-JI	Female	2011/05/02	0	0.00%	0	0.00%	0	0.00%	Department of International Trade, Fu Jen Catholic University				
Vice President	Republic of China	LIN, JING-WEN	Male	2011/06/28	0	0.00%	0	0.00%	0	0.00%	Department of Business Administration, National Taipei College of Business				
Vice President	Republic of China	HUANG, QIU-HUANG	Male	2011/05/02	0	0.00%	930	0.00%	0	0.00%	Department of Business Administration, Tamsui Institute of Business Administration				
Vice President	Republic of China	WANG, JING-FEN	Female	2011/05/02	0	0.00%	0	0.00%	0	0.00%	Master of Business Administration, Feng Chia University				
Vice President	Republic of China	CHEN, ZHI-SHAN	Male	2014/03/03	0	0.00%	0	0.00%	0	0.00%	Department of Business Administration, Ming Chuan University				

Title	Nationality	Name	Gender	Date elected / appointed	Current shareholding		Shares held by spouse and underage children		Shares held by proxy		Main career (academic) achievements	Concurrent positions in other companies	Spouse or relatives of second degree or closer acting as managers		
					Shares held	Shareholding percentage	Shares held	Shareholding percentage	Shares held	Shareholding percentage			Title	Name	Relationship
Vice President	Republic of China	WANG, LU-CHENG	Male	2011/06/28	0	0.00%	0	0.00%	0	0.00%	Department of Finance, JinWen University of Science & Technology				
Assistant Vice President	Republic of China	YANG, YAN-QIU	Female	2013/09/01	11,373	0.00%	1302	0.00%	0	0.00%	Department of Accounting, National Taichung University				
Vice President	Republic of China	HAI, YAN	Female	2011/09/01	0	0.00%	0	0.00%	0	0.00%	Department of Banking & Insurance, Feng Chia University				
Assistant Vice President	Republic of China	LIN, JING-ZHI	Male	2015/08/01	0	0.00%	10	0.00%	0	0.00%	Department of International Trade, Takming University of Science and Technology				
Assistant Vice President	Republic of China	CHANG, YUNG-RUEI	Male	2016/05/12	0	0.00%	0	0.00%	0	0.00%	Department of Finance, I-Shou University				
Vice President	Republic of China	KAI, SHI-HUA	Male	2011/05/02	0	0.00%	0	0.00%	0	0.00%	Department of Statistics, Tunghai University				
Vice President	Republic of China	HUANG, QING-YAN	Male	2011/05/02	0	0.00%	0	0.00%	0	0.00%	Department of Chemical Engineering, Vanung University				
Vice President	Republic of China	XU, JUN-YANG	Male	2007/10/15	0	0.00%	0	0.00%	0	0.00%	Department of Tourism Management, Chinese Culture University				
Assistant Vice President	Republic of China	ZHANG, REN-FANG	Male	2013/09/01	0	0.00%	0	0.00%	0	0.00%	Master of Business Administration, National Kaohsiung First University of Science and Technology				
Vice President	Republic of China	RUAN, YUAN-CHUN	Male	2017/02/01	0	0.00%	0	0.00%	0	0.00%	Department of Nutritional Science, Fu Jen Catholic University				
Vice President	Republic of China	DENG, XUE-REN	Male	2015/01/07	0	0.00%	0	0.00%	0	0.00%	MBA, Central Missouri State University				
Senior Vice President	Republic of China	PAN, HUI-MEI	Female	1999/08/01	12,537	0.00%	0	0.00%	0	0.00%	MBA, University of South Carolina				

### 3.2.3 Remuneration to Directors (including Independent Directors), Supervisors, the President, Vice Presidents and managers

#### A. Remuneration to Directors (including Independent Directors) (aggregate disclosure of Directors' names and range of remuneration)

Title	Name	Director's remuneration				The sum of A, B, C and D as a percentage of net income	Compensation as company employee				The sum of A, B, C, D, E, F, and G as a percentage of net income		Compensation from investments other than subsidiaries			
		Compensation (A)		Pension (B)	Director remuneration (C)		Fees for services rendered (D)	Salaries, bonuses, special allowances etc (E)	Pension (F)	Employee remuneration (G)						
		The Company	All companies included in the consolidated statements		The Company					All companies included in the consolidated statements	The Company	All companies included in the consolidated statements		The company	All companies included in the consolidated statements	Amount paid in cash
Chairman	Tai Chun Investment Co., Ltd. Representative: WANG, JUINN-CHIH (Note 2)															
Director	Tai Chun Investment Co., Ltd. Representative: LIU, CHING-TSUN (Note 3)															
Director	Kuang Hsing Enterprise Co., Ltd. Representative: YANG, CHE-HUNG (Note 4) (Note 5)															
Director	Tai Lian Investment Co., Ltd. Representative: CHANG, CHIH-MING (Note 6)															
Director	San Ho Enterprise Co., Ltd. Representative: TSAI, LIEN-LI (Note 7), ANGEL CHANG (Note 8)															
Director	Hong Chia Investment Co., Ltd. Representative: CHANG, CHANG-PANG (Note 9), TSAI, I-CHING (Note 10)															
Chairman	Yin Feng Enterprise Co., Ltd. Representative: WANG, JUINN-CHIH (Note 11)	12,008	12,288	0	0	18,292	18,967	2,147	2,312	2.80%	0	0	0	0	0	2.80%
Director	Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN (Note 12)															
Director	Tai Chun Enterprise Co., Ltd. Representative: Chang, Chih-Ming (Note 13), TSAI, I-CHING (Note 14), LIN, CHUN-YU (Note 15)															
Director	Hong Long Enterprise Co., Ltd. Representative: KUO, YUH-CHYI (Note 16)															
Independent Director	HWANG, JYH-TIEN (Note 17) (Note 18)															
Independent Director	LIN, HSIN-HUI (Note 19) (Note 20)															
Independent Director	SHEA, JIA-DONG (Note 21)															

\* Compensation received by director for providing service to any company included in the consolidated financial statements (e.g. consultancy service without the title of an employee) in the last year, except those disclosed in the above table: NT\$ 0

Note 1: A sum of NT\$844 thousands was paid to drivers  
 Note 2: Departed on 2016/6/26  
 Note 3: Departed on 2016/6/26  
 Note 4: Departed on 2016/6/26  
 Note 5: Elected (appointed) on 2016/6/27  
 Note 6: Departed on 2016/6/26  
 Note 7: Departed on 2016/6/26

Note 8: Elected (appointed) on 2016/6/27  
 Note 9: Departed on 2016/6/26  
 Note 10: Departed on 2016/6/26  
 Note 11: Elected (appointed) on 2016/6/27  
 Note 12: Elected (appointed) on 2016/6/27  
 Note 13: Elected (appointed) on 2016/6/27  
 Note 14: Elected (appointed) on 2016/6/27

Note 15: Elected (appointed) on 2016/6/27  
 Note 16: Elected (appointed) on 2016/6/27  
 Note 17: Departed on 2016/6/26  
 Note 18: Elected (appointed) on 2016/6/27  
 Note 19: Departed on 2016/6/26  
 Note 20: Elected (appointed) on 2016/6/27  
 Note 21: Elected (appointed) on 2016/6/27

## Remuneration bracket table

Range of remuneration paid to directors	Name of director			
	Sum of the first 4 items (A+B+C+D)		Sum of the first 7 items (A+B+C+D+E+F+G)	
	The company	All companies included in the consolidated statements H	The company	All companies included in the consolidated statements I
Below NT\$2,000,000	Kwang Hsing Industrial Co., Ltd., Tai Lian Investment Co., Ltd., San Ho Enterprise Co., Ltd., Hong Chia Investment Co., Ltd., Hong Long Enterprise Co., Ltd., SHEA, JIA-DONG	Kwang Hsing Industrial Co., Ltd., Tai Lian Investment Co., Ltd., San Ho Enterprise Co., Ltd., Hong Chia Investment Co., Ltd., Hong Long Enterprise Co., Ltd.	Kwang Hsing Industrial Co., Ltd., Tai Lian Investment Co., Ltd., San Ho Enterprise Co., Ltd., Hong Chia Investment Co., Ltd., Hong Long Enterprise Co., Ltd., SHEA, JIA-DONG	Kwang Hsing Industrial Co., Ltd., Tai Lian Investment Co., Ltd., San Ho Enterprise Co., Ltd., Hong Chia Investment Co., Ltd., Hong Long Enterprise Co., Ltd.
NT\$2,000,000 (inclusive) ~ NT\$5,000,000 (not inclusive)	Tai Chun Enterprise Co., Ltd., HWANG, JYH-TIEN, LIN, HSIN-HUI	Tai Chun Enterprise Co., Ltd., HWANG, JYH-TIEN, LIN, HSIN-HUI, SHEA, JIA-DONG	Tai Chun Enterprise Co., Ltd., HWANG, JYH-TIEN, LIN, HSIN-HUI	Tai Chun Enterprise Co., Ltd., HWANG, JYH-TIEN, LIN, HSIN-HUI, SHEA, JIA-DONG
NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (not inclusive)	Tai Chun Investment Co., Ltd., Yin Feng Enterprise Co., Ltd.	Tai Chun Investment Co., Ltd., Yin Feng Enterprise Co., Ltd.	Tai Chun Investment Co., Ltd., Yin Feng Enterprise Co., Ltd.	Tai Chun Investment Co., Ltd., Yin Feng Enterprise Co., Ltd.
NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (not inclusive)	-	-	-	-
NT\$15,000,000 (inclusive) ~ NT\$30,000,000 (not inclusive)	-	-	-	-
NT\$30,000,000 (inclusive) ~ NT\$50,000,000 (not inclusive)	-	-	-	-
NT\$50,000,000 (inclusive) ~ NT\$100,000,000 (not inclusive)	-	-	-	-
NT\$ 100,000,000 and above	-	-	-	-
Total	11	11	11	11

# III Corporate Governance Report

## B. Remuneration to supervisors (aggregate disclosure of Supervisors' names and remuneration)

Title	Name	Supervisor's remuneration						The sum of A, B and C as a percentage of net income		Compensation from investments other than subsidiaries
		Compensation (A)		Remuneration (B)		Fees for services rendered (C)				
		The company	All companies included in the consolidated statements	The company	All companies included in the consolidated statements	The company	All companies included in the consolidated statements	The company	All companies included in the consolidated statements	
Supervisor	Yi Hsing Development Co., Ltd. Representative: ANGEL CHANG (Note 1)									
Supervisor	Chin-Long Investment Co., Ltd. Representative: LIN, CHUN-YU (Note 2)	0	0	1,857	1,857	154	154	0.17%	0.17%	N/A
Supervisor	Yin Feng Enterprise Co., Ltd. Representative: KUO, YUH-CHYI (Note 3)									

Note 1: Departed on 2016/6/26

Note 2: Departed on 2016/3/31

Note 3: Departed on 2016/6/26

## Remuneration bracket table

Range of remuneration paid to supervisors	Name of supervisor	
	Sum of the first 3 items (A+B+C)	
	The Company	All companies included in the consolidated statements D
Below NT\$2,000,000	Yi Hsing Development Co., Ltd., Chin-Long Investment Co., Ltd., Yin Feng Enterprise Co., Ltd.	Yi Hsing Development Co., Ltd., Chin-Long Investment Co., Ltd., Yin Feng Enterprise Co., Ltd.
NT\$2,000,000 (inclusive) ~ NT\$5,000,000 (not inclusive)	-	-
NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (not inclusive)	-	-
NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (not inclusive)	-	-
NT\$15,000,000 (inclusive) ~ NT\$30,000,000 (not inclusive)	-	-
NT\$30,000,000 (inclusive) ~ NT\$50,000,000 (not inclusive)	-	-
NT\$50,000,000 (inclusive) ~ NT\$100,000,000 (not inclusive)	-	-
NT\$ 100,000,000 and above	-	-
Total	3	3

C. Remuneration to the President and Executive Vice Presidents (aggregate disclosure of name and remuneration)

Title	Name	Salary (A)		Pension (B)		Bonus and special allowances (C)		Employee remuneration (D)				Sum of A, B, C and D as a percentage of net income (%)		Compensation from investments other than subsidiaries
		The company	All companies included in the consolidated statements	The company	All companies included in the consolidated statements	The company	All companies included in the consolidated statements	The company		All companies included in the consolidated statements		The company	All companies included in the consolidated statements	
								Cash amount	Shares amount	Cash amount	Shares amount			
CSO	WANG, JIUNN-CHIH	27,273	27,273	946	946	29,386	29,386	703	0	703	0	4.87%	4.87%	N/A
President	CHAO, YONG-FEI													
Senior Vice President	YAO, ZHONG-ZHI													
Executive Vice President	WENG, CHIN-NENG													
Executive Vice President	HUANG, CHI-MING													
Executive Vice President	ZHANG, PEI-WEN													
Executive Vice President	GUO, MEI-LING													
Executive Vice President	TAN, DE-CHENG													
Executive Vice President	YANG, JIE-BIN													
Executive Vice President	XU, SHI-MU(Note 2)													
Executive Vice President	LIN, YAN-FEN													
Executive Vice President	MA, JIA-HUAN													

Note 1: A sum of NT\$640 thousands was paid to drivers

Note 2: Departed on 2016/1/1



### III Corporate Governance Report

Remuneration bracket table

Range of remunerations to the President and Vice Presidents	Name of President and Vice Presidents	
	The company	All companies included in the consolidated statements E
Below NT\$2,000,000	WANG, JIUNN-CHIH, XU, SHI-MU	WANG, JIUNN-CHIH, XU, SHI-MU
NT\$2,000,000 (inclusive) ~ NT\$5,000,000 (not inclusive)	YAO, ZHONG-CHIH; WENG, CHIN-NENG; HUANG, CHI-MING; ZHANG, PEI-WEN; GUO, MEI-LING; TAN, DE-CHENG; MA, JIA-HUAN	YAO, ZHONG-CHIH; WENG, CHIN-NENG; HUANG, CHI-MING; ZHANG, PEI-WEN; GUO, MEI-LING; TAN, DE-CHENG; MA, JIA-HUAN
NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (not inclusive)	CHAO, YONG-FEI	CHAO, YONG-FEI
NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (not inclusive)	YANG, JIE-BIN, LIN, YAN-FEN	YANG, JIE-BIN, LIN, YAN-FEN
NT\$15,000,000 (inclusive) ~ NT\$30,000,000 (not inclusive)	-	-
NT\$30,000,000 (inclusive) ~ NT\$50,000,000 (not inclusive)	-	-
NT\$50,000,000 (inclusive) ~ NT\$100,000,000 (not inclusive)	-	-
NT\$ 100,000,000 and above	-	-
Total	12	12

# D. Names of managers who received employee remuneration

unit: NT thousand  
March 31, 2017

	Title	Name	Amount paid in shares	Amount paid in cash	Total	Total as a percentage of net income (%)
Managers	CSO	WANG, JIUNN-CHIH	0	6,649	6,649	0.56%
	President	CHAO,YONG-FEI				
	Executive Vice President	WENG, CHIN-NENG; HUANG, CHI-MING; ZHANG, PEI-WEN; GUO, MEI-LING; TAN, DE-CHENG; YANG, JIE-BIN; LIN,YAN-FEN; MA, JIA-HUAN				
	Senior Vice President	YAO, ZHONG-ZHI; ZHANG, DUN-FU; PAN, HUI-MEI; LIN, JING-HUA; FANG, CHIH-HUNG; WANG, YA-FANG; QIU, JIAN-HUA; HOU, LE-PING; ZHOU, XIU-ZHEN; ZHANG, JIA-WEN; LAI, JUN-FU; CHEN, PEI-QI; WANG, JUAN-HUI; ZHENG, SHU-FEN; CHUNG, HSUAN-FENG; XIE, XIU-YING; LIN, SHU-CHUAN; LIN, BO-WEI; LIU, SHU-RU; WU, YUN-WEN; HUANG, ZI-RONG; XIE, YU-LIN; YAO, MING-QING; XU, TSUI-YUN; CHEN, YI-REN; WENG, SHU-LING; YE, YI-LING; WU, JUN-MING; HUANG, DONG-HE; LI, MU-XIAN; CHEN, YI-RU; HUANG, ZHI-HUA; ZHAO, FENG-RONG; ZHENG, YU-LING; WONG, HE-MING				
	Vice President	LAI, AI-WEN; WU, HONG-ZHI; ZHENG, YU-CHANG; ZHU, DE-REN; YANG, ZHI-KAI; WEI, YU-MEI; LIN, LI-KAI; HUANG, XIU-YU; LIN, JIANG-HE; LI, XIANG-JUN; MA, SHAO-HONG; CHEN, LI-ZHUN; WANG, WAN-QI; YU, XIAO-MEI; XU, HONG-BO; PENG, GUI-CONG; ZHANG, MING-YI; LIN, HUI-JING; CHEN, XUAN-ZHI; ZHANG, XUE-HE; CHAO, CHIH-MING; CAI, QING-FEN; ZHANG, TIAN-MU; XU, LI-FEN; TIAN, DA-ZHONG; SU, RUI-YI; WEI, WEN-JIN; CHEN, BO-XUN; CAO, HOU-SHENG; CHEN, ZHI-ZHONG; TANG, WEN-JI; LIN, JING-WEN; HUANG, QIU-HUANG; WANG, JING-FEN; CHEN, ZHI-SHAN; WANG, LU-CHENG; HAI, YAN; KAI, SHI-HUA ; HUANG, QING-YAN ; XU, JUN-YANG; RUAN, YUAN-CHUN; DENG, XUE-REN;				
	Assistant Vice President	WU,CHEN-MIN; CHEN, ZHENG-YANG; HUANG, YI-LIAN; XIE, JIA-JUN, ; LIN, JING-ZHI ; WU, CHEN-YI ; WU, ZHENG-HAN ; YANG, KUN-LONG ; CHEN, MEI-RU ; YEN, HSIU-RONG ; YANG, YAN-QIU ; CHANG, YUNG-RUEI ; ZHANG, REN-FANG				
	Senior Manager	YANG, ZONG-MU				

## III Corporate Governance Report

### 3.2.4 Percentage of remuneration paid to the Company's Directors, Supervisors, President and Vice Presidents relative to net income; describe the remuneration policy and association with business performance:

Percentage of remuneration paid to the Company's Directors, Supervisors, President and Vice Presidents relative to net income in 2015 and 2016:

1. The sum of remuneration, travel allowance and meeting allowance paid to the Company's Directors and Supervisors in 2015 represented 2.44% and 0.42% of net income, respectively; the sum of remuneration paid to the President, Vice Presidents and managers represented 4.13% of 2015 net income.
2. The sum of remuneration, travel allowance and meeting allowance paid to the Company's Directors and Supervisors in 2016 represented 2.71% and 0.17% of net income, respectively; the sum of remuneration paid to the President, Vice Presidents and managers represented 4.87% of 2016 net income.
3. Directors' and Supervisors' remuneration are allocated according to the Articles of Incorporation in a manner that encourages growth of business and profitability. In addition to monthly salaries, the President and Vice Presidents are also entitled to share the Company's business success, depending on the performance of their respective departments.

## 3.3 Corporate governance

### 3.3.1 Functionality of board of directors

A total of 3 meetings (A) were held by the 9th board (which consisted of 7 directors, 2 independent directors, and 3 supervisors) during the period 2016.01.01~2016.06.26.

A total of 5 meetings (A) were held by the 10th board (which consisted of 8 directors and 3 independent directors) during the period 2016.06.27~2016.12.31.

Attendance records of the directors and supervisors are as follows:

Title	Name (Note 1)	Actual attendance (B)	Proxy attendance	Percentage of actual attendance (%) (B/A)(Note 2)	Remarks
Chairman	Tai Chun Investment Co., Ltd. Representative: WANG, JUUN-CHIH	3	0	100%	The 9th board
Director	Tai Chun Investment Co., Ltd. Representative: LIU, CHING-TSUN	3	0	100%	The 9th board
Director	Kwang Hsing Industrial Co., Ltd. Representative: YANG, CHE-HUNG	3	0	100%	The 9th board
Director	Tai Lian Investment Co., Ltd. Representative: CHANG, CHIH-MING	3	0	100%	The 9th board
Director	Hong Chia Investment Co., Ltd. Representative: CHANG, CHANG-PANG	2	1	67%	The 9th board
Director	Hong Chia Investment Co., Ltd. Representative: TSAI, I-CHING	3	0	100%	The 9th board
Director	San Ho Enterprise Co., Ltd. Representative: TSAI, LIAN-FENG	3	0	100%	The 9th board
Independent Director	LIN, HSIN-HUI	3	0	100%	The 9th board

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) 【 B / A 】 2	Remarks
Independent Director	HWANG, JYH-DEAN	3	0	100%	The 9th board
Supervisor	Yin Feng Enterprise Co., Ltd. Representative: KUO, YUH-CHYI	3	0	100%	The 9th board
Supervisor	Yi Hsing Development Co., Ltd. Representative: ANGEL CHANG	3	0	100%	The 9th board
Supervisor	Chin-Long Investment Co., Ltd. Representative: LIN, CHUN-YU	2	0	100%	The 9th board Effective date of resignation: 2016.04.01
Chairman	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	5	0	100%	The 10th board Date of election: 2016.06.27
Director	Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN	5	0	100%	The 10th board Date of election: 2016.06.27
Director	Kwang Hsing Industrial Co., Ltd. Representative: YANG, CHE-HUNG	5	0	100%	The 10th board Date of election: 2016.06.27
Director	Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIH-MING	5	0	100%	The 10th board Date of election: 2016.06.27
Director	Tai Chun Enterprise Co., Ltd. Representative: TSAI, I-CHING	5	0	100%	The 10th board Date of election: 2016.06.27
Director	Tai Chun Enterprise Co., Ltd. Representative: LIN, CHUN-YU	5	0	100%	The 10th board Date of election: 2016.06.27
Director	Hung Lung Enterprise Co., Ltd. Representative: KUO, YUH-CHYI	3	2	60%	The 10th board Date of election: 2016.06.27
Director	San Ho Enterprise Co., Ltd. Representative: ANGEL CHANG	5	0	100%	The 10th board Date of election: 2016.06.27
Independent Director	SHEA, JIA-DONG	5	0	100%	The 10th board Date of election: 2016.06.27
Independent Director	LIN, HSIN-HUI	5	0	100%	The 10th board Date of election: 2016.06.27
Independent Director	HWANG, JYH-DEAN	5	0	100%	The 10th board Date of election: 2016.06.27

Other remarks:

- 1.1. For board of directors meetings that meet any of the following descriptions, state the date, session, the discussed agenda, independent directors' opinions and how the company has responded to such opinions:
- (1) Conditions described in Article 14-3 of the Securities and Exchange Act.
  - (2) Any other documented objections or qualified opinions raised by independent director against board resolution in relation to matters other than those described above.

### III Corporate Governance Report

- The 17th meeting of the 9th board (2016.01.28)  
Agenda: Amendment to the Company's "Internal Control Policy."  
Description: To create and amend internal control policy and internal audit practice guidelines for the following business activities: wealth management service in the form of trust, accounting, cash disbursement, and Offshore Securities Unit.  
Independent Directors' opinions: passed without objection.
  
- The 18th meeting of the 9th board (2016.03.28)
  1. Agenda: The Company's 2015 "Declaration of Internal Control Policies."  
Independent Directors' opinions: passed without objection.
  
  2. Agenda: Amendment to the Company's "Internal Control Policy."  
Description: To create and amend internal control policy and internal audit practice guidelines for the following business activities: assisting overseas subsidiaries in identity confirmation with customers' consent, providing API service for customers, futures introducing brokerage, and share administration.  
Independent Directors' opinions: passed without objection.
  
  3. Agenda: Change of the Company's financial statement auditor from Charles Chen (CPA) to Phoebe Dan-Dan Chung (CPA), starting from the first quarter report of 2016.  
Description: The change was due to a re-organization within KPMG, the auditing firm.  
Independent Directors' opinions: passed without objection.
  
- The 19th meeting of the 9th board (2016.05.12)
  1. Agenda: Amendment of the Company's "Endorsement and Guarantee Procedures."  
Description: The amendment was made in conformity with Letter No. Jin-Guan-Zheng-Quan-1050002195 issued by the Financial Supervisory Commission.  
Independent Directors' opinions: passed without objection.
  
  2. Agenda: Review of director (and independent director) nominees for the re-election to be held during the Company's 2016 annual general meeting.  
Independent Directors' opinions: passed without objection.
  
  3. Agenda: Removal of restrictions against competing business involvements by the Company's directors.

Description:

Name of director	Company and position of competing business involvement	
Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	CSC Venture Capital Corporation	Chairman
	Capital Futures Corp.	Director
	CSC International Holdings Ltd.	Director
	Capital Securities (Hong Kong) Ltd.	Director
	CSC Securities (HK) Ltd.	Director
	CSC Futures (HK) Ltd.	Director
Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN	Capital Futures Corp.	Director
SHEA, JIA-DONG (Independent Director)	Capital Futures Corp.	Independent Director

Independent Directors' opinions: passed without objection.

- 1st meeting of the 10th board (2016.07.25)

Agenda: Allocation of 2015 directors' and supervisors' remuneration.

Independent Directors' opinions: passed without objection.

- 2nd meeting of the 10th board (2016.09.30)

Agenda: Proposal for domestic issuance of unsecured short-term USD corporate bond.

Independent Directors' opinions: passed without objection.

- 3rd meeting of the 10th board (2016.11.11)

1. Agenda: Assessment of auditor's independence - 2016.

Description: The Company has created an independence assessment worksheet based on Article 47 of the Certified Public Accountant Act and the "Integrity, Fairness, Objectivity and Independence" principles of Statement of CPA Professional Ethics No. 10.

Independent Directors' opinions: passed without objection.

2. Agenda: 2016 audit remuneration.

Independent Directors' opinions: passed without objection.

3. Agenda: Establishment of "Guidelines on Trading of Derivatives for Non-hedging Purpose in Discretionary Investment Service."

Description: The guidelines were established in conformity with Letter No. Jin-Guan-Zheng-Quan-1050014687 issued by the Financial Supervisory Commission.

Independent Directors' opinions: passed without objection.

### III Corporate Governance Report

#### 4. Agenda: Amendment to the Company's "Internal Control Policy."

Description: To create and amend internal control policy and internal audit practice guidelines for the trading of derivatives in the Company's discretionary futures management service for non-hedging purpose.

Independent Directors' opinions: passed without objection.

#### 2.1. Disclosure regarding avoidance of interest-conflicting agendas, including the names of directors concerned, the agendas, the nature of conflicting interests, and the voting process.

- The 19th meeting of the 9th board (2016.05.12)

Agenda: Review of director (and independent director) nominees for the re-election to be held during the Company's 2016 annual general meeting.

Reason for avoidance and the vote outcome: Each nominee on the list was reviewed separately by the board, and the parties concerned had avoided their own review. This agenda was passed without objection from remaining directors present at the meeting (when Chairman WANG, JIUNN-CHIH had avoided discussion, the meeting was chaired by Director LIU, CHING TSUN instead).

- 1st extraordinary meeting of the 10th board (2016.06.27)

Agenda: Appointment of Remuneration Committee members and grant of meeting allowance.

Reason for avoidance and the vote outcome: Independent Director HWANG, JYH-DEAN was one of the candidates recommended for Remuneration Committee. After Independent Director HWANG, JYH-DEAN had avoided involvement, the agenda was passed without objection from remaining directors present at the meeting.

- 1st meeting of the 10th board (2016.07.25)

Agenda: Grant of meeting allowance for the Company's Audit Committee.

Reason for avoidance and the vote outcome: Independent Directors HSU, CHIA-TUNG, HWANG, JYH-DEAN and LIN, HSIN-HUI were chairperson and members of the Audit Committee. After the three parties had avoided involvement, the agenda was passed without objection from remaining directors present at the meeting.

- 2nd extraordinary meeting of the 10th board (2016.08.29)

Agenda: Distribution of festive bonus for the Company's Chairman, President, and employees of manager grade and above for the first half of 2016.

Reason for avoidance and the vote outcome: Chairman WANG, JIUNN-CHIH was one of the beneficiaries of this distribution. After Chairman WANG, JIUNN-CHIH had avoided involvement, the agenda was chaired by Director LIU, CHING TSUN instead and was passed without objection from remaining directors present at the meeting.

#### 3.1. Enhancements to the functionality of the board of directors in the current and the most recent year (e.g. establishment of an Audit Committee, improvement of information transparency etc), and the progress of such enhancements.

The Company has a Remuneration Committee in place to regularly review directors' and managers' performance, as well as the policy, system, standards and structure of the current remuneration.

The Company has a Risk Management Committee in place to establish and enforce the risk management system.



The committee monitors risk exposure in real time and is able to devise solutions to ensure accomplishment of the Company's strategic goals while keeping risks within tolerable range. The Audit Committee was assembled in 2016 as an enhance to corporate governance. The committee supports the board of directors in a way that enables directors to supervise the Company's operations professionally and independently.

Note 1: Where Directors and Supervisors are corporate entities, the names of corporate shareholders and their representatives are stated.

Note 2: (1) The date of resignation is specified for Directors or Supervisors who had resigned prior to the close of the financial year. The percentage of actual attendance (%) is calculated based on the number of board of directors meetings held and the number of actual attendance during active duty.

(2) If a re-election of Directors or Supervisors had taken place prior to the close of the financial year, Directors/Supervisors of both the previous and the current term are listed; in which case, the remarks column would specify the re-election date and whether the Director/Supervisor was elected in the previous term, the new term, or both. The percentage of actual attendance (%) was calculated based on the number of board of directors meetings held and actual attendance during active duty.

### 3.3.2 Functionality of the Audit Committee

A total of 3 (A) Audit Committee meetings were held in the last year (2016); Independent Directors' attendance records are summarized below:

Title	Name	Actual attendance (B)	Proxy attendance	Percentage of actual attendance (%) (B/A)(Note)	Remarks
Independent Director	SHEA, JIA-DONG	3	0	100%	
Independent Director	LIN, HSIN-HUI	3	0	100%	
Independent Director	HWANG, JYH-DEAN	3	0	100%	

Other mentionable items:

1. For Audit Committee meetings that meet any of the following descriptions, state the date and session of board of directors meeting held, the discussed agenda, the Audit Committee's resolution, and how the company has responded to Audit Committee's opinions.

(1) Conditions described in Article 14-5 of the Securities and Exchange Act.

(2) Other than those described above, any resolutions unapproved by the Audit Committee but passed by more than two-thirds of directors.

- 1st meeting of the 1st board (2016.08.23)

Agenda: The Company has completed the preparation of standalone and consolidated financial statements for the period ended 2016 second quarter (Jan~Jun 2016), and shall engage CPA Li, Feng-Hui and CPA Chung, Dan-Dan for the final audit and issuance of audit opinions.

Resolution: This agenda was passed unanimously without objection.

- 2nd meeting of the 1st board (2016.10.31)

1. Agenda: Assessment of auditor's independence - 2016.

Description: The Company has created an independence assessment worksheet based on Article 47 of the Certified Public Accountant Act and the "Integrity, Fairness, Objectivity and Independence" principles of Statement of CPA Professional Ethics No. 10.

Resolution: This agenda was passed unanimously without objection.

### III Corporate Governance Report

2. Agenda: 2016 audit remuneration.

Resolution: This agenda was passed unanimously without objection.

3. Agenda: Establishment of "Guidelines on Trading of Derivatives for Non-hedging Purpose in Discretionary Investment Service."

Description: The guidelines were established in conformity with Letter No. Jin-Guan-Zheng-Quan-1050014687 issued by the Financial Supervisory Commission.

Resolution: This agenda was passed unanimously without objection.

4. Agenda: Amendment to the Company's "Internal Control Policy."

Description: To create and amend internal control policy and internal audit practice guidelines for the trading of derivatives in the Company's discretionary futures management service for non-hedging purpose.

Resolution: This agenda was passed unanimously without objection.

5. Agenda: The Company's 2017 internal audit plan.

Description: To proceed according to Article 14 of "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets."

Resolution: This agenda was passed unanimously without objection.

6. Agenda: Proposal to buy back the Company's shares according to Article 28-2 of the Securities and Exchange Act and Article 2 of "Regulations Governing Share Repurchase by Exchange-Listed and OTC-Listed Companies."

Description:

1. Purpose of share buyback: to maintain the Company's credit status and shareholders' equity.
2. The Company is permitted by law to buy back up to 226,907,298 shares, or NT\$ 6,809,505,753.
3. The buyback is scheduled to take place between November 12, 2016 and January 11, 2017.
4. The buyback is estimated at 100,000,000 shares with a total of no more than NT\$ 1,200,000,000; both of which are compliant with laws.
5. The buyback is estimated at NT\$ 7.5 to NT\$ 12 per share; if market price falls below the prescribed price range and the Company still has not purchased up to the expected quantity, the Chairman shall be authorized to continue the share buyback.  
All repurchased shares will be retired to maintain the Company's credit status and shareholders' equity.
6. Method of buyback: open market purchase.
7. This buyback represents merely 4.41% of the Company's outstanding shares, and the maximum amount of cash needed to execute the buyback represents merely 2.01% of the Company's current assets; therefore, the share buyback does not impact the Company's financial position or capital.
8. Current holding of the Company's shares: 0.
9. Pursuant to Paragraph 6, Article 28-2 of the Securities and Exchange Act, affiliated enterprises and the Company's directors, supervisors and managers are not allowed to sell shares of the Company during the

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buyback period, whether the shares are held in their own name or the name of spouse, underage children or other proxies.

10. According to relevant rules, the buyback is to be completed within 2 months after board of directors' approval; the price of shares repurchased shall not exceed 1.5 times the 10-day average price or 30-day average price, whichever the higher, on the day of board's resolution, or be lower than 70% of closing share price on the day of board's resolution.

The Chairman shall be authorized to propose and adjust the buyback period and price range at board meeting depending on the prevailing circumstances.

Resolution: The agenda was passed after making the necessary revisions based on committee members' recommendations.

The recommended changes are as follows:

1. Change Note 3 of the Description to: The buyback is scheduled to take place between November 12, 2016 and January 11, 2017.

The actual buyback shall be completed no later than 2 months after board of directors' resolution.

2. Change Note 5 of the Description to: The buyback is estimated at NT\$ 7.5 to NT\$ 12 per share. The actual price of shares repurchased shall not exceed 150% of 10-day or 30-day average closing price (whichever the higher) on the day of board's resolution, or be lower than 70% of closing price on the day of board's resolution.

If market price falls below the prescribed price range and the Company still has not purchased up to the expected quantity, the Chairman shall be authorized to continue the share buyback.

All repurchased shares will be retired to maintain the Company's credit status and shareholders' equity.

3. Change Note 10 of the Description to: The maximum amount of buyback mentioned in Note 2, the percentage relative to current assets mentioned in Note 7, and any financial information mentioned in the board's declaration shall be adjusted according to the third quarter auditor-reviewed financial statements.

Company's response: To amend the Description section as the Audit Committee had proposed and submit for board of directors' approval.

2. Avoidance of involvements in interest-conflicting agendas by Independent Directors, including details such as the name of Independent Director, the agenda, the nature of conflicting interests, and the voting process.

None of the agendas discussed by the Audit Committee in 2016 presented any conflict of interest to Independent Directors.

3. Communication between Independent Directors and internal/external auditors (e.g. discussions concerning the Company's financial and business affairs, the method of communication used, and the outcome).

The Company convenes board of directors meetings once every two months; the chief auditor is called upon to report in each of the meetings. The Company also presents monthly audit reports (including tracking reports) to Independent Directors, and seeks their acknowledgment and opinions in return. The chief auditor then carries out Independent Directors instructions.

Financial statements and audit reports are discussed among Independent Directors during Audit Committee meetings. Furthermore, CPAs are invited into board of directors meetings to address relevant issues.

### III Corporate Governance Report

Note: \* The date of resignation is specified for Independent Directors who had resigned prior to the close of the financial year. The percentage of actual attendance (%) is calculated based on the the number of Audit Committee meetings held and the number of meetings actually attended during active duty.

\*If a re-election of Independent Directors had taken place prior to the close of the financial year, Independent Directors of both the previous and the current board will be listed; in which case, the remarks column will address the re-election date and specify whether the Independent Director was elected in the previous board, the new board, or both. The percentage of actual attendance (%) is calculated based on the number of Audit Committee meetings held and the actual attendance made during active duty.

#### 3.3.3 Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed CompaniesTWSE/TPEX Listed Companies" and Reasons

Assessment criteria	Compliance (Note)			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
1.Has the company established and disclosed its corporate governance principles based on "Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies?"	✓		The Company has established "Corporate Governance Principles" and disclosed them on the corporate website, intranet, and Market Observation Post System.	No deviation
2.Shareholding structure and shareholders' interests				
(1)Has the company implemented a set of internal procedures to handle shareholders' suggestions, queries, disputes and litigations?	✓		(1)The Company has "Dispute Resolution Guidelines" and "Fair Customer Treatment Guidelines" in place, while business departments are guided by numerous procedures and policies on matters such as: KYC, protection of customers' interests, standard operations, dispute resolution etc. The Company also has spokesperson, investor relations contact, a "Stakeholders" section on its website, a Customer Service Center, a Share Administration Agency Department, a Compliance Department and a Legal Affairs Office available to communicate with stakeholders and address their suggestions, queries, disputes, and litigations.	No deviation
(2)Is the company constantly informed of the identities of its major shareholders and the ultimate controller?	✓		(2)The Company keeps track of major shareholders and their shareholding position by comparing the shareholder registry with monthly holding reports. The names of major shareholders have been duly disclosed in the annual report (where the major shareholder is a corporate entity, the major shareholders of that corporate entity are also disclosed).	No deviation
(3)Has the company established and implemented risk management practices and firewalls for companies it is affiliated with?	✓		(3) Risk control measures and firewalls have been established and implemented to regulate transactions between the Company and affiliated enterprises. The Company follows the authority's rules with regards to other matters concerned.	No deviation
(4)Has the company established internal policies that prevent insiders from trading securities against non-public information?	✓		(4) The Company has "Business Integrity Procedures and Behavioral Guidelines," "Insider Account Opening and Securities/Futures Trading Policy," and "Conflicting Interest Avoidance Guidelines for Sales Representatives" in place to regulate insiders' trading of securities against non-public information.	No deviation

Assessment criteria	Compliance (Note)			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
3.Assembly and obligations of the board of directors				
(1)Has the board devised and implemented policies to ensure diversity of its members?	✓		(1)The Company's "Corporate Governance Principles" have imposed rules on the diversity of board members in order to support the Company's operations and business growth. All board members are being required to possess the knowledge, skills and characters needed to perform their duties. Composition of the board has been diversified in a number of aspects including but limited to gender, age, culture, education background, and professional experience. Currently, board members consist of males and females, and contribute professional knowledge ranging from business administration, international business, technology management, banking, securities, finance, information management, capital management, to legal research. They are the elites of the academia and the industry, and their expertise supports the Company's overall business strategy and performance. Board members' information is disclosed in page 9.	No deviation
(2)Apart from the Remuneration Committee and Audit Committee, has the company assembled other functional committees at its own discretion?	✓		(2)In addition to Remuneration Committee, Audit Committee and Risk Management Committee, the Company also has other functional committees such as Offshore Structured Product Review Committee, Trust Property Review Committee, Integrity Committee, and Human Resource Review Committee in place to oversee the Company's operations.	No deviation
(3)Has the company established a set of policies and assessment tools to evaluate the board's performance? Is performance evaluated regularly at least on an annual basis?		✓	(3)All members of the board possess the professional knowledge needed to accomplish their duties. Currently, board performance is evaluated on a yearly basis by reviewing directors' meeting attendance, discussions, and continuing education/training.	The Company will begin establishment of a board of directors performance evaluation policy based on the rules and practices stated by the authority.
(4)Are external auditors' independence assessed on a regular basis?	✓		(4)The Company has created an independence assessment worksheet based on Article 47 of the Certified Public Accountant Act and the "Integrity, Fairness, Objectivity and Independence" principles of Statement of CPA Professional Ethics No. 10. The worksheet is used to evaluate CPA's independence, professionalism and capacity for the tasks assigned, whether they are related parties of the Company, and whether they hold business or financial interest in the Company. The accounting firm also issues a declaration of independence as a form of commitment. Auditor's independence is evaluated by the Audit Committee and Board of Directors in the fourth quarter of each year. Based on the Company's assessments, all financial statement auditors have complied with the independence criteria, and are deemed capable of succeeding their role as the Company's financial statement and tax auditors. Board resolutions concerning auditors' independence can be found in page 46.	No deviation

### III Corporate Governance Report

Assessment criteria	Compliance (Note)			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
4. Where the financial holding company is a TWSE/TPEX listed company, has the company designated a department or personnel that specializes (or is involved) in corporate governance affairs (including but not limited to providing directors/supervisors with the information needed to perform their duties, convention of board meetings and shareholder meetings, company registration and changes, preparation of board meeting and shareholder meeting minutes etc)?	✓		The Company has a Corporate Governance Section established under the Corporate Planning Office. The section is staffed with officers and managers to oversee affairs concerning board meeting, business integrity, preparation of corporate social responsibility report, and corporate governance. The section takes initiative in learning new laws and knowledge, and utilizes them to improve corporate governance performance, board functionality, and shape the Company's corporate governance culture.	No deviation
5. Has the company provided proper communication channels and created dedicated sections on its website to address corporate social responsibility issues that are of significant concern to stakeholders (including but not limited to shareholders, employees, customers and suppliers)?	✓		The Company has spokesperson, investor relations contact, a Customer Service Center, and a "Stakeholders" section on its website to gather opinions from stakeholders. Information of the above contact windows and contact methods have already been disclosed on the Company's website. We are dedicated to maximizing stakeholders' interest, and maintaining open and diverse communication channels for discovering problems and solutions.	No deviation
6. Does the Company engage a share administration agency to handle shareholder meeting affairs?	✓		Capital Securities Corporation is an integrated securities service provider, and has a share administration agency department to handle shareholder meeting affairs.	No deviation
7. Information disclosure (1) Has the company established a website that discloses financial, business, and corporate governance-related information?	✓		(1) Financial, business and corporate governance information has been disclosed on the Company's website, and is updated regularly to keep investors informed.	No deviation
(2) Has the company adopted other means to disclose information (e.g. English website, assignment of specific personnel to collect and disclose corporate information, implementation of a spokesperson system, broadcasting of investor conferences via the company website)?	✓		(2) 1. The Company has made an English version of its website that is accessible from the home page. 2. Gathering and disclosure of information are being handled by dedicated departments. 3. The Company has spokesperson and investor relations contact available to facilitate communication with investors. Information of the above contact windows and contact methods have already been disclosed on the Company's website. 4. All disclosures and video recordings made at investor seminars are posted onto website.	No deviation

Assessment criteria	Compliance (Note)			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
8.Has the company implemented a self-evaluation report on corporate governance or has it authorized any other professional organization to conduct such evaluation? If so, please describe the opinion from the Board, the result of self or authorized evaluation, the major deficiencies, suggestions, or improvements.	✓		<p>(1)Employee rights: The Company has a comprehensive set of human resource management rules in place, including "Workplace Sexual Harassment Prevention, Compliant and Disciplinary Guidelines" and "Notes on Use of Employee Opinion Box." Employees are encouraged to raise opinions that are helpful of improving the Company's business activities, operating procedures, administrative measures or policies, or highlight misconducts and violations.</p> <p>(2)Employee care: In addition to offering statutory leave of absence and applying labor insurance and national health insurance, the Company also provides employees with a broad variety of insurance packages at discounted premium (such as accident insurance, life insurance, medical insurance, savings insurance etc), as well as wedding/compassionate subsidies and emergency aid. A series of motivational activities are being organized to raise employees' loyalty towards the Company.</p> <p>(3)Investor relations and stakeholders' interests: The Company has spokesperson, investor relations contact, a Customer Service Center, and a "Stakeholders" section on its website to gather opinions from stakeholders. Information of the above contact windows and contact methods have already been disclosed on the Company's website. We are dedicated to maximizing stakeholders' interest, and maintaining open and diverse communication channels for discovering problems and solutions.</p> <p>(4)Supplier relations: The Company assesses its suppliers for records of environmental or social misconduct prior to establishing business relationship, and avoids dealing with suppliers that operate against the Company's social responsibility policies. All contracts signed between the Company and major suppliers outline the corporate social responsibilities that the two parties are bound to comply. The Company may terminate its contract at any time if suppliers commit any violation that causes significant impact to the environment or society from which product or service is sourced.</p> <p>(5) Directors' and supervisors' ongoing education: All of the Company's directors and supervisors have completed the required number of training hours stated in "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies." See page 61 for more detailed disclosure.</p> <p>(6)Risk management policies and risk assessment standards: The Company has implemented robust "Risk Management Policy" and risk assessment standards. Risk Management Committee meetings are held on a quarterly basis. The Company has risk management units that make regular reports to the management on risk-adjusted returns and capital adequacy. By enforcing the risk management system, we hope to deliver stable and high-quality profits for our shareholders.</p> <p>(7)Customer policy: The Company has a set of "Fair Customer Treatment Guidelines" that cover many aspects of its business activities including fair contract, duty of care and loyalty, proper presentation in advertising and business solicitation, product and service suitability, duty of notification and disclosure, sale of complex high-risk products, balanced performance and compensation, whistleblower protection, and sales employees' professionalism.</p> <p>(8)Insurance against directors' liabilities: The Company renews liability insurance each year to protect itself against liabilities of all its directors. For details regarding board's resolution on the purchase of liability insurance, please refer to page 55.</p>	No deviation

# III Corporate Governance Report

9. Please explain the improvements made, based on the latest Corporate Governance Evaluation results published by TWSE Corporate Governance Center, and propose enhancement measures for any issues that are yet to be rectified. (Not applicable as the Company is not one of the evaluated subjects.)

A total of 1,496 TWSE/TPEX listed companies were assessed during the 2016 Corporate Governance Evaluation; the Company was ranked among 6%~20% of all TWSE-listed companies. In the Corporate Governance Evaluation, the Company had shown improvement over the previous year in five categories: protection of shareholders' interests, fair treatment for shareholders, board structure and functionality, information transparency, and corporate social responsibilities. At this point, the Company will aim to enhance board structure and functionality as the top priority, then review and make improvements to areas it did not score well.

Note: Always provide explanation in the summary description column, regardless of whether there are any deviations from the best practice principles.

## 3.3.4 Disclose the composition, responsibilities, and functioning of remuneration committee, if available:

### A. Remuneration Committee members

Identity (Note 1)	Criteria  Name	Having more than 5 years work experience and the following qualifications			Compliance of independence (Note 2)								Number of positions as Remuneration Committee member in other public companies	Remarks
		Lecturer (or above) of commerce, law, finance, accounting, or any subjects relevant to the Company's operations in a public or private tertiary institution	Certified judge, attorney, lawyer, accountant, or holder of professional qualification relevant to the Company's operations	Commercial, legal, financial, accounting or other work experiences required to perform the assigned duties	1	2	3	4	5	6	7	8		
Independent Director	HWANG, JYH-DEAN	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Other	CHUANG, CHIH-CHENG		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Other	YEN, CHIEN-SAN		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	

Note 1: please specify the position as director, independent director, or other.

Note 2: place a "✓" in the box below if the member met the following conditions during active duty and two years prior to the date of appointment.

- (1) Not employed by the Company or any of its affiliated companies.
- (2) Not a director or supervisor of the Company or any of its affiliates. This restriction does not apply to independent director positions in the company, its parent company or subsidiary, which have been appointed in accordance with local laws or laws of the registered country.
- (3) Does not hold more than 1% of the Company's outstanding shares in their own names or under the name of spouse, underage children, or proxy shareholder; nor is a top-10 natural-person shareholder of the Company.
- (4) Not a spouse, a relative of second degree or closer, or a direct kinship of third degree or closer to anyone listed in the three preceding criteria.
- (5) Not a director, supervisor, or employee of any company that has 5% or higher ownership interest in the Company; nor a director, supervisor, or employee of any of the top-5 corporate shareholders.
- (6) Not a director, supervisor, manager, or shareholder with more than 5% ownership interest in any company or institution that has financial or business relationship with the Company.
- (7) Not a professional who provides commercial, legal, financial, accounting, or consulting services to the Company or its affiliates, nor is an owner, partner, director, supervisor, or manager, or the spouse of any of the above, of a sole proprietorship, partnership, company, or organization that provides such services to the Company or its affiliates.
- (8) Does not meet any of the conditions stated in Article 30 of The Company Act.



## B. Functionality of the Remuneration Committee

1. The Company's Remuneration Committee consists of 3 members.

2. Duration of service: from June 27, 2016 to June 26, 2019. The Remuneration Committee held 9 meetings (A) in the last year (2016). Details of members' eligibility and attendance are as follows:

Title	Name	Actual attendance (B)	Proxy attendance	Percentage of actual attendance (%) (B/A)(Note)	Remarks
Convener	HWANG, JYH-DEAN	9	0	100%	Re-elected; date of election: June 27, 2016
Committee member	CHUANG, CHIH-CHENG	9	0	100%	Re-elected; date of election: June 27, 2016
Committee member	YEN, CHIEN-SAN	9	0	100%	Re-elected; date of election: June 27, 2016

Other mentionable items:

I. In the event where the Remuneration Committee's proposal is rejected or amended in a board of directors meeting, please describe the date and session of the meeting, details of the agenda, the board's resolution, and how the company had handled the Remuneration Committee's proposals (describe the differences and reasons, if any, should the board of directors approve a solution that was more favorable than the one proposed by the Remuneration Committee).

II. Should any member object or express qualified opinions to the resolution made by the Remuneration Committee, whether on-record or in writing, please describe the date and session of the meeting, details of the agenda, the entire members' opinions, and how their opinions were addressed.

Note:

(1) The date of resignation is specified for members of the Remuneration Committee who had resigned prior to the close of the financial year. The percentage of actual attendance (%) is calculated based on the number of Remuneration Committee meetings held and the number of meetings actually attended during active duty.

(2) If a re-election of Remuneration Committee members had taken place prior to the close of the financial year, members of both the previous and the current Remuneration Committee are listed; in which case, the remarks column would specify whether the committee member was elected in the previous board, the new board, or both. The percentage of actual attendance (%) is calculated based on the number of Remuneration Committee meetings held and the number of meetings actually attended during active duty.

# III Corporate Governance Report

## 3.3.5 Fulfillment of social responsibilities

Assessment criteria	Compliance (Note 1)			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description (Note 2)	
1.Sound corporate governance (1)Does the Company have a corporate social responsibility policy or system in place? Is progress reviewed on a regular basis?	✓		(1) 1. The Company has implemented "Corporate Social Responsibility Code of Conduct" and "Corporate Social Responsibility Policy" within the organization; both of which have been disclosed on the Company's website and on the Market Observation Post System. 2.The Company follows its Corporate Social Responsibility Policy and is committed to protecting the interests and welfare of all stakeholders. The Company is actively involved in community and charity activities, and has been known as an advocate for reuse of resource, protection of the natural environment, and fulfillment of social responsibilities. In addition to preparing corporate social responsibility reports on a yearly basis, the Company also makes annual corporate social activity plans with projects designed specifically for the interests of different stakeholders. Progress of corporate social activity plans and the following year's focus are reported in board meetings and shareholder meetings each year. 3.In 2016, the Company organized: a Family Day hiking event to a total participant size of 1668, a blood donation event to a total participant size of 1,500, a volunteer program in which employees were mobilized to read stories to students of two remotely located elementary schools, an urban tour that benefited more than a hundred teachers and students, and an energy and carbon reduction initiative that saved water usage by 5,220 cubic meters, power usage by 830,025 KWH, and fuel usage by 800 liters. Please visit the Company's website for more details.	No deviation
(2)Does the Company organize social responsibility training on a regular basis?	✓		(2)The Company organizes the following training activities in relation to social responsibilities: 1.The Company's "Ethical Behavior Guidelines" clearly outline the ethics and obligations that directors, managers and employees are bound to obey. The Ethical Behavior Guidelines specifies how employees and the Company should interact with the public and stakeholders. 2.The Company requires all employees to sign a commitment to "Capital Financial Group Employee Behavior Policy" and integrity principles when carrying out business activities. 3.The Company organizes orientation training for new recruits. The orientation not only incorporates the "Ethical Behavior Guidelines," but also includes an overview of the Company's business philosophy, vision, management approach, policy, and ideals toward corporate social responsibilities.	No deviation
(3)Does the Company have a unit that specializes (or is involved) in CSR practices? Is the CSR unit run by senior management and reports its progress to the board of directors?	✓		(3)During the board of directors meeting held on March 27, 2015, the Corporate Planning Office was assigned the duty to oversee corporate social responsibilities, while the President was appointed the role of CSR Officer. The role of the Corporate Planning Office in regards to corporate social responsibilities is to assist in practical actions. In addition to establishing/amending corporate social responsibility policies, the Corporate Planning Office is also responsible for the preparation of annual CSR reports, and the reporting of CSR plans and progress during board meetings and shareholder meetings. Driven by its awareness towards sustainability, the Corporate Planning Office takes into consideration the possible impacts of the Company's business activities on the society and the natural environment when making strategic plans. The Office also pays attention to CSR issues and trends local and abroad, and shares them with employees to shape the Company's distinctive CSR culture.	No deviation
(4)Has the Company implemented a reasonable remuneration system that associates employees' performance appraisals with CSR? Is the remuneration system supported by an effective reward/discipline system?	✓		(4)The Company convenes Remuneration Committee meetings as required by law, and has Remuneration Committee Foundation Principles in place to guide the committee's operations. All of the Company's policies have been established in compliance with principles such as professional ethics, employee rights protection, and environmental sustainability for the purpose of promoting corporate social responsibilities. The Company also has reward and disciplinary rules in place, and convenes personnel review meetings on a regular basis to assess employees' performance in relation to CSR issues.	No deviation

Assessment criteria	Compliance (Note 1)			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description (Note 2)	
<b>2.Fostering a sustainable environment</b> (1)Is the Company committed to achieving efficient use of resources, and using renewable materials that produce less impact on the environment?	✓		(1)The Company is a securities service provider and operates in a low pollution industry. It does not manufacture any product, and not is it required to recycle packaging materials for the products sold. The Company is dedicated to improving the efficiency of all resources used. It has been active in the promotion of a paper-less environment by introducing new measures such as: e-statement, e-bulletin, e-signature, and use of electronic presentation in meetings. Employees are encouraged to make double-sided photocopies, and a recycling tray has been placed near all photocopying machines to reduce the use of paper. The Company purchases environmental friendly toners, and all empty toners are recycled by the original manufacturer to avoid pollution. Recycling bins have been placed at each floor to sort waste and reduce wastage, and thereby ensure the sustainability of resources.	No deviation
(2)Has the Company developed an appropriate environmental management system, given its distinctive characteristics?	✓		(2)The Company continues to implement energy and carbon reduction policies throughout the organization. It is our hope to minimize consumption of Earth's resources, and create an environmental friendly corporate culture by bringing green into our service. Furthermore, the Company is a securities service provider and not a manufacturer. It produces no pollution to the environment, and hence does not require certification for ISO 14001 or any environmental management system of similar nature.	No deviation
(3)Is the Company aware of how climate changes affect its business activities? Are there any actions taken to measure and reduce greenhouse gas emission and energy use?	✓		(3)The Company has been supporting the government's energy conservation policies by replacing power-consuming equipment with more efficient counterparts such as T5 tubes for lesser heat and power. The Company organizes self-inspections and reminds employees from time to time to take stairs instead of elevators, and set indoor conditioning to 26~28 degrees Celsius, thereby minimize the impact of our business activities on climate change. The Company conducts annual greenhouse gas surveys for the head office and various branches. The amount of CO2 emission caused by consumption of water, electricity and fuel in 2016 was calculated at 4.03 million kg, which was 9% lesser compared to the previous year. Given its nature as a securities service provider, the Company aims to reduce energy-related greenhouse gas emission by 1~3% per year.	No deviation
<b>3.Enforcement of public welfare</b> (1)Has the Company developed its policies and procedures in accordance with laws and International Bill of Human Rights?	✓		(1)All terms of employment agreed between the Company and employees, such as salary, leave of absence, pension, occupational hazard compensation etc, are compliant with "Labor Standards Act." They exist to protect employees' rights and facilitate proper personnel management as well as harmonic labor-management relations. The Company has established "Workplace Sexual Harassment Prevention, Grievance and Disciplinary Policy" in compliance with "Act of Gender Equality in Employment." The Company has specified in its "Work Rules" that all employees are covered by Labor Insurance and National Health Insurance. Insurance premiums for the above coverage are subsidized by the Company according to law. Decisions concerning workers' recruitment, interview, employment, assignment, appraisal, promotion, training, and compensation are made without discrimination whatsoever, whether in terms of gender, sexual preference, age, ethnicity, or religion.	No deviation
(2)Does the Company have means through which employees may raise complaints? Are employee complaints being handled properly?	✓		(2)The Company provides all managers with an electronic mailbox, which employees may use to make recommendations and express opinions. Furthermore, the Company has established an opinion mailbox that is open to all employees, and implemented "Employee Opinion Mailbox Usage Guidelines" to raise employees' awareness towards risk management, improving operating procedures, and reporting misconducts. The employee opinion mailbox is read by the head of a dedicated department on a daily basis. Any constructive opinions gathered from employees are treated as confidential and escalated to the President and Chairman.	No deviation

### III Corporate Governance Report

Assessment criteria	Compliance (Note 1)			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/ TPEX Listed Companies								
	Yes	No	Summary description (Note 2)									
(3)Does the Company provide employees with a safe and healthy work environment? Are employees trained regularly on safety and health issues?	✓		<p>(3)The Company offers employees a clean environment to work in, and provides them with the protective equipment needed to ensure their safety and health. The work environment is being inspected regularly, whereas employee health checkups are organized and physicians of Cathay General Hospital are invited to perform on-site health consultation on a regular basis.</p> <table><tr><th>Implemented measures</th><th>Item</th><th>Description</th></tr><tr><td rowspan="2">Employee Health</td><td>Insurance and welfare</td><td>Measures mandated by law: 1.Labor Insurance and National Health Insurance. 2.Establishment of "Workplace Sexual Harassment Prevention, Grievance and Disciplinary Policy." 3.Implementation of a "Nursery Room." 4.Regular employee health checkups. 5.Commissioning of physicians to perform consultation service on occupational hazard, health promotion and hygiene at the head office on a regular basis. Measures provided above legal requirements: 1.The Company provides employees with a broad variety of group insurance coverage from life, accidental injury, accidental medical treatment, to occupational hazard. 2.Employees are invited to include their family members into group insurance at discounted premium. Term life, accidental injury, medical treatment, and cancer insurance policies have been offered to care for employees and their family members. 3.Complimentary massage service for employees of the head office. 4.Seminars on "Nutrition and Calorie" and "Exercise Tips for Office Workers" are organized to promote employees' awareness towards healthy diet and regular exercise. 5."Recreational and Charitable Club Foundation and Subsidy Policy" was introduced as an incentive for employees to engage themselves in sports and charity activities. 6.The Company organized a series of mountain hiking events and invited employees to join their family in a pleasant walk through forest, and enjoy what nature has to offer. 7.The Company acquired certification for "Taiwan iSport" from Sports Administration, Ministry of Education.</td></tr><tr><td>Environmental health</td><td>(1) Smoke-free office environment 1."Summary Notes on Tobacco Hazards Prevention Act" was posted on the Company's intranet. 2.Videos of "How to quit smoking" were posted on the Company's intranet. 3.A set of "Tobacco Hazard Prevention Measures" was implemented.</td></tr></table>	Implemented measures	Item	Description	Employee Health	Insurance and welfare	Measures mandated by law: 1.Labor Insurance and National Health Insurance. 2.Establishment of "Workplace Sexual Harassment Prevention, Grievance and Disciplinary Policy." 3.Implementation of a "Nursery Room." 4.Regular employee health checkups. 5.Commissioning of physicians to perform consultation service on occupational hazard, health promotion and hygiene at the head office on a regular basis. Measures provided above legal requirements: 1.The Company provides employees with a broad variety of group insurance coverage from life, accidental injury, accidental medical treatment, to occupational hazard. 2.Employees are invited to include their family members into group insurance at discounted premium. Term life, accidental injury, medical treatment, and cancer insurance policies have been offered to care for employees and their family members. 3.Complimentary massage service for employees of the head office. 4.Seminars on "Nutrition and Calorie" and "Exercise Tips for Office Workers" are organized to promote employees' awareness towards healthy diet and regular exercise. 5."Recreational and Charitable Club Foundation and Subsidy Policy" was introduced as an incentive for employees to engage themselves in sports and charity activities. 6.The Company organized a series of mountain hiking events and invited employees to join their family in a pleasant walk through forest, and enjoy what nature has to offer. 7.The Company acquired certification for "Taiwan iSport" from Sports Administration, Ministry of Education.	Environmental health	(1) Smoke-free office environment 1."Summary Notes on Tobacco Hazards Prevention Act" was posted on the Company's intranet. 2.Videos of "How to quit smoking" were posted on the Company's intranet. 3.A set of "Tobacco Hazard Prevention Measures" was implemented.	No deviation
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### III Corporate Governance Report

Assessment criteria	Compliance (Note 1)			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description (Note 2)	
(4) Does the Company have means to communicate with employees on a regular basis, and inform them of operational changes that may be of significant impact?	✓		(4) The Company engages employees in regular labor-management meetings for the purpose of enhancing working relationship and cooperation. Information concerning the Company's policies, systems, welfare and news are published on the intranet. The intranet also has an e-bulletin for timely announcements of material information.	No deviation
(5) Has the Company implemented an effective training program that helps employees develop skills over their career?	✓		(5) The Company has implemented the following programs to help employees develop skills over their career: 1. Specialist training - The Company offers a comprehensive training program that supports employees of all levels in various stages of their career development. There is a broad variety of channels that employees may utilize to learn in a timely manner. The talent development system works not only in favor of employees' careers, but supports the Company's growth as well. Orientation, specialization training, management reserve training, management growth training, and seminars hosted by renowned experts and scholars on the topic of finance are just some of the courses organized by the Company. In addition, Capital Finance College was founded in 2007 to nurture the Company's managerial staff. 2. The Company trains its sales force intensively using nation-wide video conferencing and broadcast to help them develop professional qualities and skills. Many e-learning courses have also been designed to enhance outcome of the learning process. By utilizing digital means, employees are able to learn and grow anytime, anywhere. 3. Employees are encouraged to obtain financial certifications, and the Company has introduced a broad variety of incentives including registration fee subsidies to support their efforts. 4. Furthermore, the Company adopted "TTQS (Talent Quality-management System) as a means to raise the quality and effectiveness of its training efforts.	No deviation
(6) Has the Company implemented consumer protection and grievance policies with regards to its research, development, procurement, production, operating and service activities?	✓		(6) The Company has "Dispute Resolution Guidelines" and "Fair Customer Treatment Guidelines" in place, while business departments are guided by numerous procedures and policies on matters such as: KYC, protection of customers' interests, standard operations, dispute resolution etc. For the protection of customers' interests, the Company provides effective channels of communication that customers may use to raise complaints. Customer service hotline: 412-8878 (add prefix 02 when dialing with mobile) Email: cs@capital.com.tw Counter: Available at all business offices of the Company	No deviation
(7) Has the Company complied with laws and international standards with regards to the marketing and labeling of products and services?	✓		(7) The Company has established a set of policies on the production and dissemination of advertisements, business solicitation and promotional materials in accordance with the Financial Consumer Protection Act, Article 6 of Regulations Governing Advertising, Business Solicitation and Promotion by Financial Service Enterprises, and Taiwan Securities Association Regulations Governing Members' Advertising, Business Solicitation and Promotion Activities.	No deviation
(8) Does the Company evaluate suppliers' environmental and social conducts before commencing business relationships?	✓		(8) The Company conducts regular assessments on the capacity of all new and existing suppliers before deciding whether to begin or continue business relationship. All supplier agreements are signed with a clause that entitles the Company to terminate the agreement without having to pay remedy if the supplier is found to have violated the corporate social responsibility policy mentioned above.	No deviation

Assessment criteria	Compliance (Note 1)			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description (Note 2)	
(9)Is the Company entitled to terminate supply agreement at any time with a major supplier? Has the supplier been found to have violated its corporate social responsibilities and caused significant impacts against the environment or the society?	✓		(9)All suppliers that the Company chooses to sign agreements need to be reviewed for history of environmental and social impact, in order to determine whether the Company should begin or continue supply relationship. All supplier agreements are signed with a clause that entitles the Company to terminate the agreement without having to pay remedy if the supplier is found to have violated the corporate social responsibility policy mentioned above.	No deviation
4. Enhanced information disclosure (1)Has the Company disclosed relevant and reliable CSR information on its website and at the Market Observation Post System?	✓		The Company values corporate social responsibilities as well as its commitment and mission towards sustainable management. The Company discloses relevant and reliable information through corporate social responsibility reports and its website (under sections such as "About Capital"/CSR, Capital News, bulletin etc).	No deviation

5.If the Company has established CSR principles in accordance with "Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies," please describe its current practices and any deviations from the Best Practice Principles:

The board of directors passed the Corporate Social Responsibility Code of Conduct during the meeting held on January 28, 2015. The code of conduct has been implemented throughout the Company since then.

6.Other information useful to the understanding of corporate social responsibilities:

The Company published its 2015 corporate social responsibility report in June 2016. The Company has also created a CSR section on its website to disclose relevant and reliable information concerning the CSR report. Stakeholders are able raise queries via phone, website, or email, and the Company will respond to such queries individually.

7.Describe the criteria undertaken by any institution to certify the Company's CSR report:

The Company's CSR report is not certified by any institution.

Note 1: Always provide explanations in the summary description column, regardless of whether there are any deviations from the best practice principles.

Note 2: If the company has prepared a CSR report, the summary description may be completed by providing page references to the CSR report instead.

# III Corporate Governance Report

## 3.3.6 Integrity performance

Assessment criteria	Compliance (Note 1)			Deviation and causes of deviation from Integrity Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
1.Establishment of integrity policies and solutions				
(1)Has the Company stated in its Memorandum or external correspondence about the polices and practices it has to maintain business integrity? Are the board of directors and the management committed in fulfilling this commitment?	✓		(1)The Company has "Integrity Code of Conduct" and "Business Integrity Procedures and Behavioral Guidelines" in place; both the board of directors and the management are committed to enforcing the integrity policy throughout internal management and commercial activities. By disclosing the integrity policy on website, the Company is able to convey its integrity philosophy and rules clearly to suppliers, customers and any parties it has business dealings with.	No deviation
(2) Does the company have any measures against dishonest conducts? Are these measures supported by proper procedures, behavioral guidelines, disciplinary actions and complaint systems?	✓		(2)The Company's "Business Integrity Procedures and Behavioral Guidelines" outlines rules and procedures concerning dishonest behaviors, and associates integrity management with employees' performance appraisal and the human resource policy. The Company has clear and effective disciplinary and grievance systems in place to prohibit dishonest behaviors; actions of high severity may result in employee's dismissal according to law or human resource policy.	No deviation
(3) Has the Company taken steps to prevent occurrences listed in Paragraph 2, Article 7 of "Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies" or business conducts that are prone to integrity risks?	✓		(3)The Company adopts an integrity insurance system, where it insures itself against risk of employees' dishonesty depending on the nature of their duties. The insurance covers robbery, theft, fraud, embezzlement or any illegal conduct committed by employees that result in financial losses to the Company. Furthermore, the Company's "Business Integrity Procedures and Behavioral Guidelines" outlines rules and procedures specifically for business activities that exhibit high integrity risks.	No deviation
2.Enforcing ethical management				
(1)Does the Company evaluate the integrity of all counterparties it has business relationships with? Are there any integrity clauses in the agreements it signs with business partners?	✓		(1)Prior to signing a contract with another party, the Company would thoroughly investigate the integrity of the counterparty, and make sure that the contract contains an integrity clause that entitles either party to unconditionally terminate the contract at any time if the counterparty is found to have involved in any dishonest conduct.	No deviation
(2)Does the Company have a unit that specializes (or is involved) in business integrity? Does this unit report its progress to the board of directors on a regular basis?	✓		(2)The Company has assembled an Integrity Management Committee that specializes in the establishment, implementation and supervision of integrity policies throughout the organization. The committee reviews the Company's integrity management at the end of each year, and reports its findings to the board of directors in January the following year. The Company has "Integrity Code of Conduct" and "Business Integrity Procedures and Behavioral Guidelines" in place. They exist to enforce integrity principles throughout internal management and commercial activities. The Company actively organizes integrity courses for employees. Participants are required to pass a post-course exam to be considered of having completed the course. A total of 13 online courses of different topics were arranged in 2016. They delivered 8,717 training hours and 25,382 completions in total.	No deviation



Evaluation Item	Implementation Status <sup>1</sup>			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
(3) Does the Company have any policy that prevents conflict of interest, and channels that facilitate the report of conflicting interests?	✓		(3) The Company has "Business Integrity Procedures and Behavioral Guidelines" and "Conflicting Interest Avoidance Guidelines for Sales Representatives" in place. Directors may express opinions and answer queries but are not allowed to participate in the discussion and vote on any agenda that presents a conflict against their own interests or interests of the corporate entities they represent to the extent that is likely to compromise the Company's interests. All relevant details including the discussion, voting process, and avoidance of conflicting interest by concern parties will be recorded in the minutes of the current meeting. Employees are obligated to report to the head of department and the responsible unit whenever they find themselves or stakeholders likely to receive inappropriate gains while performing duties. Upon learning of the situation, the head of department will offer proper guidance to the employee.	No deviation
(4) Has the Company implemented effective accounting and internal control systems for the purpose of maintaining business integrity? Are these systems reviewed by internal or external auditors on a regular basis?	✓		(4) In order to enforce integrity management, the Company has designed an "Accounting system" and an "Internal control system" based on "Regulations Governing the Preparation of Financial Reports by Securities Firms" and "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets." Both systems are regularly inspected by the internal audit department.	No deviation
(5) Does the Company organize internal or external training on a regular basis to maintain business integrity?	✓		(5) The Company organizes integrity training on a regular basis. Employees are required to pass a post-course exam to be considered of having completed the course. A total of 13 online courses of different topics were arranged in 2016; they delivered 8,717 training hours and 25,382 completions in total.	No deviation
3. Whistleblowing system				
(1) Does the Company provide incentives and means for employees to report misconducts? Does the Company assign dedicated personnel to investigate the reported misconducts?	✓		(1) The Company's "Work Rules" and "Employee Opinion Mailbox Usage Guidelines" have outlined the various rewards that employees may be entitled to for engaging in procedural improvements or misconduct reporting. The Company has also assembled a Personnel Review Committee to review employees' commendations and discipline.  External parties may express opinions to the Company using a number of channels such as the spokesperson, and Investor Relations contact.	No deviation
(2) Does the company establish standard operating procedures for confidential reporting and investigation of accusation cases?	✓		(2) The Company's "Employee Opinion Mailbox Usage Guidelines" have clearly outlined the investigation procedures and confidentiality system for all reported misconducts. The employee opinion mailbox is read by the head of Internal Audit Office, who then refers the case in question to the relevant departments for investigation, assessment or discussion, sometimes anonymously (if deemed necessary). The handling department is required to complete an "Employee Opinion Mailbox Reply Form" and have it signed by the head of department and the head of Internal Audit Office before submitting it to the President for the final decision.	No deviation

### III Corporate Governance Report

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
(3)Has the Company provided proper whistleblower protection?	✓		<p>The employee opinion mailbox receives and transmits messages entirely over the Internet using SSL encryption. Messages are stored on a database in the encrypted form, and back-end administrators are required to log in using NT account and password and complete certification check before the message can be displayed.</p> <p>The same procedures apply for opinions raised by external parties through spokesperson and investor relations contact.</p> <p>(3)All staff and managers who handle messages delivered via the employee opinion mailbox are bound to maintain confidentiality. Those who violate their duty of confidentiality will be subject to review by the Personnel Review Committee, and treatment according to the Company's Work Rules.</p>	No deviation
4.Enhanced information disclosure (1)Has the Company disclosed its integrity principles and progress onto its website and MOPS?	✓		<p>(1)The Company's "Integrity Code of Conduct" and "Business Integrity Procedures and Behavioral Guidelines" have been disclosed on the intranet, the external portal, and on Market Observation Post System. Progress of integrity management has been disclosed on the Company's website.</p>	No deviation
<p>5.If the Company has established Ethical Corporate Management Principles in accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies", describe any discrepancies between the principles and their implementation: The Company's operations, "Integrity Code of Conduct" and "Business Integrity Procedures and Behavioral Guidelines" are fully compliant with "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies."</p>				
<p>6.Other information relevant to understanding the Company's business integrity (e.g. reviews over business integrity principles) Integrity management rules and policies are reviewed and amended on an unscheduled basis. Once approved by the board of directors, they are disclosed via the Company's portal, intranet, and Market Observation Post System to give investors and employees an up-to-date understanding about the Company's integrity policy.</p>				

Note 1: Always provide explanations in the summary description column, regardless of whether there are any deviations from the best practice principles.

3.3.7 If the Company has established corporate governance principles or other relevant guidelines, references to such principles must be disclosed:

The Company's corporate governance policies have been disclosed at:

1. The Market Observation Post System, under Corporate Governance section.
2. Capital Securities portal ([www.capital.com.tw](http://www.capital.com.tw))/About Us/Corporate Governance.

3.3.8 Other important information material to the understanding of corporate governance within the Company : None.

### 3.3.9 Internal Control Systems

#### A. Statement of Internal Control System

##### **Capital Securities Corporation Statement of Internal Control System**

Date: March 27, 2017

The following statement has been made based on a self-assessment of the Company's internal control system in 2016:

1. The Company is aware that creation, implementation, and maintenance of internal control system are the responsibilities of its board of directors and management, and has duly established such a system. The purpose of internal control system is to provide reasonable assurances concerning the outcome and efficiency of the Company's operations (including profitability, business performance, and asset security), the reliability, timeliness, and transparency of reported information, and compliance and accomplishment of relevant regulations and goals.
2. There are inherent limitations to even the most well designed internal control system. As such, an effective internal control system can only reasonably assure the achievement of the three goals mentioned above. Furthermore, changes in the environment and circumstances may all affect the effectiveness of the internal control system. However, the internal control system of the Company features a self-monitoring mechanism that rectifies any deficiencies immediately upon discovery.
3. The Company evaluates the effectiveness of its internal control system design and execution based on the criteria specified in "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets" (hereinafter referred to as the "Regulations"). The criteria introduced by the "Regulations" consists of five major elements, each representing a different stage of internal control: 1. Control environment, 2. Risk assessment, 3. Control activities, 4. Information and communication, and 5. Monitoring activities. Each major element is further broken down into several sub-elements. Please refer to the "Regulations" for more details.
4. The Company has adopted the abovementioned criteria to validate the effectiveness of its internal control system design and execution.
5. Based on the assessments described above, the Company considers the design and execution of its internal control system to be effective as at December 31, 2016. This system (including the supervision and management of subsidiaries) has provided assurance concerning the Company's business results, target accomplishments, reliability, timeliness, and transparency of reported information, and its compliance with relevant laws.
6. This statement constitutes part of the Company's annual report and prospectus, and shall be disclosed to the public. Any illegal misrepresentation or non-disclosure in the public statement above are subject to legal consequences described in Articles 20, 32, 171, and 174 of the Securities and Exchange Act.
7. This statement was passed during the board of directors meeting held on March 27, 2017 by all 11 attending directors without objection.

**Capital Securities Corporation**

Chairman: WANG, JIUNN-CHIH

President: CHAO, YONG-FEI

B. If the internal control policy was reviewed by an external CPA, the result of such review must be disclosed  
None.

### 3.3.10 Penalties imposed against the Company for regulatory violation, or penalties against employees for violation of internal control policy in the most recent year up till the publication date of this annual report; describe areas of weakness and any corrective actions taken:

A. Decision letter issued by Taiwan Stock Exchange Corporation on May 10, 2016: The Company's securities specialist was found to have violated Subparagraph 9, Paragraph 2, Article 18 of Regulations Governing Responsible Persons and Associated Persons of Securities Firms. The Company was issued a warning while the violator was ordered a 5-month suspension.

Improvements: The Company has since enhanced the training of its employees to ensure compliance with regulations, and at the same time enforced the Company's internal control system.

B. Decision letter issued by Financial Supervisory Commission on June 1, 2016: The Company's securities specialist was found to have violated Paragraph 2, Article 2 of Regulations Governing Securities Firms and Paragraph 1, Article 12 of Regulations Governing Responsible Persons and Associated Persons of Securities Firms. The Company was issued an order of correction while the violator was given a 2-month suspension.

Improvements: The Company has since enhanced the training of its employees to ensure compliance with regulations, and at the same time enforced the Company's internal control system.

### 3.3.11 Major resolutions passed in shareholder meetings and board of directors meetings held in the last year up till the publication date of this annual report:

#### A. Material resolutions

Major resolutions by the board of directors of Capital Securities Corp.:

1. The 17th meeting of the 9th board (2016.01.28)

Agenda: Proposal to retire the 9th treasury stock buyback and reduce share capital.

Resolution: This agenda was passed unanimously without objection from attending directors.

2. The 18th meeting of the 9th board (2016.03.28)

Agenda: Election of the Company's 10th board of directors.

Resolution: This agenda was passed unanimously without objection from attending directors.

3. The 1st extraordinary meeting of the 10th board (2016.06.27)

Agenda: Chairman election.

Resolution: Proposal was raised by Director Ching-Tsun Liu and seconded by Director Chih-Ming Chang to renew Director Chun-Chih Wang's service as the 10th Chairman of Capital Securities Corp. The proposal was passed unanimously by attending directors, and Director Chun-Chih Wang was renewed as the 10th Chairman of Capital securities Corp.

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4. The 1st meeting of the 10th board (2016.07.25)

Agenda: Proposal to insure against liabilities of the Company's directors, supervisors and key staff for 2016.

Resolution: This agenda was passed unanimously without objection from attending directors.

5. The 2nd meeting of the 10th board (2016.09.30)

(1) Agenda: Proposal to make a domestic issuance of unsecured short-term USD corporate bond for the purpose of obtaining additional working capital and enhancing financial structure.

Resolution: This agenda was passed unanimously without objection from attending directors.

(2) Agenda: Proposal to sign a memorandum of understanding with Shenzhen Great Town Financial Holding (Group) Co., Ltd. for the purpose of establishing a securities joint venture.

Resolution: This agenda was passed unanimously without objection from attending directors.

6. The 3rd meeting of the 10th board (2016.11.11)

(1) Agenda: Assessment of auditor's independence - 2016.

Resolution: This agenda was passed unanimously without objection from attending directors.

(2) Agenda: Proposal to buy back the Company's shares according to Article 28-2 of the Securities and Exchange Act and Article 2 of "Regulations Governing Share Repurchase by Exchange-Listed and OTC-Listed Companies."

Resolution: This agenda was passed unanimously without objection from attending directors.

7. The 4th meeting of the 10th board (2017.01.23)

(1) Agenda: Proposal to retire the 10th treasury stock buyback and reduce share capital.

Resolution: This agenda was passed unanimously without objection from attending directors.

(2) Agenda: Proposal to subscribe to the cash issues by Capital Futures Corp., one of the Company's investments.

Resolution: This agenda was passed unanimously without objection from attending directors.

# III Corporate Governance Report

## B. Execution progress

Resolutions of shareholders' meeting dated June 27, 2016:

Item	Proposal	Voting results/Resolution	Execution
Discussion items	No. 1 Amendments to the Company's "Articles of Incorporation"	There were a total of 1,634,571,924 votes in favor (of which 279,484,989 votes were exercised using the electronic method) and 45,862 votes against (of which 45,862 votes were exercised using the electronic method). A total of 63,213,379 votes were abstained (of which 63,213,379 were exercised using the electronic method), 0 votes were void, and 220,579,582 votes were not exercised. A statutory majority voted in favor, and the proposal was approved as proposed.	The "Articles of Incorporation" have been amended and implemented accordingly.
Approved items	No. 1 Approval of the Company's 2015 business report and financial statements	There were a total of 1,634,571,924 votes in favor (of which 279,484,989 votes were exercised using the electronic method) and 45,862 votes against (of which 45,862 votes were exercised using the electronic method). A total of 63,213,379 votes were abstained (of which 63,213,379 were exercised using the electronic method), 0 votes were void, and 220,579,582 votes were not exercised. A statutory majority voted in favor, and the proposal was approved as proposed.	To proceed as resolved during the shareholders' meeting and announce accordingly.
	No. 2 Approval of the Company's 2015 earnings appropriation	There were a total of 1,634,556,977 votes in favor (of which 279,470,042 votes were exercised using the electronic method) and 61,085 votes against (of which 61,085 votes were exercised using the electronic method). A total of 63,213,103 votes were abstained (of which 63,213,103 were exercised using the electronic method), 0 votes were void, and 220,579,582 votes were not exercised. A statutory majority voted in favor, and the proposal was approved as proposed.	A cash dividend of NTD0.49 per share was distributed based on the resolution reached in the shareholders' meeting. (ex-dividend date was August 17, 2016 and cash dividend were distributed on September 7, 2016)
Discussion items	No. 1 Amendments to the Company's "Operational Procedures for Endorsements/ Guarantees"	There were a total of 1,634,571,546 votes in favor (of which 279,484,611 votes were exercised using the electronic method) and 45,873 votes against (of which 45,873 votes were exercised using the electronic method). A total of 63,213,746 votes were abstained (of which 63,213,746 were exercised using the electronic method), 0 votes were void, and 220,579,582 votes were not exercised. A statutory majority voted in favor, and the proposal was approved as proposed.	The "Operational Procedures for Endorsements/Guarantees" have been amended and implemented accordingly.
	No. 2 Amendments to the Company's "Procedures for the Acquisition and Disposal of Assets"	There were a total of 1,634,567,543 votes in favor (of which 279,480,608 votes were exercised using the electronic method) and 50,156 votes against (of which 50,156 votes were exercised using the electronic method). A total of 63,213,466 votes were abstained (of which 63,213,466 were exercised using the electronic method), 0 votes were void, and 220,579,582 votes were not exercised. A statutory majority voted in favor, and the proposal was approved as proposed.	The "Procedures for the Acquisition and Disposal of Assets" have been amended and implemented accordingly.
	No. 3 Amendments to the Company's "Guidelines for Derivatives Trading"	There were a total of 1,634,567,547 votes in favor (of which 279,480,612 votes were exercised using the electronic method) and 49,872 votes against (of which 49,872 votes were exercised using the electronic method). A total of 63,213,746 votes were abstained (of which 63,213,746 were exercised using the electronic method), 0 votes were void, and 220,579,582 votes were not exercised. A statutory majority voted in favor, and the proposal was approved as proposed.	The "Guidelines for Derivatives Trading" have been amended and implemented accordingly.

Item	Proposal	Voting results/Resolution	Execution
No. 4	Amendments to the Company's " Rules and Procedures for Shareholders' Meeting"	There were a total of 1,634,570,156 votes in favor (of which 279,483,221 votes were exercised using the electronic method) and 47,597 votes against (of which 47,597 votes were exercised using the electronic method). A total of 63,213,412 votes were abstained (of which 63,213,412 were exercised using the electronic method), 0 votes were void, and 220,579,582 votes were not exercised. A statutory majority voted in favor, and the proposal was approved as proposed.	The " Rules and Procedures for Shareholders' Meeting " have been amended and implemented accordingly.
No. 5	Amendments to the Company's " Procedures for the Election of Directors and Supervisors"	There were a total of 1,634,569,473 votes in favor (of which 279,482,538 votes were exercised using the electronic method) and 48,460 votes against (of which 48,460 votes were exercised using the electronic method). A total of 63,213,232 votes were abstained (of which 63,213,232 were exercised using the electronic method), 0 votes were void, and 220,579,582 votes were not exercised. A statutory majority voted in favor, and the proposal was approved as proposed.	The " Procedures for the Election of Directors and Supervisors " have been amended and implemented accordingly.
No. 6	Election of the Company's 10th term of the Board	Election result: Director: Yin Feng Enterprise Co., Ltd. Representative: Jiunn-Chih Wang Elected with: 1,760,846,029 votes Director: Yin Feng Enterprise Co., Ltd. Representative: Ching Tsun Liu Elected with: 1,630,098,285 votes Director: Kwang Hsing Industrial Co., Ltd. Representative: Che-Hung Yang Elected with: 1,627,614,335 votes Director: San Ho Enterprise Co., Ltd. Representative: Angel Chang Elected with: 1,626,621,971 votes Director: Tai Chun Enterprise Co., Ltd. Representative: Chih-Ming Chang Elected with: 1,626,030,686 votes Director: Tai Chun Enterprise Co., Ltd. Representative: I-Ching Tsai Elected with: 1,625,309,727 votes Director: Tai Chun Enterprise Co., Ltd. Representative: Chun-Yu Lin Elected with: 1,625,190,115 votes Director: Hong Lung Enterprise Co., Ltd. Elected with: 1,624,001,302 votes Independent Director: Jia-Dong Shea Elected with: 1,580,557,052 votes Independent Director: Hsin-Hui Lin Elected with: 1,580,500,138 votes Independent Director: Jyh-Dean Hwang Elected with: 1,576,626,932 votes	Service of the elected directors began immediately after the election held during the shareholders' meeting dated June 27, 2016; the outcome of which has been announced on Market Observation Post System. The 10th term of the Board consists of 11 seats (including 3 independent directors) and has been elected to serve a term of 3 years from June 27, 2016 until June 26, 2019.
No. 7	Lifting the ban on conflict of interest of the Directors	There were a total of 1,626,477,805 votes in favor (of which 271,390,870 votes were exercised using the electronic method) and 216,001 votes against (of which 216,001 votes were exercised using the electronic method). A total of 71,137,359 votes were abstained (of which 71,137,359 were exercised using the electronic method), 0 votes were void, and 220,579,582 votes were not exercised. A statutory majority voted in favor, and the proposal was approved as proposed.	To proceed as resolved. The resolution has been announced over Market Observation Post System as material information on June 27, 2016.

## III Corporate Governance Report

3.3.12 Documented opinions or declarations made by Directors or Supervisors against board resolutions in the most recent year, up till the publication date of this annual report: None.

### 3.3.13 Resignation of relevant personnel

March 31, 2017

TITLE	NAME	DATE ONBOARD	DATE DEPARTED	REASONS FOR RESIGNATION OR DISCHARGE
	None			

Note: Relevant personnel shall include Chairman, President, Head of Accounting, Head of Finance, Chief Auditor, and Head of R&D.

### 3.3.14 Corporate governance training of managers, directors, and supervisors:

#### A. Managers:

Title	Name	Course start time	Course end time	Organizer	Hours	Course name
Vice President	LAI, AI-WEN	2016/09/05	2016/09/05	Taiwan Stock Exchange Corporation	3	On-job Training for Securities and Futures Compliance Officers (Including Managers)
		2016/11/05	2016/11/05	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
		2016/11/20	2016/11/20	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
Executive Vice President	WENG, CHIN-NENG	2016/03/25	2016/03/26	Chinese National Futures Association	12	On-job Training of Futures Specialists
		2016/10/17	2016/10/17	Taiwan Securities Association	8	On-job Training of Securities Specialists
Senior Vice President	XIE, XIU-YING	2016/04/12	2016/04/12	Taiwan Academy of Banking and Finance	3	Conference on Digital Banking Service Innovation and Strategy
		2016/05/18	2016/05/18	Taiwan Academy of Banking and Finance	8	2016 National Finance Policy Conference
		2016/10/18	2016/10/18	Taiwan Academy of Banking and Finance	4	The Role of Trust in Long-term Nursing System: Senior Nursing Trust and Family Trust
		2016/10/27	2016/10/27	Department of Industry Development and Forecast, National Chung Cheng University	8	Financial Industry Forum - How FinTech Affects Future Prospect of the Financial Industry
Executive Vice President	HUANG, CHI-MING	2016/04/13	2016/04/13	Taiwan Stock Exchange Corporation	3	Seminar on 2016 Audit Case Study and Warrant Practices
		2016/05/23	2016/05/25	Chinese National Futures Association	9	On-job Training of Futures Specialists
		2016/05/27	2016/05/27	Taiwan Stock Exchange Corporation	4	2016 Securities Firm Internal Control System and Standards Seminar
		2016/06/20	2016/06/20	Taiwan Futures Exchange Corporation	3	2016 Futures Commission Merchant and Introducing Broker Internal Control Seminar
		2016/08/19	2016/08/19	Financial Ombudsman Institution	2.5	Financial Technology Development and Consumer Protection Conference



Title	Name	Starting Date	Ending Date	Organizers	Course Hours	Course Names
Senior Vice President	LIN, SHU-CHUAN	2016/03/01	2016/03/02	Chinese National Futures Association	6	On-job Training of Futures Specialists
		2016/03/30	2016/03/30	Trust Association of R.O.C	3	Trust Service Audit Workshop
		2016/05/13	2016/05/13	Taiwan Stock Exchange Corporation	4	2016 Internal Control Seminar
		2016/06/06	2016/06/06	Taiwan Futures Exchange Corporation	3	2016 Futures Commission Merchant and Introducing Broker Internal Control Seminar
		2016/06/07	2016/06/07	Taiwan Stock Exchange Corporation	3	2016 Legal and Professional Awareness Course for Securities Specialists
		2016/06/23	2016/06/23	Taiwan Securities Association	3	Challenges and Opportunities of Digital Banking
		2016/07/06	2016/07/06	Taiwan Stock Exchange Corporation	2.5	Applicability of Dual-currency Trading System on Exchange Traded Funds
		2016/08/10	2016/08/10	Taiwan Securities Association	3	The Role of Securities and Futures Firms in Financial Technology Development
		2016/08/30	2016/08/30	Taiwan Stock Exchange Corporation	3	The Role of Capital Market in Financial Technology Development
		2016/10/17	2016/10/17	Taiwan Securities Association	8	On-job Training of Securities Specialists
		2016/10/24	2016/11/14	Taiwan Academy of Banking and Finance	12	Anti-money Laundering Workshop
Senior Vice President	FANG, CHIH-HUNG	2016/07/22	2016/07/22	Trust Association of R.O.C	6	On-job Training for Trust Supervisors
		2016/10/04	2016/10/04	Taiwan Academy of Banking and Finance	6	Financial Industry Big Data Risk Management Workshop
		2016/10/17	2016/10/17	Taiwan Securities Association	8	On-job Training of Securities Specialists
		2016/11/29	2016/11/29	Taipei Exchange	2.5	Risk Management Practice Conference for Securities Firms
		2016/12/03	2016/12/03	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
		2016/12/11	2016/12/11	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
Executive Vice President	TAN, DE-CHENG	2016/02/22	2016/02/26	Taiwan Securities Association	15	On-job Training of Securities Specialists
		2016/08/17	2016/08/17	Taiwan Securities Association	3	Cross-strait Investment Legal Risks and Case Studies
		2016/09/21	2016/09/21	Taiwan Securities Association	3	Corporate Responses and Strategies Against Exchange Rate Volatility
		2016/11/17	2016/11/17	Taiwan Securities Association	3	Tax Reform Trends - Dividend Income and Offshore Companies
		2016/12/21	2016/12/21	Taiwan Securities Association	3	Financial Statement Preparation and Legal Responsibilities

# III Corporate Governance Report

Title	Name	Starting Date	Ending Date	Organizers	Course Hours	Course Names
Senior Vice President	HUANG, ZI-RONG	2016/08/17	2016/08/17	Taiwan Securities Association	3	Cross-strait Investment Legal Risks and Case Studies
		2016/09/21	2016/09/21	Taiwan Securities Association	3	Corporate Responses and Strategies Against Exchange Rate Volatility
		2016/10/19	2016/10/19	Taiwan Securities Association	3	Comprehending IFRS Financial Statements
		2016/11/05	2016/11/05	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
		2016/11/17	2016/11/17	Taiwan Securities Association	3	Tax Reform Trends - Dividend Income and Offshore Companies
		2016/11/20	2016/11/20	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
Senior Vice President	ZHANG, JIA-WEN	2016/01/22	2016/01/22	Taiwan Corporate Governance Association	3	Current Amendment of Corporate Governance Regulations and Notes on Shareholder Meetings
		2016/10/17	2016/10/17	Taiwan Securities Association	8	On-job Training of Securities Specialists
Executive Vice President	LIN, YAN-FEN	2016/11/05	2016/11/05	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
		2016/11/20	2016/11/20	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
Executive Vice President	YANG, JIE-BIN	2016/10/17	2016/10/17	Taiwan Securities Association	8	On-job Training of Securities Specialists
Senior Vice President	WANG, JUAN-HUI	2016/04/27	2016/04/27	Taiwan Securities Association	1.5	Seminar on "OSU Offshore Product Sales and Reporting System"
		2016/10/17	2016/10/17	Taiwan Securities Association	8	On-job Training of Securities Specialists
		2016/10/24	2016/10/24	Taiwan Academy of Banking and Finance	3	Anti-money Laundering Workshop - Signs and Prevention
		2016/10/31	2016/10/31	Taiwan Academy of Banking and Finance	3	Anti-money Laundering Workshop - Development of International Standards and Domestic Regulations
		2016/11/05	2016/11/05	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
		2016/11/20	2016/11/20	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
Senior Vice President	ZHENG, SHU-FEN	2016/01/19	2016/03/22	Taiwan Securities Association	60	Foreign Currency Derivative Course
		2016/04/14	2016/04/14	Taiwan Academy of Banking and Finance	3	Taiwan Financial Forum - Financial Technology Trends and Talent Requirements
		2016/05/24	2016/06/21	Taiwan Academy of Banking and Finance, Financial Information Service Co. Ltd.	24	E-Commerce Marketing Workshop
		2016/08/22	2016/08/22	Taiwan Academy of Banking and Finance, KPMG	8	Blockchain Summit
		2016/10/17	2016/10/17	Taiwan Securities Association	8	On-job Training of Securities Specialists
Senior Vice President	ZHONG, XUAN-FENG	2016/02/01	2016/02/02	Chinese National Futures Association	6	On-job Training of Futures Specialists

## B. Directors and supervisors:

Title	Name	Organizer	Course name	Course date	Hours
Chairman	WANG, JIUNN-CHIH	Dharma Drum Mountain Humanities and Social Improvement Foundation	Corporate Social Responsibilities - Respecting Corporate Governance and Building A Top-performing Team	2016/07/25	3
		Taiwan Securities Association	Executive Management On-job Training Workshop	2016/10/17	8
		Financial Supervisory Commission	The 11th Taipei Corporate Governance Forum	2016/10/20	3
Director	LIU, CHING-TSUN	Dharma Drum Mountain Humanities and Social Improvement Foundation	Corporate Social Responsibilities - Corporate Ethics in Profit Making - An Overview on Insider Trading	2016/06/17	3
		Dharma Drum Mountain Humanities and Social Improvement Foundation	Corporate Social Responsibilities - Respecting Corporate Governance and Building A Top-performing Team	2016/07/25	3
Director	YANG, CHE-HUNG	Dharma Drum Mountain Humanities and Social Improvement Foundation	Corporate Social Responsibilities - Respecting Corporate Governance and Building A Top-performing Team	2016/07/25	3
		Taiwan Stock Exchange Corporation	Corporate Governance Forum - Business Integrity and Corporate Social Responsibilities	2016/09/01	3
Director	LIN, CHUN-YU	Dharma Drum Mountain Humanities and Social Improvement Foundation	Corporate Social Responsibilities - Respecting Corporate Governance and Building A Top-performing Team	2016/07/25	3
		Taiwan Corporate Governance Association	Directors' Corporate Governance Vision and an Efficient Board	2016/12/02	3
Director	TSAI, I-CHING	Dharma Drum Mountain Humanities and Social Improvement Foundation	Corporate Social Responsibilities - Respecting Corporate Governance and Building A Top-performing Team	2016/07/25	3
		Securities and Futures Institute	Importance of Media Communication in Corporate Crisis Management	2016/10/28	3
Director	CHANG, CHIH-MING	Dharma Drum Mountain Humanities and Social Improvement Foundation	Corporate Social Responsibilities - Respecting Corporate Governance and Building A Top-performing Team	2016/07/25	3
		Taiwan Corporate Governance Association	Detecting Fraud in Financial Statements	2016/12/23	3
Director	KUO, YUH-CHYI	Trust Association of R.O.C.	Senior Nursing Trust Sample Agreement Seminar	2016/05/17	3
		Taiwan Academy of Banking and Finance	Trust Supervisors Workshop	2016/05/17	3
		Taiwan Corporate Governance Association	The 12th International Corporate Governance Summit Forum [Corporate Governance Guidelines for State-owned Enterprises]	2016/10/06	3
		Taiwan Corporate Governance Association	The 12th International Corporate Governance Summit Forum [Establishment of Commercial Court and Supporting Measures]	2016/10/06	3
		Taiwan Corporate Governance Association	The 12th International Corporate Governance Summit Forum [Board Diversity and Nomination Committee]	2016/10/07	3
		Taiwan Corporate Governance Association	Legal Responsibilities of Independent Directors from Court Judgment	2016/11/28	3

### III Corporate Governance Report

Title	Name	Organizer	Course name	Course date	Hours
Director	ANGEL CHANG	Securities and Futures Institute	[Reading Corporate Performance Information] - Advanced Practical Workshop for (Independent) Directors and Supervisors	2016/05/17	3
		Dharma Drum Mountain Humanities and Social Improvement Foundation	Corporate Social Responsibilities - Respecting Corporate Governance and Building A Top-performing Team	2016/07/25	3
Independent Director	SHEA, JIA-DONG	Dharma Drum Mountain Humanities and Social Improvement Foundation	Corporate Social Responsibilities - Respecting Corporate Governance and Building A Top-performing Team	2016/07/25	3
		Taiwan Corporate Governance Association	Functionality of Independent Directors and Audit Committee	2016/12/16	3
Independent Director	LIN, HSIN-HUI	Taiwan Academy of Banking and Finance	Trust Supervisors (Including In-service Personnel) Workshop	2016/07/16	3
		Dharma Drum Mountain Humanities and Social Improvement Foundation	Corporate Social Responsibilities - Respecting Corporate Governance and Building A Top-performing Team	2016/07/25	3
		Taiwan Corporate Governance Association	Functionality of Independent Directors and Audit Committee	2016/12/16	3
Independent Director	HWANG, JYH-TIEN	Dharma Drum Mountain Humanities and Social Improvement Foundation	Corporate Social Responsibilities - Respecting Corporate Governance and Building A Top-performing Team	2016/07/25	3
		Taiwan Corporate Governance Association	The 12th International Corporate Governance Summit Forum [Corporate Governance Guidelines for State-owned Enterprises]	2016/10/06	3

### 3.3.15 Qualification of personnel associated with financial transparency

Name of certification	Auditing Office (26 people)	Finance Department (Total: 41 people)	Risk Management Department (Total: 6 people)
Securities Specialist	8	11	1
Senior Securities Specialist	24	17	5
Margin trading and short sale	13	3	1
Securities lending	1		
Futures specialist	22	6	3
Securities investment trust and consulting professional	12	10	
Securities investment trust and consulting laws (including self-discipline)	1	2	
Bill finance specialist	3	1	
Life insurance representative	13	5	1
Investment-linked insurance representative	6	1	
Non-life insurance representative	10	1	
Qualification for non-investment foreign currency insurance products	6	2	
Wealth management specialist	18	2	
Stock affair specialist	2		
Bonds specialist	2		
Trust specialist	13	6	1
Trust manager			1
Trust laws	1	2	
Structured instrument specialist	1		1
Bookkeeper		3	
Financial market knowledge and work ethics	10	4	3
First-time internal auditor seminar	7		
Bank internal control and internal audit		1	
Advanced securities capital adequacy ratio calculation and reporting personnel	10	21	6
Chartered Financial Analyst (CFA)			1
Financial Risk Manager (FRM)			4
Foreign Currency Derivative Course	5	4	1
Qualification for spot foreign currency transactions in a securities firm		3	
Proficiency test for junior foreign exchange specialist		1	
Total	189	106	29

## 3.4 Disclosure of CPAs' remuneration:

### 3.4.1 Audit remuneration brackets table

Name of accounting firm	Name of CPA		Audit period	Remarks
KPMG	Dannie Lee	Charles Chen	From January 2014 to December 2015	
	Dannie Lee	Phoebe D.D. Chung	From January 2016 till now	The change of CPA was due to a job rotation within the accounting firm.

Amount range		Fee category	Audit remuneration	Non-audit remuneration	Total
1	Below NT\$ 2,000,000			V	
2	NT\$ 2,000,000 (inclusive) ~ NT\$ 4,000,000				
3	NT\$ 4,000,000 (inclusive) ~ NT\$ 6,000,000		V		V
4	NT\$ 6,000,000 (inclusive) ~ NT\$ 8,000,000				
5	NT\$ 8,000,000 (inclusive) ~ NT\$ 10,000,000				
6	NT\$ 10,000,000 and above				

### 3.4.2 Non-audit remuneration to external auditors, accounting firms and related businesses that amount to one-quarter or higher of audit remuneration:

In 2016, the Company paid non-audit remuneration totaling NT\$20,000 to auditor, accounting firm and related businesses (for issuing opinions on treasury stocks), which was below one-quarter of audit remuneration.

### 3.4.3 Any replacement of accounting firm that resulted in the reduction of audit remuneration paid, as compared to the previous year: None.

### 3.4.4 Any reduction in audit remuneration by more than 15% compared to the previous year: None.

### 3.5 Change of CPA:

#### 3.5.1 Information relating to the former auditor

Date of reappointment	March 28, 2016		
Reason for reappointment	Job rotation within the accounting firm.		
Whether the termination of audit service was initiated by the client or by the auditor.	Parties involved		
	Situation	Auditor	Client
	Service terminated by	V	
	Service no longer accepted (continued) by		
Reasons for issuing opinions other than unqualified opinions in the last 2 years.	None		
Any disagreement with the issuer	Yes		Accounting principles or practices
			Disclosure of financial statements
			Audit coverage or procedures
			Others
	N/A	V	
	Description		
Other disclosures (disclosures deemed necessary under Item 1-4 to Item 1-7, Subparagraph 6, Article 10 of the Guidelines)	None		

#### 3.5.2. Information relating to the succeeding auditor

Name of accounting firm	KPMG
Name of auditor	Dannie Lee/Phoebe D.D. Chung
Date of appointment	2016.03.28
Inquiries and replies regarding accounting practices or principles on certain transactions, or any audit opinions the auditors were likely to issue on the financial reports prior to reappointment.	None
Written disagreements from the succeeding auditor against opinions of the former auditor	None

3.5.3 Former auditor's reply relating to Item 1 and Item 2-3, Subparagraph 6, Article 10 of the Guidelines: None.

**3.6 Disclosure of any of the Company's Chairman, President, or managers responsible for financial or accounting affairs being employed by the auditor's firm or any of its affiliated company in the last year, including their names, job titles, and the periods during which they were employed by the auditor's firm or any of its affiliated company:** None.

## 3.7 Transfer and Pledged of shares by Directors, Supervisors, Managers and Major Shareholders

Unit: Shares

Title	Name	2016		Year-to-date as at April 28	
		Shares held Increase (Decrease)	Shares pledged Increase (Decrease)	Shares held Increase (Decrease)	Shares pledged Increase (Decrease)
Chairman	Yin Feng Enterprise Co., Ltd. representative: WANG, JIUNN-CHIH	0	0	0	0
Director	Yin Feng Enterprise Co., Ltd. representative: LIU, CHING-TSUN	0	0	0	0
Director	Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIH-MING	0	0	0	0
Director	Tai Chun Enterprise Co., Ltd. representative: TSAI, I-CHING	0	0	0	0
Director	Tai Chun Enterprise Co., Ltd. representative: LIN, CHUN-YU	0	0	0	0
Director	Hong Long Enterprise Co., Ltd. representative: KUO, YUH-CHYI	0	0	0	0
Director	Kwang Hsing Industrial Co., Ltd. representative: YANG, CHE-HUNG	0	0	0	0
Director	San Ho Enterprise Co., Ltd. representative: ANGEL CHANG	0	0	0	0
Independent Director	SHEA, JIA-DONG	0	0	0	0
Independent Director	LIN, HSIN-HUI	0	0	0	0
Independent Director	HWANG, JYH-TIEN	0	0	0	0
Chairman	WANG, JIUNN-CHIH	0	0	0	0
President	CHAO, YONG-FEI	0	0	0	0
Vice President	YAO, ZHONG-ZHI	0	0	0	0
Vice President	MA, JIA-HUAN	0	0	0	0
Vice President	YANG, JIE-BIN	(20,000)	0	(120,000)	0
Vice President	TAN, DE-CHENG	139,000	0	(110,000)	0
Vice President	WENG, CHIN-NENG	0	0	0	0
Vice President	GUO, MEI-LING	0	0	0	0



Title	Name	2016		Year-to-date as at April 28	
		Shares held Increase (Decrease)	Shares pledged Increase (Decrease)	Shares held Increase (Decrease)	Shares pledged Increase (Decrease)
Vice President	HUANG, CHI-MING	0	0	0	0
Vice President	ZHANG, PEI-WEN	0	0	0	0
Vice President	LIN, YAN-FEN	0	0	0	0
Assistant Manager	ZHENG, YU-LING	0	0	0	0
Assistant Manager	XIE, YU-LIN	0	0	0	0
Assistant Manager	ZHANG, DUN-FU	0	0	0	0
Assistant Manager	WONG, HE-MING	0	0	0	0
Assistant Manager	CHEN, PEI-QI	0	0	0	0
Assistant Manager	ZHOU, XIU-ZHEN	0	0	0	0
Assistant Manager	WANG, YA-FANG	0	0	0	0
Assistant Manager	HOU, LE-PING	0	0	0	0
Assistant Manager	HUANG, ZI-RONG	0	0	0	0
Assistant Manager	WU, JUN-MING	0	0	0	0
Assistant Manager	PAN, HUI-MEI	11,000	0	0	0
Assistant Manager	WENG, SHU-LING	0	0	0	0
Assistant Manager	LI, MU-XIAN	0	0	0	0
Assistant Manager	HUANG, DONG-HE	0	0	0	0
Assistant Manager	WANG, JUAN-HUI	(90,000)	0	0	0
Assistant Manager	QIU, JIAN-HUA	0	0	0	0
Assistant Manager	LIN, JING-HUA	0	0	0	0
Assistant Manager	ZHENG, SHU-FEN	0	0	0	0
Assistant Manager	XIE, XIU-YING	0	0	0	0
Assistant Manager	LAI, JUN-FU	0	0	0	0
Assistant Manager	LIN, SHU-CHUAN	(127,000)	0	0	0
Assistant Manager	ZHAO, FENG-RONG	0	0	0	0

# III Corporate Governance Report

Title	Name	2016		Year-to-date as at April 28	
		Shares held Increase (Decrease)	Shares pledged Increase (Decrease)	Shares held Increase (Decrease)	Shares pledged Increase (Decrease)
Assistant Manager	CHUNG, HSUAN-FENG	0	0	0	0
Assistant Manager	LIN, BO-WEI	0	0	0	0
Assistant Manager	HUANG, ZHI-HUA	0	0	0	0
Assistant Manager	WU, YUN-WEN	0	0	0	0
Assistant Manager	CHEN, YI-RU	0	0	0	0
Assistant Manager	ZHANG, JIA-WEN	0	0	0	0
Assistant Manager	LIU, SHU-RU	0	0	0	0
Assistant Manager	FANG, CHIH-HUNG	0	0	0	0
Assistant Manager	YAO, MING-QING	0	0	0	0
Assistant Manager	HSU, TSUI-YUN	5,000	0	0	0
Assistant Manager	CHANG, LI-FEN	0	0	0	0
Assistant Manager	CHIU , TSAN-HIS	0	0	0	0
Assistant Manager	CHANG, CHIN-YAO	0	0	0	0
Assistant Manager	SUNG, FEN-LAN	0	0	0	0
Manager	CHEN, LI-ZHUN	(36,000)	0	0	0
Manager	CHEN, ZHI-ZHONG	0	0	0	0
Manager	TANG, WEN-JI	0	0	0	0
Manager	LIN, JING-WEN	0	0	0	0
Manager	HUANG, QIU-HUANG	0	0	0	0
Manager	KAI, SHI-HUA	0	0	0	0
Manager	WANG, CHING-FEN	0	0	0	0
Manager	HUANG, QING-YAN	0	0	0	0
Manager	LIN, HUI-JING	0	0	0	0
Manager	WANG, LU-CHENG	0	0	0	0
Manager	YANG, ZHI-KAI	0	0	0	0
Manager	XU, HONG-BO	0	0	0	0

Title	Name	2016		Year-to-date as at April 28	
		Shares held Increase (Decrease)	Shares pledged Increase (Decrease)	Shares held Increase (Decrease)	Shares pledged Increase (Decrease)
Manager	HAI, YAN	0	0	0	0
Manager	SU, RUI-YI	0	0	0	0
Manager	PENG, GUI-CONG	0	0	0	0
Manager	HUANG, MEI-ZHU	0	0	0	0
Manager	YU, XIAO-MEI	0	0	0	0
Manager	XU, LI-FEN	0	0	0	0
Manager	WU, HONG-ZHI	0	0	0	0
Manager	ZHENG, YU-CHANG	0	0	0	0
Manager	ZHANG, TIAN-MU	0	0	0	0
Manager	CHAO, CHIH-MING	0	0	0	0
Manager	WEI, WEN-JIN	0	0	0	0
Manager	LI, XIANG-JUN	0	0	0	0
Manager	ZHU, DE-REN	0	0	0	0
Manager	CAO, HOU-SHENG	0	0	0	0
Manager	TIAN, DA-ZHONG	0	0	0	0
Manager	CHEN, BO-XUN	0	0	0	0
Manager	LIN, LI-KAI	0	0	0	0
Manager	ZHANG, XUE-HE	0	0	0	0
Manager	CAI, QING-FEN	0	0	0	0
Manager	XU, JUN-YANG	0	0	0	0
Manager	CHEN, XUAN-ZHI	0	0	0	0
Manager	XIE, JIA-JUN	0	0	0	0
Manager	LIN, JIANG-HE	0	0	0	0
Manager	YANG, YAN-QIU	0	0	0	0
Manager	WANG, WAN-QI	0	0	0	0
Manager	CHEN, ZHI-SHAN	0	0	0	0

### III Corporate Governance Report

Title	Name	2016		Year-to-date as at April 28	
		Shares held Increase (Decrease)	Shares pledged Increase (Decrease)	Shares held Increase (Decrease)	Shares pledged Increase (Decrease)
Manager	CHEN, MEI-RU	0	0	0	0
Manager	CHEN, ZHENG-YANG	0	0	0	0
Manager	YANG, ZONG-MU	0	0	0	0
Manager	LAI, AI-WEN	0	0	0	0
Manager	DENG, XUE-REN	0	0	0	0
Manager	YANG, KUN-LONG	0	0	0	0
Manager	ZHANG, MING-YI	0	0	0	0
Manager	MA, SHAO-HONG	0	0	0	0
Manager	WEI, YU-MEI	0	0	0	0
Manager	LIN, JING-ZHI	0	0	0	0
Manager	WU, ZHENG-HAN	0	0	0	0
Manager	HUANG, YI-LIAN	0	0	0	0
Assistant Manager	CHEN, YI-REN	0	0	0	0
Assistant Manager	YE, YI-LING	0	0	0	0
Manager	YEN, HSIOU-RONG	0	0	0	0
Manager	CHANG, YUNG-RUEI	0	0	0	0
Manager	WU, CHEN-YI	0	0	0	0
Manager	WU, CHEN-MING	0	0	0	0
Manager	RUAN, YUAN-CHUN	0	0	0	0

Note 1: Shareholders holding >10% of the Company's outstanding shares should be specifically marked as major shareholders.

Note 2: Shares transferred or pledged with related parties should be disclosed in the following tables.

### 3.8 Relationships among top-10 shareholders

NAME (NOTE 1)	SELF SHAREHOLDING		SHARES HELD BY SPOUSE AND UNDERAGE CHILDREN		SHARES HELD IN THE NAMES OF OTHERS		RELATIONSHIP CHARACTERIZED AS SPOUSE OR RELATIVE OF SECOND DEGREE OR CLOSER AMONG THE TOP-10 SHAREHOLDERS. (NOTE 3)		REMARKS
	Shares held	Shareholding percentage	Shares held	Shareholding percentage	Shares held	Shareholding percentage	Name	Relationship	
Fiduciary account held in trust by Chinatrust Commercial Bank Limited	123,811,510	5.71%	0	0.00%	0	0.00%	-	-	-
Hontai Life Insurance Co., Ltd. Representative: LU, HUAN-YI	84,661,345	3.90%	0	0.00%	0	0.00%	-	-	-
Fu Ding Investment Co., Ltd. Representative: LIAO, CHIEN-HUNG	71,407,143	3.29%	0	0.00%	0	0.00%	-	-	-
Bao Zuo Investment Co., Ltd. Representative: CHAN, TUNG-HSING	70,908,014	3.27%	0	0.00%	0	0.00%	-	-	-
Bao Sheng Investment Co., Ltd. Representative: CHANG, YEN-GENG	67,583,007	3.12%	0	0.00%	0	0.00%	-	-	-
Tai Sheng Investment Co., Ltd. Representative: YANG, SHU-HUEI	66,780,216	3.08%	0	0.00%	0	0.00%	-	-	-
Kwang Yang Motor Co., Ltd. Representative: KO, SHENG-FENG	57,703,929	2.66%	0	0.00%	0	0.00%	-	-	-
Min Huey Enterprise Co., Ltd. Representative: LI, HUEI-CHU	57,238,747	2.64%	0	0.00%	0	0.00%	-	-	-
Hong Chia Investment Co., Ltd. Representative: LIAO, CHIEN-HUNG	57,027,023	2.63%	0	0.00%	0	0.00%	-	-	-
Bao Qing Investment Co., Ltd. Representative: WANG, HUEI-CHIN	51,262,360	2.36%	0	0.00%	0	0.00%	-	-	-

Note 1: All top-10 shareholders have been listed. For corporate shareholders, the name of the corporate entity and the name of the representative are shown separately.

Note 2: The percentages of shares held under own name, spouse's name, underage children's names, or in the names of others are calculated separately.

Note 3: Relations among the abovementioned shareholders (including corporate and natural-person shareholders) have been disclosed in accordance with the relationships defined in Regulations Governing the Preparation of Financial Reports by Securities Issuers.

## 3.9 Investments jointly held by the Company, the Company's directors, supervisors, managers, and enterprises directly or indirectly controlled by the Company; disclose shareholding in aggregate of the above parties:

Unit: shares; %  
Date: March 31, 2017

Invested business (Note 1)	Held by the Company		Held by Directors, Supervisors, managers, and directly or indirectly controlled enterprises		Aggregate ownership interest	
	Shares held	Shareholding percentage	Shares held	Shareholding percentage	Shares held	Shareholding percentage
Capital Investment Management Corp.	7,000,000	100.00%	—	—	7,000,000	100.00%
Capital Futures Corp. (Note 2)	90,222,223	56.25%	396,762	0.25%	90,618,985	56.50%
Capital Insurance Advisory Corp.	500,000	100.00%	—	—	500,000	100.00%
Capital Insurance Agency Corp.	740,000	100.00%	—	—	740,000	100.00%
CSC International Holdings Ltd.	45,000,000	100.00%	—	—	45,000,000	100.00%
Jing Ding Co., Ltd. (Formerly known as Taiwan International Futures Corp.)	11,999,721	99.99%	—	—	11,999,721	99.99%
Taiwan International Securities (B.V.I.) Corporation	300	100.00%	—	—	300	100.00%
Chun Jin Co., Ltd. (Formerly known as Taiwan International Securities Investment Consulting Corp.)	999,200	99.92%	100	0.01%	999,300	99.93%
CSC Venture Capital Corp.	100,000,000	100.00%	—	—	100,000,000	100.00%
Taiwan Depository and Clearing Corp.	4,555,605	1.29%	—	—	4,555,605	1.29%
Taiwan Futures Exchange Corp.	4,056,030	1.33%	4,679,366	1.53%	8,735,396	2.86%
Taiwan Stock Exchange Corp.	380,588	0.06%	—	—	380,588	0.06%
Global Securities Finance Corp.	24,186,568	6.05%	—	—	24,186,568	6.05%
Chou Chin Industrial Co., Ltd.	30,143	0.05%	—	—	30,143	0.05%
Jong Yi Industrial Development Co., Ltd.	232,254	0.68%	—	—	232,254	0.68%
Reliance Securities Investment Trust Co., Ltd.	940,800	3.02%	—	—	940,800	3.02%
Top Taiwan III Venture Capital Co., Ltd	1,225,000	7.00%	—	—	1,225,000	7.00%
Prudence Venture Investment Corp.	1,810,836	1.50%	—	—	1,810,836	1.50%

Note 1: Investee business which is recognized as investments under equity method or financial asset measured at cost- non-current.

Note 2: The number of shares includes 56,000 shares acquired through underwriting service, which is presented in the financial statements as trading securities - underwriting.

## IV Funding Status

### 4.1 Capital and outstanding shares

#### 4.1.1 Source of capital and share category:

##### A. Source of capital

Unit: thousand shares / NT\$ thousands

Year / month	Par Value (NTD)	Authorized capital		Paid-in capital		Remarks		
		Number of shares	Amount	Number of shares	Amount	Sources of capital	Capital increased by assets other than cash	Others
Jun. 2011	10	3,000,000	30,000,000	2,334,062	23,340,621	Increasing capital by NTD283,395 by issuing new shares after merger	None	Note 1
Oct. 2011	10	3,000,000	30,000,000	2,369,073	23,690,730	Increasing capital by NTD350,109 out of earnings	None	Note 2
Nov. 2015	10	3,000,000	30,000,000	2,319,073	23,190,730	Reducing capital by NTD500,000	None	Note 3
Feb. 2016	10	3,000,000	30,000,000	2,269,073	22,690,730	Reducing capital by NTD500,000	None	Note 4
Feb. 2017	10	3,000,000	30,000,000	2,169,073	21,690,730	Reducing capital by NTD1,000,000	None	Note 5

Note 1: Authority's approval date and reference: Letter No. Jin-Guan-ZGeng-Quan-Zi-1000009983 dated March 18, 2011.

Note 2: Authority's approval date and reference: Letter No. Jin-Guan-Zheng-Quan-Zi-1000031788 dated July 11, 2011.

Note 3: Authority's approval date and reference: Letter No. Jin-Guan-Zheng-Jiao-Zi-1040045464 dated November 10, 2015.

Note 4: Authority's approval date and reference: Letter No. Jin-Guan-Zheng-Jiao-Zi-1050001350 dated January 14, 2016.

Note 5: Authority's approval date and reference: Letter No. Jin-Guan-Zheng-Jiao-Zi-1060001490 dated January 13, 2017.

##### B. Share categories

Unit: thousand shares

Share category	Authorized capital			Remarks
	Outstanding shares (public listed)	Unissued shares	Total	
Registered common shares	2,169,073	830,927	3,000,000	-

##### C. Information relevant to the aggregate reporting policy: Not applicable.

## IV Funding Status

### 4.1.2 Shareholder Structure

As of Apr 28, 2017

Shareholder Structure Quantity	Government Agencies	Financial Institutions	Other Institutional Investors	Domestic Natural Persons	Foreign Institutions & Individuals	Total
Number of Shareholders	3	11	243	85,124	246	85,627
Shares held	7,270,576	160,859,903	1,052,458,127	602,255,812	346,228,569	2,169,072,987
Percentage	0.34%	7.41%	48.52%	27.77%	15.96%	100.00%

Note: Primary exchange (or OTC) listed companies and emerging stock companies are required to disclose the shareholding ratio of mainland Chinese investors.

According to the Article 3 of Measures Governing Investment Permit to the People of Mainland Area, mainland Chinese investors include the individuals, juristic persons, organizations, other institutions from Mainland and the companies they invest into in a third area.

### 4.1.3 Shareholding Distribution Status

(Face value per share: NTD10) As of Apr 28, 2017

Class of Shareholding (Unit: Shares)	Number of Shareholders	Shares Held	Percentage
1 ~ 999	46,171	8,936,009	0.41%
1,000 ~ 5,000	22,633	52,745,587	2.43%
5,001 ~ 10,000	6,996	50,412,089	2.32%
10,001 ~ 15,000	3,042	36,695,068	1.69%
15,001 ~ 20,000	1,603	28,708,799	1.32%
20,001 ~ 30,000	1,762	43,330,139	2.00%
30,001 ~ 40,000	865	29,862,250	1.38%
40,001 ~ 50,000	506	23,030,833	1.06%
50,001 ~ 100,000	1,035	72,652,515	3.35%
100,001 ~ 200,000	508	70,573,932	3.25%
200,001 ~ 400,000	234	65,424,752	3.02%
400,001 ~ 600,000	75	36,017,150	1.66%
600,001 ~ 800,000	38	25,775,798	1.19%
800,001 ~ 1,000,000	22	19,653,358	0.91%
1,000,001 or over (based on company's self-classification)	137	1,605,254,708	74.01%
Total	85,627	2,169,072,987	100.00%



#### 4.1.4 List of Major Shareholders

Name of Major Shareholder	Shareholding	
	Shares	Percentage
CTBC Bank Trust Account	123,811,510	5.71%
Hontai Life Insurance Co., Ltd.	83,834,345	3.87%
Fu Ting Investment Co., Ltd.	73,800,000	3.40%
Pao Tso Investment Co., Ltd.	71,407,143	3.29%
Pao Sheng Investment Co., Ltd.	70,908,014	3.27%
Tai Shen Investment Co., Ltd.	67,583,007	3.12%
Kwang Yang Motor co., Ltd.	66,780,216	3.08%
Min Hui Enterprise Co., Ltd.	57,238,747	2.64%
Hung Chia Investment Co., Ltd.	57,027,023	2.63%
Pao Ching Investment Co., Ltd.	51,262,360	2.36%

#### 4.1.5 Information relating to market price, net worth, earnings, and dividends per share for the last two year and the current year (2017) up till March 31, 2017:

Item		Year	2015	2016	Current year (2017) up till March 31 (Note 8)
Market price per share (Note 1)	High		11.65	9.89	10.40
	Low		7.51	7.80	8.88
	Average		9.87	8.53	9.75
Net worth per-share (Note 2)	Before distribution		13.33	13.55	--
	After distribution		12.85	--	--
Earnings per-share	Weighted average outstanding shares (in thousands)		2,357,324	2,265,158	2,169,561
	EPS (Note 3)		0.66	0.53	--
Dividend per-share	Cash dividend		0.49	--	--
	Stock dividend	From earnings	0	--	--
		From capital surplus	0	--	--
	Cumulative undistributed dividends (Note 4)		0	--	--
ROI analysis	P/E ratio (Note 5)		14.95	16.09	--
	Price to dividend ratio (Note 6)		20.14	--	--
	Cash dividend yield (Note 7)		4.96%	--	--

\*Where stock dividends were paid from earnings or capital surplus, market price and cash dividends per share are adjusted retrospectively for the number of new shares issued.

## IV Funding Status

Note 1: The table shows the highest and lowest market price of common shares in each year; average market price is calculated by weighing transacted prices against transacted volumes in the respective years.

Note 2: Calculated based on the number of outstanding shares at year-end; amount of distribution resolved in next year's shareholders meeting is presented in the table.

Note 3: Where stock dividends were issued, EPS are disclosed in amounts before and after retrospective adjustments.

Note 4: If equity securities are issued with terms that allow dividends to be accrued and accumulated until the year the Company makes profit, the amount of cumulative undistributed dividends up till the current year is disclosed separately.

Note 5: P/E ratio = average closing price per share for the year / earnings per share.

Note 6: Price to dividend ratio = average closing price per share for the year / cash dividends per share.

Note 7: Cash dividend yield = Cash dividend per share / average closing price per share for the current year.

Note 8: Net worth per share and earnings per share are based on audited (auditor-reviewed) data as at the latest quarter before the publication date of this annual report. For all other fields, calculations are based on data as at the end of their respective years.

### 4.1.6 Dividend policy and execution

#### A. Dividend policy stated in the Company's Articles of Incorporation:

According to the Company's articles of incorporation, any profits concluded from year-end closure are first subject to taxation and reimbursement of previous losses, followed by a 10% provision for legal reserve, a 20% provision for special reserve, and other provisions required by law.

Distribution of annual earnings, including dividends and bonuses, is proposed by the board of directors and resolved in shareholders' meeting. The balance of distributable earnings less the amount retained must not be lesser than 10% of distributable earnings. Regarding the types of dividend, based on the Company's capital budget plan, stock dividends are distributed for the purpose of reserving capital required for operation; other dividends can be distributed in cash, and cash dividends shall not be less than 10% of the total distributed dividends.

#### B. Dividends distribution proposed in the shareholders' meeting:

The proposed distribution of 2016 earnings includes cash dividends totaling NT\$802,557,005 or NT\$0.37 per share, to be allocated based on the number of shares held by each shareholder as of the ex-rights date less treasury stocks. Once the proposal is approved in a shareholders' meeting, the board of directors will proceed to set the ex-dividend date.

### 4.1.7 Impacts of proposed stock dividends on the Company's business performance and earnings per share: None.

### 4.1.8 Employees'/Directors'/Supervisors' remuneration

#### A. Percentage and range of employees'/directors'/supervisors' remuneration stated in the Articles of Incorporation:

The Company has adopted a residual dividend policy to support ongoing business expansion and achieve sustainable growth in earnings while maintaining capital adequacy.

Annual profits concluded by the Company are subject to employee remuneration of 0.6% to 2%, which the board of directors may decide to distribute in cash or in shares. Employees of subsidiaries are also entitled to receive remuneration, provided that they meet the criteria specified by the board of directors. Up to 3% of the aforementioned profit may be distributed as directors' remuneration at the discretion of the board of directors. Employee and director remuneration proposals must be reported during shareholders' meeting.

However, profits must first be taken to offset against cumulative losses, if any, before the remainder can be distributed as employee/director remuneration in the above percentages.

**B. Accounting treatment for differences between estimated and actual employees'/directors'/supervisors' remuneration:**

**(1) Basis of calculation for employees'/directors'/supervisors' remuneration and share-based compensations:**

The Company's 2016 earnings are first subject to a 10% provision for legal reserve followed by a 20% provision for special reserve. According to the Company's Articles of Incorporation, annual profits are subject to employee remuneration of 0.6% to 2% and directors' remuneration of no more than 3%. However, profits must first be taken to offset against cumulative losses if any. The Company's 2016 employees'/directors'/supervisors' remuneration were estimated by multiplying the 2016 net income (before employees'/directors'/supervisors' remuneration) with the aforementioned remuneration percentages stated in the Articles of Incorporation. The number of shares distributed as share-based payment is calculated based on closing price one day before the shareholders' resolution date, while taking into consideration the effects of cash and stock dividends.

**(2) Accounting treatment for differences between estimated and actual employees'/directors'/supervisors' remuneration:**

If a change occurs in the following year after the financial report is published, the difference will be treated as a change of accounting estimate and recognized as gain or loss in the following year.

**C. Remuneration passed by the board of directors:**

① On March 27, 2017, the board of directors passed a resolution to distribute employee remuneration totaling NT\$9,120,366 and directors'/supervisors' remuneration totaling NT\$17,410,335 in cash.

② If the distributed amounts (resolved by the board of directors) of employees' remuneration in form of cash or stocks and remuneration for directors and supervisors are different from the estimated amounts of the fiscal year in which these expenses are recognized, the discrepancy, its cause and the status of treatment shall be disclosed:

Item (2016)	Board-proposed amount of distribution (A)	Estimated amount recognized as expense of the fiscal year (B)	Difference (A - B)	Cause of difference and treatment
Employee stock bonus	0	0	0	-
Employee cash bonus	9,120,366	12,089,625	(2,969,259)	Previous estimates were made based on unaudited profit and loss; the difference will be treated as a change of accounting estimate and adjusted to 2017 profit and loss.
Directors' and supervisors' remuneration	17,410,335	20,149,375	(2,739,040)	

② Proposed employee stock bonus as a percentage to standalone net income and total employee remuneration: 0% (employee bonus is entirely paid in cash).

③ Earnings per share after the proposed employees'/directors'/supervisors' remuneration: earnings per share after the proposed employee bonus and director/supervisor remuneration is NT\$0.53.

**D. Actual payment of employees'/directors'/supervisors' remuneration in the previous year (2015) (including the number of shares allocated, the sum of cash paid, and the price at which shares were issued), and any differences from the figures estimated (explain the amount, the cause, and treatment of such**

## IV Funding Status

discrepancies):

Item (2015)	Actual amount of distribution (A)	Estimated amount recognized as expense of the fiscal year (B)	Difference (A - B)	Cause of difference and treatment
Employee stock bonus	0	0	0	-
Employee cash bonus	14,993,771	17,240,625	(2,246,854)	Previous estimates were made based on unaudited profit and loss; the difference was treated as a change of accounting estimate and adjusted to 2016 profit and loss.
Directors' and supervisors' remuneration	26,527,440	28,734,375	(2,206,935)	

### 4.1.9 Shares repurchased by the Company in the most recent years:

As at March 31, 2017

Batch order of Buyback	8th	9th	10th
Purpose of buyback	Maintain the Company's credit standing and shareholders' equity	Maintain the Company's credit standing and shareholders' equity	Maintain the Company's credit standing and shareholders' equity
Buyback period	From September 22, 2015 to November 21, 2015	From November 12, 2015 to January 11, 2016	From November 14, 2016 to January 13, 2017
Buyback price range	NT\$ 7 ~ NT\$ 11	NT\$ 8 ~ NT\$ 12	NT\$ 7.5 ~ NT\$ 11.9
Types and numbers of shares bought back	50,000,000 common shares	50,000,000 common shares	100,000,000 common shares
Value of shares bought back	NT\$ 470,413,633	NT\$ 492,420,929	NT\$ 926,587,260
Number of shares retired and transferred	50,000,000 shares	50,000,000 shares	100,000,000 shares
Cumulative holding of own shares	0 shares	0 shares	0 shares
Cumulative holding of own shares as a percentage to total outstanding shares (%)	0%	0%	0%

**4.2 Disclosure relating to corporate bonds:** None.

**4.3 Disclosure relating to preferred shares:** None.

**4.4 Disclosure relating to global depository receipts:** None.

**4.5 Employee stock options:** None.

**4.6 Employee restricted shares:** None.

**4.7 Status of Mergers and Acquisitions and Issue of New Share in Connection with Acquisition of Another Company's Share :** None.

**4.8 Progress on planned use of capital:** Not applicable.

## 5.1 Business activities

### 5.1.1 Scope of business

#### A. Main business services

- (1) Securities underwriting
- (2) Proprietary trading of securities listed on Taiwan Stock Exchange (TWSE)
- (3) Brokerage of TWSE-listed securities
- (4) Proprietary trading of securities listed on Taipei Exchange (TPEX)
- (5) Brokerage of TPEX-listed securities
- (6) Conducting margin purchase and short sales of securities
- (7) Registrar and transfer agency
- (8) Brokerage of foreign securities
- (9) Short-term notes and bills
- (10) Introducing brokerage for futures trading
- (11) Borrowing and lending money in connection with securities business
- (12) Agency services commissioned by customers to invest their securities trading balances
- (13) Securities lending business (excluding book-entry central government bond)
- (14) Trust businesses
- (15) Oshore securities business
- (16) Other securities-related businesses approved by the competent authority

#### B. Weight of business activities in the last 3 years

Unit: NTD thousands

Year	2014		2015		2016	
Product category	Amount	%	Amount	%	Amount	%
Brokerage	4,036,081	71	3,456,022	69	2,767,666	67
Proprietary trading	1,269,093	22	1,191,387	24	1,108,764	27
Underwriting	413,303	7	356,119	7	271,040	6
Total	5,718,477	100	5,003,528	100	4,147,470	100

## C. The Company's current products (services), and main purposes and functions

Service categories	Main purpose or function
Brokerage Department	Executes and settles customers' securities trading instructions, and offers margin trading and short-selling service.
Wealth Management Department	Advises customers on investment plans and suitable financial instruments depending on their needs, life plans, and financial strength.
Investment Banking Department	Provides assistance, guidance and consultation to businesses on issues such as public offering, TWSE/TPEX listing, cash issues, issuance of convertible bonds, fundraising, underwriting, and investment.
Proprietary Trading Department	Trades securities in own capacity at TWSE, TPEX and any foreign securities exchanges permitted by the authority, and plays the role of market maker for securities underwritten by the underwriting department.
Fixed Income Department	Trades bonds, short-term notes and repurchase agreements, and provides customers with timely and accurate information and consultation service on bond investments.
Derivatives Department	Provides services relating to investment, consultation and issuance of new derivatives local and abroad.
Registrar Agency Department	Provides share administration service for TWSE/TPEX listed companies and public companies.

## D. New product (service) development plans

- Continue development of new derivatives to satisfy investors' needs.
- Continue development and improvement of the electronic trading system to provide customers with a more convenient and more powerful trading platform.
- Expand the scope of wealth management service to provide customers with more comprehensive asset allocation and financial planning.
- Offer broader variety of financial products and services in line with future deregulation of offshore securities and RMB-denominated instruments.
- Provide currency exchange and related services to customers following the commence of foreign currency service.

## 5.1.2 Industry overview:

### A. Current state and prospect of the industry:

In the first half of 2016, investors' confidence was shaken by trade suspension of the Chinese stock market and the U.S. rate hike, which caused TAIEX to fall below 8,000 points to as low as 7,627. Fortunately, abundant liquidity remains in the market, and an inflow of foreign capital totaling \$320 billion drove the stock market to new heights. Despite the inflow of capital and TAIEX's strong performance, the market had lost much of its trade volume. Judging by the overall performance of the securities market (see the table below), ETF was the only instrument that exhibited an increase in trade volume in 2016. All other instruments including stocks and call (put) options exhibited a loss of trade volume compared to the previous year. Market-wise, trade volume had reduced by 15.95% in TWSE and 5.53% in TPEX. Overall, trade volume of equity instruments had fallen by 15.01% as compared to the previous year.

## Securities Market Trade Volume in the Last 3 Years

Unit: NTD billions

Year	2014	2015	2016	Increase/decrease in 2016
TSE				
Shares	21,898.53	20,191.49	16,771.14	-3,420.35
ETF	433.26	1,634.42	1,707.40	72.98
Close-ended fund	0.16	-	-	-
Beneficiary securities	9.91	12.01	7.11	-4.9
Call (put) options	678.85	644.96	425.54	-219.42
TDR	22.57	22.22	4.43	-17.79
Subtotal	23,043.28	22,505.10	18,915.62	-3,589.48
OTC				
Shares	6,355.90	5,689.20	5,050.30	-638.90
Call (put) options	162.30	156.60	128.50	-28.10
Bond	50,450.40	52,239.00	49,696.50	-2,542.50
Subtotal	56,968.60	58,084.80	54,875.30	-3,209.50
Total	80,011.88	80,589.90	73,790.92	-6,798.98
Excluding bonds	29,561.48	28,350.90	24,094.42	-4,256.48

Source: TWSE, TPEX.

Ongoing deregulation of the financial market has given rise to new instruments and encouraged investors to embrace new investment options other than stocks. The authority has also implemented several important measures to help inspire creativity and connect the financial industry with the rest of the world, while at the same time adopt enhanced corporate governance and risk management practices to protecting consumers' interests. It has been the authority's goal to improve the strength of financial institutions and competitiveness of the securities industry through "innovation and stability." By leveraging on current regional advantage and asset allocation/risk management capacity, the securities industry will progressively develop its distinctive competitive advantage and turn into profitable business models. Followings market diversification and opening, financial products are evolving with new products being launched. Investors are gradually embracing the concept of multi-faceted approach to investment and financial management and are no longer confined to stock trading. Additionally, the competent authority has adopted numerous vital measures to assist and encourage Taiwan's financial industry in international development and to enhance the product innovation capability in the financial industry. Meanwhile, the competent authority requires the financial industry to strengthen corporate governance and risk management so as to help the financial industry place greater emphasis on consumer protection and consumer rights. The competent authority intends to create the mindset of "innovation and steadiness" in order to strengthen the health of financial institutions and improve the competitiveness of the securities industry. The securities industry is expected to utilize its business operating advantages or regional development niches to effectively exert the capabilities of asset allocation and risk management, aiming to gradually develop differential competitive edges and transform these edges into a profit-making operating model.

## B. Association between upstream, midstream, and downstream industry participants:



## C. Product trend and competition:

Licensed business activities of a securities firm mainly include: brokerage, underwriting, proprietary trading, bonds, derivatives, and wealth management. Trends and competition of brokerage, underwriting, derivatives and wealth management services are described below:

### (1) Brokerage:

Increasing popularity and speed of Internet connection in the digital era are changing investors' trading habits, making electronic trading an important emphasis to securities brokerage firms. Being able to provide an integrated trading platform that offers diverse products and services from stocks, futures to overseas investments is now the minimum requirement for all securities firms. Not only are securities firms competing on offering the most convenient platforms, they also strive to attract customers with the most favorable electronic trading packages. Electronic trading has become one of the most highly competed services among securities brokerage firms.

### (2) Underwriting:

The number of TWSE and TPEX listed companies had increased by 24 from 1,586 in 2015 to 1,610 in 2016, whereas market capitalization of TWSE and TPEX listed companies had also increased by NT\$2.68 trillion from NT\$27.23 trillion to NT\$29.91 trillion. In 2016, a total of 230 fundraising projects were organized by TWSE and TPEX listed companies, which was 3 projects lesser compared to 233 in 2015.

The stock market has great influence on the economy. In an attempt to expand the local capital market, the government has been offering numerous incentives to encourage overseas companies, particularly top-performing Taiwanese enterprises, to list for trading in Taiwan. In 2017, an Incubation Board for Startup and Acceleration Firms (GISA) was established by TPEX to support the innovation and growth of micro enterprises, and secure the foundation for future economic development. In the future, the underwriting segment will continue to play its role as the facilitator of direct finance.

### (3) Derivatives:

The lack of transaction activities in Taiwan's stock market had also affected trade volume of the warrants market, reducing it by as much as 40% compared to 2015.

Introduction of trade incentives and change of deal-matching system in 2017 should boost trade activities in the warrants market. Aside from warrants, the authority is also exploring the possibility of opening up new derivative instruments, and the Company will strive to maintain its lead in the derivatives market by closely following the government's footsteps.



(4)Wealth management:

The Company has envisioned Capital Securities becoming the number one wealth management brand among local securities firms, and hopes to develop full service capacity by combining human and digital channels.

For the wealth management segment, the Company will aim to raise its brand identity in 2017 and build an image of professionalism that is recognized among high-end customers.

Meanwhile, the Company will be enhancing its KYC practices with the help of big data analysis, so that products and customers can be segmented properly to achieve differentiation, thereby ensuring that customers are offered the most suitable products.

Digital, online and mobile functions will also be introduced to existing services to facilitate innovative data mining. Doing so would provide in-depth knowledge about each customer for more value-adding services. The Company will continue bringing quality wealth management products and services to the market, and establish itself as the top wealth management service provider among securities firms.

### 5.1.3 Technological research and development

#### A. Research and development expenses in the last 3 years

Year	Amount (\$ ,000)
2014	48,167
2015	53,143
2016	55,563

#### B. Recent R&D progress

The Company issued 3,439 call (put) options worth NT\$38.78 billion in 2016, ranking 2nd in terms of amount issued and 2nd in terms of variety.

### 5.1.4 Long and short-term business plans:

#### A. Short-term business plans:

- (1)Launch new financial products and expand product line in pace with ongoing deregulation;
- (2)Improve functionality and security of the electronic trading platform, and offer trade strategies that maximize investors' gains;
- (3)Introduce broader variety of products to support the wealth management segment;
- (4)Establish cross-industry alliance to provide customers with greater variety and more refined financial services.
- (5)Expand into China as regulation permits.

#### B. Long-term business plans::

- (1)Become the best investment bank and wealth management service provider in Asia.
- (2)Develop research capacity on new products and become the most innovative financial institution.
- (3)Evaluate the possibility of setting up overseas subsidiaries at potential locations.

## 5.2 Market and sales overview

### 5.2.1 Market analysis

TAIEX closed at 9253.5 points in 2016, up 915 points or 10.98% from the previous year, which represented the best performance since 2014. Overall market capitalization had increased by NT\$2.74 trillion as a result. After taking the ex-dividend effect (360 points) into account, TAIEX's actual gain for the year totaled 1275 points or 15.29%. This performance was a testament to the long-term potentials of the stock market.

TPEX, on the other hand, closed at 125.18 points in 2016, down 3.87 points or 3% for the year. TPEX's underwhelming performance was attributed to a number of reasons including: absence of domestic investors, burst of the biotech bubble, and lack of strong performance from the solar power industry and small-cap, high-price shares.

All main sectors of TAIEX had gained in 2016; 9 of which had outperformed TAIEX, namely: energy, steel, optoelectronics, plastics, semiconductor, rubber, electronics, cement, and computer accessories; the worst performing sectors were transportation, textile, biotech, tourism, and automobile.

As unemployment rate decreased in the United States, it became evident that the U.S. economy is undergoing recovery with increased economic activities. Combined with Trump's proposed corporate tax cuts and increased infrastructure investments, the U.S. stock market soon became the new favorite to investors around the world. While capital poured into the U.S. market, Japan's currency weakened to catalyze Japan's export recovery. Overall, Japanese and European businesses were able to deliver profits above expectation. These were the reasons why stock markets around the world had risen to reflect an improvement of economic fundamentals after the Fed raised interest rate towards the end of 2016.

In the 1990s when the Fed maintained interest rate at 3%-6.5%, technological innovations and new Internet applications caused Nasdaq to surge and create a technology bubble by year 2000. After the bubble burst, the Fed quickly reduced interest rate to 1%, which led to the uprise of the U.S. real estate market. The Fed then made a series of interest rate hikes to bring the rate to 5.25% in 2006, and the sub-prime mortgage crisis erupted. Once again, the Fed responded quickly to the crisis by cutting interest rate to 0.25%, and did not adjust upwards until the end of 2015. Judging by historical average, the Fed will bring interest rate to at least 3%~4% this time around, and previous experience since 1988 has shown that an interest rate hike in the U.S. tends to disrupt performance of emerging markets at the beginning, but eventually they all grew out of new uncertainties to reflect improved fundamentals.

The world had seen two major political events happening in 2016. The first was "UK's referendum to exit from European Union" in May and the second was "Trump's victory in the U.S. presidential election" in November. In both instances, the market was able to respond with a strong surge after uncertainties were resolved. This phenomenon is evident of the fact that performance of the global stock market is ultimately driven by program trading and artificial intelligence, and not by the media, forecasts or investors' sentiments.

Below are some of the distinctive characteristics of Taiwan's 2016 economic performance:

1. Owing to strong performance of the United States, a major trade partner, Taiwan has seen sequential improvement in its quarterly export performance, especially with regards to high-tech products.
2. Private consumption remained stagnant as a result of virtually no real growth in salary level.
3. Suspension of cross-strait policies: The new administration has been re-examining the terms of the cross-strait trade and service agreements since inauguration, an action that prompted Taiwanese businesses to re-allocate resource in China (where they had invested for 20 years) by holding off further expansions or divert into the U.S. instead. During the process, some of this capital was channeled back to Taiwan and benefited certain industries.

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4 distinctive characteristics of Taiwan's stock market performance in 2016:

1. Influence of negative interest rate: Europe and Japan both adopted a negative interest rate policy in March 2016. Taiwan's stock market then appealed to investors with its higher yield and attracted European and American investors into purchasing locally issued ETF.
2. Exchange rate effect: The inflow of capital and foreign investors have driven Taiwan's stock market and currency to new heights. Starting from the second half of 2016, the TWD has strengthened against other emerging market currencies while the stock market has also outperformed other regions.
3. Strong performance from TSMC and Largan: TSMC, the stock with the highest market capitalization, has gained significantly and foreign investors now hold more than 80% of the company's shares; Largan, the highest priced stock in the market, continued to soar to new heights with the support of foreign investors.
4. Lack of trade volume: the stock market averaged a trade volume of NT\$77.6 billion per day in 2016, which was NT\$14.7 billion lesser compared to 2015 and represented the lowest level in 11 years. The full-year trade volume of NT\$18.9 trillion was also the lowest since 2002, and represented a contraction for the third consecutive year.

Below are the key factors that will influence the performance of Taiwan's stock market in 2017:

1. Performance of the Philadelphia Semiconductor Index

The Philadelphia Semiconductor Index has reached record highs on several occasions in recent years. This reflects two major trends: 1. Uprise of new technology applications such as Internet of vehicles, self-driving cars, artificial intelligence, etc. that fueled demands for high-end semiconductors; and 2. Recovery of DRAM and FLASH memory components due to excess demand. In the beginning of 2017, TSMC surpassed Intel to become Philadelphia Semiconductor Index largest semiconductor manufacturer in terms of market capitalization. Accounting for a 17% weight in TAIEX, TSMC's stock price performance directly reflects foreign investors' movements and affects the stock market index.

2. Apple's new phone is guiding the evolution of Foxconn Technology Group

Inspired by the success of Sharp's transformation after being acquired by Foxconn Technology Group, Chairman Terry Guo of Foxconn Technology has made several major decisions to expand his business network since the second half of 2016, including: construction of SDP's 10.5-generation LCD plant in Guangzhou, proposal to acquire Toshiba's semiconductor business group and expand into memory production, having Sharp invest in Kantatsu to expand production capacity and utilizing Sharp's Kameyama Plant to produce camera components for cellphones, dividing the LCD business group into large size and small size, and commencing OEM of electric motorcycles. However, the most significant development to look forward to in 2017 is that Apple's new iPhone will be introducing a major hardware upgrade, which will make Foxconn Technology Group an even more significant supplier to Apple.

3. Finance and petrochemical taking shape in foreign investors' portfolio

Finance sector stocks account for approximately 13% weight in TAIEX, while Formosa Plastics Group alone accounts for 9.3%. Due to the enormous size of their share capital, these sectors do not appeal to investors other than foreign institutions, government funds, and ETF. The Fed's interest rate hikes should contribute to the profitability of the financial industry over the long run, as banks now have the room to raise interest rates and generate higher revenues. Formosa Plastics Group, on the other hand, is the most renowned and best performing company in the non-electronics sector. It makes up a significant portion of foreign investors' portfolio, and is one of the strongest driving force behind the stock market index.

## 4. New Technologies and new applications

New technologies and applications such as alternative energy source, self-driving cars, industry 4.0, FinTech etc have progressed rapidly, and the technology that offers the highest potential is artificial intelligence (AI). There are three main components the development of AI, which are: fundamental technology (big data management and cloud computing), AI technology, and AI application.

AI technology consists of machine learning, pattern recognition, and human-computer interaction, and incorporates many fields of expertise including machine vision, fingerprint recognition, facial recognition, retina recognition, palm print recognition, expert system, autonomous planning, intelligent search, gaming, autonomous programming, intelligent control, robotics, linguistics, image understanding, and genetic programming. U.S. technology giants and Chinese companies (Baidu, Alibaba, and Tencent) have all invested heavily on the development of AI.

## 5. High cash dividend yield becoming the new norm

Taiwan's stock market has been offering high cash dividends, averaging more than 4% of cash dividend yield in the last few years. Compared to other stock markets in Asia Pacific, Taiwan's high cash dividend yield makes it an ideal safe haven to short-term investors, and its relatively stable exchange rate is one of the features that attracts foreign investors especially at times of extreme volatility.

## A. Locations where products (services) are mainly sold (provided)

The Company's business activities include stock brokerage, online trade service, proprietary trading, securities underwriting, share administration agency, bonds, margin trading, and warrant issuance. The Company has service locations deployed throughout Taiwan; its target customers include local and foreign institutions and individuals.

## B. Market share

Market share of primary business activities in 2016:

Ranking	Brokerage volume		Margin trading balance (2016)	
	Securities firm	Market share	Securities firm	Market share
1	Yuanta	11.69%	Yuanta	15.99%
2	KGI	8.43%	KGI	8.61%
3	Fubon	5.28%	Sinopac	6.77%
4	Sinopac	4.76%	Capital	6.57%
5	Capital	4.21%	Fubon	6.03%
6	Masterlink	3.76%	Masterlink	5.20%
7	JihSun	3.24%	Mega	5.00%
8	President	2.90%	President	4.82%
9	Mega	2.83%	JihSun	4.73%
10	Hua Nan	2.72%	Waterland	4.05%

Source: TWSE, TPEX, and financial data compiled by respective securities firms

### C. Future market supply and demand

#### (1) Demand

The global economy should resume its growth pattern in 2017, giving Taiwan's stock market a chance to perform in line with the rest of the world and grow out of the slump it has been in the last few years.

The government continues to stimulate growth of the capital market by removing investment restrictions. There is abundant liquidity to drive growth of the stock market, while the openness of TWSE, TPEX and the Emerging Stock Market appeals to local and foreign investors alike. The keys to determining stock price performance are the fundamentals and prospects of individual companies.

#### (2) Supply

Development of the securities industry is largely dependent upon performance of the capital market. In terms of competition, it is evident that industry participants are building competitive advantage through size while at the same time focusing on niche markets. Overall, the industry is currently dominated by large integrated securities firms and securities firms that operate under a financial group. Medium and small-size firms that specialize in securities service continue to lose market share to the above. Meanwhile, uprise of online securities service providers are starting to take market share and profitability from even the largest players. Foreign securities firms have downsized their operations in Taiwan in recent years as part of their global strategic adjustment; however, they continue to invest into Taiwan's stock market and have gained influence over the market's performance.

The Company will continue to diversify and globalize, and shall actively collaborate with foreign investors or other large-size securities firms and mutual fund issuers to explore the existing market. Meanwhile, the Company will search for merger and acquisition opportunities as a means to grow and improve competitiveness and profitability.

### D. Opportunities and threats

#### Opportunities:

- (1) The Company has achieved balanced growth across multiple business segments, ranking top among peers in terms of brokerage, underwriting, derivative, and margin trading service.
- (2) Taiwan's economy continues to expand; the stock market has a strong high-tech sector and offers high cash dividend yields that appeal to investors.

#### Threats:

- (1) The capital market has been exhibiting high volatility and increased complexity in recent years. It is increasingly difficult to train and allocate human resources.
- (2) The brokerage service faces intensive price competition that narrows overall profitability of securities firms.

#### Responsive strategies:

The Company will strive to maintain the stability of all its departments, and strengthen its collaboration with other participants of the financial industry to achieve planned growth, strategy and goals, and thereby improve profitability. More research efforts will be devoted to understanding the impact and potential opportunities of FinTech.

5.2.2 Main product purpose and production process: Not applicable.

5.2.3 Supply of key raw materials: Not applicable.

5.2.4 List of buyers and sellers in the last two years: Not applicable.

5.2.5 Production volume and value in the last two years: Not applicable.

5.2.6 Sales volume and value in the last two years: Not applicable.

## 5.3 Employee information

Employee information in the last 2 years up till the publication date of this annual report

As of Mar 31, 2017

Year		2015	2016	Year-to-date March 31, 2017 (Note)
Employee count		2,197	2,019	1,969
Average age		43.86	47.38	45.02
Average years of service		12.14	12.12	12.42
Academic Qualification	Doctoral Degree	0.14%	0.10%	0.10%
	Masters Degree	9.06%	9.26%	9.29%
	Bachelor Degree	70.45%	71.17%	71.16%
	Senior high school	20.35%	19.47%	19.45%
	Below senior high school	0%	0%	0%

## 5.4 Contribution to environmental protection:

The Company is a securities service provider and is not prone to pollution risk.

## 5.5 Labor-management relations:

Details regarding availability and execution of employee welfare, education, training and retirement policies, agreements made between employers and employees, and protection of employees' rights are explained below:

**Employee welfare:** In 1990, the Company registered the establishment of Employee Welfare Committee with the authority in order to provide benefits such as wedding/funeral subsidies, club activity subsidies, and group trips. Overall, the Employee Welfare Committee operates with adequate budget and has been able to carry out its plans.

**Employee education and training:** In an attempt to build a strong talent base and improve management performance, the Company has been organizing a broad variety of training including: orientation, specialization training, management reserve training, management growth training, and seminars hosted by renowned experts and scholars on the topic of finance. Capital Financial College was founded in 2007 for training the Company's top management talents. Employee training expenses amounted to NT\$5,337,000 in 2016. A total of 2,840 enrollments were registered with external training courses, which represented 141% of total employees. The Company held 137 internal training courses during the year, and trained its sales force intensively using nation-wide video conferencing and broadcast to help them develop professional qualities and skills. Many e-learning courses have also been designed to enhance outcome of the learning process. By utilizing digital means, employees are able to learn and grow anytime, anywhere.

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Pension system: The Company established its Employee Pension Fund Supervisory Committee in November 1994; the committee's responsibilities are to implement pension guidelines for the security of employees' lifestyle after retirement, and thereby maintain a sustainable and harmonic relationship between employees and the employer. Since the enactment of Labor Standards Act in April 1998, the Company has been making pension fund contributions into a dedicated account held with Bank of Taiwan under the committee's name. All employees who meet the criteria specified in the pension policy are eligible to participate. Following the enactment of Labor Pension Act in July 2005, employees are given the choice to opt for the new pension system or stay with the old plan. For those who opted for the new system, the Company has been contributing an amount equal to 6% of employees' monthly salaries into their personal pension fund accounts.

Employee insurance: Apart from mandatory insurance coverage such as Labor Insurance and National Health Insurance, the Company also provides employees with a broad variety of group insurance coverage from life, accidental injury, accidental medical treatment, to occupational hazard. Employees are invited to include their family members into group insurance at discounted premium. Term life, accidental injury, medical treatment, and cancer insurance policies have been offered to care for employees and their family members.

The Company has been maintaining harmonic interactions with its employees. Apart from complying with labor regulations, the Company strives to resolve labor-management affairs to the benefit of both parties.

Protection of employees' rights: In addition to protecting employees' legal rights, any affair that concerns employees' interests is openly announced on the intranet, while matters that pertain to the interests of individual employees are advised through active means.

## **5.6 Major contracts:** None

## 5.7 The Company's Workplace Environment and Employee Safety Measures

The Company pays close attention to employee's safety and well-beings. The Company is devoted to offering a nice workplace environment, and the implementations of related protections and benefits are as follows:

Measure implementation	Item	Explanation
Employee's health	Insurance and benefit	<p>Regulated by laws:</p> <ol style="list-style-type: none"> <li>1. Labor Insurance and National Health Insurance</li> <li>2. Established the "Regulations for Establishing Measures of Prevention, Correction, Complaint and Punishment of Sexual Harassment at Workplace"</li> <li>3. Lactation rooms in the office</li> <li>4. Perform employee health screening on a regular basis</li> <li>5. Hire doctors on-site to perform a variety of consultation tasks, such as hosting employee health education seminars, promoting health awareness and promoting hygiene inspection, at headquarters on a regular basis</li> </ol> <p>Further than laws:</p> <ol style="list-style-type: none"> <li>1. Employees are entitled to the coverage of group insurances, such as group life insurance, group accident insurance, group accidental medical insurance, group occupational hazards insurance, etc.</li> <li>2. To provide safeguards for employees and their families, the Company also provides low-premium group insurances, such as term life insurance, accident insurance, medical insurance, anti-cancer insurance, etc. (Premiums of group insurances are paid by employees.)</li> <li>3. Employees may enjoy complimentary massage at headquarters</li> <li>4. The Company raises employee awareness of healthy diet and exercise via holding "Nutrition, diet and calories" lecture</li> <li>5. Formulating the "Entertainment &amp; charity club establishment and subsidy management regulations" to encourage the Company's employees fostering the habit of participating sports activities and charity events</li> <li>6. Holding the "Healthy mountain hiking" activity; the Company's employees may enjoy hiking on the mountains with their families after working busily; in addition, employees may inhale phytoncide in the forest to strengthen their bodies and minds</li> <li>7. The company acquired certification for "Taiwan iSport from Sports Admiration, Ministry of Education</li> </ol>
	Environmental health	<ol style="list-style-type: none"> <li>1. Non-smoking environment <ol style="list-style-type: none"> <li>(1)Publicizing campaign of "Tobacco Hazards Prevention Act" on the Company's internal website</li> <li>(2)Publicizing "Ways to quit smoking" videos on the Company's internal website</li> <li>(3)Establishing the Company's "Tobacco Hazards Prevention Measure"</li> </ol> </li> <li>2. The Company acquired "Badge of Accredited Healthy Workplace" from Health Promotion Administration, Ministry of Health and Welfare</li> <li>3. The Company acquired "Certification for Voluntary Public Indoor Air Quality Management" from Taipei City Department of Environmental Protection</li> </ol>
The working environment and employee safety protection	Safety certification	British Standards Institution (BSI) granted the ISO 22301 verification to the Company as a certification of business continuity management. The purposes of BSI are as follows: (a) the Company is capable of minimizing the damage when facing accidental events; (b) employee safety; law-compliance; clients' benefits; the Company's business reputation; security of the Company's assets; (c) the Company's important businesses are capable of resuming businesses gradually within the targeted time to sustain operations
	Personal information verification	Ahead of its peers, the Company is the first financial institution in Taiwan that obtained international personal information verifications of securities, futures and insurance brokerage/agency. The Company's internal Personal Information Management System (PIMS) ensures safety and protection of personal information. The Company follows personal information laws relevant requirements and actively protected rights of the involved parties. The Company lowers the impacts derived from any infringement of personal information. Moreover, the Company continues to operate and improve the personal information management system
	Labor safety	Regulated by the "Occupational Safety and Health Act", the Company assigns employees as occupational safety and health management staff and first aid personnel. In addition, according to the "Regulations for Labor Safety and Health Education and Training", the Company conducts various trainings



Measure implementation	Item	Explanation
The working environment and employee safety protection	Fire safety	1. Conduct fire drills on a regular basis 2. Regulated by National Fire Agency, Ministry of the Interior's regulations for fire prevent manager and professional institution setup, a fire prevent manager shall receive an updated training at least once every three years
	Insurance safety	The Company's places of business and subsidiaries are entitled to the insurance coverage of: 1. Commercial fire insurance. 2. Electronic equipment insurance. 3. Public liability insurance.

## 5.8 Employees' behaviors and moral principles:

The Company requires all employees to sign a commitment to "Capital Financial Group Employee Behavior Policy" and integrity principles when carrying out business activities. Below are the key points of this policy::

1. We offer high value-adding products and services. We establish and maintain long-term relationships with customers and help them achieve their goals.
2. We uphold the highest moral and safety standards in all our interactions and dealings with customers. We provide rigorous protection for customers' information, and make sure that information is used only to the extent permitted by law. All customers explored during our employment are owned by the Company, and shall not be referred to another company during or after employment.
3. We never put ourselves in situations where personal interests may work in conflict to those of the Company or the customers.
4. We do not reveal to others any news or information gained in relation to our job role. We shall refrain from holding or trading securities using own name or name of proxy.
5. Whether during or after our employment with the Company, we shall never: (1) reveal any business secret gained during employment (including but not limited to technologies, system programs, customers' information, trade strategies, business information, personnel or organization records, accounting records, strategic plans and any other information) for own use or use by others, or make illegal use of non-public information (also referred to as "inside information"); and (2) exploit our vested authorities for illicit gains for self or any other party.
6. We shall incorporate risk management and compliance practices into our business procedures, and follow accordingly.
7. We report performance information and facts in a timely and accurate manner, and strive to maximize the Company's interests.
8. We are aware of the fact that we are working with shareholders' assets. We shall handle the Company's properties carefully as we do our own.
9. We do not use the Company's network and email systems for non-business related purpose such as: browsing, distribution and storage of disturbing literature, pictures or offensive articles. Neither shall the Company's network system be used for political discussions or propaganda, personal entertainment or any non-business related purpose.

10. We shall comply strictly with regulations and refrain from using email, e-bulletin or the Internet system (including but not limited to personal blog or online forums) to conduct inappropriate sales activities, improper competition (without commission), or make forecasts and recommendations regarding future transaction price of specific contracts or trade strategies.
  11. We shall maintain the accuracy and completeness of all information, reports, records and data owned, used and managed by Capital Financial Group. We shall also refrain from removing or transmitting them in any inappropriate manner.
- To comply with the "Personal Information Protection Act," we shall refrain from inquiring internal information and data that we do not have access to. All documents of the Company are to be used solely for internal management, and can not be reproduced or used outside the scope mentioned above. We shall be solely responsible for any civil and criminal liabilities that arise as a result of our violation.
12. We shall refrain from communicating with the public on our own. Only the spokesperson may address the media on behalf of the Company.
  13. We shall never accept or permit relatives or family members to accept any gift, service, loan or special treatment offered by any party (including customers, suppliers or any other party) for the purpose of gaining immediate or future relationship with the Company.
  14. We shall notify the line manager, the human resource department, the internal audit department or any appropriate personnel whenever we discover a possible violation against laws or the Company's work rules.

## 6.1 Summary balance sheet and statements of comprehensive income for the last 5 years

### 6.1.1 Summary balance sheet (consolidated and standalone) - Based on IFRS

Unit: NTD thousands

Item	Year	Financial information for the latest 5 years (Note 1)									
		Consolidated					Standalone				
		2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
Current assets		94,506,013	79,591,301	69,531,529	63,088,970	54,990,271	65,616,894	58,594,636	52,867,228	50,687,555	42,116,586
Property and equipment		5,129,823	5,177,406	5,390,207	6,266,465	6,367,500	4,389,956	4,535,525	4,770,367	5,643,817	5,718,992
Intangible assets		3,612,248	3,627,517	3,605,104	3,600,204	3,608,293	3,532,620	3,550,988	3,552,023	3,543,873	3,552,699
Other assets		4,796,129	4,914,967	5,161,503	4,981,412	4,922,907	9,467,444	8,510,170	8,521,678	7,748,766	7,751,259
Total assets		108,044,213	93,311,191	83,688,343	77,937,051	69,888,971	83,006,914	75,191,319	69,711,296	67,624,011	59,139,536
Current liabilities	Before distribution	75,399,960	59,982,074	49,996,260	44,403,427	37,737,285	51,991,187	43,403,662	37,422,576	35,206,511	28,018,668
	After distribution	(Note 2)	61,093,919	51,417,704	45,469,510	38,092,646	(Note 2)	44,515,507	38,844,020	36,272,594	28,374,029
Non-current liabilities		1,799,975	1,801,450	1,489,963	2,666,431	2,571,791	1,495,179	1,497,057	1,190,240	2,369,983	2,281,758
Total liabilities	Before distribution	77,199,935	61,783,524	51,486,223	47,069,858	40,309,076	53,486,366	44,900,719	38,612,816	37,576,494	30,300,426
	After distribution	(Note 2)	62,895,369	52,907,667	48,135,941	40,664,437	(Note 2)	46,012,564	40,034,260	38,642,577	30,655,787
Equity attributable to parent company shareholders		29,520,548	30,290,600	31,098,480	30,047,517	28,839,110	-	-	-	-	-
Capital stocks		22,690,730	23,190,730	23,690,730	23,690,730	23,690,730	22,690,730	23,190,730	23,690,730	23,690,730	23,690,730
Capital surplus		2,750,972	2,742,807	2,711,760	2,705,473	2,705,473	2,750,972	2,742,807	2,711,760	2,705,473	2,705,473
Retained earnings	Before distribution	4,763,521	4,697,083	4,598,641	3,658,236	2,532,304	4,763,521	4,697,083	4,598,641	3,658,236	2,532,304
	After distribution	(Note 2)	3,585,238	3,177,197	2,592,153	2,176,943	(Note 2)	3,585,238	3,177,197	2,592,153	2,176,943
Other equity interest		150,373	129,135	97,349	(6,922)	(89,397)	150,373	129,135	97,349	(6,922)	(89,397)
Treasury stocks		(835,048)	(469,155)	-	-	-	(835,048)	(469,155)	-	-	-
Non-controlling interests		1,323,730	1,237,067	1,103,640	819,676	740,785	-	-	-	-	-
Total equity	Before distribution	30,844,278	31,527,667	32,202,120	30,867,193	29,579,895	29,520,548	30,290,600	31,098,480	30,047,517	28,839,110
	After distribution	(Note 2)	30,415,822	30,780,676	29,801,110	29,224,534	(Note 2)	29,178,755	29,677,036	28,981,434	28,483,749

Note 1: all financial information in the last 5 years has been audited.

Note 2: appropriation of 2016 earnings had yet to be resolved in a shareholders' meeting.

## VI Financial Summary

### 6.1.2 Summary statements of comprehensive income (consolidated and standalone) - Based on IFRS

Unit: NTD thousands

Item \ Year	Financial information for the last 5 years (Note)									
	Consolidated					Standalone				
	2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
Operating revenues	6,347,011	6,564,157	6,868,876	5,974,094	5,917,631	4,147,470	5,003,528	5,718,477	4,883,763	4,833,270
Gross profit	5,000,815	5,601,522	6,041,154	5,255,912	5,231,074	3,735,063	4,643,604	5,363,306	4,597,213	4,573,816
Operating profit	1,019,934	1,364,740	1,806,703	1,138,590	958,152	608,855	1,179,123	1,713,748	1,015,307	827,075
Non-operating revenues and expenses	652,299	669,295	625,998	655,287	496,132	759,239	605,223	551,555	632,740	483,424
Income before tax	1,672,233	2,034,035	2,432,701	1,793,877	1,454,284	1,368,094	1,784,346	2,265,303	1,648,047	1,310,499
Net income from continuing operations	1,406,497	1,728,358	2,143,663	1,573,409	1,191,670	1,196,756	1,549,327	2,025,305	1,471,784	1,100,062
Loss from discontinued operations	0	0	0	0	0	0	0	0	0	0
Net income	1,406,497	1,728,358	2,143,663	1,573,409	1,191,670	1,196,756	1,549,327	2,025,305	1,471,784	1,100,062
Other comprehensive income/loss for the current period (net, after-tax)	4,196	5,573	97,761	102,450	(123,352)	2,765	2,345	85,906	92,837	(122,438)
Total comprehensive income	1,410,693	1,733,931	2,241,424	1,675,859	1,068,318	1,199,521	1,551,672	2,111,211	1,564,621	977,624
Net income attributable to parent company shareholders	1,196,756	1,549,327	2,025,305	1,471,784	1,100,062	-	-	-	-	-
Net income attributable to non-controlling interest	209,741	179,031	118,358	101,625	91,608	-	-	-	-	-
Comprehensive income attributable to parent company shareholders	1,199,521	1,551,672	2,111,211	1,564,621	977,624	-	-	-	-	-
Comprehensive income attributable to non-controlling interest	211,172	182,259	130,213	111,238	90,694	-	-	-	-	-
Earnings per share (NTD)	0.53	0.66	0.85	0.62	0.46	0.53	0.66	0.85	0.62	0.46

Note: all financial information in the last 5 years has been audited.

### 6.1.3 Names of financial statement auditors in the last 5 years and audit opinions

Year	Name of CPA	Audit opinion
2012	Phoebe D.D. Chung, Charles Chen	Unqualified opinion
2013	Phoebe D.D. Chung, Charles Chen	Unqualified opinion
2014	Dannie Lee (Note), Charles Chen	Unqualified opinion
2015	Dannie Lee, Charles Chen	Unqualified opinion
2016	Dannie Lee, Phoebe D.D. Chung (Note)	Unqualified opinion

Note: The change of CPA was due to a job rotation within the accounting firm.

## 6.2 Financial analysis for the last 5 years

Financial analysis (consolidated and standalone) - Based on IFRS

Analysis \ Year			Financial analysis for the latest 5 years (Note 1)									
			Consolidated					Standalone				
			2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
Financial structure (%)	Debt to assets ratio		71.45	66.21	61.52	60.39	57.68	64.44	59.72	55.39	55.57	51.24
	Long-term capital to property and equipment		636.36	643.74	625.06	535.13	504.93	706.52	700.86	676.86	574.39	544.17
Solvency (%)	Current ratio		125.34	132.69	139.07	142.08	145.72	126.21	135.00	141.27	143.97	150.32
	Quick ratio		125.27	132.63	139.00	141.98	145.60	126.16	134.96	141.21	143.89	150.23
Profitability	Return on assets (%)		1.40	1.95	2.65	2.13	1.68	1.51	2.14	2.95	2.32	1.82
	Return on equity (%)		4.51	5.42	6.80	5.21	4.05	4.00	5.05	6.62	5.00	3.84
	As a percentage of paid-in capital (%)	Operating profit	4.49	5.88	7.63	4.81	4.04	2.68	5.08	7.23	4.29	3.49
		Income before tax	7.37	8.77	10.27	7.57	6.14	6.03	7.69	9.56	6.96	5.53
	Net profit margin (%)		22.16	26.33	31.21	26.34	20.14	28.86	30.96	35.42	30.14	22.53
	Earnings per share (NTD)		0.53	0.66	0.85	0.62	0.46	0.53	0.66	0.85	0.62	0.46
Cash flow (%)	Cash flow ratio		0.76	9.97	-	-	2.35	-	14.83	-	-	3.22
	Cash flow adequacy ratio		134.18	509.72	127.95	137.59	220.20	118.20	538.41	126.55	137.96	217.88
	Cash reinvestment ratio		-	13.00	-	-	0.63	-	15.28	-	-	0.95
Special Purpose Ratio (%)	Total liabilities to equity ratio		250.29	195.97	159.88	152.49	136.27	181.18	148.23	124.16	125.06	105.07
	Fixed assets to total assets ratio		5.66	6.85	8.13	9.91	11.15	6.26	7.42	8.64	10.36	11.86
	Underwriting securities to quick asset ratio		0.59	0.48	0.60	3.08	0.66	0.83	0.62	0.76	3.71	0.81
	Margin loan balance to equity ratio		38.66	48.07	60.97	58.16	54.02	39.17	47.20	62.52	59.28	55.12
	Short-sell balance to equity ratio		11.90	13.54	14.99	17.42	20.11	12.43	14.09	15.52	17.89	20.63

## VI Financial Summary

Variations exceeding 20% in the last 2 years:

Analysis		The explanation of the change
Profitability	Return on assets (%)	Mainly due to decline of profit in the current period.
	Return on equity (%)	
	Operating profit to paid-up capital ratio (%)	
	Earnings per share (NT\$)	
Cash flow (%)	Cash flow ratio	Mainly due to decrease in net cash flow from operating activities in the current period.
	Cash flow adequacy ratio	Mainly due to decrease in net cash flow from operating activities in the last 5 years.
Special purpose ratios (%)	Debt to equity ratio	Mainly due to an increase in total liabilities in the current period.
	Underwriting securities to quick asset ratio	Mainly due to an increase in underwriting securities in the current period.
	Margin loan balance to equity ratio	Mainly due to a decrease in margin loan balance in the current period.

Note 1: All financial statement figures were audited.

Note 2: Below are the formulas used in various financial analyses:

### 1. Financial structure

- (1) Debt to asset ratio = total liabilities / total assets.
- (2) Long-term capital to property and equipment = (total equity + non-current liabilities) / net property and equipment.

### 2. Solvency

- (1) Current ratio = current assets / current liabilities.
- (2) Quick ratio = (current assets - inventory - prepayments) / current liabilities.
- (3) Interest coverage ratio = net profit before interest and tax / interest expenses for the current period.

### 3. Profitability

- (1) Return on assets = (net income + interest expenses x (1 - tax rate)) / average asset balance.
- (2) Return on equity = net income / average shareholders' equity.
- (3) Operating profit to paid-up capital ratio = operating profit / paid-up capital.
- (4) Income before tax to paid-up capital ratio = income before tax / paid-up capital.
- (5) Net profit margin = net income / net sales.
- (6) Earnings per share = (net income attributable to parent company shareholders - preferred share dividends) / weighted average outstanding shares.

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#### 4. Cash flow

- (1) Cash flow ratio = net cash flow from operating activities / current liabilities.
- (2) Cash flow adequacy ratio = net cash flow from operating activities for the previous 5 years / (capital expenditure + increase in inventory + cash dividends) for the previous 5 years.
- (3) Cash reinvestment ratio = (net cash flow from operating activities - cash dividends) / (gross property, plant and equipment + long-term investments + other non-current assets + working capital).

#### 5. Special purpose ratios:

- (1) Debt to equity ratio = total liabilities / shareholders' equity.
- (2) Fixed assets to total assets ratio = net fixed assets / total assets.
- (3) Underwriting securities to quick asset ratio = total amount of underwriting securities / (current assets - current liabilities).
- (4) Margin loan balance to net worth ratio = total margin loan balance / shareholders' equity
- (5) Short-sell balance to equity ratio = total short-sell balance / shareholders' equity

### 6.3 Audit Committee's review report for the most recent years:

#### **Capital Securities Corporation Audit Committee's Review Report**

The Board of Directors has prepared the 2016 Business Report, Financial Statements (including the Consolidated Financial Statements), and the earnings distribution proposal of the Company, among which the financial statements were audited by the CPAs of KPMG with an unqualified opinion issued in the Independent Auditor's Report.

We, as the Audit Committee of the Company, has reviewed the aforementioned Business Report, Financial Statements (including the Consolidated Financial Statements), and earnings distribution proposal that were present fairly with the reports prepared in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Law that are hereby presented for your approval.

**Capital Securities Corporation**  
Chairman of the Audit Committee  
Jia-Dong Shea



March 27, 2017



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**6.4 Financial statements for the most recent years: Please refer to pages 100~182**

**6.5 Standalone financial statements audited & certified by Accountants in the most recent years: Please refer to pages 183~251**

**6.6 Financial insolvency incidents encountered by the company and affiliates in the last year, up till the publication date of this annual report, with descriptions on impacts to the company's financial position: None.**

### Representation Letter

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The entities that are required to be included in the combined financial statements of Capital Securities Corporation as of and for the year ended December 31, 2016, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard 10, “Consolidated Financial Statements” endorsed by Financial Supervisory Commission. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Capital Securities Corporation and Subsidiaries do not prepare a separate set of combined financial statements.

We hereby certify that the above statement is true.

Company: Capital Securities Corporation

Chairman of the board: Jiunn-Chih Wang

Date: March 27, 2017

## Independent Accountants' Audit Report

To the Board of Directors of Capital Securities Corporation

### Opinion

We have audited the consolidated financial statements of Capital Securities Corporation and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and 2015, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years ended in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Firms and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountant of Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Key audit matters of the Group's financial statements are stated as follows:

#### 1. Valuation of financial instruments

Please refer to Note 4(7) for the related accounting policy regarding the valuation of financial instruments, Refer to Note 6(2) financial assets, Note 6(10) financial liabilities at fair value through profit or loss and Note 6(20) E. fair value and fair value hierarchy of financial instruments for details about the valuation of financial instruments.

### Risk and descriptions of the key audit matter:

The Group's valuation of financial instruments is one of audit processes refer to important judgements. Financial instruments on balance sheets mainly belong to first or secondary level in fair value hierarchy, and can be achieved by available quoted market prices in an active market and direct or indirect evaluation of observation. Fair value of some derivative financial instruments invested and issued depends on models and observably variable factors in the market, so management's professional judgement has highly importance when using different valuation ways and assumptions. Therefore, the valuation of financial instruments is included as our key audit matter.

### Procedures performed:

Our key audit procedures included considering how management selected appropriate valuation methods and assessed the key assumptions adopted. We confirmed the presentation and disclosures of financial instruments were in accordance with relevant regulations. For financial assets with quoted market prices in an active market, we selected samples to test the appropriateness of quoted prices used. For financial assets without quoted market prices in an active market and measured at fair value using valuation techniques, we selected samples to test the appropriateness of underlying parameters.

### 2. Goodwill impairment

Please refer to Note 4(17) for the related accounting policy regarding the impairment of non-financial assets, Note 5 for accounting assumptions and estimation uncertainty of the goodwill impairment, and Note 6(8) A. for details on the information about measurement of goodwill impairment.

### Risk and descriptions of the key audit matter:

Assessment of the Group's goodwill impairment is one of our significant audit processes, because it mainly depends on the prediction of future operation and there is a high uncertainty on assessing recoverable amounts by discounted future cash flows. Therefore, the measurement of goodwill impairment is included as our key audit matter.

### Procedures performed:

Our key audit procedures included evaluating tests of goodwill impairment implemented by management and related procedures of control, certifying the assumptions of management by related available external information, making professional evaluation on main parameters of predictable growth rate, discount rate, et cetera adopted by management, and assessing the appropriateness of prediction by management, involve of analyzing sensitivity on the assumptions related to evaluating impairment.

### 3. The assessment of litigation and contingent liability

Please refer to Note 4(19) for the related accounting policy regarding the assessment of liability provisions, and Note 9 for details on the information about the assessment of significant contingent liability and unrecognized contract commitment.

### Risk and descriptions of the key audit matter:

Our contingent liabilities may occur because of the progress of ongoing litigations and other legal matters, the amounts may be significant, and when assessing liability provisions by related accounting standards, required the applying of the management's judgments. Therefore, the



assessment of litigation and contingent liability is included as our key audit matter.

**Procedures performed:**

Our key audit procedures for the aforementioned key audit matter included interviewing management to understand its assessment of ongoing litigation, obtaining law confirmations from the Group's external attorneys, and assessing whether the disclosure of significant ongoing litigation and contingent liabilities appropriate.

**Other Matter**

The Group has prepared its separate financial statements as of and for the years ended December 31, 2016 and 2015, on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms and with the IFRSs, IASs, interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the audit committee, are responsible for overseeing the Group's financial reporting process.

**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG  
Taipei, Taiwan (Republic of China)  
March 27, 2017

#### Notice to Readers

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

The auditors' report and the accompanying financial statements 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 auditors' report and financial statements, the Chinese version shall prevail.

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
 (Expressed in Thousands of New Taiwan Dollars)

	December 31, 2016		December 31, 2015			December 31, 2016		December 31, 2015	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>ASSETS</b>					<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current Assets</b>					<b>Current Liabilities</b>				
Cash and cash equivalents (Note 6(1))	\$ 5,423,415	5	\$ 4,726,498	5	Short-term borrowings (Note 6(9))	\$ 4,236,402	4	\$ 1,791,161	2
Financial assets at fair value through profit or loss - current (Notes 6(2) and 8)	27,730,008	25	25,985,624	28	Financial liabilities at fair value through profit or loss - current (Note 6(10))	1,475,764	2	2,409,455	3
Financial assets available for sale - current (Note 6(2))	19,337,878	18	7,835,455	8	Bonds sold under repurchase agreements (Note 6(11))	34,956,642	32	23,576,243	25
Receivable for securities provided as collateral	11,924,515	11	15,155,220	16	Guarantee deposited for short sales	1,722,840	2	2,025,011	2
Refinancing margin	93,353	-	9,084	-	Proceeds payable from short sales	1,947,104	2	2,242,680	2
Receivable of securities business money lending	79,289	-	7,550	-	Securities lending refundable deposits	878,866	1	1,622,937	2
Customers' margin account (Note 6(4))	144,552	-	-	-	Futures traders' equity (Note 6(4))	23,132,231	21	16,287,312	18
Receivable - futures margin	894	-	16,304,756	18	Customer equity of separate account ledger in settlement account (Note 6(12))	4,537	-	4,104	-
Collateral for securities borrowed	802,737	1	900	-	Leverage contract trading - customers' equity	70	-	-	-
Security borrowing margin	775,251	1	1,074,130	1	Notes payable (Note 6(13))	879	-	846	4
Notes receivable	16,931	-	1,460,549	2	Accounts payable (Note 6(13))	3,478,124	3	3,847,764	-
Accounts receivable (Note 6(3))	4,106,313	4	7,955	-	Advance receipts	33,569	-	19,935	-
Prepayments	50,564	-	4,984,977	5	Receipts under custody	147,328	-	1,347,159	1
Other receivables	100,312	-	36,303	-	Other payables	663,830	1	765,523	1
Leverage contract trading - customer margin account	72	-	87,864	-	Other financial liabilities - current (Note 6(21))	2,427,461	2	3,834,575	4
Current income tax assets	44,685	-	-	-	Current income tax liabilities	225,883	-	154,699	-
Other current assets	705,402	1	-	-	Provisions - current (Note 6(15))	65,365	-	47,546	-
					Other current liabilities	3,065	-	5,124	-
	<b>94,506,013</b>	<b>87</b>	<b>1,854,659</b>	<b>2</b>		<b>75,399,960</b>	<b>70</b>	<b>59,982,074</b>	<b>64</b>
<b>Non-current Assets</b>					<b>Non-current Liabilities</b>				
Financial assets at fair value through profit or loss - non-current (Notes 6(2) and 8)	186,073	-	190,554	-	Other financial liabilities - non-current (Note 6(21))	239,634	-	241,991	-
Financial assets measured at cost - non-current (Note 6(2))	448,460	-	411,231	-	Deferred income tax liabilities (Note 6(16))	675,975	1	693,879	1
Financial assets available for sale - non-current (Note 6(2))	76,261	-	60,966	-	Other non-current liabilities	884,366	1	865,580	1
Investments accounted for under equity method (Note 6(5))	198,205	-	157,675	-		<b>1,799,975</b>	<b>2</b>	<b>1,801,450</b>	<b>2</b>
Property and equipment (Notes 6(6) and 8)	1,727,324	2	5,177,406	6	<b>Total Liabilities</b>	<b>77,199,935</b>	<b>72</b>	<b>61,783,524</b>	<b>66</b>
Investment property (Notes 6(7) and 8)	3,612,248	3	1,740,207	2	<b>Equity Attributable to Shareholders of the Parent</b>				
Intangible assets (Note 6(8))	407,397	1	3,627,517	4	Common stock (Note 6(17))	22,690,730	21	23,190,730	25
Deferred income tax assets (Note 6(18))	1,752,409	2	484,797	1	Capital surplus	1,858,310	2	1,899,259	2
Other non-current assets	13,538,200	13	1,869,537	2	Premium from stock issuance	253,940	-	191,489	-
					Treasury stock transactions	630,450	1	644,342	1
					Paid-in capital from merger	1,399	-	1,430	-
					Difference between consideration and carrying amount of subsidiaries acquired and disposed	6,873	-	6,287	-
					Changes in ownership interests in subsidiaries				
					Retained earnings	1,110,600	1	955,667	1
					Legal reserve	2,464,288	2	2,154,422	2
					Special reserve	1,188,633	1	1,586,994	2
					Unappropriated earnings (Note 6(16))	97,158	-	135,985	-
					Exchange differences on translation of foreign operations	53,215	-	(6,850)	-
					Unrealized gains (losses) on financial assets available-for-sale	(835,048)	(1)	(469,155)	(3)
					Treasury stocks (Note 6(17))	29,520,548	27	30,290,600	33
					<b>Total equity attributable to the parent company</b>	<b>1,323,730</b>	<b>1</b>	<b>1,237,067</b>	<b>1</b>
					<b>Non-controlling interests</b>	<b>30,844,278</b>	<b>28</b>	<b>31,527,667</b>	<b>34</b>
					<b>Total Equity</b>	<b>\$ 108,044,213</b>	<b>100</b>	<b>\$ 93,311,191</b>	<b>100</b>
<b>TOTAL ASSETS</b>					<b>TOTAL LIABILITIES AND EQUITY</b>				
	<b>\$ 108,044,213</b>	<b>100</b>	<b>\$ 93,311,191</b>	<b>100</b>					



**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Expressed In Thousands of New Taiwan Dollars)

	2016		2015	
	Amount	%	Amount	%
<b>Income:</b>				
Brokerage commissions (Note 6(19))	\$ 3,226,451	51	3,585,202	55
Revenues from securities business money lending	46	-	119	-
Revenue from securities lendings	71,164	1	38,789	1
Underwriting commissions (Note 6(19))	93,463	1	167,696	2
Commissions on wealth management business	64,802	1	63,025	1
Net gains on sale of trading securities (Note 6(19))	87,379	1	44,885	1
Securities management, distribution, and management fees	139,497	3	139,875	2
Interest revenue (Note 6(19))	1,463,945	23	1,430,410	22
Dividend revenue	175,857	3	146,717	2
Net gains (losses) on measurement of trading securities at fair value through profit or loss (Note 6(19))	45,390	1	(219,874)	(3)
Net gains (losses) on covering of borrowed securities and bonds with resale agreements	17,194	-	(46,842)	(1)
Net gains on measurement of borrowed securities and bonds with resale agreements	36,005	1	78,838	1
Net gains on stock warrants issued (Notes 6(19) and 6(21))	747,109	12	842,234	13
Futures commission revenues	564,369	9	123,498	2
Net gains (losses) on derivative instruments - futures (Note 6(21))	(254,211)	(4)	126,235	2
Net losses on derivative instruments - OTC (Note 6(21))	(238,978)	(4)	(54,270)	(1)
Management fee revenues	76	-	843	-
Advisory commissions	14,251	-	9,009	-
Other operating revenues	93,202	1	87,768	1
	<u>6,347,011</u>	<u>100</u>	<u>6,564,157</u>	<u>100</u>
<b>Expenses:</b>				
Brokerage fees	474,143	7	391,388	6
Brokerage and clearing fees - proprietary trading	16,577	-	22,995	-
Clearing and exchange fees - refinancing	3,309	-	3,116	-
Clearing and exchange fees - underwriting	1,749	-	2,866	-
Financial costs	288,309	5	209,012	3
Commission expense - futures	411,695	7	189,205	3
Clearing and settlement expenses	143,607	3	135,052	2
Other operating expenditure	6,807	-	9,001	-
Employee benefits expenses (Note 6(19))	2,418,060	38	2,467,074	38
Depreciation and amortization expenses (Note 6(19))	217,980	3	219,499	3
Other operating expenses (Note 6(19))	1,344,841	21	1,550,209	24
	<u>5,327,077</u>	<u>84</u>	<u>5,199,417</u>	<u>79</u>
<b>Other income and expenses :</b>				
Share of profits of associates and joint venture (Note 6(5))	106,717	2	74,775	1
Other gains and losses (Note 6(19))	545,582	8	594,520	9
	<u>652,299</u>	<u>10</u>	<u>669,295</u>	<u>10</u>
<b>Net income before income tax</b>	<u>1,672,233</u>	<u>26</u>	<u>2,034,035</u>	<u>31</u>
<b>Income tax expense (Note 6(16))</b>	<u>(265,736)</u>	<u>(4)</u>	<u>(305,677)</u>	<u>(4)</u>
<b>Net income</b>	<u>1,406,497</u>	<u>22</u>	<u>1,728,358</u>	<u>27</u>
<b>Other comprehensive income:</b>				
Items that will not be reclassified subsequently to profit or loss				
Remeasurment on defined benefit plan	(19,494)	-	(29,867)	-
Income tax related to the components of other comprehensive income	-	-	-	-
<b>Subtotal of items that will not be reclassified subsequently to profit or loss</b>	<u>(19,494)</u>	<u>-</u>	<u>(29,867)</u>	<u>-</u>
Items that may be reclassified to profit or loss in subsequent periods				
Exchange differences on translation of foreign operations	(49,443)	(1)	81,233	1
Unrealized gains (losses) on available-for-sale financial assets, net	66,182	1	(31,021)	(1)
Income tax benefit related to components of other comprehensive income (Note 6(16))	6,951	-	(14,772)	-
Total items that will be reclassified to profit or loss in subsequent periods	23,690	-	35,440	-
<b>Other comprehensive income for the year, net of income tax</b>	<u>4,196</u>	<u>-</u>	<u>5,573</u>	<u>-</u>
<b>Total comprehensive income for the year</b>	<u>\$ 1,410,693</u>	<u>22</u>	<u>1,733,931</u>	<u>27</u>
<b>Net income attributable to</b>				
Shareholders of the parent	\$ 1,196,756	19	1,549,327	24
Non-controlling interests	209,741	3	179,031	3
	<u>\$ 1,406,497</u>	<u>22</u>	<u>1,728,358</u>	<u>27</u>
<b>Total comprehensive income attributable to:</b>				
Shareholders of the parent	\$ 1,199,521	19	1,551,672	24
Non-controlling interests	211,172	3	182,259	3
	<u>\$ 1,410,693</u>	<u>22</u>	<u>1,733,931</u>	<u>27</u>
<b>Basic earnings per share (Note 6(18))</b>	<u>\$</u>	<u>0.53</u>	<u>\$</u>	<u>0.66</u>
<b>Dilutive earnings per share (Note 6(18))</b>	<u>\$</u>	<u>0.53</u>	<u>\$</u>	<u>0.66</u>



**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**  
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to shareholders of the parent							
	Retained earnings			Others				
	Capital stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences on translation of foreign operations	Unrealized gains (losses) on financial assets available-for-sale	Treasury stocks
								Equity attributable to shareholders of the parent
								Non-controlling interests
								Total Equity
<b>Beginning balance, January 1, 2015</b>	\$ 23,690,730	2,711,760	753,136	1,756,283	2,089,222	76,558	20,791	31,098,480
Net income for the year ended December 31, 2015	-	-	-	-	1,549,327	-	-	1,549,327
Other comprehensive income	-	-	-	-	(29,441)	59,427	(27,641)	3,228
Total comprehensive income	-	-	-	-	1,519,886	59,427	(27,641)	1,551,672
Appropriation and distribution of retained earnings:								
Legal reserve	-	-	202,531	-	(202,531)	-	-	-
Special reserve	-	-	-	405,061	(405,061)	-	-	-
Cash dividends	-	-	-	-	(1,421,444)	-	-	(1,421,444)
Reversal of special reserve for deduction of stockholders' equity	-	-	-	(6,922)	6,922	-	-	-
Purchase of treasury stocks	-	-	-	-	-	-	-	(939,569)
Retirement of treasury stocks	(500,000)	29,586	-	-	-	-	-	470,414
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	1,461	-	-	-	-	-	1,461
Changes in non-controlling interests	-	-	-	-	-	-	-	-
<b>Ending balance, December 31, 2015</b>	23,190,730	2,742,807	955,667	2,154,422	1,586,994	135,985	(6,850)	30,290,600
Net income for the year ended December 31, 2016	-	-	-	-	1,196,756	-	-	1,196,756
Other comprehensive income	-	-	-	-	(18,473)	(38,827)	60,065	2,765
Total comprehensive income	-	-	-	-	1,178,283	(38,827)	60,065	1,199,521
Appropriation and distribution of retained earnings:								
Legal reserve	-	-	154,933	-	(154,933)	-	-	-
Special reserve	-	-	-	309,866	(309,866)	-	-	-
Cash dividends	-	-	-	-	(1,111,845)	-	-	(1,111,845)
Purchase of treasury stocks	-	-	-	-	-	-	-	(858,314)
Retirement of treasury stocks	(500,000)	7,579	-	-	-	-	-	492,421
Change in the ownership interest of subsidiaries	-	586	-	-	-	-	-	586
<b>Ending balance, December 31, 2016</b>	\$ 22,690,730	2,750,972	1,110,600	2,464,288	1,188,633	97,158	53,215	29,520,548
								1,323,730
								30,844,278

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**  
(Expressed In Thousands of New Taiwan Dollars)

	2016	2015
<b>Cash flows from operating activities:</b>		
Net income before income tax	\$ 1,672,233	2,034,035
Adjustments for:		
Income and expenses items with no effect on cash flows:		
Depreciation expense	180,741	179,376
Amortization expense	37,239	40,123
Bad debt provision	7,393	-
Net losses (gains) on financial assets or liabilities at fair value through profit or loss	(45,390)	219,874
Interest expense	288,309	209,012
Interest revenue (including financial income)	(1,666,227)	(1,599,893)
Dividend revenue	(207,993)	(179,431)
Cash dividend received from investments under equity method	65,987	57,053
Share of profit of associates and joint ventures	(106,717)	(74,775)
Net losses (gains) on disposal and retirement of property and equipment	4,202	(58,484)
Losses on disposal and retirement of intangible assets	-	86
Gains on disposal of investments	(90)	-
Gains on disposal of financial assets available for sale - non-current	-	(13,769)
Net (gains) losses on non-operating financial instruments at fair value through profit or loss	31,837	9,258
Net changes of income and expense items with no effect on cash flows	(1,410,709)	(1,211,570)
<b>Net changes of assets from operating activities:</b>		
Decrease (increase) in financial assets at fair value through profit or loss	(1,726,844)	(1,140,884)
Decrease (increase) in financial assets available for sale - current	(11,451,162)	(7,858,230)
Decrease (increase) in receivable for securities provided as collateral	3,230,705	4,414,245
Decrease (increase) in refinancing margin	(84,269)	6,443
Decrease (increase) in receivable on refinancing collateral	(71,739)	16,884
Decrease (increase) in receivable of securities business money lending	(144,552)	-
Decrease (increase) in customers' margin account	(6,865,086)	(4,460,313)
Decrease (increase) in margin receivable of futures trading	6	(900)
Decrease (increase) in collateral for securities borrowed	271,393	(424,717)
Decrease (increase) in security borrowing margin	685,298	(866,722)
Decrease (increase) in notes receivable	(8,976)	(3,931)
Decrease (increase) in accounts receivable	911,973	1,738,439
Decrease (increase) in prepayments	(14,112)	2,895
Decrease (increase) in leverage contract trading - customer margin account	(72)	-
Decrease (increase) in other receivables	(12,186)	5,660
Decrease (increase) in pledged assets - current	73,717	(73,717)
Decrease (increase) in current income tax assets	15,097	(23,924)
Decrease (increase) in other current assets	1,049,937	(1,170,561)
Decrease (increase) in guarantee deposited for business operations	54,540	264,513
Decrease (increase) in settlement fund	17,633	(1,583)
Decrease (increase) in refundable deposits	16,507	38,120
Decrease (increase) in other non-current assets	44,858	(65,504)
<b>Total net changes in assets from operating activities:</b>	(14,007,334)	(9,603,787)
<b>Net changes in liabilities from operating activities:</b>		
Increase (decrease) in financial liabilities at fair value through profit or loss	(933,192)	1,045
Increase (decrease) in bonds sold under repurchase agreements	11,380,399	8,966,061
Increase (decrease) securities financing refundable deposits	(302,171)	(206,979)
Increase (decrease) deposits payable for securities financing	(295,576)	(351,293)
Increase (decrease) securities lending refundable deposits	(744,071)	(631,827)
Increase (decrease) in futures traders' equity	6,844,919	4,543,892
Increase (decrease) in notes payable	33	(300)
Increase (decrease) customers' equity of separate account ledger in settlement accounting	433	4,104
Increase (decrease) in leverage contract trading - customers' equity	70	-
Increase (decrease) in accounts payable	(369,640)	(2,022,921)
Increase (decrease) in advance receipts	13,634	102
Increase (decrease) in receipts under custody	(1,199,831)	1,221,313
Increase (decrease) in other payables	(120,360)	(75,949)
Increase (decrease) in other financial liabilities - current	(1,407,114)	1,693,610
Increase (decrease) in other financial liabilities - non-current	(2,357)	129,426
Increase (decrease) in provision - current	15,714	137
Increase (decrease) in other current liabilities	5,755	(4,583)
Increase (decrease) in other non-current liabilities	(708)	2,305
<b>Total net changes in liabilities from operating activities</b>	12,885,937	13,268,143
<b>Total net changes in assets and liabilities from operating activities</b>	(1,121,397)	3,664,356
<b>Total Cash generated from adjustment items</b>	(2,532,106)	2,452,786
Cash generated by operating activities	(859,873)	4,486,821
Interest received	1,624,466	1,633,353
Dividends received	208,790	178,746
Interest paid	(269,740)	(202,599)
Income tax paid	(128,279)	(117,480)
<b>Net cash provided by (used in) operating activities</b>	575,364	5,978,841
<b>Cash flows from investing activities:</b>		
Proceeds from disposal of financial assets available-for-sale	-	30,229
Decrease (increase) of deferred debits	(1,902)	(3,329)
Acquisition of investments under equity method	-	(59,860)
Decrease (increase) in financial assets measured at cost	(37,139)	8,750
Acquisitions of property and equipment	(125,995)	(198,281)
Proceeds from disposal of property and equipment	-	225,514
Acquisitions of intangible assets	(17,116)	(34,604)
Acquisitions of investment property	-	(260)
<b>Net cash provided by (used in) investing activities</b>	(182,152)	(31,841)
<b>Cash flows from financing activities:</b>		
Increase (decrease) in short-term borrowing	2,445,241	(865,839)
Increase (decrease) in long-term liabilities - current portion	-	(500,000)
Increase (decrease) in commercial paper payable	-	(1,749,717)
Acquisition of treasury stocks	(858,314)	(939,569)
Cash dividends	(1,235,768)	(1,495,225)
Disposal of ownership interests in subsidiaries (without losing control)	-	24,215
<b>Net cash provided by (used in) financing activities</b>	351,159	(5,526,135)
Effect of exchange rate changes on cash and cash equivalents	(47,454)	78,050
Increase (decrease) in cash and cash equivalents	696,917	498,915
Cash and cash equivalents, beginning of the year	4,726,498	4,227,583
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 5,423,415</b>	<b>4,726,498</b>

**(English Translation of Financial Report Originally Issued in Chinese)**  
**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL REPORT**  
**DECEMBER 31, 2016 AND 2015**

**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS UNLESS OTHERWISE STATED)**

## **1. OVERVIEW**

Capital Securities Corporation (the “Company”) was registered under the Ministry of Economic Affairs, R.O.C. on June 21, 1988. The address of the Company’s registered office is 4th Fl. No. 101, Sung-Jen Road, Taipei, Taiwan, R.O.C. As of December 31, 2016, the composition of the consolidated financial statements includes the Company and the subsidiaries (the “Group”). As of December 31, 2016, the Company has 56 branches nationwide.

The Company is authorized to conduct the following businesses:

- (1) Underwriting of marketable securities;
- (2) Trading of marketable securities on a proprietary basis on stock exchange;
- (3) Brokerage of marketable securities on stock exchange;
- (4) Trading of marketable securities at the Company’s branches;
- (5) Brokerage of marketable securities at the Company’s branches;
- (6) Margin loan, short sale and refinancing;
- (7) Securities registration agency services;
- (8) Dealership of foreign marketable securities;
- (9) Short-term bills service;
- (10) Accessory services of futures trading;
- (11) Futures trading on a proprietary basis;
- (12) Securities business money lending;
- (13) Managing the unexpended balance of clients' securities accounts within their authorization;
- (14) Trust business;
- (15) Offshore securities business; and
- (16) Other relevant services as approved by the authority in charge.

## **2. APPROVAL DATE AND PROCEDURES OF THE FINANCIAL REPORT**

The consolidated financial statements were authorized for issuance by the board of directors on March 27, 2017.

## **3. NEW STANDARDS AND INTERPRETATIONS**

- (1) Impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) but not yet in effect

According to Ruling No. 1050040146 issued on October 20, 2016, by the FSC, from year 2017 securities firms are required to conform to the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016, and were endorsed by the FSC on January 1, 2017 in preparing their financial statements. The related new standards, interpretations and amendments are as follows:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
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 Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"	January 1, 2014
Amendments to IAS 39 "Novation of Derivatives and Continuation 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
Interpretations to IFRS 21 "Levies"	January 1, 2014
The Group assessed that the initial application of the above IFRSs would not have any material impact on the consolidated financial statements.	

(2) Newly released or amended standards and interpretations not yet endorsed by the FSC.

The Group has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC. The FSC announced that IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the Group's financial statements were issued, the FSC has not announced the effective dates of other new IFRSs.

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets - Between an Investor and Its Associate or Joint Venture"	Undecided
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendment to IFRS 15 "Clarifications of IFRS 15"	January 1, 2018
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 IFRS 4 "Insurance Contracts" ("Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts")	January 1, 2018
Annual Improvements to IFRSs 2014 - 2016 Cycle:	
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2017
IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2018
Interpretations to IFRS 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018
Amendments to IAS 40 "Transfer of Investment Property"	January 1, 2018

The Group is still currently determining the potential impact of the standards listed below:

<b>Issuance / Release Dates</b>	<b>Standards or Interpretations</b>	<b>Content of amendment</b>
May 28, 2014 April 12, 2016	IFRS 15 "Revenue from Contracts with Customers"	IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 "Revenue," IAS 11 "Construction Contracts," and a number of revenue-related interpretations. Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements.
November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	The standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the main amendments are as follows: <ul style="list-style-type: none"> <li>• Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that "own credit risk" adjustments be measured at fair value through other comprehensive income.</li> <li>• Impairment: The expected credit loss model is used to evaluate impairment.</li> <li>• Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio.</li> </ul>
January 13, 2016	IFRS 16 "Leases"	The new standard of accounting for lease is amended as follows: <ul style="list-style-type: none"> <li>• For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset during the lease term.</li> <li>• A lessor classifies a lease as either a</li> </ul>

Issuance / Release Dates	Standards or Interpretations	Content of amendment
September 11, 2014	Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	<p>finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.</p> <p>The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture.</p> <p>The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.</p>
January 19, 2016	Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	<p>The objective of this project is to clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. It clarifies that 'taxable profit excluding tax deductions' used for assessing the utilization of deductible temporary differences is different from 'taxable profit on which income taxes are payable'.</p>
January 29, 2016	Amendments to IAS 7 "Disclosure Initiative"	<p>The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.</p>
December 8, 2016	Interpretations to IFRS 22 "Foreign Currency Transactions and Advance Consideration"	<p>IFRIC 22 clarifies the transaction date used to determine the exchange rate. The transaction date is the date on which the company initially recognizes the prepayment or deferred income arising from the advance consideration.</p>
December 8, 2016	Amendments to IAS 40 "Transfer of Investment Property"	<p>The amendments specify that a transfer into, or out of, investment property would be made only when there has been a change in use of a property, supported by evidence that a change in use has occurred. The amendments also clarify that the list of circumstances that provide evidence of a change in use set out in paragraph 57 (a)-(d) of IAS 40 contains examples and is not an exhaustive list.</p>

The Group 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 Group completes the evaluation.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

##### (1) Statement of compliance

The consolidated financial statements are prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms.

##### (2) Basis of preparation

###### A. Basis of measurement

The consolidated 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. Financial assets available for sale that are measured at fair value; and
- c. The defined benefit asset is recognized as plan assets, plus unrecognized actuarial loss, less unrecognized actuarial gain and 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 consolidated 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.

##### (3) Basis of consolidation

###### A. Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Total profit or losses of subsidiaries applicable to the non-controlling interests are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

B. List of subsidiaries in the consolidated financial statements

Subsidiaries included in the consolidated financial report are as follows:

Name of the Investor	Subsidiaries	Business type	Ratio of Equity Ownership		Note
			Dec 31, 2016	Dec 31, 2015	
The Company	Capital Investment Management Corp.	Engaged in providing advice on securities investment and securities investment consultancy	100.00%	100.00%	The corporation established in February, 1990 with the paid-in capitals amounted to \$70,000.
"	CSC International Holdings Ltd.	Long-term equity investment business.	100.00%	100.00%	The corporation established in March, 1996, with the paid-in capitals amounted to US\$45,000 thousand
"	Capital Futures Corp.	Engaged in domestic and foreign futures business.	59.01%	59.01%	The corporation established in February, 1997 with the paid-in capitals amounted to \$1,223,979.
"	CSC Venture Capital Corp	Venture Capital and consulting business	100.00%	-	The corporation established in January, 2016 with the paid-in capitals amounted to \$1,000,000.
"	Taiwan International Futures Corp.	Management and consulting business	99.99%	99.99%	Liquidation in progress.
"	Taiwan International Securities (B.V.I) Corp.	Holding company for international securities business	100.00%	100.00%	The paid-in capitals amounted to US\$9,516 thousand.
"	Taiwan International Securities Investment Consulting Corp.	Management and consulting business	99.92%	99.92%	Liquidation in progress.
Capital Futures Corp.	CSC Futures (HK) Ltd.	Futures dealing business.	97.27%	95.00%	The corporation established in December, 1998. Acquired 100% of the equity on November 1, 2012, disposed 5% on April 30, 2015 and increased capital HK\$100,000 thousands to acquire additional 2.27% equity on December 12, 2016. As of December 31, 2016, the paid-in capitals amounted to HK\$220,000 thousands.
"	Capital International Technology Corp.	Management, consulting and information service business	100.00%	100.00%	The corporation established in December, 2014. As of December 31, 2016, the paid-in capitals amounted to \$50,000.
Capital International Technology Corp.	Capital True Partner Co., Ltd	Management, consulting and information service business.	51.00%	51.00%	The corporation established on August 20, 2008. Acquired 51% of the equity on February 9, 2015 and held controlling interest. As of December 31, 2016, the paid-in capitals amounted to CNY\$1,000 thousands.
"	Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	100.00%	-	The corporation established in October, 2016. The paid-in capitals amounted to CNY\$4,000 thousands were completed at January 10, 2017.



Name of the Investor	Subsidiaries	Business type	Ratio of Equity Ownership		Note
			Dec 31, 2016	Dec 31, 2015	
Capital Securities (Hong Kong) Ltd.	CSC Securities (HK) Ltd.	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	The corporation established in May, 1994.
CSC Securities (HK) Ltd.	Capital Securities Nominees Ltd.	Agency service	100.00%	100.00%	The corporation established in April, 1995. Acquired equity from Capital Securities (Hong Kong) Ltd. on January 17, 2013.
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Ltd.	Long-term equity investment business.	100.00%	100.00%	Not complied with the requirement of Financial Resources Rules (the "FRR") of the Hong Kong Securities and Futures Commission, the operations remain stagnant currently.
TIS Securities (HK) Ltd.	Taiwan International Capital (HK) Ltd.	Direct investment	100.00%	100.00%	"

### C. Subsidiaries not listed in the consolidated financial statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership		Note
			Dec 31, 2016	Dec 31, 2015	
The Company	Capital Insurance Agency Corp.	Manages personal insurance agent business.	100.00%	100.00%	The corporation established in November 2000. The Company acquired 100% of the equity and gained a controlling interest. The paid-in capitals amounted to \$7,400. As of December 31, 2016 and 2015, the total assets constituted 0.06% and 0.06% of the Group's total assets. For the year end December 31, 2016 and 2015, the operation revenue were merely 1.74% and 1.13% of the consolidated revenue which were so immaterial, thus they were excluded from the consolidated financial statement.
	Capital Insurance Advisory Corp.	Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business.	100.00%	100.00%	The corporation established in November 2000. The Company acquired 100% of the equity and gained a controlling interest. The paid-in capitals amounted to \$5,000. As of December 31, 2016 and 2015, the total assets constituted 0.13% and 0.11% of the Group's total assets. For the year end December 31, 2016 and 2015, the operation revenue were merely 3.94% and 2.76% of the consolidated revenue which were so immaterial, thus they were excluded from the consolidated financial statement.

(4) 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, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges which are recognized in other comprehensive income arising on the retranslation.

B. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Company's functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, 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 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.

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

Assets that meet one of the following criteria are classify as current assets, otherwise classify as non-current assets.

- 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.

Liabilities that meet one of the following criteria are classify as current liabilities, otherwise classify as non-current liabilities.

- 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.

(6) 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.

(7) Financial instruments

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

A. Financial assets

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

a. Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of disposal or repurchasing in the short term. This type of financial asset is measured at fair value at the time of initial recognition, and transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value subsequently and changes therein, which takes into account any dividend and interest income, are recognized in profit or loss. A regular way of purchase or disposal 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 amortized cost, and are included in financial assets measured at cost.

b. Financial assets available for sale

Financial assets available for sale 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. Financial assets available for sale 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 transaction on purchase or disposal 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 Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

c. Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. A regular transaction on purchase or disposal of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

d. Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise accounts receivable and other receivables. 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 transaction on purchase or disposal of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

e. 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.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, 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 assets carried 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 financial 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 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 loss on financial assets available for sale is 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 assets 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 loss recognized on an available-for-sale equity security is 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.

f. Derecognition of financial assets

The Group 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 gain or loss on financial assets available for sale is recognized in profit or loss.

The Group 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 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.

d. Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities on a net basis when the Group 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.

C. Derivative financial instruments

Derivatives are recognized initially at fair value and transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss

a. Interest rate swaps

Since there is no physical transfer of principal, only memo entries of notional principals are made of interest rate swaps. For non-trading swaps, differences in interest are included in current earnings. Trading swaps are recognized on the balance sheet in their fair value. Realized and unrealized changes in their fair value are included in current earnings at the time of occurrence.

b. Convertible bond asset- backed swaps

Convertible bonds acquired through underwriting or proprietary trading are the underlying assets of asset-backed swaps. The contract amount for the counter-parties receiving the convertible bond is the notional principal. The Company swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counter-parties. The Company also receives the right to call the convertible bond prior to the expiration of the contract.

The rights to call the convertible bond can be sold to third parties and counter-parties, are reflected under asset-backed options.

c. Structured instruments

The portfolio of structured instruments contract is fixed income products and financial derivatives instruments, including main-contract of non-derivatives and embedded derivatives, those shall be recognized separately. The principal value of structured instruments is the present value of fixed income products, measured at amortized cost, and recognized imputed interest with effective interest rate over the duration of contracts. Embedded derivatives are measured at fair value, and the changes in fair value are recognized through profit or loss.

On the settlement date with physical delivery, the fair value of the acquired securities are stated at cost; the fair value and the cost of the delivered securities are recognized as revenue on sale of securities and cost on sale of securities, respectively.

When hedging positions are securities held for trading (including stocks, bonds and warrants) or options contracts, the accounting policy is referred to stock warrants hedging transactions; when hedging positions are futures contracts, the accounting policy is referred to futures hedging transactions.



d. Interest options

On the contract date, the premium received from the counterparty is recognized and gain or loss on interest options is valued using the fair value method.

e. Bond options

Over the duration of contracts, the notional principal can be executed is recorded as memo entry. Option contracts are valued at fair market value on the balance sheet date and current gain or loss is recorded. If the options are exercised and underlying bonds are been acquired or delivered, bond selling revenue or purchase costs are recorded at their fair market value. The exercise prices calculated in accordance with interest rate are recorded as receivables or payables.

f. Equity options

The buyer and seller of equity options recognized equity derivatives assets and liabilities at trading date according to fair value. Equity options are valued at fair value and the difference between book value and fair value are recognized through profit or loss over the duration of contracts.

On the settlement date with physical delivery, the fair value of the acquired securities are stated at cost; the fair value and the cost of the delivered securities are recognized as revenue on sale of securities and cost on sale of securities, respectively.

When hedging positions are stocks, the accounting policy is referred to stock warrants hedging transactions; when hedging positions are stock index options or stock options, the accounting policy is referred to those hedging transactions.

g. Forward rate agreement

As there is no principal is transferred, forward rate agreement is only recorded as memo entry on the contract date. Forward rate agreement contract is valued at fair value and recognized the gain or loss on forward rate agreement.

h. Futures contracts and options

Margins are required when trading futures or options. Changes in the margin balance of futures and options due to daily valuation are reflected under “futures margin-proprietary trading” and “call options” or “put options.” When offsetting a futures or options position, the settlement difference is included in current earnings, and the difference between the settlement prices and average prices of open positions at the balance sheet date is also included in current earnings.

i. Stock warrants

Issuance of stock warrants should be recognized as a liability according to amounts actually received, and amounts paid in the repurchase of stock warrants previously issued should be listed as a deduction from liabilities.

(8) Margin loan, short sale and refinancing

Margin loan represents loans extended to customers and is accounted for as receivables for securities provided as collateral. Such loans are secured by the securities purchased by customers. These securities are recorded through memo entries and are returned when the loans are repaid.

Short sale represents securities lent to customers and the deposits received from customers on securities lent out are accounted to guarantee deposited for securities lent. The proceeds from sales of securities lent to customers, net of securities transaction tax, commission and financing charges, is retained by the Group and are recorded under the proceeds payable from securities lent. These securities lent to customers for short sales are recorded through memo entries. The deposits received and the proceeds from short sale will be returned to customers while the

securities are returned and paid off.

Refinancing margin loan means that the Group operates margin loan business, if capital is insufficient, the Group can refinance from securities finance companies, recorded as borrowed funds refinanced, and securities from margin loan are regarded pledged.

Refinancing short sale means the Group operates short sale business, if securities are insufficient, the Group can borrow securities from securities finance companies. For securities refinancing, the Group pays margin deposits to securities finance companies and these margin deposits are recorded as refinancing margin. The proceeds from the short sale of securities borrowed from securities finance companies is retained by the securities finance companies as collateral which are recorded as proceeds payable from securities lent and receivable on refinancing collateral, respectively.

(9) Bonds and Bills with resell and repurchase agreements

When bonds are repurchased, they are reflected under “bonds sold under repurchase agreements” at the settlement date. The difference between the selling price and repurchase price is recognized as interest expense. When bonds are resold, they are reflected under “bonds purchased under resell agreements” at the settlement date. The difference between the selling price and repurchase price is recognized as interest revenue.

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) Customers’ margin accounts and futures customers’ equity

Receiving margin deposits from customers for futures transactions as requirements is in accordance with the regulations. Customers’ margin account balances are calculated daily by marking to market the open positions of each customer and determining the required margin levels, recognized as current assets in the balance sheet. Margin deposits received from customers for futures transactions and futures customers’ equity calculated daily by marking to market, recognized as current liabilities in the balance sheet. Futures customers’ equity cannot be offset unless these accounts pertain to the same customers.

(11) Securities borrowing transactions

Engage in securities borrowing 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.

(12) Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.



The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Unrealized profits resulting from the transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Group's share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

When the Group disposes associates and lose the significant influence over the associates, any remaining investments are measured at the fair value. The difference between the fair value of remaining investments in associates plus the proceeds from disposing associates and the carrying amount of remaining investment in associates when the Group loses its significant influence is recognized in profit or loss. The amount related to associates and recognized in other comprehensive income is reclassified as profit or loss from equity.

If the investments in associates become the investment in joint ventures, or vice versa, the Group is accounted for using the equity method consistently and does not remeasure the retained equity.

If the Group does not subscribe the new issuance of capital based on holding percentage and result in a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus and investments under equity method. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments under equity method is insufficient, the shortage is debited to retained earnings. If the Group's ownership interest is reduced due to the additional subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis.

### (13) 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 disposal 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. Reclassification to investment property

The property is reclassified to investment property at its carrying amount when the use of the property changes from owner-occupied to investment property.

C. Subsequent cost

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

D. 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 companied 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.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonably certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

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. Buildings  | 3~55 years |
| b. Transportation equipment   | 5 years    |
| b. Transportation equipment   | 3~5 years  |
| d. Miscellaneous equipment  | 5~10 years |
| e. Leasehold improvements are depreciated evenly by the shorter of the estimated useful life or the lease period. |            |

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If the expected value differs from the previous estimation, the change regards as changes in accounting estimation.

(14) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, supply of services, or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at cost as well, the depreciation method, useful life and residual values are as same as the regulations of “property and equipment”. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

When the use of a property changes such that it is reclassified as property and equipment, its carrying amount at the date of reclassification becomes its cost for subsequent accounting.

(15) Intangible assets

A. Goodwill

a. Initial recognition

Goodwill resulted in acquisition of subsidiaries includes in intangible assets.

b. Subsequent measurement

Goodwill is measured in accordance with cost less accumulated impairment loss. Investments under Equity Method, the carrying amount of goodwill included in the carrying amount of investments and impairment loss of such investments are not allocated to goodwill and any assets, Equity Method as part of the carrying amount of the investment.

B. Other intangible assets

Other intangible assets that are acquired by the Group are measured at cost less accumulated amortization and any accumulated impairment losses.

C. Amortization

The amortizable amount is the cost of an asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, operation franchise and the seats of foreign futures exchanges with all indefinite useful lives, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

a. Customer relationships: 5 years

b. Computer software cost and dial-up service charges: 3 years

The residual value, the amortization method and the amortization period should be evaluated at least at each financial year-end. The changes of the amortization method and the period shall be accounted for as changes in accounting estimation.

(16) Leases

A. Lessor

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

B. Lessee

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

(17) Non-financial assets impairment

The Group assesses whether there is any objective evidence of impairment for non-financial assets on each reporting date except for deferred tax assets and assets arising from employee benefits and estimates the recoverable amounts for any impaired assets. If it is not possible to determine the recoverable amount for an individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value less costs to sell or its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable

amount and recognized as impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount, as a reversal of a previously recognized impairment loss. The carrying amount after the reversal shall not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior period.

The intangible assets with indefinite useful lives required to be tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

#### (18) 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 Group'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 are should be deducted. The discount rate is the yield at the reporting date market yields of government bonds that have maturity dates approximating the terms of the Group'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 Group. An economic benefit is available to the Group 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.

Re-measurement comprises (a) actuarial gains and losses; (b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and (c) changes in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset). Re-measurement arising on defined benefit plans is recognized in other comprehensive income in the period in which they arise and are recorded as retain earning.

The Group 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.

C. Termination benefits

Termination benefits are recognized as an expense when the Group 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 Group 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.

(19) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(20) Revenue recognition

A. Brokerage commissions

Handling fee revenue from trade brokerage, security financing or securities lending is recognized on an accrual basis.

B. Underwriting commissions

Revenue from underwriting business is recognized when the underwriting contract is completed; revenue from underwriting securities on a firm commitment basis is recognized when the payment received after underwriting securities, and revenue from underwriting consultation is recognized according to the period specified in the underwriting consultation contract.

C. Interest revenue

Interest revenue arising from security financing, margin loans and other operation related interest is recognized on an accrual basis.

(21) Income tax

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

Current income 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.

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 income 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 income 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 Group'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.

Income tax of overseas subsidiaries is estimated in accordance with local regulation. Income tax of the Group is the sum of the income tax of subsidiaries in the consolidated financial statements.

## (22) Business combinations

The Group only chose to restate the business combinations occurred after January 1, 2012, upon the transition from ROC GAAP to IFRSs endorsed by FSC are approved, with regard to acquisition before January 1, 2012, the amount should be recognized as Regulations Governing the Preparation of Financial Reports released by Securities Issuers as of January 10, 2009 and Statement of Financial Accounting Standards announced by Accounting Research and Development Foundation

## (23) Earnings per share (EPS)

The Group presents its basic and dilutive earnings per share attributable to the ordinary equity holders. The basic earnings per share of the Group is calculated by dividing profit or loss attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Group, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Group include the estimation of employee remuneration.



**(24) Segment information**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment consists of standalone financial information.

**(25) Treasury stocks**

The Group acquires its outstanding shares is stated at cost and shown as a deduction in stockholders' equity. Upon disposal, the excess of sales price over carrying value is recognized as capital surplus – treasury stock transaction. Should sales price be lower than the carrying value, the difference is charged against capital surplus from treasury stocks in the same category, and any deficit is debited to retained earnings. The carrying value of treasury stocks is calculated using the weighted-average approach in accordance with the purpose of the acquisition.

When the Group's treasury stock is retired, the treasury stock account should be credited, and the capital surplus - premium on stock account and capital stock account should be debited proportionately according to the share ratio. The carrying value of treasury stock in excess of the sum of its par value and premium on stock should first be offset against capital surplus from the same class of treasury stock transactions, and the remainder, if any, debited to retained earnings. The sum of the par value and premium on treasury stock in excess of its carrying value should be credited to capital surplus from the same class of treasury stock transactions.

## **5. MAJOR SOURCES OF ACCOUNTING ASSUMPTIONS, JUDGMENTS AND ESTIMATION UNCERTAINTY**

The preparation of the consolidated financial statements in conformity with Regulations Governing the Preparation of Financial Reports by Securities Firms, IFRSs (approved by the FSC), and IFRIC 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 separate financial statements, 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 goodwill: The Group performed the impairment test of goodwill annually. The recoverable amount of the cash-generating unit was based on the value in use. The Group 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

	December 31, 2016	December 31, 2015
Cash	\$ 2,850	3,140
Bank deposits		
Checking accounts	58,106	48,103
Demand deposits	422,816	177,236
Time deposits	2,143,168	1,768,772
Foreign currency deposits	1,978,038	1,111,031
Subtotal	4,602,128	3,105,142
Futures margin - excess margin	818,437	1,463,300
Commercial paper	-	154,916
Subtotal	818,437	1,618,216
Total	\$ 5,423,415	4,726,498

### (2) Financial assets

#### A. Financial assets at fair value through profit or loss - current:

	December 31, 2016	December 31, 2015
<b>Open-ended funds and money-market instruments</b>		
Open-ended funds and money-market instruments	\$ 1,201,307	690,994
Valuation adjustment	(21,007)	10,561
Subtotal	1,180,300	701,555
<b>Investment in securities</b>		
Investment in securities	-	5,439
Valuation adjustment	-	(121)
Subtotal	-	5,318
<b>Trading securities - proprietary trading</b>		
Listed stocks	626,599	1,430,952
Listed funds	798,932	509,244
OTC stocks	249,061	156,121
Emerging market stocks	259,637	177,697
Emerging fund	7,964	7,424
Convertible corporate bonds	455,796	345,901
Government bonds	4,041,386	2,823,467
Corporate bonds	11,801,410	11,993,037
Financial debentures	1,659,501	752,998
Foreign stocks	269,804	478,309
Overseas bonds	64,320	164,321
Other	32,603	29,989
	20,267,013	18,869,460
Valuation adjustment	42,273	62,485
Subtotal	20,309,286	18,931,945
<b>Trading securities - underwriting</b>		
Listed stocks	43,898	42,209
OTC stocks	11,396	-
Convertible corporate bonds	57,200	51,400
	112,494	93,609
Valuation adjustment	2,140	1,223
Subtotal	114,634	94,832



	<u>December 31, 2016</u>	<u>December 31, 2015</u>
<b>Trading securities - hedging</b>		
Listed stocks	1,810,735	1,573,401
OTC stocks	446,088	470,773
Convertible corporate bonds	3,437,205	3,948,040
Foreign stocks	1,092	1,114
	<u>5,695,120</u>	<u>5,993,328</u>
Valuation adjustment	<u>(38,606)</u>	<u>(105,180)</u>
Subtotal	<u>5,656,514</u>	<u>5,888,148</u>
<b>Derivatives</b>		
Call options	68,562	50,244
Interest rate swaps	4,942	-
Futures margin - proprietary fund	352,755	270,282
IRS asset swaps	20,743	22,878
Asset swap options - long position	5,682	11,940
Currency derivatives	3	-
Structured notes	3	-
Currency swaps	16,584	8,482
Subtotal	<u>469,274</u>	<u>363,826</u>
Total	<u>\$ 27,730,008</u>	<u>25,985,624</u>

As of December 31, 2016 and 2015, the par value of trading securities - bonds under repurchase agreement of the Group were \$35,926,059 and \$23,993,535, respectively, please refer to Note 6(11) and 8 for details.

B. Financial assets available for sale - current:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Listed stocks	\$ 221,734	101,535
OTC stocks	162,878	-
Emerging market stocks	29,482	-
Overseas bonds	18,904,893	7,757,004
Valuation adjustment	18,891	(23,084)
Total	<u>\$ 19,337,878</u>	<u>7,835,455</u>

C. Financial assets at fair value through profit and loss - non-current:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
<b>Financial assets held for trading:</b>		
Government bonds	\$ 185,799	188,818
Valuation adjustment	274	1,736
Total	<u>\$ 186,073</u>	<u>190,554</u>

As of December 31, 2016 and 2015, the Group took advantage of government bonds as margin of bills business, interest rate swaps, structured notes transaction, and settlement fund guarantee deposits, please refer to Note 8 for details.

D. Financial asset available for sale - non-current:

<u>Name of investee</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
CME Group Inc.	\$ 33,733	33,733
Valuation adjustment	42,528	27,233
Total	<u>\$ 76,261</u>	<u>60,966</u>

The purpose for obtaining the stock of CME Group Inc. is to acquire the membership of foreign futures exchange. The Group disposed of 10,004 shares of stock of CME Group Inc. on December 29, 2015, which resulted in a gain on disposal of this investment of \$13,769.

For year 2016 and 2015, due to changes in fair value, the Group had recognized \$14,922 and \$5,446 in other comprehensive income, respectively. The amount reclassified from equity to net income (losses) is \$0 and \$(13,691), respectively.

E. Financial assets measured at cost - non-current:

Non- listed (or non-over-the-counter)	December 31, 2016	
	Ownership ratio	Amount
Taiwan Depository & Clearing Corp.	1.29%	\$ 18,661
Taiwan Futures Exchange Corp.	2.86%	58,117
Taiwan Stock Exchange Corporation	0.06%	12,242
Global Securities Finance Corporation	6.05%	202,681
Chou Chin Industrial Co., Ltd.	0.05%	-
Jong-Yih Industrial Development Co., Ltd.	0.68%	1,369
Reliance Securities Investment Trust Co., Ltd	3.02%	9,767
Top Taiwan III Venture Capital Co., Ltd.	7.00%	34,258
Prudence Venture Investment Corp.	1.50%	35,365
Chanyee Hotelday Co., Ltd.	7.41%	30,000
Miho International Co., Ltd.	1.83%	46,000
Total		<b>\$ 448,460</b>

Non- listed (or non-over-the-counter)	December 31, 2015	
	Ownership ratio	Amount
Taiwan Depository & Clearing Corp.	1.29%	\$ 18,661
Taiwan Futures Exchange Corp.	2.86%	58,126
Taiwan Stock Exchange Corporation	0.06%	12,242
Global Securities Finance Corporation	6.05%	202,681
Chou Chin Industrial Co., Ltd.	0.05%	-
Jong-Yih Industrial Development Co., Ltd.	0.68%	1,369
Reliance Securities Investment Trust Co., Ltd	3.02%	9,767
Top Taiwan III Venture Capital Co., Ltd.	7.00%	71,008
Prudence Venture Investment Corp.	1.50%	37,377
Total		<b>\$ 411,231</b>

For the year ended December 31 2016 and 2015, Top Taiwan III Venture Capital Co., Ltd. refunded the proceeds of capital reduction amounted to \$36,750 and \$7,000 respectively, and Prudence Venture Investment Corp. refunded the proceeds of capital reductions which amounted to \$2,012 and \$1,750 respectively.

The Group acquired shares of Miho International Co., Ltd., Jason's Entertainment Co., Ltd. and Chanyee Hotelday Co., Ltd. in January, March and November, 2016, respectively. On August, 2016 the Jason's Entertainment Co., Ltd. registered on Emerging Stock Board, so reclassified it to financial assets available for sale – current.

- F. The Group uses Value at Risk (VAR) to monitor and measure the market risk of its investment in equity stocks. VAR refers to the unexpected loss of financial instruments derived from the changes in market risk factors within certain time periods and confidence level. The table below discloses the VAR, which is the estimation of potential loss in ten days and is covered by 99% of the adverse changes in market prices. In the table below by using this assumption, 2.5 out of 250 days VAR will exceed the disclosed amounts due to the changes in market price. Year 2016 and 2015 VAR (99%, per 10-day) of equity stocks are as follows:

Type of market risk	2016			2015		
	December 31, 2016	December 31, 2015	Mean	Maximum	Minimum	Mean
Equity stocks	641,484	750,181	692,555	821,890	596,609	793,730

## (3) Accounts Receivable

	December 31, 2016	December 31, 2015
Receivable on securities purchased by customers	\$ 22,024	40,724
Settlement	-	50,397
Interests receivable	494,248	452,745
Receivables of settlements	3,503,940	4,206,290
Others	89,525	238,944
Subtotal	4,109,737	4,989,100
Less: allowance for doubtful accounts	(3,424)	(4,123)
Total	<u>\$ 4,106,313</u>	<u>4,984,977</u>

## (4) Customers' margin account / Futures traders' equity

As of December 31, 2016 and 2015, a reconciliation of the customers' margin account and the futures traders' equity was as follows:

	December 31, 2016	December 31, 2015
Customers' margin account		
Cash in banks	\$ 18,011,775	\$ 12,530,482
Customers' margin account - futures clearing house	2,126,035	1,280,830
Customers' margin account - other futures commission merchants	3,030,438	2,492,357
Marketable securities	1,594	1,087
Total customers' margin account	<u>\$ 23,169,842</u>	<u>16,304,756</u>
Adjustment :		
Add:		
Others	1	-
Less:		
Commission revenue	(30,670)	(10,454)
Futures transaction tax	(1,045)	(792)
Interest revenues	(1,200)	(334)
Remittance amount of the customers after the market closed	(1,749)	(4,330)
Temporary receipts	(134)	(188)
Others	(2,814)	(1,346)
Futures traders' equity	<u>\$ 23,132,231</u>	<u>16,287,312</u>

## (5) Investments under Equity Method

As of December 31, 2016 and 2015, investments under equity method consisted of the following:

	December 31, 2016	December 31, 2015
Subsidiaries		
Capital Insurance Advisory Corp.	\$ 104,489	72,720
Capital Insurance Agency Corp.	52,200	48,274
Subtotal	<u>156,689</u>	<u>120,994</u>
Associates		
True Partner Advisor Hong Kong Ltd.	41,516	36,681
Total	<u>\$ 198,205</u>	<u>157,675</u>

A. Subsidiaries:

Profit sharing of gain or loss from the subsidiaries for the year 2016 and 2015 are as follows:

	2016	2015
Based on the audited financial statements	<u>\$ 101,682</u>	<u>74,781</u>
	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Total assets	<u>\$ 194,974</u>	<u>157,581</u>
Total liabilities	<u>\$ 38,285</u>	<u>36,587</u>
	<b>2016</b>	<b>2015</b>
Revenue	<u>\$ 360,440</u>	<u>256,723</u>
Net income	<u>\$ 101,682</u>	<u>74,781</u>

B. Associates:

The subsidiary Capital Futures Corporation has significant influence on True Partner Advisor Hong Kong Ltd. due to the acquisition of 49% shares with USD 1,123 thousands on October 2, 2015. The relevant information is as following:

Name of associate	Nature between the Company	Primary business area and registered country	% of Ownership and Voting Rights	
			2016.12.31	2015.12.31
True Partner Advisor Hong Kong Ltd.	Engaged in asset management. The Company's strategic alliance in expansion of asset management.	Hong Kong	49.00%	49.00%

Summarized financial information of associates accounted for under equity method that was not individually material to the Group was as follows:

	December 31, 2016	December 31, 2015
Total carrying amount of the associates that were not individually material	<u>\$ 41,516</u>	<u>36,681</u>
	<b>2016</b>	<b>2015</b>
Attributable to the Group:		
Net gains (losses) from continuing operations	\$ 5,035	(6)
Other comprehensive loss	(200)	(14)
Total comprehensive income	<u>\$ 4,835</u>	<u>(20)</u>

C. Collateral

As of December 31, 2016 and 2015, none of the investment accounted for under equity method of the Group were pledged for collateral.

## (6) Property and equipment

	Land	Buildings	Equipment	Leasehold improvement	Total
<b>Cost or deemed cost</b>					
Balance at January 1, 2016	\$ 3,709,682	1,956,866	624,246	97,963	6,388,757
Additions	-	-	76,072	49,900	125,972
Reclassified to investment property	(1,740)	(1,290)	-	-	(3,030)
Disposals & retirements	-	(263,557)	(110,580)	(13,811)	(387,948)
Effect of exchange rate changes	-	(2,019)	(1,917)	(220)	(4,156)
<b>Balance at December 31, 2016</b>	<b>\$ 3,707,942</b>	<b>1,690,000</b>	<b>587,821</b>	<b>133,832</b>	<b>6,119,595</b>
Balance at January 1, 2015	\$ 3,901,181	2,023,090	575,904	307,761	6,807,936
Effect of acquisition of subsidiary	-	-	6,472	150	6,622
Additions	-	255	165,958	32,068	198,281
Reclassified to investment property	(25,048)	(70,605)	-	-	(95,653)
Transferred from prepayment for equipment	-	-	4,830	2,680	7,510
Disposals & retirements	(166,451)	-	(131,457)	(245,079)	(542,987)
Effect of exchange rate changes	-	4,126	2,539	383	7,048
<b>Balance at December 31, 2015</b>	<b>\$ 3,709,682</b>	<b>1,956,866</b>	<b>624,246</b>	<b>97,963</b>	<b>6,388,757</b>
<b>Depreciation and impairment loss</b>					
Balance at January 1, 2016	\$ -	804,241	363,129	43,981	1,211,351
Depreciation	-	34,063	108,889	22,578	165,530
Reclassified to investment property	-	(702)	-	-	(702)
Disposals & retirements	-	(263,557)	(109,770)	(10,419)	(383,746)
Effect of exchange rate changes	-	(756)	(1,724)	(181)	(2,661)
<b>Balance at December 31, 2016</b>	<b>\$ -</b>	<b>573,289</b>	<b>360,524</b>	<b>55,959</b>	<b>989,772</b>
Balance at January 1, 2015	\$ -	766,342	382,074	269,313	1,417,729
Effect of acquisition of subsidiary	-	-	5,814	121	5,935
Depreciation	-	38,323	104,119	19,155	161,597
Reclassified to investment property	-	(1,872)	-	-	(1,872)
Disposals & retirements	-	-	(131,037)	(244,919)	(375,956)
Effect of exchange rate changes	-	1,448	2,159	311	3,918
<b>Balance at December 31, 2015</b>	<b>\$ -</b>	<b>804,241</b>	<b>363,129</b>	<b>43,981</b>	<b>1,211,351</b>
Carrying amount:					
December 31, 2016	<b>\$ 3,707,942</b>	<b>1,116,711</b>	<b>227,297</b>	<b>77,873</b>	<b>5,129,823</b>
December 31, 2015	<b>\$ 3,709,682</b>	<b>1,152,625</b>	<b>261,117</b>	<b>53,982</b>	<b>5,177,406</b>

As of December 31, 2016 and 2015, the property and equipment which are provided as collateral or pledge, please refer to Note 8 for details.

(7) Investment property

	Land and improvements	Buildings	Total
<b>Cost or deemed cost</b>			
Balance at January 1, 2016	\$ 1,255,460	862,610	2,118,070
Transferred from property and equipment	1,740	1,290	3,030
Disposal & retirements	-	(125,195)	(125,195)
<b>Balance at December 31, 2016</b>	<b>\$ 1,257,200</b>	<b>738,705</b>	<b>1,995,905</b>
Balance at January 1, 2015	\$ 1,230,412	791,745	2,022,157
Additions	-	260	260
Transferred from property and equipment	25,048	70,605	95,653
<b>Balance at December 31, 2015</b>	<b>\$ 1,255,460</b>	<b>862,610</b>	<b>2,118,070</b>
<b>Depreciation and impairment loss</b>			
Balance at January 1, 2016	\$ -	377,863	377,863
Depreciation	-	15,211	15,211
Transferred from property and equipment	-	702	702
Disposal & retirements	-	(125,195)	(125,195)
<b>Balance at December 31, 2016</b>	<b>\$ -</b>	<b>268,581</b>	<b>268,581</b>
Balance at January 1, 2015	\$ -	358,212	358,212
Depreciation	-	17,779	17,779
Transferred from property and equipment	-	1,872	1,872
<b>Balance at December 31, 2015</b>	<b>\$ -</b>	<b>377,863</b>	<b>377,863</b>
<b>Carrying amount:</b>			
December 31, 2016	\$ 1,257,200	470,124	1,727,324
December 31, 2015	\$ 1,255,460	484,747	1,740,207
<b>Fair value</b>			
December 31, 2016			\$ 2,740,795
December 31, 2015			\$ 2,846,381

The Group elected to apply Cost Method to evaluate investment properties. The investment properties were evaluated and estimated using Market Method based on the market evidence of transaction price of similar properties.

As of December 31, 2016 and 2015, the property and equipment were provided as collateral or pledge, please refer to Note 8 for details.

(8) Intangible assets

A. Goodwill

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized goodwill. As of December 31, 2016 and 2015, the book value was \$3,126,698 for both the year.

For the purpose of impairment test, goodwill was allocated to the operating segments of the Company. The operating segment is the lowest level at which the goodwill is monitored for internal management purposes, and should not be larger than the operating departments of the Company.

Goodwill is allocated to the operating segments as follows:

	December 31, 2016	December 31, 2015
Brokerage segment	\$ 1,304,458	1,304,458
Underwriting segment	265,144	265,144
Proprietary trading segment	1,557,096	1,557,096
<b>Total</b>	<b>\$ 3,126,698</b>	<b>3,126,698</b>

Recoverable amount of the cash-generating units is assessed by the value in use, which is the present value of the future cash flows expected to be derived from the cash-generating unit. In measuring value in use, the key assumptions are as follows.

The past experience, the actual operating results and the pre-tax cash flows of the next year's financial budget approved by the board of directors are the basis to estimate the future cash flows. The growth rate was both 1.00% and the discount rate was 4.32% and 5% in year 2016 and 2015 respectively. But the cash flow projections for periods after five years will be estimated with no growth conservatively.

After impairment test, the recoverable amounts of both year 2016 and 2015 exceeded the carrying amount, no impairment occurred for both years.

The Capital International Technology Corp., the second level subsidiary, acquired 51% shares of the Capital True Partner Co., Ltd in order to expand operations. The Group recognized the differences between investment costs and identifiable assets as goodwill. For the year 2016 and 2015, the book value of goodwill was \$ 22,088 for both years.

**B. Customer relationships**

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized other intangible assets - customer relationships as \$17,082. As of December 31, 2016 and 2015, the amortized book value was \$0 and \$1,139, respectively.

**C. Operation franchise**

The Company acquired the operation of securities corporation operation franchise during 1994 to 2005 and expected the franchise will generate continuing cash inflows. In accordance with IAS No.38 "Intangible Assets," the franchise is regarded as intangible assets with an indefinite useful life. As of December 31, 2016 and 2015, the book value of the operation franchise was \$389,999 for both the year.

**D. Other intangible assets - Corporate membership at international futures exchange**

The subsidiaries obtained the membership of foreign futures Exchanges - NYMEX, COMEX, CBOT, HKEX and CME for business development. In accordance with IAS No. 38 "Intangible Assets" endorsed by the FSC, the memberships are regarded as intangible assets with an indefinite useful life. As of December 31, 2016 and 2015, the book values of intangible assets were \$48,453 and \$46,427, respectively.

**E. Computer software**

Computer software was booked at cost and amortized by using the straight-line method over the estimated useful lives. As of December 31, 2016 and 2015, the book value was \$25,010 and \$41,166 respectively.

**(9) Short-term borrowings**

<b>Nature of borrowings</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Collateralized loan	\$ 380,000	591,444
Credit loans	3,856,402	1,199,717
<b>Total</b>	<b>\$ 4,236,402</b>	<b>1,791,161</b>

Short-term borrowings were based on floating interest rates. As of December 31, 2016 and 2015, the loan interest rate range was 0.60%~2.75% and 0.90%~3.06% respectively.

As of December 31, 2016 and 2015, the Group had provided the land, buildings, and certificates of time deposits as collateral, please refer to Note 8 for details.

(10) Financial liabilities at fair value through profit or loss

	December 31, 2016	December 31, 2015
Financial liabilities held for trading :		
Liabilities on sale of borrowed securities	\$ 1,009,334	1,508,137
Redeem liabilities on sale of borrowed securities	(4,632)	(1,566)
Valuation adjustment	(66,653)	(30,461)
Subtotal	938,049	1,476,110
Settlement coverage bonds payable of short sale	-	300,550
Valuation adjustment	-	(1,146)
Subtotal	-	299,404
Stock warrants issued	10,892,801	10,530,591
Stock warrants repurchased	(10,617,763)	(10,170,444)
Subtotal	275,038	360,147
Put options	66,693	57,261
IRS asset swaps	1,974	5,398
Asset swap options - short position	177,405	193,888
Structured notes	7,515	12,243
Currency derivatives	1	-
Currency swaps	9,089	3,476
Interest rate swaps	-	1,528
Subtotal	262,677	273,794
Total	<u>\$ 1,475,764</u>	<u>2,409,455</u>

(11) Bonds sold under repurchase agreements

	December 31, 2016	December 31, 2015
Bonds sold under repurchase agreements	<u>\$ 34,956,642</u>	<u>23,576,243</u>
Agreed-upon repurchase amounts	<u>35,002,716</u>	<u>23,598,443</u>
Interest rates	<u>0.30%~9.00%</u>	<u>0.30%~5.00%</u>
Date of repurchase	<u>2017.1.3~2017.3.30</u>	<u>2016.1.4~2016.6.20</u>

(12) Customer equity of separate account ledger in settlement account

According to article 38, subparagraph 2 of the “Regulations Governing Securities Firms”, a securities firm may, with the consent of the customer, retain the customer's settlement funds in the securities firm's settlement account. The securities firm shall set up a separate account ledger for each customer in the settlement account. Also, according to article 22-4, paragraph 1, subparagraph 5 of the “Offshore Banking Act”, an offshore securities branch may conduct account custody business for natural persons, juristic persons, government agencies, or financial institutions within or outside the territory of the ROC.

	December 31, 2016	December 31, 2015
Customer equity of separate account ledger in settlement account	<u>\$ 4,537</u>	<u>4,104</u>

(13) Accounts payable

	December 31, 2016	December 31, 2015
Payable of securities sold by customers	\$ 21,890	34,151
Settlement price	49,986	-
Payable of settlements	3,183,985	3,573,328
Others	222,263	240,285
Total	<u>\$ 3,478,124</u>	<u>3,847,764</u>



## (14) Operating leases

## A. Lessee

Non-cancellable operating lease payables are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Within 1 year	\$ 113,003	112,176
1-5 years	185,695	177,103
Over 5 years	-	1,710
	<u>\$ 298,698</u>	<u>290,989</u>

The Group rents several offices under operating lease, the lease terms are within 1 to 5 years and the Group has the preferential renewal options when the lease term expires. The rentals are adjusted yearly to reflect market condition. Some lease terms bear the additional rental payments depends on the fluctuations of a local price index.

For the year ended December 31, 2016 and 2015, the operating lease expenses recognized in profit or loss were \$172,855 and \$195,265 respectively.

## B. Lessor

The Group leases investment property to other under operating lease agreements, please refer to Note 6(7) for details. The future lease receivables under non-cancellable leases are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Within 1 year	\$ 7,663	2,091
1-5 years	63,940	109,007
	<u>\$ 71,603</u>	<u>111,098</u>

The rental revenue from investment property for the year 2016 and 2015 amounted to \$61,091 and \$49,537 respectively.

## (15) Employee benefit

## A. Defined benefit plans

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Present value of defined benefit obligations	\$ (1,039,300)	(1,069,335)
Fair value of plan assets	517,011	566,401
Recognized liabilities for defined benefit obligations	<u>\$ (522,289)</u>	<u>(502,934)</u>

The Group's employee benefits liabilities are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Compensated absences	<u>\$ 65,365</u>	<u>47,546</u>

Under the defined benefit plan, the Group deposited the pension fund to the labor pension preparatory special account in Bank of Taiwan. For employee subject to the Labor Standards Law, the retirement benefit are determined based on the years of services and average monthly salary in the last six-months prior to the employee's retirement.

## a. Composition of plan assets

The Group 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.

The balance of the Group’s labor pension preparatory special account in Bank of Taiwan amounted to \$336,643 and \$270,404 as of December 31, 2016 and 2015 respectively. The utilization of the labor pension fund includes the assets allocation and yield of the fund, please refers to the information published on the website under Labor Pension Fund Supervisory Committee of the Council of Labor Affairs Executive Yuan.

The balance of employee retirement fund management committee was \$181,283 and \$296,366 as of December 31, 2016 and 2015, respectively.

b. Movements in present value of the defined benefit obligations

The movements in present value of the defined benefit obligations of the Group in 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Defined benefit obligation on January 1	\$ 1,069,335	1,056,772
Current service costs and interest	23,601	27,540
Remeasurement of net defined liabilities		
-Actuarial loss (gain) arising from changes in financial assumptions	12,517	21,656
-Experience adjustments	4,653	11,149
Benefits paid by the plan	(70,806)	(47,782)
Defined benefit obligation on December 31	<u><u>\$ 1,039,300</u></u>	<u><u>1,069,335</u></u>

c. Movements in fair value of defined benefit plan assets

The movements in fair value of defined benefit plan assets of the Group in 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Fair value of plan assets on January 1	\$ 566,401	583,386
Contributions made	16,747	18,542
Benefits paid from plan assets	(70,803)	(47,532)
Interest revenue	6,989	9,067
Remeasurement of net defined liabilities		
-Return on plan assets (excluding interest)	(2,323)	2,938
Fair value of plan assets on December 31	<u><u>\$ 517,011</u></u>	<u><u>566,401</u></u>

d. Expense recognized in profit or loss

The expenses recognized of the Group in 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Current service cost	\$ 10,571	11,380
Net interest of net defined benefit liabilities	6,041	7,093
Current pension cost	<u><u>\$ 16,612</u></u>	<u><u>18,473</u></u>

- e. Re-measurement of net defined liabilities (assets) recognized in other comprehensive income

For the year ended December 31, 2016 and 2015, the re-measurement of net defined liabilities (assets) recognized accumulatively in other comprehensive income was as follows:

	2016	2015
Balance at January 1	\$ (76,870)	\$ (47,003)
Recognized amount during the period	(19,494)	(29,867)
Balance at December 31	<u>\$ (96,364)</u>	<u>\$ (76,870)</u>

- f. Actuarial assumptions

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

	2016	2015
Discount rate	1.03%~1.10%	1.22%~1.32%
Expected rate of return on plan assets	1.03%~1.10%	1.22%~1.32%
Future salary growth rate	2.00%~2.50%	2.00%~2.50%

The expected contribution to the defined benefit plan for the next year is \$2,247. The weighted average duration of the defined benefit obligation was 2~4 years.

- g. Sensitivity Analysis

When calculating the present value of the defined benefit obligations, the Group 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.

As of December 31, 2016 and 2015, the effects of adopting significant actuarial assumptions to defined benefit obligations were as follows:

	Effects to Defined Benefit Obligations	
	Increase 0.5%	Decrease 0.5%
December 31, 2016		
Discount rate	(29,435)	30,803
Future salary increases	25,150	(24,343)
December 31, 2015		
Discount rate	(31,780)	33,312
Future salary increases	27,510	(26,584)

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 defined liabilities.

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

#### B. Defined contribution plan

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

The Group contributed \$85,018 and \$86,323 under defined contribution plan to the Bureau of the Labor Insurance in the year 2016 and 2015, respectively.

- C. For the year ended December 31, 2016 and 2015, the pension costs contributed by overseas subsidiaries in compliance with local ordinance were \$4,561 and \$4,255, respectively.

(16) Income tax

A. Income tax expense (benefit)

The amount of income tax expense (benefit) for the year 2016 and 2015 were as follows:

	2016	2015
Current income tax expense		
Current year	\$ 168,692	70,491
Adjustment to the prior years' income tax	30,597	3,557
	<u>199,289</u>	<u>74,048</u>
Deferred income tax expense		
Unrealized gains (losses) on derivative financial instruments	(12,041)	33,675
Unrealized gains (losses) on foreign investments under Equity Method	(6,959)	(4,872)
Amortization of goodwill	35,436	106,308
Decrease in tax loss carried forward	-	75,935
Adjustments of the prior year's deferred income tax assets and liabilities	50,011	20,583
	<u>66,447</u>	<u>231,629</u>
Income tax expenses	<u>\$ 265,736</u>	<u>305,677</u>

The amount of income tax expense or benefit recognized in other comprehensive income in year 2016 and 2015 is as follows:

	2016	2015
Foreign exchange difference from translating financial statements of foreign operations	<u>\$ (6,951)</u>	<u>14,772</u>

Reconciliation of income tax expense (benefit) and income before tax in year 2016 and 2015 were as follows:

	2016	2015
Net income before tax	\$ 1,672,233	2,034,035
Income tax using the Company's domestic tax rate	\$ 336,719	391,478
Tax-exempt income	(148,673)	(109,153)
Unrecognized temporary differences for prior years	721	-
10% surtax on undistributed earnings	-	73
Income tax difference of bonds purchased under resale agreements and income tax separately levied	(163)	(167)
Adjustments to prior years' income tax	30,597	2,756
Others	46,535	20,690
Total	<u>\$ 265,736</u>	<u>305,677</u>

B. Deferred income tax assets and liabilities

a. Recognized deferred income tax assets

	December 31, 2016	December 31, 2015
Tax loss carried forward and amortization of intangible assets	\$ 404,694	484,791
Unrealized losses on foreign investments under Equity Method	2,678	-
Foreign exchange difference from translating financial statements of foreign operations	25	6
Total	<u>407,397</u>	<u>484,797</u>

## b. Not recognized deferred income tax assets

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Unrealized losses on foreign investments under Equity Method	\$ 425	-
Tax losses carried forward	146	-
Total	<u>\$ 571</u>	<u>-</u>

The ROC Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes.

As of December 31, 2016, the Group's estimated tax losses recognized under deferred income tax asset were as follows:

<u>Loss Year</u>	<u>Amount</u>	<u>Expiration Year</u>
2016(Estimated)	\$ 857	2026

## c. Recognized deferred income tax liabilities

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Foreign exchange difference from translating financial statements of foreign operations	\$ 24,027	34,109
Unrealized gains on derivative financial instruments	34,631	46,672
Unrealized gains on foreign investments under Equity Method	-	4,281
Losses on intercompany transactions	1,639	1,639
Amortization of operation franchise	36,448	63,384
Amortization of goodwill	531,539	496,103
Land value incremental tax	47,691	47,691
Deferred income tax liabilities	<u>\$ 675,975</u>	<u>693,879</u>

## C. Income tax assessment status

- The Company's income tax returns through 2014 were assessed by the Tax Authority.
- Subsidiary - Capital Investment Management Corp.'s income tax returns through 2015 were assessed by the Tax Authority.
- Subsidiary - Capital Futures Corp.'s income tax returns through 2014 were assessed by the Tax Authority.
- Subsidiary - Taiwan International Securities Investment Consulting Corp.'s income tax returns for the liquidation date as of June 30, 2012 were assessed by the Tax Authority.
- Subsidiary - Taiwan International Futures Corp.'s income tax returns for the liquidation date as of September 18, 2008 were assessed by the Tax Authority.
- Subsidiary - Capital International Technology Corp.'s income tax returns through 2014 were assessed by the Tax Authority.

## D. The information about imputation system was as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Undistributed earnings after 1998	<u>\$ 1,188,633</u>	<u>1,586,994</u>
Imputation credit account	<u>\$ 2,675,250</u>	<u>3,072,442</u>
	<u>2016 (Estimated)</u>	<u>2015 (Actual)</u>
Deductible ratio for earnings distributed to ROC residents	<u>24.20%</u>	<u>23.80%</u>

The above imputation information was calculated based on the Ruling No. 10204562810 issued by the Ministry of Finance on October 17, 2013.

E. Income tax administrative relief

Since income tax of securities trading and amortization of intangible assets withheld from year 2010 to 2014 were assessed differently from those reported by the Company, and the Company has filed for administrative relief. The additional tax was accrued based on conservative concept. And the different assessment of amortization of intangible assets, which resulted to decrease on loss of income tax, is in the procedures for administrative remedies. The Company disclosed the total of deferred income tax assets and liabilities separately and appropriately, based on conservative concept.

(17) Capital and other equity

A. Capital stock

As of December 31, 2016 and 2015, the Company had authorized capital of \$30,000,000 and issued common stock of \$2,269,073 thousand and \$2,319,073 thousand shares with \$10 dollars face value per share. The disclosure of treasury shares retired and reduction of capital for 2016 and 2015, please refer to Note 6(17) D for more details.

B. Capital surplus

In accordance with the ROC Company Act amended in January 2012, 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 followings are the capital surplus of the Company:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Premium from stock issuance	\$ 1,858,310	1,899,259
Treasury stock transactions	253,940	191,489
Paid-in capital from merger	630,450	644,342
Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,399	1,430
Changes in ownership interests in subsidiaries	6,873	6,287
	<u>\$ 2,750,972</u>	<u>2,742,807</u>

C. Retained earnings

a. Legal reserve

In accordance with Company Act amended in January 2012, 10 percent of the current year's earnings after tax should be set aside as legal reserve, until the cumulative balance equals to the total amount of paid-in capital. If the company incurs no loss for the year, the distribution of the legal reserve, either by issuing new shares or by cash, shall be decided at the shareholders' meeting, and only the portion of legal reserve which exceeds 25 percent of the paid-in capital may be distributed.

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. 1010028514 issued by the Financial Supervisory Commission on June 29, 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.

c. Unappropriated earnings

According to the Company's Articles of Incorporation, after-tax earnings should first offset accumulated deficit, and then 10% and 20% of the remainder should be appropriated as legal reserve and special reserve, respectively.

The Company's earnings distribution was proposed by board of directors and is subject to the resolution of the shareholders' meeting. The shareholders' meeting may declare dividends after retaining a certain portion of earnings. The amount of earnings to distribute after retaining earnings must be higher than 10% of the distributable balance. According to the budget plan, stock dividends are distributed to retain necessary funds first, and may then be paid as cash dividends subsequently. Cash dividends cannot be less than 10%.

The Company's 2014 earnings distribution for cash dividends \$1,421,444 had been resolved by the shareholders meeting on June 22, 2015.

The Company's 2015 earnings distribution for cash dividends \$1,111,845 had been resolved by the shareholders' meeting on June 27, 2016.

The information about the appropriations is available at the Market Observation Post System website.

d. Treasury stocks

Pursuant to Article 28-2 of the Securities and Exchange Act, the Company repurchased 92,677 thousand and 97,485 thousand shares as treasury shares to maintain the Company's credit and shareholders' equity for the year 2015 and 2016. As of December 31, 2016, a total 100,000 thousand shares were retired and the rest 90,162 thousand shares were not.

Based on the Securities and Exchange Act of the ROC, the number of reacquired shares should not exceed 10% of a company's issued and outstanding shares, and the total purchase amount should not exceed the sum of the retained earnings, additional paid-in capital in excess of par and realized capital surplus. Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

On September 21, 2015, the Company's board meeting resolved a share buyback plan, which was based on the latest audited financial report on June 30, 2015. The cap of the repurchase was 236,907 thousand shares which were amounted to \$6,809,506. The company repurchased 50,000 thousand shares at this buyback plan. All the repurchased shares were retired and the registration of capital reduction was completed on November 26, 2015.

On November 11, 2015, the Company's board meeting resolved a share buyback plan, which was based on the latest reviewed financial report on September 30, 2015. The cap of the repurchase was 236,907 thousand shares which were amounted to \$6,791,127. The company repurchased 50,000 thousand shares at this buyback plan. All the repurchased shares were retired and the registration of capital reduction was completed on February 15, 2016.

On November 11, 2016, the Company's board meeting resolved a share buyback plan, which was based on the latest reviewed financial report on September 30, 2016. The cap of the repurchase was 226,907 thousand shares which were amounted to \$7,356,004.



The company repurchased 90,162 thousand shares at this buyback plan as of December 31, 2016.

(18) Earnings per share

The basic earnings per share and dilutive earnings per share of year 2016 and 2015 were calculated as follows:

	2016	2015
Net income attributable to ordinary shareholders of the Company	\$ 1,196,756	1,549,327
Weighted-average number of common stock shares outstanding (thousands of shares)	2,265,158	2,357,324
Basic earnings per share (dollar)	\$ 0.53	0.66
Effect of potentially dilutive common stock		
- Employee remuneration (thousands of shares) (Note)	1,248	1,740
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	2,266,406	2,359,064
Dilutive earnings per share (dollar)	\$ 0.53	0.66

Note: The shares were calculated based on the closing price at the reporting date.

(19) Items of comprehensive income statement

A. Brokerage commissions

	2016	2015
Brokerage commission from TSE market	\$ 1,133,422	1,456,786
Brokerage commission from OTC market	474,588	576,174
Handling fee from security financing	32,595	56,824
Futures commission income - brokerage	1,463,945	1,340,284
Overseas subsidiaries	70,438	93,452
Others	51,463	61,682
	\$ 3,226,451	3,585,202

B. Underwriting commissions

	2016	2015
Revenue from underwriting securities on a firm commitment basis	\$ 49,824	46,428
Handling fee revenues from underwriting securities on best-efforts basis	895	1,548
Processing fee revenues from underwriting operations	17,346	54,436
Revenue from underwriting consultation	7,975	13,856
Others	17,423	51,428
	\$ 93,463	167,696

C. Net gains on sale of trading securities

	2016	2015
Revenue from securities sold - proprietary trading	\$ 203,630,026	330,665,618
Cost of securities sold - proprietary trading	(203,461,507)	(330,534,051)
Subtotal	168,519	131,567
Revenue from securities sold - underwriting	2,568,524	244,644
Cost of securities sold - underwriting	(2,560,057)	(228,856)
Subtotal	8,467	15,788
Revenue from securities sold - hedging	23,463,311	41,194,934
Cost of securities sold - hedging	(23,552,918)	(41,297,404)
Subtotal	(89,607)	(102,470)
Total	\$ 87,379	44,885



## D. Interest revenue

	2016	2015
Interest revenue - margin loans	\$ 737,656	1,009,722
Interest revenue - bonds	657,211	323,029
Overseas subsidiaries	35,326	57,364
Others	33,752	40,295
	<b>\$ 1,463,945</b>	<b>1,430,410</b>

## E. Net gains or losses on valuation of trading securities measured at fair value through profit or loss

	2016	2015
Trading securities - Proprietary	\$ (20,955)	64,229
Trading securities - Underwriting	918	1,719
Trading securities - Hedging	66,573	(286,984)
Settlement coverage bonds payable of short sale	(1,146)	1,162
	<b>\$ 45,390</b>	<b>(219,874)</b>

## F. Net gains on stock warrants issued

	2016	2015
Gains on changes in fair value of stock warrants	\$ 30,713,780	30,567,126
Gains on exercise of stock warrants before maturity	7,721,981	9,065,630
Losses on changes in fair value of stock warrants repurchased	(37,563,166)	(38,715,506)
Gains on expiration of stock warrants	23,683	44,439
Stock warrants issuance expenses	(149,169)	(119,455)
	<b>\$ 747,109</b>	<b>842,234</b>

## G. Employee benefits, depreciation and amortization expenses

	2016	2015
Employee benefit expenses		
Salary expense	\$ 2,092,387	2,123,293
Health and labor insurance expense	157,870	167,987
Pension expense	106,191	109,051
Others	61,612	66,743
Depreciation expense	180,741	179,376
Amortization expense	37,239	40,123
	<b>\$ 2,636,040</b>	<b>2,686,573</b>

## H. Other operating expenses

	2016	2015
Rental expense	\$ 172,855	195,265
Taxes	298,817	388,094
Information technology expense	191,755	196,387
Postage expense	135,745	137,192
Professional service fee	96,802	65,184
Other expenses	448,867	568,087
	<b>\$ 1,344,841</b>	<b>1,550,209</b>

I. Other gains and losses

	2016	2015
Financial revenue	\$ 202,282	169,483
Currency exchange gains (losses)	74,687	(90,586)
Net gains on disposal of investment	86	176,445
Net losses on measurement of non-operating instruments at fair value through profit or loss	(31,837)	(9,258)
Revenue from bank's allocation fee	142,111	149,594
Net gains (losses) on disposal of property and equipment	(4,202)	59,064
Lease revenue	61,091	49,537
Gains on reversal of prior year's liabilities	34,584	14,670
Dividend revenue	32,136	32,714
Others	34,644	42,857
	<b>\$ 545,582</b>	<b>594,520</b>

J. Remuneration to employees, directors and supervisors

According to the Company's Articles of Incorporation, the Company shall appropriate 0.6% to 2% of its earnings, if applicable, as remuneration to employees. The Board of Directors shall determine if the employees' remuneration distributed, in the form of shares or in cash. The targets of remuneration shall include the employees of subsidiaries meeting certain specific requirement that shall be determined by the Company's Board of Directors. The Company shall also allocate no more than 3% of the aforementioned amount of earnings as remuneration to the Directors. The proposal for the remuneration to employees and directors shall be reported to the shareholders' meeting.

If there is accumulated deficit, specific amount shall be retained to cover, and appropriate the remainder in the aforementioned percentage as remuneration to employees and directors and supervisors.

For the year, 2016 and 2015, the estimated amounts of remuneration to employee were \$12,090 and \$17,241, and to directors and supervisors by the Company were \$20,149 and \$28,734, respectively, which were calculated based on the Company's net profit before income tax and remuneration to employees and directors and supervisors multiple the earnings allocation percentage as stated under the Company's articles of incorporation. It is recognized as operating expense for the year 2016 and 2015. If the actual amounts were subsequently decided after the approval and the issuance date of the financial statements in the following year differ from the estimated amounts, the differences are accounted for as changes in accounting estimates and recognized in profit or loss in the following year. If the Board of Directors resolved to distribute the employees' remuneration in the form of shares, the number of shares of the distribution is based on the closing price of the day before the Board of Directors' meeting date.

The estimated amounts of remuneration to employee and director and supervisors by the Company for 2015 were \$17,241 and \$28,734, respectively. The difference between actual employee bonuses of \$14,994 and actual remuneration to directors and supervisors of \$26,527 was \$4,454 in total. The difference was accounted for as changes in accounting estimates and would be reflected in the statement of income in 2016. The information about the appropriations is available at the Market Observation Post System website.

For the year 2016 and 2015, the estimated amounts of remuneration to employee were \$7,547 and \$6,842 and to directors and supervisors were \$7,642 and \$6,842 by the domestic subsidiaries of the Group, respectively.

## (20) Financial instruments

## A. Credit risk

## a. Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of December 31, 2016 and 2015, the maximum credit exposure amounted to \$86,612,218 and \$69,117,075, respectively. Among them, the main counterparties of cash and cash equivalent, receivable for securities provided as collateral and customer margin account are domestic and foreign financial institutions. The credit risk as follows:

The regional distribution of financial assets' credit risk exposure amount which owned by the Group is as the list. The region of exposure is mostly in Taiwan (67.28%); secondly, is in Asia (14.01%, exclusion of Taiwan); then, is in Europe (10.17%). Compare to the same period of last year, there is no significant change in proportion of region of investments. Cash and cash equivalent and customers' margin account accounted for major portion of the subsidiary Capital Futures Corp.

Region	December 31, 2016	December 31, 2015
Taiwan	\$ 57,799,502	53,736,041
Asia (Taiwan is excluded)	12,039,498	7,912,934
Europe	8,732,426	3,702,900
America	4,247,626	1,971,377
Other	3,089,041	1,164,814
Total	<u>\$ 85,908,093</u>	<u>68,488,066</u>

## b. Impairment loss

The Group's ageing analysis of receivables at reporting date is as follows:

	December 31, 2016		December 31, 2015	
	Total amount	Impairment	Total amount	Impairment
Not past due	\$ 16,277,081	1,389	20,230,707	2,646
Past due 0~30 days	363	363	336	336
Past due 31~120 days	188	188	234	234
Past due 121~360 days	-	-	1,714	1,714
Past due more than one year	1,712	1,712	15	15
	<u>\$ 16,279,344</u>	<u>3,652</u>	<u>20,233,006</u>	<u>4,945</u>

Allowance for doubtful debts under receivables is recorded for the debt expense or impairment loss. Where a claim becomes definitely uncollectible, the allowance for doubtful debts should be written off to financial assets account. As of December 31, 2016 and 2015, the impairment losses of account receivables were recognized \$3,652 and \$4,945 respectively.

B. Liquidity risk

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

	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
<b>December 31, 2016</b>							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 938,049	938,049	938,049	-	-	-	-
Stock warrants issued	275,038	275,038	254,719	19,620	699	-	-
Put options - futures	66,693	66,693	66,693	-	-	-	-
Interest rate swaps and Currency swaps ( including IRS asset swaps )	11,063	11,063	9,130	696	1,194	43	-
Put options	177,405	177,405	32,773	41,655	68,186	34,791	-
Short-term borrowings	4,236,402	4,236,402	4,236,402	-	-	-	-
Bonds sold under repurchase agreements	34,956,642	35,002,716	35,002,716	-	-	-	-
Securities financing refundable deposits	1,722,840	1,722,840	1,722,840	-	-	-	-
Deposits payable for securities financing	1,947,104	1,947,104	1,947,104	-	-	-	-
Securities lending refundable deposits	878,866	878,866	878,866	-	-	-	-
Futures traders' equity	23,132,231	23,132,231	23,132,231	-	-	-	-
Notes payable and accounts payable	416,571	416,571	416,571	-	-	-	-
Receipts under custody	147,328	147,328	147,328	-	-	-	-
Other payables	663,830	663,830	661,223	2,607	-	-	-
Structured notes	2,674,610	2,674,610	2,293,958	141,018	184,695	54,939	-
Currency derivatives	1	1	1	-	-	-	-
	<b>\$ 72,244,673</b>	<b>72,290,747</b>	<b>71,740,604</b>	<b>205,596</b>	<b>254,774</b>	<b>89,773</b>	<b>-</b>

	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
<b>December 31, 2015</b>							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 1,476,110	1,476,110	1,476,110	-	-	-	-
Settlement coverage bonds payable of short sale	299,404	299,404	299,404	-	-	-	-
Stock warrants issued	360,147	360,147	342,817	16,145	1,185	-	-
Put options - futures	57,261	57,261	57,261	-	-	-	-
Interest rate swaps and Currency swaps ( including IRS asset swaps )	10,402	10,402	5,568	(2,160)	5,867	1,127	-
Put options	193,888	193,888	6,017	34,126	100,470	53,275	-
Short-term borrowings	1,791,161	1,791,161	1,791,161	-	-	-	-
Bonds sold under repurchase agreements	23,576,243	23,598,443	23,598,443	-	-	-	-
Securities financing refundable deposits	2,025,011	2,025,011	2,025,011	-	-	-	-
Deposits payable for securities financing	2,242,680	2,242,680	2,242,680	-	-	-	-
Securities lending refundable deposits	1,622,937	1,622,937	1,622,937	-	-	-	-
Futures traders' equity	16,287,312	16,287,312	16,287,312	-	-	-	-
Notes payable and accounts payable	395,962	395,962	395,962	-	-	-	-
Receipts under custody	1,347,159	1,347,159	1,347,159	-	-	-	-
Other payables	765,523	765,523	762,505	3,018	-	-	-
Structured notes	4,088,809	4,088,809	3,798,140	48,678	180,348	61,643	-
	<b>\$ 56,540,009</b>	<b>56,562,209</b>	<b>56,058,487</b>	<b>99,807</b>	<b>287,870</b>	<b>116,045</b>	<b>-</b>

## C. Currency risk

## a. Currency risk exposure

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

December 31, 2016			
	Foreign Currency (thousands)	Exchange Rate	Amount
<b>Financial assets</b>			
<b><u>Monetary Item</u></b>			
USD	\$ 361,996	32.2500	11,674,371
HKD	59,547	4.1580	247,596
EUR	19,881	33.9000	673,966
JPY	984,579	0.2756	271,350
GBP	401	39.6100	15,884
AUD	3,024	23.2850	70,414
SGD	176	22.2900	3,923
CNY	106,922	4.6170	493,659
KRW	3,106,094	0.0270	83,896
THB	1,361	0.9050	1,232
CHF	48	31.5250	1,513
CAD	1	23.9100	24
ZAR	3	2.3600	7
PHP	9	0.6684	6
<b><u>Non-Monetary Item</u></b>			
USD	492,316	32.2500	15,877,191
HKD	29,720	4.1580	123,576
JPY	37,720	0.2756	10,396
AUD	217,379	23.2850	5,061,670
CNY	133,526	4.6170	616,490
<b><u>Investments under equity method</u></b>			
HKD	9,985	4.1580	41,516
<b>Financial liabilities</b>			
<b><u>Monetary Item</u></b>			
USD	820,687	32.2500	26,467,156
HKD	122,451	4.1580	509,151
CNY	112,949	4.6170	521,486
CHF	48	31.5250	1,513
JPY	926,157	0.2756	255,249
GBP	400	39.6100	15,844
AUD	217,296	23.2850	5,059,737
EUR	19,473	33.9000	660,135
SGD	167	22.2900	3,722
THB	817	0.9050	739
KRW	2,970,692	0.0270	80,238

December 31, 2015				
		Foreign Currency	Exchange Rate	Amount
		(thousands)		
<b>Financial assets</b>				
<b><u>Monetary Item</u></b>				
USD	\$	251,046	32.8300	8,241,840
HKD		12,826	4.2400	54,382
EUR		2,341	35.8800	83,995
JPY		875,334	0.2727	238,704
GBP		312	48.6700	15,185
AUD		1,525	23.9900	36,585
SGD		1,131	23.2500	26,296
CNY		66,619	4.9950	332,762
KRW		2,970,021	0.0281	83,458
THB		745	0.9146	681
CHF		57	33.1900	1,892
MYR		117	7.3425	859
<b><u>Non-Monetary Item</u></b>				
USD		204,035	32.8300	6,698,469
HKD		55,140	4.2400	233,794
EUR		343	35.8800	12,307
AUD		58,860	23.9900	1,412,051
CNY		233,206	4.9950	1,164,864
<b><u>Investments under equity method</u></b>				
HKD		8,661	4.2350	36,681
<b>Financial liabilities</b>				
<b><u>Monetary Item</u></b>				
USD		466,601	32.8300	15,318,511
HKD		90,440	4.2400	383,466
CNY		133,647	4.9950	667,567
CHF		57	33.1900	1,892
JPY		873,290	0.2727	238,146
GBP		312	48.6700	15,185
AUD		50,411	23.9900	1,209,360
EUR		1,986	35.8800	71,258
SGD		896	23.2500	20,832
THB		629	0.9146	575
MYR		45	7.3425	330
KRW		2,807,367	0.0281	78,887

Because there are a variety of functional currencies, the Group discloses a summary of its information on exchange gain or loss. The realized and unrealized exchange gains (losses) amounted to \$74,687 and (\$90,586) for the year ended December 31, 2016 and 2015, respectively.

b. Sensitivity analysis

The currency risk of the Group arises mainly from cash and cash equivalents, other receivables, security borrowing margin, financial assets measured at fair value through profit or loss and securities lending refundable deposits, which are denominated in foreign currencies. Foreign exchange gain or loss occurs when translating the foreign currency assets to NTD assets. For the year ended December 31, 2016 and 2015, given other factors remain the same, if NTD increase or decrease 5% contrary to other currencies, the income after tax will increase or decrease by \$718,311 and \$295,061,

and the other comprehensive income will increase or decrease by \$786,878 and \$321,841, respectively.

D. Sensitivity analysis of interest rate risk

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and non-derivative financial instruments on the reporting date. For floating rate instruments, the sensitivity analysis assumes the liabilities are outstanding for the whole year at the reporting date. The variable rate is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. This is mainly attributable to the Group's exposure to floating rates on its bond position.

Market risk type	December 31, 2016	December 31, 2015	2016			2015		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Interest risk	1,492,731	1,201,645	1,331,427	1,492,731	1,119,156	1,003,569	1,250,286	734,670

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 between market participants at the measurement date.

Initially, financial instruments should be measured at fair value, which mostly refers to transaction price. Except for those measured at amortized cost, financial instruments are subsequently measured at fair value. A quoted market in an active market provides the most reliable evidence of fair value. If the market is not active, the Group determines the fair value of financial instruments in accordance with (a) the calculation of valuation techniques, (b) valuation provided by the professional electronic information company and commonly used by market participants, or (c) quoted prices of the counter party.

(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 Group 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). The bond instruments without public quotes in an active market and most of the derivative financial instruments of the Group belong to Level 2.

C) Level 3

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

b. Not based on fair value measurement

As of December 31, 2016 and 2015, the fair value information of the financial assets and financial liabilities of the Group was as follows:

(1) Fair value information

	December 31, 2016		December 31, 2015	
	Book value	Fair value	Book value	Fair value
<b>Financial assets :</b>				
Cash and cash equivalents	\$ 5,423,415	5,423,415	4,726,498	4,726,498
Accrued receivable	18,088,832	18,088,832	22,848,006	22,848,006
Customers' margin account	23,169,842	23,169,842	16,304,756	16,304,756
Restricted assets - current	637,002	637,002	570,321	570,321
Financial assets measured at cost-non-current	448,460	448,460	411,231	411,231
Other non-current assets	1,717,516	1,717,516	1,836,443	1,836,443
<b>Financial liabilities :</b>				
Short-term borrowings	\$ 4,236,402	4,236,402	1,791,161	1,791,161
Bonds sold under repurchase	34,956,642	34,956,642	23,576,243	23,576,243
Accrued payable	9,069,391	9,069,391	12,010,723	12,010,723
Futures traders' equity	23,132,231	23,132,231	16,287,312	16,287,312
Other financial liabilities - current	2,427,461	2,427,461	3,834,575	3,834,575
Other financial liabilities - non-current	239,634	239,634	241,991	241,991
Other non-current liabilities	362,077	362,077	337,611	337,611

(2) Unmeasured by fair value, which has to be disclosed with hierarchy information of fair value

	Level 1	Level 2	Level 3	Total
Investment property				
December 31, 2016	-	-	2,740,795	2,740,795
December 31, 2015	-	-	2,846,381	2,846,381

(3) Valuation techniques used in estimating the fair values of financial instruments

- A) For short term financial instruments, the fair values are determined based on their book value because of their short maturities. The method is applied to cash and cash equivalents, bonds purchased under resale agreements, accrued receivable, other current assets, other non-current assets, short term borrowings, commercial paper payable, bonds sold under repurchase agreements, accrued payable, other financial liabilities - current, other financial liabilities - non-current, and other non-current liabilities.
- B) Financial assets measured at cost and equity investments in unlisted stocks do not have the quoted market prices in an active market and the variability in the range of reasonable fair values is significant or the probabilities of the various estimates within the range cannot be reasonably assessed, so the fair value is unable to be reliably measured. Therefore, the Group considers the book value as a reasonable approximation of fair value.
- C) The investment properties were evaluated and estimated using Market Method based on the market evidence of transaction price of similar properties.

c. Based on fair value measurement

(1) Hierarchy information of fair value

The Group's financial instruments measured at fair value are evaluated on a



recurring basis. The financial assets and liabilities measured at fair value as of December 31, 2016 and 2015 were as follows:

	Level 1	Level 2	Level 3	Total
<b>December 31, 2016</b>				
Financial assets at fair value through profit or loss	\$ 9,910,349	17,536,458	-	27,446,807
Financial assets available for sale	494,831	18,919,308	-	19,414,139
Derivative financial assets	421,317	47,957	-	469,274
	<b>\$ 10,826,497</b>	<b>36,503,723</b>	<b>-</b>	<b>47,330,220</b>
Financial liabilities at fair value through profit or loss	\$ 1,213,087	-	-	1,213,087
Derivative financial liabilities	66,693	195,984	-	262,677
	<b>\$ 1,279,780</b>	<b>195,984</b>	<b>-</b>	<b>1,475,764</b>
<b>December 31, 2015</b>				
Financial assets at fair value through profit or loss	\$ 8,557,048	17,255,304	-	25,812,352
Financial assets available for sale	154,449	7,741,972	-	7,896,421
Derivative financial assets	320,526	43,300	-	363,826
	<b>\$ 9,032,023</b>	<b>25,040,576</b>	<b>-</b>	<b>34,072,599</b>
Financial liabilities at fair value through profit or loss	\$ 2,135,661	-	-	2,135,661
Derivative financial liabilities	57,261	216,533	-	273,794
	<b>\$ 2,192,922</b>	<b>216,533</b>	<b>-</b>	<b>2,409,455</b>

## (2) Valuation techniques

### A) Non-derivative financial instruments

Financial instruments are initially recognized at fair value. For active markets, fair value is measured according to quoted prices. Publicly listed and over-the-counter traded equity instruments of primary stock exchanges along with central government bonds that are popular securities all regard active market quotes as the basis of fair value.

When quotes of financial instruments are obtained from the Stock Exchange, Reuters, Bloomberg, dealers or competent authorities and the prices represent arm's length transactions with sufficient frequency, the financial instruments are regarded as active market quotes. If the aforementioned requirements are not met, then the financial instruments are regarded as quotes without an active market. Large bid-ask spreads or low trade volumes are features of quotes without an active market.

Excluding the above-mentioned financial instruments with active market quotes, the fair value of the remaining financial instruments are obtained by financial valuation models or referencing counterparty quotes. Fair value obtained through the calculations of financial valuation models include, but are not limited to, fair value references of substantive factors and characteristics from similar financial instruments, those obtained from the cash flow discounting method or those obtained by other financial valuation techniques. Fair values obtained through financial valuation techniques are derived from market information on the balance sheet date, and utilizes the fair values derived from the calculations of financial valuation models (for example referencing the yield curve from the Taipei Exchange, Reuters' average commercial paper interest et

cetera).

B) Derivative financial instruments

The fair value of derivative financial instruments is determined by using valuation model. Option instruments are determined by using Black-Scholes Model and non-option derivative financial instruments are determined by using discounted cash flow method. The market inputs for the valuation are derived from stock exchange market and independent financial information service institution, such as Stock Exchange, Futures Exchange, Reuters and Bloomberg. Closing price, settlement price, and the average rate of ask and bid price during certain specific time are adopted.

d. Transfer between Level 1 and Level 2

There is no significant transfer between Level 1 and Level 2 f for the year ended December 31, 2016 and 2015.

e. Fair value adjustments

Financial valuation techniques do not necessarily completely reflect all relevant elements of financial or non-financial instruments held by the Group. Thus, the outputs of financial valuation models may need necessary adjustments in line with important relevant elements. The valuation models and adjustment parameters were verified to ensure valuation procedures and results are in accordance with the requirements, so the valuation adjustments are pertinent and appropriate. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market condition.

F. Transfer of financial assets

The transferred financial assets of the Group that are not qualified for de-recognition in the daily operation are mainly debt securities under repurchased agreements or equity securities under securities lending agreement. Since the right to receive cash flow is transferred and it reflects the associated liabilities to repurchase transferred financial assets at fixed price in future period, the Group cannot use, sell or pledge these transferred financial assets during the valid transaction period. However, since the Group still bears the interest rate risk and credit risk, so transferred financial assets are not fully derecognized. Financial assets that do not meet criteria for de-recognition and related financial liabilities are as below:

December 31, 2016					
Types of financial assets	Book value of the transferred financial assets	Book value of relevant financial liabilities	Fair value of the transferred financial assets (Note)	Fair value of relevant financial liabilities (Note)	Fair value net position (Note)
Under repurchase agreements	\$ 35,130,407	34,956,642	-	-	-
December 31, 2015					
Types of financial assets	Book value of the transferred financial assets	Book value of relevant financial liabilities	Fair value of the transferred financial assets (Note)	Fair value of relevant financial liabilities (Note)	Fair value net position (Note)
Under repurchase agreements	\$ 23,740,296	23,576,243	-	-	-

Note: The counterparties in repurchase agreements hold the right of recourse not merely on the transferred assets against the Group; hence according to IFRS 7 pg.42 D(d), disclosure of the fair values of transferred assets and their relevant liabilities and fair value net position is not mandatory.

## G. Offsetting financial assets and financial liabilities

The Group did not hold any financial instruments contracts which meet Section 42 of the FSC endorsed by IAS 32 therefore, the financial assets and financial liabilities will be offset on the balance sheet.

The Group has transactions, such as repurchase and resell agreements, that are or are similar to net settled master netting arrangements but do not meet the offsetting criteria. The above transactions are settled on a net basis after offsetting financial assets with financial liabilities if both parties of the transaction choose to use net settlement; the above transactions are settled on a gross basis if both parties do not choose to use net settlement. However, if one party defaults, the other party can choose to use net settlement.

The offsetting of financial assets and liabilities information is as below:

December 31, 2016					
Financial assets under offsetting or general agreement of net amount settlement or similar norms					
Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offsetting in the balance sheet	Net amount of financial assets presented in the balance sheets	Related amount not offset in the balance sheet (d)		
			Financial instruments	Cash received as collaterals	Net amount
(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)
Derivative financial assets					
\$ 47,957	-	47,957	-	-	47,957
December 31, 2015					
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms					
Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offsetting in the balance sheet	Net amount of financial liabilities presented in the balance sheets	Related amount not offset in the balance sheet (d)		
			Financial instruments	Cash received as collaterals	Net amount
(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)
Derivative financial liabilities					
\$ 195,984	-	195,984	-	-	195,984
Under repurchase agreements					
34,956,642	-	34,956,642	34,956,642	-	-
Total					
\$ 35,152,626	-	35,152,626	34,956,642	-	195,984
December 31, 2015					
Financial assets under offsetting or general agreement of net amount settlement or similar norms					
Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offsetting in the balance sheet	Net amount of financial assets presented in the balance sheets	Related amount not offset in the balance sheet (d)		
			Financial instruments	Cash received as collaterals	Net amount
(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)
Derivative financial assets					
\$ 43,300	-	43,300	-	-	43,300

December 31, 2015						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offsetting in the balance sheet	Net amount of financial liabilities presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
				Financial instruments	Cash received as collaterals	
	(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)
Derivative financial liabilities	\$ 216,533	-	216,533	-	-	216,533
Under repurchase agreements	23,576,243	-	23,576,243	23,576,243	-	-
Total	<u>\$ 23,792,776</u>	<u>-</u>	<u>23,792,776</u>	<u>23,576,243</u>	<u>-</u>	<u>216,533</u>

Note: Including netting settlement agreement and non-cash financial collaterals.

## (21) Financial risk management

### A. Brief

The Group is exposed to the following risks due to the usage of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note describes the Group's information concerning risk exposure, and the Group's targets, policies and procedures to measure and manage the risks. The further detail of the quantitative result please refers to each note.

### B. Risk management framework

The risk management system includes the set-up of an independent risk management department and whole risk management framework which comprises segregation of duties and delegation of board of directors, president, risk management department, auditing department, finance department, settlement and clearing department and other business department. The Group also established an operating strategy, capital structure, risk management policy and executive procedure by risk and operating activities. Furthermore, the Group set up a risk management information system to assist whole risk management execute effectively.

### C. Credit risk

Credit risk refers to the risk of financial losses to the Group arising from default by the clients or counterparties of financial instruments on the contract obligation.

The Group sets up the credit limits for issuers and counterparties according to the credit information requirements of the authorities and the credit rating information release by credit rating agencies. The credit limit of securities margin transactions is subject to the requirements of the competent authority. The derivatives' credit exposure of counterparty shall be measured on a daily basis. If the limits are exceeded, to increase of collateral or lower transaction position is required. The bonds can be invested only its credit rating is above a prescribed level. And monitor the material information disclosed, information on capital raising activities and operation status of counterparty as a reference for measuring the possibility of credit default. The bond position should be disposed if the credit rating is lower than required.

#### D. Liquidity risk

Liquidity risk refers to the risk that the Group cannot meet obligations because of the inability to obtain adequate funding or liquidate other financial assets to settle the financial liabilities. It includes financial funding risk and financial market liquidity risk.

Besides decentralizing the financial institutions, the Group also to diversify the financing channels for funding. The Group plans and controls the daily funding operation in advance as the need for funding from various business situations. Also utilizes the simulation analysis mechanism of special event to keep up with the abnormal funding need from the system risks. The Group has set up the rules based on the different risk factors such as issue amount, trading volume, counterparty and etc to address the liquidity risk of each holding position. Moreover, the Group operates a dynamic monitoring of the volatility of market to manage the liquidity risk of holding positions.

#### E. Market risk

Market risk refers to the risk that change in market prices, exchange rates, interest rates and equity instrument prices, which will affect the Group's revenue or the value of its holdings of financial instruments.

The Group has set up the trading quotas and upper limit of Value at Risk ("VaR") in all operation to ensure the capital adequacy ratio meets the qualification requirements and maximum loss limit to be controlled. The different risk factors that the Group uses to measure the market risk are as follows:

- a. Equity securities: calculate by variance-covariance method and to conduct back testing to estimate the VaR of one day at 99% of confidence interval.
- b. Bond: use the base point (0.01%) value as the controlling base, and estimate the VaR of one day at 99% of confidence interval.
- c. Financial derivatives: use the Delta and Gamma value as the controlling base, and estimate the VaR of one day at 99% of confidence interval.
- d. Margin trading: use the maintenance ratio ruled by the competent authority as the standard for disposal.

Each business departments of the Group can utilizes approved financial hedging instruments (such as Futures, Options, Swap and etc) to adjust the risk level to improve the risk management system implemented.

#### F. Hedging strategies (financial hedging)

The Group's strategies use financial derivatives to hedge market price fluctuations in the attainable scope. The Group sets up each business quota, the capacity for tolerating risk and hedging strategy according to risk tolerance and establishes a monitoring system to understand variation of hedging position. In addition, the Group also formulates principal to conduct over or under limitations with hedging position.

##### a. Equity securities:

As equity securities price fluctuate, the Group will suffer losses when the unfavorable variation of equity securities price is incurred. To reduce the above risk, the Group not only relies on its well-designed risk management system but also uses index futures and options to hedge the market risk of equity securities.

##### b. Fixed income instruments:

Risk of fixed income instruments is mainly affected by the fluctuations of market rate. The Group will suffer losses when unfavorable variation of market rate is incurred. The Group uses financial derivatives such as interest rate swap, government bond futures and bond options whose variation in fair value and cash flow are negative correlated

with the hedged position to hedge the market risk.

c. Stock warrants:

The market risk of stock warrants issued arises from the fluctuations of market price of the underlying securities and the risk of investors' exercising the stock warrants. The Group will acquire stock warrants of the same underlying securities issued by others whose theoretical price was underestimated to hedge against the fluctuations. Furthermore, the Group will also adjust the hedged position such as the underlying securities, convertible corporate bonds and stock warrants based on the dynamic hedging strategies with the variation of Delta.

d. Structured notes:

Structured notes are the combination of fixed income and asset option. The market risk includes variation of interest rate, stock price and the volatility. In order to hedge the interest rate risk in the fixed income aspect, the Group uses the interest which it generates from investing to repay the principal due. In the asset option aspect, the Group establishes related hedged position to hedge the stock price and the volatility risk.

e. Asset swap:

Convertible bond asset swap is a hybrid derivative comprising of an interest rate swap and a call option on a convertible bond. The related risks are market risk and credit risk of the counterparties. The Group manages its risk through selling of the interest rate swap and options with third parties and verifies its counterparty's credit limit to lower the above risk.

G. Financial risk information of derivative financial instruments

As of December 31, 2016 and 2015, the related financial risk and the presentation of the Group's financial derivatives were as follows:

Stock warrants

a. Notional principal (nominal amount) and credit risk

<u>Financial Instruments</u>	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>
For trading purpose:				
Stock warrants issued	\$ 7,931,022	-	10,260,292	-

The Group collects premium from investors prior to issuing stock warrants, and therefore, does not assume any credit risk.

b. Market risk

Market risk of stock warrants issued arises from changes in prices of the underlying securities. Market risk can be hedged by adjusting the positions of stock warrants.

c. Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand.

The Group establishes hedging positions by collecting margins or premium prior to the issue of stock warrants, which are based on the underlying securities. Therefore there is no significant funding demand. Furthermore, since the underlying security are restricted by certain market prices and diversification requirements, the risk of being unable to sell securities at reasonable prices is rather low; likewise for liquidity risk as well. The only risk is capital demands resulting from hedged positions adjusted for changes in securities prices. However, under the assumption of good market liquidity, cash flow risk is assessed to be low.

The duration of stock warrants issued is three months to two years from the issue date. Except for cash flows from hedging transactions, there is no additional cash demand.

## d. Type, purpose, and strategy of financial derivatives held

The Group's strategy is to avoid most of the market risk. Non-trading marketable securities hedging positions are used to hedge against risk from investors' exercising of stock warrants. These underlying securities used as hedging instruments exhibit highly positive correlation with the fair values of stock warrants issued, and positions held are evaluated and adjusted periodically.

## e. Presentation of financial derivatives

Relevant transaction pertaining to issuance of stock warrants, its presentation and valuation, and gains or losses on sale and expiration and settlement prior to maturity date, were reflected as follows:

In 2016 and 2015:

## (1) Gains (losses) on valuation

	<b>2016</b>	<b>2015</b>	<b>Account</b>
Stock warrants issued	\$ 8,811,311	11,070,099	Gains (losses) on stock warrants issued
Stock warrants repurchased	(8,606,442)	(10,814,221)	Gains (losses) on stock warrants issued

## (2) Gains (losses) on sale

	<b>2016</b>	<b>2015</b>	<b>Account</b>
Security borrowing	\$ 7,011	(45,496)	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	(122,647)	(366,765)	Gains (losses) on sale of trading securities
Futures	(221,525)	(5,348)	Gains (losses) on derivative financial instruments - futures

## (3) Gains (losses) on maturity

	<b>2016</b>	<b>2015</b>	<b>Account</b>
Stock warrants issued	\$ 29,648,133	28,607,096	Gains (losses) on stock warrants issued
Stock warrants repurchased	(28,956,724)	(27,901,285)	Gains (losses) on stock warrants issued



## Futures

### a. Notional principal (nominal amount) and credit risk

Financial Instruments	December 31, 2016		December 31, 2015	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Taiax Futures	\$ 1,246,867	-	716,991	-
Electronic Sector Index Futures	1,477	-	27,203	-
Finance Sector Index Futures	46,101	-	18,764	-
Non-Finance Non-Electronics	4,547	-	8,083	-
Sub-Index Futures				
Stock Futures	140,814	-	228,537	-
USD/CNY FX Futures	86,582	-	-	-
Nifty 50 Index Futures	248,013	-	-	-
USD/JPY FX Futures	326,514	-	-	-
EUR/USD FX Futures	550,668	-	-	-
Euro dollar Futures	270,616	-	-	-
H stocks Index Futures	1,921	-	-	-
JPY dollar Futures	13,867	-	-	-
MSCI Taiwan Index Futures	351,842	-	-	-
VIX Futures	46,924	-	-	-
U.S. 5-Year T-Note Futures	169,495	-	-	-
U.S. 10-Year T-Note Futures	40,005	-	-	-
Soybean Futures	-	-	5,699	-
Coffee Futures	-	-	3,013	-
Crude Oil Futures	-	-	16,659	-
NT Dollar Gold Futures	5,437	-	-	-
HSI Futures	13,448	-	-	-
FTSE China A50 Index Futures	124,946	-	13,141	-
Euro 10-Year Bund Futures	-	-	455,705	-
Mini-S&P Futures	36,100	-	-	-
S&P Futures	-	-	16,827	-
SIN Futures	7,925	-	-	-
Platinum Futures	-	-	2,926	-
Sugar No.11 Futures	-	-	2,787	-
U.S. 30-Year T-Bond Futures	-	-	15,187	-
Taiax Options	86,416	-	103,725	-
Stock Options	8,219	-	4,758	-
Taiax Weekly Options	23,600	-	4,416	-
Electronic Sector Index Options	2,006	-	5,593	-
Finance Sector Index Options	4,482	-	2,949	-
Mini-S&P Sector Index Options	18,722	-	-	-
S&P Sector Index Options	-	-	3,512	-
Gold Options	223	-	230	-
Mini-USD/CNY FX Options	14,141	-	-	-
USD/CNY FX Options	6,238	-	-	-
For non-trading purpose:				
Taiax Futures	239,765	-	197,542	-
Stock Futures	501,055	-	320,278	-
Electronic Sector Index Futures	7,357	-	-	-
FTSE China A50 Index Futures	66,764	-	-	-
Gold Futures	11,151	-	-	-
H stocks Index Futures	-	-	35,626	-
HSI Futures	4,569	-	9,336	-
Mini-H stocks Index Futures	-	-	838	-
Mini-HSI Futures	17,930	-	16,805	-
Nikkei Index Futures	10,209	-	-	-
Taiax Options	-	-	18,390	-
Stock Options	-	-	355	-

Should counterparties to futures and options default, the associated loss is borne by the futures commission merchants. Hence, the Group is subject to insignificant credit risk.



## b. Market risk

Market risk resulted from the purchase and sale of futures and options. Since the fair values of futures and options are available, and stop-loss points are established in order to manage risk, the Group can confine losses to a predictable range. Therefore, there is no significant market risk.

For non-trading futures or options contracts, gain or loss from the fluctuations of index tends to offset gain and loss of the hedged items. Hence, there is no significant market risk.

## c. Liquidity risk, cash flow risk, and the amount, period and uncertainty of future cash demand

The open positions of futures and options held by the Group can be settled on the market at reasonable prices, and as such there is no liquidity risk.

Stock index futures and government bond futures are considered margin transactions. Margins are collected in advance and valued daily on open futures positions established by the Group. For margin calls, the Group has sufficient operating funds to meet the liquidity requirement. As a result, there is no liquidity risk, cash flow risk, or significant cash demand.

For options, premiums are collected or paid in advance. If the counterparty of a short put position exercises the option, the Group has sufficient operating funds to meet the liquidity requirement. Therefore, there is no liquidity risk, no cash flow risk, and no significant cash demand.

## d. Presentation of financial derivatives

In 2016 and 2015, losses on futures and options transactions amounted to \$254,211 and \$126,235, respectively, and were reflected as gains or losses on derivatives - futures. As of December 31, 2016 and 2015, futures margin - proprietary fund amounted to \$352,755 and \$270,282, respectively, and were reflected as financial assets at fair value through profit or loss - current; excess future margin which recognized as cash and cash equivalent amounted to \$818,437 and \$1,463,300, respectively.

In 2016 and 2015, the balance of call options which recognized as financial assets at fair value through profit or loss - current amounted to \$68,562 and \$50,244, respectively, put options which recognized as financial liabilities at fair value through profit or loss - current amounted to \$66,693 and \$57,261, respectively

Derivative financial instruments - OTC

## a. Interest rate financial derivatives

## (1) Notional principal (nominal amount) and credit risk

Financial Instruments	December 31, 2016		December 31, 2015	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
NT dollar interest swaps	\$ 46,500,000	-	55,700,000	-

Counterparties to interest rate swaps are banks with good credit ratings. The Group pays fixed and collects floating interest payments. Since the trend of interest rate is stabilized, no default is expected and credit risk is accordingly remote.

## (2) Market risk

Non-trading NT dollar interest rate swaps are primarily held for hedging. Gain or loss from the fluctuations of interest rate tends to offset gains and losses of the hedged items, and therefore market risk is insignificant.

In order to manage risk, Stop-loss points are established in accordance to the

changes in the contract value of trading NT dollar interest rate. Loss is kept within prediction, and therefore there is no significant market risk.

- (3) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand

The Group's non-trading NT dollar interest rate swaps are used to hedge against interest rate fluctuations of claims and obligations. On the settlement date, interest receivables or payables are derived from multiplying the notional principals by interest rate differences, and the amount is insignificant. Given that there is no physical transfer of principals on maturity, there is no liquidity risk, cash flow risk, or significant cash demand.

For trading NT dollar interest rate swaps, the interest receivables or payables are derived through multiplying of its notional principals by interest rate differences on the settlement dates; and the amount is insignificant. Given that there is no physical transfer of principals on maturity, there is no liquidity risk, cash flow risk, or significant cash demand associated.

- (4) Type, purpose, and strategy of financial derivatives held

The Group entered into non-trading NT dollar interest rate swaps with banks to hedge against interest rate fluctuations of claims and obligations. The Group's strategy is to avoid most of the market risk. Financial derivatives exhibiting highly negative correlation with the fair value of hedged items are used as hedging instruments and evaluated periodically.

The Group engages in trading NT dollar interest rate swaps to gain from the differences in interest rates upon evaluation of the trending of interest rates.

b. Structured notes

- (1) Notional principal (nominal amount) and credit risk

Financial Instruments	December 31, 2016		December 31, 2015	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Equity-linked notes	\$ 3,000	-	2,000	-
Principal guaranteed notes	2,173,544	-	3,761,609	-
Credit-linked notes	488,700	-	317,200	-
Principal guarantee note	USD \$100 (thousands)		USD -	

The Group collects premium from investors prior to conducting structured note transactions, and therefore, does not assume any credit risk.

- (2) Market risk

For structured notes, the respective products are exercised at their fair value and the hedged items all have fair values. Therefore, there is no significant market risk of structured notes.

- (3) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand

The Group collects premium from investors prior to transacting in structured notes, therefore there is no significant liquidity risk.

## c. Convertible bond asset-backed swaps

## (1) Notional principal (nominal amount) and credit risk

Financial Instruments	December 31, 2016		December 31, 2015	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Convertible bond asset-backed swaps	\$ 1,230,100	-	1,304,600	-
Convertible bond options	2,528,400	-	2,947,200	-

Counterparties to convertible bond asset-backed swaps are institutions with good credit ratings. The Group swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. Since the counterparties are governed by relevant regulatory authorities, and the Group maintains good credit risk control over counterparties, the credit risks is minimal.

For convertible bond options, the Group collects premium or margins from investor prior to issuing convertible bond options, and therefore, there is no credit risk.

## (2) Market risk

For convertible bond asset-backed swaps, the Group swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. Therefore, there is no market risk.

For convertible bond options, since the exercise price of the convertible bonds acquired through underwriting or proprietary trading is determined on the contract date, there is no market risk.

## (3) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand

Convertible bonds acquired through underwriting or proprietary trading are the underlying assets of asset-backed swaps. The underlying assets are sold to the counterparties for commission. Within the term of the contract, the Group swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. The Group also receives the right to call the convertible bond prior to the expiration of the contract. Therefore, there is no significant liquidity risk or significant cash demand.

The underlying assets of Convertible bond option transaction in which the Group engages in were acquired through underwriting or proprietary trading. Prior to issuing convertible bond options, the Group has collected premium or margins from investors; therefore there is no significant liquidity risk.

d. Presentation of derivative financial instruments - OTC

As of December 31, 2016 and 2015, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options and convertible bond asset-backed swaps were presented on the balance sheets as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Financial assets at fair value through profit or loss - current		
IRS asset swaps	\$ 20,743	22,878
Interest rate swaps	4,942	-
Currency swaps	16,584	8,482
Asset swap options - long position	5,682	11,940
Structured notes	3	-
Currency derivatives	3	-
Total	<u>\$ 47,957</u>	<u>43,300</u>
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Financial liabilities at fair value through profit or loss - current		
IRS asset swaps	\$ 1,974	5,398
Interest rate swaps	-	1,528
Currency swaps	9,089	3,476
Asset swap options - short position	177,405	193,888
Structured notes	7,515	12,243
Currency derivative	1	-
Total	<u>\$ 195,984</u>	<u>216,533</u>
Other financial liabilities - current		
Structured notes principal value	<u>\$ 2,427,461</u>	<u>3,834,575</u>
Other financial liabilities - non-current		
Structured notes principal value	<u>\$ 239,634</u>	<u>241,991</u>

In year 2016 and 2015, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options and convertible bond asset-backed swaps are presented on statements of income as follows:

	<u>2016</u>		<u>2015</u>	
	<u>Gains (losses) on derivative financial instrumnets - OTC</u>	<u>Unrealized Gains (losses)</u>	<u>Gains (losses) on derivative financial instrumnets - OTC</u>	<u>Unrealized Gains (losses)</u>
Interest rate swaps	\$ 3,893	4,942	(830)	(1,528)
Equity derivatives	92	-	245	-
Structured notes	(32,536)	(6,146)	(48,375)	(8,003)
IRS asset swaps	533	18,769	511	527
Asset swap options	(43,107)	66,482	(41,617)	158,261
Currency swaps	(167,857)	7,495	35,796	5,005
Currency derivatives	4	4	-	-
Total	<u>\$ (238,978)</u>	<u>91,546</u>	<u>(54,270)</u>	<u>154,262</u>

## (22) 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. The capital base includes shares capital, capital surplus and retained earnings. The Board of Directors monitors the return on capital as well as the level of dividends to make sure the Group has sufficient financial resources to cope with the future need of operating fund, capital expenditure and other operating need.

As of December 31, 2016, the Group maintains no change of its capital management.

## 7. RELATED PARTY TRANSACTIONS

## (1) Parent company and ultimate controlling party

The Company is the ultimate controlling party of the consolidated Company.

## (2) Key management personnel transactions

## A. Key management personnel compensation:

	2016	2015
Short-term employee benefits	\$ 166,365	155,674
Post-employment benefits	2,147	1,806
Termination benefits	-	1,056
Total	<u>\$ 168,512</u>	<u>158,536</u>

## B. Bond transactions

Bonds sold under repurchase agreements between key management personnel in year 2016 and 2015 are as follows:

	December 31, 2016		December 31, 2015	
	Par value	Purchase price	Par value	Purchase price
Key management personnel	<u>\$ 43,600</u>	<u>43,749</u>	<u>50,500</u>	<u>50,691</u>
<b>Total financial expenses</b>				
Key management personnel		<u>\$ 230</u>		<u>415</u>

## C. Structured notes transactions

The Group engages in structured notes transactions with key management personnel. As of December 31, 2016 and 2015, the balances of structured notes transactions were \$20,700 and \$17,600 respectively.

## (3) Significant transactions with related parties

## A. Bond transactions

Bonds sold under repurchase agreements in year 2016 and 2015 are as follows:

	December 31, 2016		December 31, 2015	
	Par value	Purchase price	Par value	Purchase price
Subsidiaries	\$ 10,000	10,580	13,500	13,535
Others	14,900	15,000	13,400	13,400
Total	<u>\$ 24,900</u>	<u>25,580</u>	<u>26,900</u>	<u>26,935</u>

	<u>2016</u>	<u>2015</u>
	<u>Total financial expense</u>	<u>Total financial expense</u>
Subsidiaries	\$ 67	148
Others	77	67
Total	<u>\$ 144</u>	<u>215</u>

Transaction terms are the same as those with general clients.

B. Structured notes transaction

As of December 31, 2016 the balances of structured notes transactions with other related parties of the Company was \$4,995.

C. Lease agreements

a. Lease revenue

	<u>2016</u>	<u>2015</u>
Subsidiaries	<u>\$ 1,036</u>	<u>1,036</u>

b. Guarantee deposits received

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Subsidiaries	<u>\$ 200</u>	<u>200</u>

D. Insurance commission income

The Group assists subsidiaries to recruit insurance contracts and charge commission income. The details are as follows:

a. Commission revenues

	<u>2016</u>	<u>2015</u>
Subsidiaries	<u>\$ 18,315</u>	<u>10,304</u>

b. Accounts receivable

	<u>2016</u>	<u>2015</u>
Subsidiaries	<u>\$ 2,452</u>	<u>1,200</u>

E. Brokerage commissions

The investors of CSC Securities (HK) Ltd. traded of market securities with the Company through the trust account named “Capital Securities Nominees Ltd.” In year 2016 and 2015, the brokerage commissions were \$6,423 and \$7,406 respectively.

F. The Company issued Letter of Comfort to the banks which loaned to subsidiaries.

## 8. PLEDGED ASSETS

The following assets were pledged as collateral or restricted in use as of December 31, 2016 and 2015:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>	<u>The collateral use</u>
Restricted assets - current	\$ 637,002	570,321	Bank borrowings, commercial paper, accounts settled, money trust (Annotation 1) and guaranty deposited for business operations (Annotation 2)
Restricted assets - non - current	170,167	178,353	Trust to a impartial third party (Note 12(4)) and the amount of provisional seizure(Note 9(10))
Trading securities and bonds purchased under resale agreements (at value)	35,926,059	23,993,535	Repurchase agreement 、 Investments in Bonds with Resale Agreements - RS
Property and equipment	4,049,331	4,074,595	Bank borrowings
Financial assets at fair value through profit or loss - non-current	186,073	190,554	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business investment
Investment property	881,143	890,116	Bank borrowings
Total	<u>\$ 41,849,775</u>	<u>29,897,474</u>	

Annotation 1 : Money trust received from the client by the subsidiary TIS Securities (HK) Ltd.

Annotation 2 : According to the request of Financial Supervisory Commission No. 09600744341, the guaranty deposit for business operations which Taiwan International Futures Corp. deposited can't be transferred to the its own working capital temporarily for protecting creditors.

## 9. SIGNIFICANT CONTINGENT LIABILITY AND UNRECOGNIZED CONTRACT COMMITMENT

- (1) Information of handling margin purchase and short sale lending operations in securities trading are as follows:

	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
	<u>Shares</u>		<u>Shares</u>	
	<u>(in thousands)</u>	<u>Par value</u>	<u>(in thousands)</u>	<u>Par value</u>
Securities procured through margin purchase	663,916	\$ 6,639,160	826,231	8,262,310
Collateral for margin purchase	12,555	125,550	33,476	334,760
Collateral for short sales	4,427	44,270	13,332	133,320
Lending securities to customers through short sales	37,135	371,350	44,174	441,740

- (2) Information of the collateral provided or the securities borrowed of refinancing margin from securities finance companies are as follows:

	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
	<u>Shares</u>		<u>Shares</u>	
	<u>(in thousands)</u>	<u>Par value</u>	<u>(in thousands)</u>	<u>Par value</u>
Securities borrowed from securities finance companies	1,346	\$ 13,460	217	2,170
Collateral for refinancing margin	144	1,440	-	-

- (3) Information of issuing promissory notes in connection with guaranty for segregated error accounts, debt, and issuance of commercial paper are as follows:

	December 31, 2016	December 31, 2015
Promissory notes	\$ 24,160,000	21,850,000
Promissory notes	USD 85,000	80,000

- (4) As of December 2016, the market value of collaterals which received from customers on conducting borrowing and lending business with unrestricted purposes was \$311,755.
- (5) Securities and Futures Investors Protection Center claims against the Company for compensation of \$2,004; due to the fact that the Company, being the underwriter of client's year 2002 cash capital increase case had provided false information on the contents disclosed in the prospectus. The case is under the trial of Taiwan Shilin District Court. According to the opinion from the attorney of the Company, the case had no impact to the Company.
- (6) The client, Mr. Wu, declared that a resigned employee of Tung-Hu branch stole and sold off his stocks and withdrew his deposit illegally. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation for damages of \$36,000 with additional interests. Based on Year 2008 Chung Su No.684 verdict, the Taiwan Taipei District Court ruled in favor of the Company. Mr. Wu was unwilling accept the result and appealed to the high court. This case is currently under the review of the Supreme Court. According to the opinion from the attorney of the Company, the case is a personal financial dispute between customer and the former employee and had no impact to the Company.
- (7) According to the documentation No. 0990030563 verdict of Financial Supervisory Commission (dated June 14, 2010), Taiwan International Securities Corporation (hereinafter known as "TISC") is suspected to violate the Regulations Governing Securities Firms due to some employees selling private placed products of Genesis Growth Income Preferred Shares B1 issued by GVEC (Genesis Voyager Equity Corporation, Danny Pang as related party) privately. According to the understanding and inspection of TISC, some employees may have been selling the aforementioned product and the suspected sales amount is US\$15 million. However, relevant evidence is still under inspection and the legal responsibilities are pending clarification. Some investors instituted proceedings towards TISC and claimed damages amounting to US\$8,734,798 dollars (including claim amount US\$354,006 dollars towards Taiwan International Securities Investment Consulting Corp.). As of December 31, 2016, the damages claimed for amounted to US\$2,930,000, which was in favor of the Company, instead of US\$5,026,873, and the investors reached compromises to waive off the appeal rights. Since the case is currently on trial, the possible loss remains uncertain at the moment according to the opinion from the attorney of the Company. Nevertheless, the Company had signed an agreement with the Unitech Printed Circuit Board Corp. and the other nine companies which were the original major shareholders of TISC on May 2, 2011, the date of merger with TISC. According to this agreement, the maximum claim damage compensation afford by the Company is \$173,000, thus the Company recognized this amount as other liabilities. As of December 31, 2016, the balance of other liabilities was \$48,034.
- (8) The original shareholder of Taiwan International Securities Corporation (hereinafter known as "TISC"), China Development Financial Holdings (hereinafter known as "CDFH"), possessed a different point of view towards the election motion of 2009 shareholder's meeting and instituted a proceeding in terms of the existence of fiduciary relation toward the TISC. On December 28, 2016 the CDFH withdraw the litigation and this lawsuit has been concluded.



- (9) The Company provided the Letter of Comfort for its subsidiary CSC International Holdings Ltd. and CSC securities (HK) Ltd.
- (10) In October 2005, the former account executive of the Company's subsidiary - Taiwan International Futures Corporation (hereinafter known as "TIFC") was suspected for deceiving futures investors and causing a material loss. Several investors institute proceedings towards TIFC and claim joint responsibility of compensation for damages. After viewing by TIFC and its attorney, those litigations were classified by actual situations and relevant matters, thereon adopted different solutions. As of December 31, 2015, sixteen litigations with civic claim were filed (including seven cases with ancillary civil action transferred from Taiwan Taipei District Court Criminal Division to Taiwan Taipei District Court Civic Division). Two litigations had been settled and dismissed. Eleven litigations were ruled in favor of TIFC by the Supreme Court, Taiwan High Court and Taiwan Taipei District Court, respectively. Three litigations were ruled by the Supreme Court that the resigned-employee and TIFC should be jointly responsible for the compensation for damages, and TIFC had indemnified \$125,117 for the investor. As of December 31, 2016, TIFC has paid \$162,812 for compensation and the estimated losses amounted to \$254,389 in other non-current liabilities - other.
- The plaintiffs applied to the court for provisional seizure and the amount of provisional seizure and execution fees were \$222,991.
- As of December 31, 2016, the objects of provisional seizure are as follows:

	<b>Provisional Seizure Amount</b>
Bank deposit	\$ 88,821
Clearing and Settlement fund	15,121
Accounts receivable and Other accounts receivable	13
	<b>\$ 103,955</b>

The Financial Supervisory Commission Executive Yuan voided TIFC's business license on December 27, 2007. Thus, the shareholders' special meeting of TIFC decided to dissolve the company on September 18, 2008. Mr. Kuo, a certified public accountant, and Mr. Liu, a lawyer were designated as liquidators. TIFC is still in the process of liquidation.

- (11) Due to the development of future operation, the subsidiary, Capital Futures Corp., purchased system of hardware and software for business necessities, which cost \$6,760 for contract price. As of December 31, 2016, the unpaid account amounted to \$3,212.
- (12) Due to having preparation for foreign currency margin as a leverage transaction merchant, the subsidiary, Capital Futures Corp., purchased the transaction system for US\$100 thousand (approximate NT\$3,225) for contract price. As of December 31, 2016, the unpaid account amounted to US\$44 thousand (approximate NT\$1,411).
- (13) Due to the business development of Taichung branch, the subsidiary, Capital Futures Corp., planned to move and redecorate, which cost \$4,360 for contract price. As of December 31, 2016, the unpaid account amounted to \$2,992.

(14) According to the Article 17 of Enforcement Rules of the Trust Enterprise Act, the balance sheet, income statement and list of trust properties of trust accounts were declared as follows:

a. Balance sheet of trust accounts

Balance Sheet of Trust Accounts					
December 31, 2016 and 2015					
Trust Assets	December 31, 2016	December 31, 2015	Trust Liabilities	December 31, 2016	December 31, 2015
Bank deposits	\$ 971,862	801,071	Accounts payable	\$ 380	723
Short-term investment			Trust capital	8,902,241	7,995,479
Funds	6,893,668	5,844,770	Accumulated earnings or deficit	(176,994)	(273,608)
Stocks	529,461	428,052			
Securities lent	195,508	345,528			
Bond investment under agreements to repurchase	48,788	266,975			
Bonds	1,386	-			
Structured notes	31,109	5,400			
Accounts receivable	53,845	30,798			
<b>Total Assets</b>	<b>\$ 8,725,627</b>	<b>7,722,594</b>	<b>Total Liabilities</b>	<b>\$ 8,725,627</b>	<b>7,722,594</b>

b. Income statement of trust accounts

Income Statement of Trust Accounts		
Year Ended December 31, 2016 and 2015		
	2016	2015
Revenue		
Interest revenue	\$ 10,289	5,580
Cash dividends revenue	134,857	90,984
Rental revenue	7,733	7,912
Realized investment gain	179,128	239,909
Unrealized investment gain	138,573	71,832
Unrealized foreign exchange gain	121,607	218,494
Currency exchange gain	55,880	76,773
Subtotal	648,067	711,484
Expense		
Administrative fee	1,304	1,464
Commission expenses	54,264	54,058
Realized investment loss	183,197	235,269
Unrealized investment loss	467,130	601,332
Unrealized foreign exchange loss	71,042	32,758
Postage expense	1	-
Currency exchange loss	40,244	29,403
Supplementary insurance premium	256	226
Subtotal	817,438	954,510
Net loss before tax	(169,371)	(243,026)
Income tax expense	(1,015)	(464)
Net loss after income tax	<b>\$ (170,386)</b>	<b>(243,490)</b>

## c. List of trust properties

**List of Trust Properties**  
**December 31, 2016 and 2015**

<b>Investment items</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Bank deposits	\$ 971,862	801,071
Short-term investment		
Stocks	529,461	428,052
Securities lent	195,508	345,528
Bond investments under agreement to repurchase	48,788	266,975
Structured notes	31,109	5,400
Bonds	1,386	
Funds	6,893,668	5,844,770
Total	<b>\$ 8,671,782</b>	<b>7,691,796</b>

**10. SIGNIFICANT CATASTROPHIC LOSS : NONE****11. SIGNIFICANT SUBSEQUENT EVENTS :**

The cumulative shares by the Company repurchased were 100,000 thousand after the reporting date. All the repurchased shares were retired and the registration of capital reduction was completed on February 10, 2017.

On January 23, 2017, the Company's board meeting resolved to subscribe the new shares issue of Capital Futures Corp. The amount of investment was \$716,008 and has completed the relevant investment procedures.

The Board of Directors of the subsidiary, Capital Futures Corp., approved to raise new cash capital on September 29, 2016 for \$380,000, and issued new common stock of 38,000 thousand shares with \$10 dollars face value per share. On September 29, 2016, the Board of Directors approved to issue the stock at \$31.38 per share. The capital increase plan got the approval by the FSC No. 1050044467 on November 15, 2016. The record date of a capital increase is February 10, 2017 and the registration of capital increase was completed on February 24, 2017.

The Board of Directors of the subsidiary, Capital International Technology Corp., approved to establish Capital Futures Technology (Shanghai) Co., Ltd. on June 29, 2016. The investment got the approval by the FSC No. 1050026448 on July 22, 2016. The investment related procedure was completed on January 10, 2017.

**12. OTHERS**

- (1) As of December 31, 2016 and 2015, the open positions of futures and option contracts were as follows:

A. December 31, 2016

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	18	\$ 32,699	33,253	
	Taiex Futures	Short	788	(1,453,933)	(1,458,394)	
	Electronic Sector Index Futures	Short	6	(8,834)	(8,868)	
	Finance Sector Index Futures	Short	43	(46,101)	(46,345)	
	Non-Finance Non-Electronics Sub-Index Futures	Short	4	(4,547)	(4,542)	
	Stock Futures	Long	1,016	118,049	118,491	
	Stock Futures	Short	4,933	(523,820)	(521,273)	
	USD/CNY FX Futures	Short	26	(86,582)	(86,961)	
	USD/JPY FX Futures	Long	246	154,546	157,738	
	USD/JPY FX Futures	Short	267	(171,968)	(171,689)	
	Nifty 50 Index Futures	Long	19	7,800	7,754	
	Nifty 50 Index Futures	Short	357	(240,213)	(241,492)	
	EUR/USD FX Futures	Long	201	139,916	136,750	
	EUR/USD FX Futures	Short	603	(410,752)	(410,249)	
	Euro dollar Futures	Long	64	270,616	272,809	
	H stocks Index Futures	Short	1	(1,921)	(1,938)	
	HSI Futures	Long	4	18,017	18,165	
	Mini HSI Futures	Short	20	(17,930)	(18,264)	
	SIN Futures	Short	15	(7,925)	(7,918)	
	JPY dollar Futures	Short	4	(13,867)	(13,863)	
	NT Dollar Gold Futures	Long	12	5,437	5,451	
	Gold Futures	Long	3	11,151	11,143	
	MSCI Taiwan Index Futures	Long	317	351,842	351,475	
	VIX Futures	Short	95	(46,924)	(48,210)	
	FTSE China A50 Index Futures	Short	588	(191,710)	(188,819)	
	Mini-S&P Futures	Long	10	36,100	35,791	
	Nikkei Index Futures	Long	4	10,209	10,511	
	U.S. 5-Year T-Note Futures	Short	45	(169,495)	(170,760)	
	U.S. 10-Year T-Note Futures	Long	10	40,005	40,081	
	Subtotal			(2,200,135)		
Options contract :						
	Taiex Options (Call)	Long	17,162	\$ 32,562	27,543	
	Taiex Options (Put )	Long	9,632	13,323	7,145	
	Taiex Options (Call)	Short	4,730	(26,028)	(27,259)	
	Taiex Options (Put )	Short	7,286	(14,503)	(6,477)	
	Stock Options (Call)	Long	749	2,082	1,869	
	Stock Options (Put)	Long	887	3,116	2,690	
	Stock Options (Call)	Short	334	(1,774)	(1,013)	
	Stock Options (Put)	Short	331	(1,247)	(1,156)	
	Taiex Weekly Options (Call)	Long	16,137	3,295	3,533	
	Taiex Weekly Options (Put)	Long	14,685	2,411	1,081	
	Taiex Weekly Options (Call)	Short	3,990	(6,739)	(10,733)	
	Taiex Weekly Options (Put)	Short	4,755	(11,155)	(6,233)	
	Gold Option (Call)	Long	7	26	27	
	Gold Option (Putl)	Long	13	68	67	
	Gold Option (Call)	Short	54	(125)	(190)	
	Gold Option (Put)	Short	5	(4)	(2)	
	Electronic Sector Index Options (Call)	Long	256	721	855	
	Electronic Sector Index Options (Put)	Long	85	271	164	
	Electronic Sector Index Options (Call)	Short	1	(5)	(7)	
	Electronic Sector Index Options (Put)	Short	263	(1,009)	(722)	
	Finance Sector Index Options (Call)	Long	825	2,591	2,854	
	Finance Sector Index Options (Put)	Long	813	1,693	1,078	
	Finance Sector Index Options (Put)	Short	95	(198)	(118)	
	Mini-S&P Sector Index Options (Call)	Long	93	1,866	1,021	
	Mini-S&P Sector Index Options (Put)	Long	72	1,900	2,685	
	Mini-S&P Sector Index Options (Call)	Short	120	(6,083)	(3,562)	
	Mini-S&P Sector Index Options (Put)	Short	209	(8,873)	(5,848)	
	Mini USD/CNY FX Options (Call)	Long	64	10,652	10,725	
	Mini USD/CNY FX Options (Put)	Short	80	(3,489)	(2,461)	
	USD/CNY FX Options (Call)	Long	153	5,194	5,225	
	USD/CNY FX Options (Call)	Short	4	(93)	(103)	
	USD/CNY FX Options (Put)	Short	153	(951)	(809)	
	Subtotal			(505)		
Total				\$ (2,200,640)		

## B. 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 :						
	Taiax Futures	Long	70	\$ 118,276	117,949	
	Taiax Futures	Short	479	(796,257)	(792,419)	
	Electronic Sector Index Futures	Short	21	(27,203)	(27,392)	
	Non-Finance Non-Electronics Sub-Index Futures	Long	8	8,083	8,240	
	Stock Futures	Long	1,363	260,472	255,395	
	Stock Futures	Short	2,698	(288,343)	(287,868)	
	Finance Sector Index Futures	Long	19	18,764	18,586	
	H stocks Index Futures	Short	17	(35,626)	(34,936)	
	Mini H stocks Index Futures	Short	2	(838)	(822)	
	HSI Futures	Short	2	(9,336)	(9,379)	
	Mini HSI Futures	Short	18	(16,805)	(16,702)	
	Sugar No.11 Futures	Long	5	2,787	2,801	
	Gold Futures	Short	5	(17,276)	(17,401)	
	Coffee Futures	Long	2	3,013	3,119	
	Soy bean Futures	Short	4	(5,699)	(5,674)	
	Crude oil Futures	Long	14	16,659	17,022	
	S&P Futures	Long	5	16,827	16,583	
	FTSE China A50 Index Futures	Long	12	4,209	4,124	
	FTSE China A50 Index Futures	Short	26	(8,932)	(8,871)	
	U.S. 30-Year T-Bond Futures	Short	3	(15,187)	(15,141)	
	Platinum Futures	Short	2	2,926	2,932	
	Subtotal			(769,486)		
Options contract :						
	Taiax Options (Call)	Long	11,356	\$ 25,752	20,111	
	Taiax Options (Put )	Long	13,664	23,550	18,065	
	Taiax Options (Call)	Short	6,444	(24,127)	(13,828)	
	Taiax Options (Put )	Short	11,120	(48,686)	(36,903)	
	Stock Options (Call)	Long	1,221	1,958	2,492	
	Stock Options (Put)	Long	1,262	2,352	2,350	
	Stock Options (Call)	Short	209	(375)	(224)	
	Stock Options (Put)	Short	172	(428)	(414)	
	Taiax Weekly Options (Call)	Long	871	728	787	
	Taiax Weekly Options (Put)	Long	1,607	1,843	1,775	
	Taiax Weekly Options (Call)	Short	214	(881)	(919)	
	Taiax Weekly Options (Put)	Short	160	(964)	(899)	
	Gold Option (Call)	Long	12	190	150	
	Gold Option (Putl)	Long	1	1	1	
	Gold Option (Call)	Short	12	(10)	(4)	
	Gold Option (Put)	Short	12	(29)	(31)	
	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 (Call)	Short	140	(434)	(194)	
	Electronic Sector Index Options (Put)	Short	58	(829)	(637)	
	Finance Sector Index Options (Call)	Long	174	371	178	
	Finance Sector Index Options (Put)	Long	187	863	656	
	Finance Sector Index Options (Call)	Short	475	(935)	(362)	
	Finance Sector Index Options (Put)	Short	190	(780)	(740)	
	S&P Sector Index Options (Call)	Short	24	(1,685)	(1,324)	
	S&P Sector Index Options (Put)	Short	34	(1,827)	(782)	
	Subtotal			(20,052)		
Total				\$ (789,538)		

- (2) Restrictions and enforcement of the Company's various financial ratios under futures trading law  
 Subsidiary - Capital Futures Corp.'s 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	Stockholders' equity (Total liabilities –futures traders' equity)	3,167,389 272,752	11.61	2,951,929 323,878	9.11	≥ 1	Satisfactory to requirement
17	Current Assets Current Liabilities	24,406,882 22,699,891	1.08	18,986,411 16,992,319	1.12	≥ 1	"
22	Stockholders' equity Minimum paid-in capital	3,167,389 1,115,000	284.07%	2,951,929 1,115,000	264.75%	≥ 60% ≥ 40%	"
22	Post-adjustment net capital Total customers' margin deposits required for open positions of customers	1,873,933 3,607,236	51.95%	2,064,456 2,337,827	88.31%	≥ 20% ≥ 15%	"

- (3) 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 futures firm needs sufficient liquidity to cover the transactions and suffer the loss may occur.

- (4) Taiwan International Securities Corp. (hereinafter known as "TISC"), the Company's merged entity, entrusted \$182,000 to an impartial third party on the merging date with First Securities Co., Ltd. and Far East Securities Co., Ltd. In relations to the agreement of indemnification to the stockholders with aforementioned companies arising from the fraud matter of Taiwan International Futures Corporation (hereinafter known as "TIFC"). Such deposit shall be allocated by the trustee to the stockholders who are merged in proportion of their shareholdings in TISC, after being decided by the court or accommodated by the investors of TIFC.

As of December 31, 2016, TIFC had reached partial consensus with its investors, and the accumulated amount of compensation was \$162,812. According to the indemnification to the former stockholders of First Securities Co., Ltd. and Far Eastern Securities Co., Ltd, the Company needs to pay all of the compensation to the company participating in the merger. As of December 31, 2016, the trust amount of the impartial third party is \$130,586 and the accumulated compensation expense is \$51,414.

### 13. DISCLOSURES REQUIRED

- (1) Information on significant transaction:

The followings are the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Group:

- Loans to others: Exhibit 1.
- Endorsements and guarantee for others: None.
- Acquisition of real estate over \$100 millions or 20% of paid-in capital: None.
- Disposal of real estate over \$100 millions or 20% of paid-in capital: None.
- Discount on commissions of transactions with related parties over \$5 millions: None.
- Receivables from related parties over \$100 millions or 20% of paid-in capital: None.
- Details of material transactions between parent company and subsidiaries: Exhibit 2.

- (2) Information on reinvestment business: Exhibit 3.

## (3) Information on branch units or representative offices overseas

Unit: NT\$ thousands

Name	Region	Date of establishment	Approval date and number of FSC	Primary business operation	Operating Income	After-tax operation	Assignment of working capital				Transactions with parent company	Note
							Beginning amount	Add	Less	Ending amount		
CSC International Holdings Ltd. Shanghai Representative	Shanghai	1997.11.27	Ruling No. 16322 by FSC on Feb. 22, 1997	Investigation of business, research of industrial technology and related information collection						-		

## (4) Information on investments in China:

## A. Investment in Mainland China and related information :

Unit: NT\$ thousands

Name of the investee in Mainland China	Major operations	Issued capital	Method of investment (Note 1)	Accumulated remittance as of January 1, 2016	Remittance or recoverable investment this period		Accumulated remittance as of December 31, 2016	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, 2016
					Remittance amount	Recoverable amount						
Capital True Partner Co., Ltd.	Management, consulting and information service business	5,013	C	24,372	-	-	24,372	(8,321)	30.10%	(2,384)	12,626	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service	Note 3	C	-	Note 3	-	Note 3	-	59.01%	-	-	-

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 financial statements that are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.
- (2) The financial statements that are audited and attested by R.O.C. parent company's CPA.
- (3) The financial statements that are provided by the investee without audited by CPA.

Note 3: Capital Futures Technology (Shanghai) Co., Ltd. established in October, 2016 but the paid-in capitals CNY\$4,000 thousands was completed until January 10, 2017.

## B. Limitation of investment in China:

Unit: NT\$ thousands

Company Name	Accumulated investments in Mainland China	Investment Amounts Authorized by Investment Commission (MOEA)	Upper Limit on Investment regulated by Investment Commission (MOEA)
Capital International Technology Corp.	24,372	24,372	80,000

Note: The Company invests through a subsidiary, Capital International Technology Corp., to invest in Mainland China. According to the relevant rules to small and medium enterprises, the upper limit for investment in China is \$80,000.

## (5) Disclosures required for securities firm investing in countries or regions without securities authority:

According to article 4, no. 5 of the letter no. 10400414001 issued by Financial Supervisory Commission on November 19, 2015, the required supplementary disclosures of the Company's information on reinvestment in overseas businesses for the year ended December 31, 2016 are as follows:

A. Balance sheet and income statement:

a. Balance sheet

Unit: US\$ thousands

Company	CSC International Holdings Ltd.	Taiwan International Securities (B.V.I) Corp.
Nature	December 31, 2016	December 31, 2016
Current assets	11,548	23
Long-term investments	21,517	-
Property and premises	2,249	-
Other assets	19,394	3,380
Total assets	54,708	3,403
Current liabilities	504	-
Other liabilities	86	3,408
Total liabilities	590	3,408
Common stock	45,000	9,516
Retained earnings ( Accumulated deficit )	9,153	(9,439)
Cumulative translation adjustments	(35)	(82)
Total stockholders' equity	54,118	(5)
Total liabilities and stockholders' equity	54,708	3,403

b. Income statement

Unit: US\$ thousands

Company	CSC International Holdings Ltd.	Taiwan International Securities (B.V.I) Corp.
Nature	2016	2016
Operating revenue	(721)	(26)
Operating expense	(896)	(1)
Non-operating revenue	431	-
Non-operating expense	(45)	-
Income (loss) before tax	(1,231)	(27)
Net income (loss)	(1,231)	(27)

B. Marketable securities held as of December 31, 2016

Unit: shares / US\$ thousands

Name of holding company	Securities types and name	Account classification	December 31, 2016	
			Shares	Book value
CSC International Holdings Ltd.	Capital Securities (Hong Kong) Ltd.	Long-term investments	4,864,400	\$ 6,759
	CSC Securities (HK) Ltd.	Long-term investments	89,600,000	14,758
	Total			\$ 21,517
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Ltd.	Other	265,000,000	\$ (3,408)

C. Transactions of financial derivatives: None.

D. Revenue on advisory and consulting service and related lawsuit: None

14. SEGMENT INFORMATION:

(1) Operating segment information

The operating segments are consistent with the internal reports provided to the chief operating decision-maker. The Group's operating segments are classified into brokerage, underwriting,



dealing, derivative instrument and reinvestment according to the sources of revenue. The remaining operating results which have not reached the threshold requirements are consolidated in 'other operating segments'. Sources of income from products and services rendered by each segment are as follows:

- A. Brokerage segment: Engaged in brokerage trading, margin trading, and securities lending business.
- B. Underwriting segment: Engaged in providing advisory on initial public offering or to register on the emerging or listed market, securities underwriting and sales, corporate finance, mergers and acquisitions.
- C. Dealing segment: Engaged in trading securities and related listed stock instruments on a proprietary basis.
- D. Derivative instrument segment: Engaged in the investment, consultancy and issuance of derivative instruments.
- E. Capital Futures Corporation: Engaged in the business of domestic futures brokerage services, trading on a proprietary basis, futures consultancy and managed futures enterprises.

(2) Measurement of segmental information

All of the Group's operating segments' accounting policies are no material difference from the ones described in Note 4 "significant accounting policies". The Group evaluates segment performance based on the net profit before tax of various operating segments. Income and expense attributable to each operating segment are directly attributed to the profits and losses of the corresponding operating segment. Indirect expenses and expenses from logistic support segment that cannot be directly attributed are listed under 'other segments'.

(3) Information about segments' gains or losses, assets and liabilities

		2016						
		Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination
Revenue		\$ 2,767,666	271,040	578,530	530,234	217,159	2,254,796	(272,414)
Income		\$ 807,626	97,508	340,595	371,872	(273,205)	603,707	(275,870)
		2015						
		Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination
Revenue		\$ 3,456,022	356,119	733,039	458,348	263,495	1,551,837	(254,703)
Income		\$ 1,176,082	142,036	423,378	234,775	(199,171)	502,424	(245,489)

Note 1: Internal segment revenues are eliminated on consolidation.

Note 2: The Group's segment assets and liabilities are not provided to the chief operating decision maker, so such items are not required to be disclosed.

(4) Information about products and services

The Group identified the reportable segments based on the type of products and service provided and the general information is already to be disclosed. Thus, no additional disclosure is required.

(5) Information about geographical areas

The Group received revenue from any single foreign customer is insignificant and there is no need to disclose the information.

(6) Information about major customers

The Group does not receive revenue from any single customer which exceeds 10% or more of operating income and there is no need to disclose the information.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)  
(Amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

Exhibit 1: Loans to others

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 (Note)	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 International Holdings Ltd.	CSC Securities (HK) Ltd.	Account receivables - Related party	Yes	US 22,289	US 19,322	US 19,322	-	2	-	Operations	-		-	US 54,118	US 54,118
2	Taiwan International Securities (BVI) Corp.	TIS Securities (HK) Ltd.	Other receivables - Related party	Yes	US 3,380	US 3,403	US 3,380	-	2	-	Operations & repayment of financing	-		-	US 3,403	US 3,403
3	TIS Securities (HK) Ltd.	Taiwan International Capital (HK) Ltd.	Other receivables	Yes	HK 1,463	HK 1,463	HK 1,463	-	2	-	Repayment of financing	-		-	HK 1,463	HK 1,463
4	CSC Futures (HK) Ltd.	AP CAPITAL INVESTMENT LIMITED	Account receivables - Customer	No	HK 10,856	HK 10,856	HK -	5%	2	-	Tradings	-		-	HK 10,856	HK 92,534
5	CSC Futures (HK) Ltd.	KLAW TRADING LIMITED	Account receivables - Customer	No	HK 10,856	HK 10,856	HK 775	5%	2	-	Tradings	-		-	HK 10,856	HK 92,534
6	CSC Futures (HK) Ltd.	THREE ARROWS CAPITAL LTD	Account receivables - Customer	No	HK 10,856	HK 10,856	HK 3,220	5%	2	-	Tradings	-		-	HK 10,856	HK 92,534
7	CSC Futures (HK) Ltd.	FUTURE LEADING INVESTMENT PTE LTD	Account receivables - Customer	No	HK 10,856	HK 10,856	HK -	3.5%	2	-	Tradings	-		-	HK 10,856	HK 92,534

Note: Type of Loans  
1. Business transactions  
2. Necessaries of short-term financing □

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**  
 (Amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

Exhibit 2: Significant transactions between parent company and subsidiaries for the year ended December 31, 2016

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	General ledger account	Transaction details			Percentage(%) of total consolidated revenue
					Amount	Trading terms		
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts payable	262			-
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts receivable	11,512			0.01%
0	Capital Securities Corp.	Capital Futures Corp.	1	Other receivables	123			-
0	Capital Securities Corp.	Capital Futures Corp.	1	Bonds sold under repurchase agreements	148,803			0.14%
0	Capital Securities Corp.	Capital Futures Corp.	1	Guarantee deposits received	3,508			-
0	Capital Securities Corp.	Capital Futures Corp.	1	Future commission revenue	155,588	General transaction		2.45%
0	Capital Securities Corp.	Capital Futures Corp.	1	Lease revenue	15,525	General transaction		0.24%
0	Capital Securities Corp.	Capital Futures Corp.	1	Revenue from securities management, distribution, and management fees	353	General transaction		0.01%
0	Capital Securities Corp.	Capital Futures Corp.	1	Financial costs	1,574	General transaction		0.02%
0	Capital Securities Corp.	Capital Futures Corp.	1	Other operating revenue	11	General transaction		-
0	Capital Securities Corp.	Capital Futures Corp.	1	Securities commission expense	2,936	General transaction		0.05%
0	Capital Securities Corp.	Capital Futures Corp.	1	Interest revenue	183	General transaction		-
0	Capital Securities Corp.	Capital Futures Corp.	1	Miscellaneous expenses	10,296	General transaction		0.16%
0	Capital Securities Corp.	Capital Futures Corp.	1	Non-operating revenues	22,427	General transaction		0.35%
0	Capital Securities Corp.	Capital Futures Corp.	1	Brokerage commissions	216	General transaction		-
0	Capital Securities Corp.	Capital Futures Corp.	1	Other receivables	126	General transaction		-
0	Capital Securities Corp.	Capital Futures Corp.	1	Professional service fees	82,000	General transaction		1.29%
0	Capital Securities Corp.	Capital Futures Corp.	1	Lease revenue	1,200	General transaction		0.02%
0	Capital Securities Corp.	Capital Futures Corp.	1	Guarantee deposits received	30			-
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Lease revenue	120	General transaction		-
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Revenue from securities management, distribution, and management fees	24	General transaction		-
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Other non-operating revenue	120	General transaction		-
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Guarantee deposits received	171			-
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Lease revenue	998	General transaction		0.02%
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Revenue from securities management, distribution, and management fees	50	General transaction		-
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Other non-operating revenue	600	General transaction		0.01%
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Financial costs	2	General transaction		-
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other receivables	28			-
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Receipts under custody	51			-
0	Capital Securities Corp.	Capital International Technology Corp.	1	Other non-operating revenue	60	General transaction		-
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Guarantee deposits received	160			-
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Lease revenue	962	General transaction		0.02%
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Financial costs	2	General transaction		-
1	Capital Futures Corp.	Capital Securities Corp.	2	Customers' margin account	308,212			0.29%
1	Capital Futures Corp.	Capital Securities Corp.	2	Futures traders' equity	308,212			0.29%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Customers' margin account	256,606			0.24%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures traders' equity	1,377,458			1.27%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Commission expense - futures	11,766	General transaction		0.19%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Brokerage commissions	60,627	General transaction		0.96%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Financial costs	430	General transaction		0.01%
1	Capital Futures Corp.	Capital International Technology Corp.	3	Information technology expense	13,955	General transaction		0.22%
2	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Lease revenue	146	General transaction		-
2	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other receivables	11			-
2	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other operating revenue	HK 3,660	General transaction		0.24%
2	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Brokerage handling fee expense	HK 1,286	General transaction		0.09%
2	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other payables	USD 19,322			0.58%
3	CSC Securities (HK) Ltd.	CSC International Holdings Ltd.	3	Other receivables	USD 425			0.01%
3	CSC Securities (HK) Ltd.	TIS Securities (HK) Ltd.	3	Other receivables	HK 26,210			0.10%
5	CSC Futures (HK) Ltd.	Capital True Partner Co., Ltd.	3	Accumulated depreciation	400			-
5	CSC Futures (HK) Ltd.	Capital True Partner Co., Ltd.	3	Depreciation expense	400	General transaction		0.01%
5	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Futures traders' equity	159,813			0.16%
5	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Customers' margin account	1,280,666			1.19%
5	CSC Futures (HK) Ltd.	Capital True Partner Co., Ltd.	3	Information technology expense	472	General transaction		0.01%

Note 1: The numbers in the RefNo. column represent as follows:

(1) 0 stands for the parent company.

(2) Subsidiaries are coded from No. 1 per respective companies.

Note 2: Transaction relationship with the counterparties are as follows:

(1) Parent company to subsidiaries.

(2) Subsidiaries to parent company.

(3) Subsidiaries to subsidiaries.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)  
(Amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

Exhibit 3: Disclosure required of investee companies

Ref No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and number of FSC	Primary business operation	Original investment amount		Equity Ownership by Company (Note 3)			Operating income of investee company	The highest shareholding ratio or capital contribution	Net income or loss of investee company during the period	Investment gain or loss recognized during the period	Cash dividend	Note
						Balance on December 31, 2016	Balance on December 31, 2015	Shares	Ratio	Book value						
0	Capital Investment Management Corp.	Taipei, Taiwan, R.O.C.	February 16, 1990		Engaged in providing advice on securities investment and related matters, or securities investment consultancy, analyzing the published materials on securities investments.	72,515	72,515	7,000,000	100.00%	105,330	82,000	100.00%	11,646	11,646	11,410	The transaction has been writtenoff in the consolidated financial statements
0	Capital Futures Corp.	Taipei, Taiwan, R.O.C.	February 26, 1997		Engaged in domestic and foreign futures business.	649,610	649,610	72,227,136	59.01%	1,869,075	1,677,369	59.01%	511,809	302,019	178,401	-
0	CSC International Holdings Ltd.	British Virgin Island	March 4, 1996	No. FSC-65350 dated January 12, 1996	Long-term equity investment business.	1,339,555	1,339,555	45,000,000	100.00%	1,742,614	(23,477)	100.00%	(40,052)	(40,052)	-	-
0	Capital Insurance Advisory Corp.	Taipei, Taiwan, R.O.C.	November 9, 2000		Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business.	3,890	3,890	500,000	100.00%	104,489	249,915	100.00%	87,396	87,396	55,627	Subsidiary
0	Capital Insurance Agency Corp.	Taipei, Taiwan, R.O.C.	November 8, 2000		Manages personal insurance agent business.	7,400	7,400	740,000	100.00%	52,200	110,525	100.00%	14,286	14,286	10,360	-
0	Taiwan International Futures Corp. (Note 4)	Taipei, Taiwan, R.O.C.	November 25, 1993		Liquidation in progress.	429,990	429,990	11,999,721	99.99%	-	-	99.99%	-	-	-	The transaction has been writtenoff in the consolidated financial statements
0	Taiwan International Securities (B.V.) Corp.	British Virgin Island	December 10, 1996	No. FSC-53981	Holding company for international securities business.	1,394,817	1,394,817	300	100.00%	(157)	(850)	100.00%	(885)	(885)	-	-
0	Taiwan International Securities Investment Consulting Corp. (Note 5)	Taipei, Taiwan, R.O.C.	March 3, 1994		Liquidation in progress.	9,992	9,992	999,200	99.92%	13,298	-	99.92%	(252)	(252)	-	-
0	CSC Venture Capital Corp.	Taipei, Taiwan, R.O.C.	January 12, 2016	No. FSC-1040034071 dated September 8, 2015	Venture Capital and consulting business	1,000,000	-	100,000,000	100.00%	1,066,512	1,446	100.00%	(4,419)	(4,419)	-	-
1	Capital Securities (Hong Kong) Ltd. (Note 7)	Hong Kong	June 29, 1993	No. FSC-17433 dated April 7, 1993	Liquidation in progress.	HK\$48,644 thousand	HK\$48,644 thousand	4,864,400	100.00%	HK\$2,429 thousand	HK\$(1,658) thousand	100.00%	-	-	-	-
1	CSC Securities (HK) Ltd.	Hong Kong	May 3, 1994	No. FSC-90931 dated January 5, 1998	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong.	HK\$9,600 thousand	HK\$9,600 thousand	89,600,000	70.00%	HK\$14,472 thousand	HK\$25,166 thousand	70.00%	-	-	-	-
2	CSC Securities (HK) Ltd.	Hong Kong	May 3, 1994	No. FSC-90931 dated January 5, 1998	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong.	HK\$38,400 thousand	HK\$38,400 thousand	38,400,000	30.00%	HK\$9,059 thousand	HK\$25,166 thousand	30.00%	-	-	-	-
3	TFS Securities (HK) Ltd. (Note 6)	Hong Kong	August 17, 1993	No. FSC-40912 dated November 4, 1993	Liquidation in progress.	HK\$265,000 thousand	HK\$265,000 thousand	265,000,000	100.00%	HK\$26,432 thousand	HK-	100.00%	-	-	-	-
4	Taiwan International Capital (HK) Ltd. (Note 6)	Hong Kong	July 16, 1997	No. FSC-110159	Liquidation in progress.	HK2	HK2	2	100.00%	HK\$49,216 thousand	HK-	100.00%	-	-	-	-
5	CSC Futures (HK) Ltd.	Hong Kong	December 9, 1998	No. FSC-46239 dated October 31, 1998 No. FSC-100047513 dated January 20, 2012 No. FSC-1020050525 dated January 29, 2014 No. FSC-1050038018 dated October 21, 2016	Futures dealing business.	862,631	450,631	214,000,000	97.27%	928,880	643,870	100.00%	77,457	-	-	-
5	Capital International Technology Co., Ltd.	Taipei, Taiwan, R.O.C.	December 29, 2014	No. FSC-1020038387 dated November 18, 2014	Management and consulting business. Information technology software	50,000	50,000	5,000,000	100.00%	45,739	2,030	100.00%	(5,326)	-	-	-
5	True Partner Advisor Hong Kong Ltd.	Hong Kong	May 31, 2010	No. FSC-1040027513 dated July 16, 2015	Asset Management	36,701	36,701	245,000	49.00%	41,516	66,027	49.00%	10,276	-	-	Associates
6	Capital Securities Nominee Ltd.	Hong Kong	April 7, 1995		Agency services.	HK2	HK2	2	100.00%	HK-	HK-	100.00%	-	-	-	The transaction has been writtenoff in the consolidated financial statements

Note 1: (a) Capital Securities Corp. (1) CSC International Holdings Ltd.(2) Capital Securities (Hong Kong) Ltd.(3) Taiwan International Securities (B.V.) Corp. (4) TFS Securities (HK) Ltd. (5) Capital Futures Corp. (6) CSC Securities (HK) Ltd.

Note 2: Includes the Company's investment in overseas business and its reinvestments in other businesses, etc.

Note 3: Book value is the investment balance according to equity method, including investment income (loss), cash dividends, and cumulative translation adjustment, etc.

Note 4: The stockholders' special meeting of Taiwan International Securities Corp. resolved to dissolve the investee company on September 18, 2008 and the liquidation procedure is ongoing.

Note 5: The stockholders' special meeting resolved to dissolve the investee company on June 27, 2012.

Note 6: The board of directors of the Company resolved to dissolve the investee company on December 30, 2011.

Note 7: The board of directors of Company resolved to cease operation on October 30, 2012.

**KPMG Certified Public Accountants**

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## Independent Accountants' Audit Report

To the Board of Directors of Capital Securities Corporation

### Opinion

We have audited the financial statements of Capital Securities Corporation (the "Company"), which comprise the balance sheets as of December 31, 2016 and 2015, the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and 2015, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years ended in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Firms.

### Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountant of Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Key audit matters of the Company's separate financial statements are stated as follows:

#### 1. Valuation of financial instruments

Please refer to Note 4(6) for the related accounting policy regarding the valuation of financial instruments. Refer to Note 6(2) financial assets, Note 6(9) financial liabilities at fair value through profit or loss and Note 6(19) E. fair value and fair value hierarchy of financial instruments for details about the valuation of financial instruments.



Risk and descriptions of the key audit matter

The Company's valuation of financial instruments is one of our significant audit processes refer to important judgements. Financial instruments on balance sheets mainly belong to first or secondary level in fair value hierarchy, and can be achieved by available quoted market prices in an active market and direct or indirect evaluation of observation. Fair value of some derivative financial instruments invested and issued depends on models and observably variable factors in the market, so management's professional judgement has highly importance when using different valuation ways and assumptions. Therefore, the valuation of financial instruments is included as our key audit matter.

Procedures performed

Our key audit procedures included considering how management selected appropriate valuation methods and assessed the key assumptions adopted. We confirmed the presentation and disclosures of financial instruments were in accordance with relevant regulations. For financial assets with quoted market prices in an active market, we selected samples to test the appropriateness of quoted prices used. For financial assets without quoted market prices in an active market and measured at fair value using valuation techniques, we selected samples to test the appropriateness of underlying parameters.

## 2. Goodwill impairment

Please refer to Note 4(15) for the related accounting policy regarding the impairment of non-financial assets, Note 5 for accounting assumptions and estimation uncertainty of the goodwill impairment, and Note 6(7) A. for details about measurement of goodwill impairment.

Risk and descriptions of the key audit matter

Assessment of the Company's goodwill impairment is one of our significant audit processes, because it mainly depends on the prediction of future operation and there is a high uncertainty on assessing recoverable amounts by discounted future cash flows. Therefore, the measurement of goodwill impairment is included as our key audit matter.

Procedures performed

Our key audit procedures included evaluating tests of goodwill impairment implemented by management and related procedures of control, certifying the assumptions of management by related available external information, making professional evaluation on main parameters of predictable growth rate, discount rate, et cetera adopted by management, and assessing the appropriateness of prediction by management, involve of analysing sensitivity on the assumptions related to evaluating impairment.

## 3. The assessment of litigation and contingent liability

Please refer to Note 4(18) for the related accounting policy regarding the assessment of liability provisions, and Note 9 for details on the information about the assessment of significant contingent liability and unrecognized contract commitment.

Risk and descriptions of the key audit matter

The contingent liabilities may occur because of the progress of ongoing litigations and other legal matters, the amounts may be significant, and when assessing liability provisions by related

accounting standards, required the applying of the management's judgments. Therefore, the assessment of litigation and contingent liability is included as our key audit matter.

#### Procedures performed

Our key audit procedures for the aforementioned key audit matter included interviewing management to understand its assessment of ongoing litigations, obtaining law confirmations from the Company's external attorneys, and assessing whether the disclosure of significant ongoing litigations and contingent liabilities appropriate.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Firms", and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the audit committee, are responsible for overseeing the Company's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.



3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the investees accounted for using the equity method to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the investee audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**KPMG**  
 Taipei, Taiwan (Republic of China)  
 March 27, 2017

#### **Notice to Readers**

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

The auditors' report and the accompanying financial statements 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 auditors' report and financial statements, the Chinese version shall prevail.



(Expressed In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
Current Assets				
Cash and cash equivalents (Note 6(1))	\$ 1,142,072	1	1,968,456	3
Financial assets at fair value through profit or loss - current (Notes 6(2) and 8)	27,122,854	33	25,608,050	34
Financial assets available for sale - current (Note 6(2))				
Receivable for securities provided as collateral	19,297,464	23	7,835,455	11
Refinancing margin	11,563,719	14	14,297,162	19
Refinancing collateral receivable	93,353	-	9,084	-
Receivable of securities business money lending	79,289	-	7,550	-
Collateral for securities borrowed	144,552	-	-	-
Security borrowing margin	802,737	1	1,074,130	1
Notes receivable	775,251	1	1,383,304	2
Accounts receivable (Note 6(3))	16,931	-	7,955	-
Prepayments	3,868,956	5	4,615,233	6
Other receivables	24,210	-	16,979	-
Current income tax assets	16,721	-	10,825	-
Other current assets	44,415	-	59,512	-
	624,370	1	1,700,941	2
	65,616,894	79	58,594,636	78
Non-current Assets				
Financial assets at fair value through profit or loss - non-current (Notes 6(2) and 8)	186,073	-	190,554	-
Financial assets measured at cost - non-current (Note 6(2))	341,841	-	380,603	-
Investments accounted for under equity method (Note 6(4))	4,893,518	6	3,796,871	5
Property and equipment(Notes 6(5) and 8)	4,389,956	5	4,535,525	6
Investment property (Notes 6(6) and 8)	2,347,063	3	2,270,768	3
Intangible assets (Note 6(7))	3,532,620	4	3,550,988	5
Deferred income tax assets (Note 6(15))	407,372	1	484,791	1
Other non-current assets	1,291,577	2	1,386,583	2
	17,390,020	21	16,596,683	22
LIABILITIES AND EQUITY				
Current Liabilities				
Short-term borrowings (Note 6(8))	\$ 4,236,402	5	1,579,717	2
Financial liabilities at fair value through profit or loss - current (Note 6(9))	1,410,143	2	2,314,275	3
Bonds sold under repurchase agreements (Note 6(10))	35,105,445	42	24,014,573	32
Guarantee deposited for short sales	1,722,840	2	2,025,011	3
Proceeds payable from short sales	1,947,104	3	2,242,680	3
Securities lending refundable deposits	878,866	1	1,622,937	2
Customer equity of separate account ledger in settlement account (Note 6(11))	4,537	-	4,104	-
Notes payable	879	-	846	-
Accounts payable (Note 6(12))	3,343,320	4	3,636,218	5
Advance receipts	29,367	-	17,279	-
Receipts under custody	143,630	-	1,344,056	2
Other payables	500,534	1	607,492	1
Other financial liabilities - current (Note 6(20))	2,427,461	3	3,834,575	5
Current income tax liabilities	182,874	-	116,967	-
Provisions - current (Notes 6(4)and(14))	57,782	-	42,929	-
Other current liabilities	3	-	3	-
	51,991,187	63	43,403,662	58
Non-current Liabilities				
Other financial liabilities - non-current (Note 6(20))	239,634	-	241,991	-
Deferred income tax liabilities (Note 6(15))	671,087	1	687,483	1
Other non-current liabilities (Note 6(14))	584,458	1	567,583	1
	1,495,179	2	1,497,057	2
	53,486,366	65	44,900,719	60
Total Liabilities				
	22,690,730	27	23,190,730	31
Equity				
Common stock (Note 6(16))				
Capital surplus	1,858,310	2	1,899,259	3
Premium from stock issuance	253,940	-	191,489	-
Treasury stock transactions	630,450	1	644,342	1
Paid-in capital from merger	1,399	-	1,430	-
Difference between consideration and carrying amount of subsidiaries acquired and disposed				
Changes in ownership interests in subsidiaries	6,873	-	6,287	-
Retained earnings				
Legal reserve	1,110,600	1	955,667	1
Special reserve	2,464,288	3	2,154,422	3
Unappropriated earnings (Note 6(15))	1,188,633	2	1,586,994	2
Exchange differences on translation of foreign operations	97,158	-	135,985	-
Unrealized gains (losses) on financial assets available for sale	53,215	-	(6,850)	-
Treasury stocks (Note 6(16))	(835,048)	(1)	(469,155)	(1)
	29,520,548	35	30,290,600	40
Total Equity				
	\$ 83,006,914	100	\$ 75,191,319	100
TOTAL LIABILITIES AND EQUITY				
		</		

**CAPITAL SECURITIES CORPORATION**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**(Expressed In Thousands of New Taiwan Dollars)**

	2016		2015	
	Amount	%	Amount	%
<b>Income:</b>				
Brokerage commissions (Note 6(18))	\$ 1,692,284	41	2,151,679	43
Revenues from securities business money lending	46	-	119	-
Revenue from securities lendings	71,164	2	38,789	1
Underwriting commissions (Note 6(18))	93,463	2	167,696	3
Commissions on wealth management business	64,802	2	63,025	1
Net gains on sale of trading securities (Note 6(18))	104,795	3	44,569	1
Securities management, distribution, and management fees	139,924	3	140,302	3
Interest revenue (Note 6(18))	1,428,802	34	1,373,471	27
Dividend revenue	175,337	4	146,637	3
Net gains (losses) on measurement of trading securities at fair value through profit or loss (Note 6(18))	38,687	1	(218,690)	(4)
Net gains (losses) on covering of borrowed securities and bonds with resale agreements	11,682	-	(46,174)	(1)
Net gains on measurement of borrowed securities and bonds with resale agreements	35,507	1	79,336	1
Net gains on stock warrants issued (Notes 6(18) and 6(20))	747,109	18	842,234	17
Futures commission revenues	155,588	4	146,813	3
Net gains (losses) on derivative instruments - futures (Note 6(20))	(425,947)	(10)	80,915	2
Net losses on derivative instruments - OTC (Note 6(20))	(238,982)	(6)	(54,270)	(1)
Other operating revenues	53,209	1	47,077	1
	<u>4,147,470</u>	<u>100</u>	<u>5,003,528</u>	<u>100</u>
<b>Expenses:</b>				
Brokerage fees	109,098	3	135,717	3
Brokerage and clearing fees - proprietary trading	8,203	-	12,206	-
Clearing and exchange fees - refinancing	3,309	-	3,116	-
Clearing and exchange fees - underwriting	1,749	-	2,866	-
Financial costs	281,325	7	193,683	4
Securities commission expenses - introducing brokers	2,936	-	3,610	-
Other operating expenditure	5,787	-	8,726	-
Employee benefits expenses (Note 6(18))	1,903,220	46	2,017,271	40
Depreciation and amortization expenses (Note 6(18))	188,520	4	187,976	4
Other operating expenses (Note 6(18))	1,034,468	25	1,259,234	25
	<u>3,538,615</u>	<u>85</u>	<u>3,824,405</u>	<u>76</u>
<b>Other income and expenses:</b>				
Share of profits of associates and joint venture (Note 6(4))	369,739	9	314,198	6
Other gains and losses (Note 6(18))	389,500	9	291,025	6
	<u>759,239</u>	<u>18</u>	<u>605,223</u>	<u>12</u>
<b>Net income before income tax</b>	<u>1,368,094</u>	<u>33</u>	<u>1,784,346</u>	<u>36</u>
<b>Income tax expense (Note 6(15))</b>	<u>(171,338)</u>	<u>(4)</u>	<u>(235,019)</u>	<u>(5)</u>
<b>Net income for the year</b>	<u>1,196,756</u>	<u>29</u>	<u>1,549,327</u>	<u>31</u>
<b>Other comprehensive income :</b>				
<b>Items that will not be reclassified to profit or loss</b>				
Remeasurment on defined benefit plan	(17,003)	-	(28,828)	(1)
Share of other comprehensive income of subsidiaries, associates, and joint ventures accounted for under equity method	(1,470)	-	(613)	-
Income tax related to the components of other comprehensive income	-	-	-	-
Total items that will not be reclassified subsequently to profit or loss	<u>(18,473)</u>	<u>-</u>	<u>(29,441)</u>	<u>(1)</u>
<b>Items that may be reclassified to profit or loss in subsequent periods</b>				
Exchange differences on translating financial statements of foreign operations	(39,853)	(1)	63,567	1
Unrealized gains (losses) on financial assets available for sale, net	40,329	1	(22,775)	-
Share of other comprehensive income of subsidiaries, associates, and joint ventures accounted for under equity method	15,338	-	3,026	-
Income tax related to the components of other comprehensive income	5,424	-	(12,032)	-
Total items that will be reclassified to profit or loss in subsequent periods	<u>21,238</u>	<u>-</u>	<u>31,786</u>	<u>1</u>
<b>Other comprehensive income for the year, net of income tax</b>	<u>2,765</u>	<u>-</u>	<u>2,345</u>	<u>-</u>
<b>Total comprehensive income for the year</b>	<u>\$ 1,199,521</u>	<u>29</u>	<u>1,551,672</u>	<u>31</u>
<b>Basic earnings per share (Note 6(17))</b>	<u>\$</u>	<u>0.53</u>	<u>\$</u>	<u>0.66</u>
<b>Dilutive earnings per share (Note 6(17))</b>	<u>\$</u>	<u>0.53</u>	<u>\$</u>	<u>0.66</u>

**CAPITAL SECURITIES CORPORATION**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**  
(Expressed In Thousands of New Taiwan Dollars)

	Retained earnings				Others		Treasury stocks	Total
	Capital stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences on translation of foreign operations	Unrealized gains (losses) on financial assets available for sale	
<b>Beginning balance, January 1, 2015</b>								
Net income for the year ended December 31, 2015	\$ 23,690,730	2,711,760	753,136	1,756,283	2,089,222	76,558	20,791	31,098,480
Other comprehensive income	-	-	-	-	1,549,327	-	-	1,549,327
Total comprehensive income	-	-	-	-	(29,441)	59,427	(27,641)	2,345
Appropriation and distribution of retained earnings:								
Legal reserve	-	-	202,531	-	(202,531)	-	-	-
Special reserve	-	-	-	405,061	(405,061)	-	-	-
Cash dividends	-	-	-	-	(1,421,444)	-	-	(1,421,444)
Reversal of special reserve for deduction of stockholders' equity	-	-	-	(6,922)	6,922	-	-	-
Purchase of treasury stocks	-	-	-	-	-	-	-	(939,569)
Retirement of treasury stocks	(500,000)	29,586	-	-	-	-	-	470,414
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	1,461	-	-	-	-	-	1,461
<b>Ending balance, December 31, 2015</b>	23,190,730	2,742,807	955,667	2,154,422	1,586,994	135,985	(6,850)	30,290,600
Net income for the year ended December 31, 2016	-	-	-	-	1,196,756	-	-	1,196,756
Other comprehensive income	-	-	-	-	(18,473)	(38,827)	60,065	2,765
Total comprehensive income	-	-	-	-	1,178,283	(38,827)	60,065	1,199,521
Appropriation and distribution of retained earnings:								
Legal reserve	-	-	-	-	-	-	-	-
Special reserve	-	-	154,933	-	(154,933)	-	-	-
Cash dividends	-	-	-	309,866	(309,866)	-	-	-
Purchase of treasury stocks	-	-	-	-	(1,111,845)	-	-	(1,111,845)
Retirement of treasury stocks	(500,000)	7,579	-	-	-	-	-	(858,314)
Change in the ownership interest of subsidiaries	-	586	-	-	-	-	-	492,421
<b>Ending balance, December 31, 2016</b>	\$ 22,690,730	2,750,972	1,110,600	2,464,288	1,188,633	97,158	53,215	29,520,548

Note : For the years ended December 31, 2016 and 2015, the amounts of remuneration to employee were \$12,090 and \$17,241, and directors and supervisors were \$20,149 and \$28,734, respectively, which were already deducted from the statement of comprehensive income.

**CAPITAL SECURITIES CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**  
(Expressed In Thousands of New Taiwan Dollars)

	2016	2015
<b>Cash flows from operating activities:</b>		
Net income before tax	\$ 1,368,094	1,784,346
<b>Adjustments for:</b>		
<b>Income and expenses items with no effect on cash flows:</b>		
Depreciation expense	156,460	153,519
Amortization expense	32,060	34,457
Net losses (gains) on financial assets or liabilities at fair value through profit or loss	(38,687)	218,690
Interest expense	281,325	193,683
Net losses on non-operating financial instruments at fair value through profit or loss	9,781	267
Interest revenue (including financial income)	(1,433,077)	(1,375,641)
Dividend revenue	(194,313)	(167,239)
Cash dividend received from investments under equity method	255,798	175,869
Share of profits of associates and joint ventures	(369,739)	(314,198)
Net losses (gains) on disposal and retirement of property and equipment	4,107	(58,484)
Losses on disposal and retirement of intangible assets	-	86
Net changes of income and expense items with no effect on cash flows	(1,296,285)	(1,138,991)
<b>Changes in assets and liabilities from operating activities:</b>		
<b>Net changes in assets from operating activities:</b>		
Decrease (increase) in financial assets at fair value through profit or loss - current	(1,481,417)	(1,754,165)
Decrease (increase) in financial assets available for sale - current	(11,421,680)	(7,858,230)
Decrease (increase) in receivable for securities provided as collateral	2,733,443	5,081,118
Decrease (increase) in refinancing margin	(84,269)	6,443
Decrease (increase) in receivable on refinancing collateral	(71,739)	16,884
Decrease (increase) in receivable of securities business money lending	(144,552)	-
Decrease (increase) in collateral for securities borrowed	271,393	(424,717)
Decrease (increase) in security borrowing margin	608,053	(789,477)
Decrease (increase) in notes receivable	(8,976)	(3,931)
Decrease (increase) in accounts receivable	786,979	1,636,216
Decrease (increase) in prepayments	(7,231)	4,844
Decrease (increase) in other receivables	(5,896)	45,356
Decrease (increase) in current income tax assets	15,097	(23,952)
Decrease (increase) in other current assets	1,050,967	(1,170,561)
Decrease (increase) in guarantee deposited for business operations	61,700	274,128
Decrease (increase) in settlement fund	13,122	(1,437)
Decrease (increase) in other non-current assets	44,857	(65,504)
<b>Total net changes in assets from operating activities:</b>	(7,640,149)	(5,026,985)
<b>Net changes in liabilities from operating activities:</b>		
Increase (decrease) in financial liabilities at fair value through profit or loss	(904,132)	181,092
Increase (decrease) in bonds sold under repurchase agreements	11,090,872	9,288,887
Increase (decrease) securities financing refundable deposits	(302,171)	(206,979)
Increase (decrease) deposits payable for securities financing	(295,576)	(351,293)
Increase (decrease) securities lending refundable deposits	(744,071)	(631,827)
Increase (decrease) customer equity of separate account ledger in settlement accounting	433	4,104
Increase (decrease) in notes payable	33	(300)
Increase (decrease) in accounts payable	(292,898)	(1,746,414)
Increase (decrease) in advance receipts	12,088	(247)
Increase (decrease) in receipts under custody	(1,200,426)	1,220,841
Increase (decrease) in other payables	(127,921)	(98,823)
Increase (decrease) in other financial liabilities - current	(1,407,114)	1,693,610
Increase (decrease) in other financial liabilities - non-current	(2,357)	129,426
Increase (decrease) in other current liabilities	-	1
Increase (decrease) in provision - current	14,853	137
Increase (decrease) in other non-current liabilities	(285)	1,420
<b>Total net changes in liabilities from operating activities</b>	5,841,328	9,483,635
<b>Total net changes in assets and liabilities from operating activities</b>	(1,798,821)	4,456,650
<b>Total Cash generated from adjustment items</b>	(3,095,106)	3,317,659
Cash generated by operations activities	(1,727,012)	5,102,005
Interest received	1,391,574	1,411,918
Dividends received	195,114	166,554
Interest paid	(262,562)	(187,535)
Income tax paid	(38,984)	(54,241)
<b>Net cash provided by (used in) operating activities</b>	(441,870)	6,438,701
<b>Cash flows from investing activities:</b>		
Decrease (increase) in financial assets measured at cost	38,762	8,750
Decrease (increase) of deferred debits	(1,980)	(3,175)
Acquisition of investments under equity method	(1,000,000)	-
Acquisitions of property and equipment	(91,293)	(176,568)
Proceeds from disposal of property and equipment	-	225,514
Acquisitions of intangible assets	(8,583)	(30,510)
Acquisition of investment property	-	(260)
<b>Net cash provided by (used in) investing activities</b>	(1,063,094)	23,751
<b>Cash flows from financing activities:</b>		
Increase (decrease) in short-term borrowing	2,656,685	(1,077,283)
Increase (decrease) in long-term liabilities - current portion	-	(500,000)
Increase (decrease) in commercial paper payable	-	(1,749,717)
Cash dividends	(1,111,845)	(1,421,444)
Acquisition of treasury stocks	(858,314)	(939,569)
<b>Net cash provided by (used in) financing activities</b>	686,526	(5,688,013)
Effect of exchange rate changes on cash and cash equivalents	(7,946)	(2,586)
Increase (decrease) in cash and cash equivalents	(826,384)	771,853
Cash and cash equivalents, beginning of the year	1,968,456	1,196,603
Cash and cash equivalents, end of the year	<b>\$ 1,142,072</b>	<b>1,968,456</b>

(English Translation of Financial Report Originally Issued in Chinese)

**CAPITAL SECURITIES CORPORATION**

**NOTES TO FINANCIAL REPORT**

**DECEMBER 31, 2016 AND 2015**

**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS UNLESS OTHERWISE STATED)**

## **1. OVERVIEW**

Capital Securities Corporation (the “Company”) was registered under the Ministry of Economic Affairs, R.O.C. on June 21, 1988. The address of the Company’s registered office is 4th Fl. No. 101, Sung-Jen Road, Taipei, Taiwan, R.O.C. As of December 31, 2016, the Company has 56 branches nationwide.

The Company is authorized to conduct the following businesses:

- (1) Underwriting of marketable securities;
- (2) Trading of marketable securities on a proprietary basis on stock exchange;
- (3) Brokerage of marketable securities on stock exchange;
- (4) Trading of marketable securities at the Company’s branches;
- (5) Brokerage of marketable securities at the Company’s branches;
- (6) Margin loan, short sale and refinancing;
- (7) Securities registration agency services;
- (8) Dealership of foreign marketable securities;
- (9) Short-term bills service;
- (10) Accessory services of futures trading;
- (11) Futures trading on a proprietary basis;
- (12) Securities business money lending;
- (13) Managing the unexpended balance of clients' securities accounts within their authorization;
- (14) Trust business;
- (15) Offshore securities business; and
- (16) Other relevant services as approved by the authority in charge.

## **2. APPROVAL DATE AND PROCEDURES OF THE FINANCIAL REPORT**

The financial statements were authorized for issuance by the board of directors on March 27, 2017.

## **3. NEW STANDARDS AND INTERPRETATIONS**

- (1) Impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) but not yet in effect

According to Ruling No. 1050040146 issued on October 20, 2016, by the FSC, from year 2017 securities firms are required to conform to the IFRSs which were issued by the International Accounting Standards Board (“IASB”) before January 1, 2016, and were endorsed by the FSC on January 1, 2017 in preparing their financial statements. The new related standards, interpretations, and amendments are as follows:

Newly issued, Revised accounting standards and interpretations	Effective date per IASB
• Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
• Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
• IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
• Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
• 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 Plants"	January 1, 2016
• Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
• Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
• Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"	January 1, 2014
• Amendments to IAS 39 "Novation of Derivatives and Continuation 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
• Interpretations to IFRS 21 "Leases"	January 1, 2014
The Company assessed that the initial application of the IFRSs above would have no significant material impact on the financial statements.	

(2) Newly released or amended standards and interpretations not yet endorsed by the FSC.

The Company has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC. The FSC announced that IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the Company's financial statements were issued, the FSC has not announced the effective dates of other new IFRSs.

Newly issued, Revised accounting standards and interpretations	Effective date per IASB
• IFRS 9 Financial Instruments	January 1, 2018
• Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Undecided
• IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
• IFRS 16 "Leases"	January 1, 2019
• Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
• Amendment to IFRS 15 "Clarifications of IFRS 15"	January 1, 2018
• 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 IFRS 4 "Insurance Contracts" ("Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts")	January 1, 2018
• Annual Improvements to IFRSs 2014–2016 Cycle: IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2017
• IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2018
• Interpretations to IFRS 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018
• Amendments to IAS 40 "Transfer of Investment Property"	January 1, 2018

The Company is still currently determining the potential impact of the standards listed below:

<b>Issuance / Release Dates</b>	<b>Standards or Interpretations</b>	<b>Content of amendment</b>
May 28, 2014 April 12, 2016	IFRS 15 "Revenue from Contracts with Customers"	<p>IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 "Revenue," IAS 11 "Construction Contracts," and a number of revenue-related interpretations.</p> <p>Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements.</p>
November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	<p>The standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the main amendments are as follows:</p> <ul style="list-style-type: none"> <li>• Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that "own credit risk" adjustments be measured at fair value through other comprehensive income.</li> <li>• Impairment: The expected credit loss model is used to evaluate impairment.</li> <li>• Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio.</li> </ul>
January 13, 2016	IFRS 16 "Leases"	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> <li>• For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset during the lease term.</li> <li>• A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.</li> </ul>
September 11, 2014	Amendment to IFRS 10 and IAS 28 "Sales or Contributions of Assets between an Investor and its Associate or Joint Venture"	<p>The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.</p>



<b>Issuance / Release Dates</b>	<b>Standards or Interpretations</b>	<b>Content of amendment</b>
January 19, 2016	Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	The objective of this project is to clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. It clarifies that 'taxable profit excluding tax deductions' used for assessing the utilization of deductible temporary differences is different from taxable profit on which income taxes are payable.
January 29, 2016	Amendments to IAS 7 "Disclosure Initiative"	The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.
December 8 , 2016	Interpretations to IFRs 22 "Foreign Currency Transactions and Advance Consideration"	Clarifies the transaction date used to determine the exchange rate. The transaction date is the date on which the company initially recognizes the prepayment or deferred income arising from the advance consideration.
December 8 , 2016	Amendments to IAS 40 "Transfer of Investment Property"	The amendments specify that a transfer into, or out of, investment property would be made only when there has been a change in use of a property, supported by evidence that a change in use has occurred. The amendments also clarify that the list of circumstances that provide evidence of a change in use set out in paragraph 57 (a)-(d) of IAS 40 contains examples and is not an exhaustive list.

The Company is evaluating the impact on its financial position and financial performance of the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Company completes its 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 separate financial report is prepared in accordance with the "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:

- Financial instruments measured at fair value through profit or loss (including derivative instruments);
- Available-for-sale financial assets that are measured at fair value; and
- The defined benefit asset is recognized as plan assets, plus unrecognized actuarial loss, less unrecognized actuarial gain and 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 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.

(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, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges which are recognized in other comprehensive income arising on the retranslation.

B. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Company's functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, 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.

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 at fair value through profit or loss, financial assets available for sale, held-to-maturity financial assets, loans and receivables.

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

A financial asset is classified in this category if acquired principally for the purpose of disposal or repurchasing in the short term. This type of financial asset is measured at fair value at the time of initial recognition, and transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value subsequently and changes therein, which takes into account any dividend and interest income, are recognized in profit or loss. A regular way of purchase or disposal 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 amortized cost, and are included in financial assets measured at cost.

##### b. Financial assets available for sale

Financial assets available for sale 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. Financial assets available for sale 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 transaction

on purchase or disposal 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. Held-to-maturity financial assets

If the Company has the positive intent and ability to hold debt securities to maturity, such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. A regular transaction on purchase or disposal of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

d. Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise accounts receivable and other receivables. 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 transaction on purchase or disposal of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

e. 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.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by Companying together assets with similar risk characteristics. In assessing collective impairment, the Company uses historical trends of the probability of default, 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 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 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 loss on financial assets available for sale is recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

Impairment loss recognized on an available-for-sale equity security is 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.

f. 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 gain or loss on 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 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 Company 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.

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.

C. Derivative financial instruments

Derivatives are recognized initially at fair value and transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss

a. Interest rate swaps

Since there is no physical transfer of principal, only memo entries of notional principals are made of interest rate swaps. For non-trading swaps, differences in interest are included in current earnings. Trading swaps are recognized on the balance sheet in their fair value. Realized and unrealized changes in their fair value are included in current earnings at the time of occurrence.

b. Convertible bond asset-backed swaps

Convertible bonds acquired through underwriting or proprietary trading are the underlying assets of asset-backed swaps. The contract amount for the counter-parties receiving the convertible bond is the notional principal. The Company swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counter-parties. The Company also receives the right to call the convertible bond prior to the expiration of the contract.

The rights to call the convertible bond can be sold to third parties and counter-parties, are reflected under asset-backed options.

c. Structured instruments

The portfolio of structured instruments contract contains fixed income products and financial derivatives instruments, as well as main-contract of non-derivatives and embedded derivatives, which shall be recognized separately. The principal value of structured instruments is the present value of fixed income products, measured at amortized cost, and recognized imputed interest with effective interest rate over the duration of contracts. Embedded derivatives are measured at fair value, and the changes in fair value are recognized through profit or loss.

On the settlement date with physical delivery, the fair value of the acquired securities are stated at cost; the fair value and the cost of the delivered securities are recognized as revenue on sale of securities and cost on sale of securities, respectively.

When hedging positions are securities held for trading (including stocks, bonds and warrants) or options contracts, the accounting policy is referred to stock warrants hedging transactions; when hedging positions are futures contracts, the accounting policy is referred to futures hedging transactions.

d. Interest options

On the contract date, the premium received from the counterparty is recognized and gains or losses on interest options is valued using the fair value method.

e. Bond options

Over the duration of contracts, the notional principal can be executed is recorded as memo entry. Option contracts are valued at fair market value on the balance sheet date and current gain or loss is recorded. If the options are exercised and underlying bonds are been acquired or delivered, bond selling revenue or purchase costs are recorded at their fair market value. The exercise prices calculated in accordance with interest rate are recorded as receivables or payables.

f. Equity options

The buyer and seller of equity options recognized equity derivatives assets and liabilities at trading date according to fair value. Equity options are valued at fair value and the difference between book value and fair value are recognized through profit or loss over the duration of contracts.

On the settlement date with physical delivery, the fair value of the acquired securities are stated at cost; the fair value and the cost of the delivered securities are recognized as revenue on sale of securities and cost on sale of securities, respectively.

When hedging positions are stocks, the accounting policy is referred to stock warrants hedging transactions; when hedging positions are stock index options or stock options, the accounting policy is referred to those hedging transactions.

g. Forward rate agreement

As there is no principal is transferred, forward rate agreement is only recorded as memo entry on the contract date. Forward rate agreement contract is valued at fair value and recognized the gain or loss on forward rate agreement.

h. Futures contracts and options

Margins are required when trading futures or options. Changes in the margin balance of futures and options due to daily valuation are reflected under “futures margin-proprietary trading” and “call options” or “put options.” When offsetting a futures or options position, the settlement difference is included in current earnings, and the difference between the settlement prices and average prices of open positions at the balance sheet date is also included in current earnings.

i. Stock warrants

Issuance of stock warrants should be recognized as a liability according to amounts actually received, and amounts paid in the repurchase of stock warrants previously issued should be listed as a deduction from liabilities.

(7) Margin loan, short sale and refinancing

Margin loan represents loans extended to customers and is accounted for as receivables for securities provided as collateral. Such loans are secured by the securities purchased by customers. These securities are recorded through memo entries and are returned when the loans are repaid.

Short sale represents securities lent to customers and the deposits received from customers on securities lent out are accounted to guarantee deposited for securities lent. The proceeds from sales of securities lent to customers, net of securities transaction tax, commission and financing charges, is retained by the Company and are recorded under the proceeds payable from securities lent. These securities lent to customers for short sales are recorded through memo entries. The deposits received and the proceeds from short sale will be returned to customers while the securities are returned and paid off.

Refinancing margin loan means that the Company operates margin loan business, if capital is insufficient, the Company can refinance from securities finance companies, recorded as borrowed funds refinanced, and securities from margin loan regarded are pledged.



Refinancing short sale means the Company operates short sale business, if securities are insufficient, the Company can borrow securities from securities finance companies. For securities refinancing, the Company pays margin deposits to securities finance companies and these margin deposits are recorded as refinancing margin. The proceeds from the short sale of securities borrowed from securities finance companies is retained by the securities finance companies as collateral which are recorded as proceeds payable from securities lent and receivable on refinancing collateral, respectively.

(8) Bonds and Bills with resell and repurchase agreements

When bonds are repurchased, they are reflected under “bonds sold under repurchase agreements” at the settlement date. The difference between the selling price and repurchase price is recognized as interest expense. When bonds are resold, they are reflected under “bonds purchased under resell agreements” at the settlement date. The difference between the selling price and repurchase price is recognized as interest revenue.

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”.

(9) Securities borrowing transactions

To engage in securities borrowing transactions, the amount of the sale of securities borrowed is recognized as liability, and hedging and non-hedging purposes are distinguished, in accordance with stocks and bonds. When an amount is paid in cash to redeem refundable shares or bonds, the refundable deposit is recorded in a designated account, and the collateral paid in cash is recorded as security borrowing margin. Short sales delivered for securities market financing are recorded as security borrowing collateral prices.

(10) Investments in subsidiaries

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

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

(11) 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 disposal property and equipment shall be determined from 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. Reclassification to investment property

The property is reclassified as an investment property at its carrying amount when the use of the property changes from personal-use to investment property.

C. Subsequent cost

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

D. 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 companied 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.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use, consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonably certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

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. Buildings  | 3~55 years |
| b. Transportation equipment   | 5 years    |
| c. Office equipment and computer facilities   | 3~5 years  |
| d. Miscellaneous equipment  | 5~10 years |
| e. Leasehold improvements are depreciated evenly by the shorter of the estimated useful life or the lease period. |            |

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If the expected value differs from the previous estimation, the change regards as changes in accounting estimation.

(12) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, supply of services, or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at cost as well, the depreciation method, useful life and residual values are as same as the regulations of “property and equipment”. Cost includes expenditure that is directly attributable to the acquisition of the investment property.



When the use of a property changes such that it is reclassified as property and equipment, its carrying amount at the date of reclassification becomes its cost for subsequent accounting.

### (13) Intangible assets

#### A. Goodwill

##### a. Initial recognition

Goodwill resulted in acquisition of subsidiaries includes in intangible assets.

##### b. Subsequent measurement

Goodwill is measured in accordance with cost less accumulated impairment loss. Investments under Equity Method, the carrying amount of goodwill included in the carrying amount of investments and impairment loss of such investments are not allocated to goodwill and any assets, Equity Method as part of the carrying amount of the investment.

#### B. Other intangible assets

Other intangible assets that are acquired by the Company are measured at cost less accumulated amortization and any accumulated impairment losses.

#### C. Amortization

The amortizable amount is the cost of an asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, operation franchise and the seats of foreign futures exchanges with all indefinite useful lives, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

##### a. Customer relationships: 5 years

##### b. Computer software cost and dial-up service charges: 3 years

The residual value, the amortization method and the amortization period should be evaluated at least at each financial year-end. The changes of the amortization method and the period shall be accounted for as changes in accounting estimation.

### (14) Leases

#### A. Lessor

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

#### B. Lessee

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 in expenses on a straight-line basis over the term of the lease. Lease incentives received are recognized as deductions of the total lease expense, over the term of the lease. Lease payments under operating lease shall be recognized in rent expenses and disclosed in financial report.

(15) Non-financial assets impairment

The Company assesses whether there is any objective evidence of impairment for non-financial assets on each reporting date except for deferred tax assets and assets arising from employee benefits and estimates the recoverable amounts for any impaired assets. If it is not possible to determine the recoverable amount for an individual asset, then the Company will have to determine the recoverable amount for the asset's cash-generating unit.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value less costs to sell or its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount and recognized as impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount, as a reversal of a previously recognized impairment loss. The carrying amount after the reversal shall not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior period.

The intangible assets with indefinite useful lives required to be tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

(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 government 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.

Re-measurement is comprised of (a) actuarial gains and losses; (b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and (c) changes in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset). Re-measurement arising on defined benefit plans is recognized in other comprehensive income in the period in which they arise and are recorded as retain earning.

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.

#### 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) Revenue recognition

#### A. Brokerage commissions

Handling fee revenue from trade brokerage, security financing or securities lending is recognized on an accrual basis.

#### B. Underwriting commissions

Revenue from underwriting business is recognized when the underwriting contract is completed; revenue from underwriting securities on a firm commitment basis is recognized when the payment received after underwriting securities, and revenue from underwriting consultation is recognized according to the period specified in the underwriting consultation contract.

#### C. Interest revenue

Interest revenue arising from security financing, margin loans and other operation related interest is recognized on an accrual basis.

## (18) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

## (19) Income tax

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

Current income 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.

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 income 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 income 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.

## (20) Business combinations

The Company only chose to restate the business combinations occurred after January 1, 2012, upon the transition from ROC GAAP to IFRSs endorsed by FSC are approved, with regard to acquisition before January 1, 2012, the amount should be recognized as Regulations Governing the Preparation of Financial Reports released by Securities Issuers as of January 10, 2009 and

Statement of Financial Accounting Standards announced by Accounting Research and Development Foundation.

(21) Earnings per share (EPS)

The Company presents its basic and dilutive earnings per share attributable to the ordinary equity holders. The basic earnings per share of the Company is calculated by dividing profit or loss attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company include the estimation of employee remuneration.

(22) Segment information

The Company has disclosed the segment information on the consolidated financial report, thus, the Company does not disclose it on this financial report.

(23) Treasury stocks

The Company acquires its outstanding shares is stated at cost and shown as a deduction in stockholders' equity. Upon disposal, the excess of sales price over carrying value is recognized as capital surplus – treasury stock transaction. Should sales price be lower than the carrying value, the difference is charged against capital surplus from treasury stocks in the same category, and any deficit is debited to retained earnings. The carrying value of treasury stocks is calculated using the weighted-average approach in accordance with the purpose of the acquisition.

When the Company's treasury stock is retired, the treasury stock account should be credited, and the capital surplus - premium on stock account and capital stock account should be debited proportionately according to the share ratio. The carrying value of treasury stock in excess of the sum of its par value and premium on stock should first be offset against capital surplus from the same class of treasury stock transactions, and the remainder, if any, debited to retained earnings. The sum of the par value and premium on treasury stock in excess of its carrying value should be credited to capital surplus from the same class of treasury stock transactions.

## 5. MAJOR SOURCES OF ACCOUNTING ASSUMPTIONS, JUDGMENTS AND ESTIMATION UNCERTAINTY

The preparation of the separate financial statements in conformity with Regulations Governing the Preparation of Financial Reports by Securities Issuers 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 separate financial statements, 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 evaluation of goodwill: The Company performed the impairment test of goodwill 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

	December 31, 2016	December 31, 2015
Cash	\$ 2,680	2,900
Bank deposits		
Checking accounts	57,566	46,959
Demand deposits	101,103	101,864
Time deposits	498,393	764,272
Foreign currency deposits	279,839	256,852
Subtotal	936,901	1,169,947
Futures margin - excess margin	202,491	795,609
Subtotal	202,491	795,609
Total	\$ 1,142,072	1,968,456

### (2) Financial assets

#### A. Financial assets at fair value through profit or loss - current:

	December 31, 2016	December 31, 2015
<b>Open-ended funds and money-market instruments</b>		
Open-ended funds and money-market instruments	\$ 1,115,698	582,589
Valuation adjustment	1,288	11,069
Subtotal	1,116,986	593,658
<b>Trading securities - proprietary trading:</b>		
Listed stocks	\$ 564,294	1,392,700
Listed funds	728,015	509,244
OTC stocks	225,008	156,121
Emerging market stocks	259,637	177,697
Emerging fund	7,964	7,424
Convertible corporate bonds	455,796	345,901
Government bonds	4,041,386	2,823,467
Corporate bonds	11,801,410	11,993,037
Financial debentures	1,659,501	752,998
Foreign stocks	190,879	478,081
Overseas bonds	64,320	164,321
Other	32,603	29,989
	20,030,813	18,830,980
Valuation adjustment	35,928	62,843
Subtotal	20,066,741	18,893,823
<b>Trading securities - underwriting:</b>		
Listed stocks	43,898	42,209
OTC stocks	11,396	-
Convertible corporate bonds	57,200	51,400
	112,494	93,609
Valuation adjustment	2,140	1,223
Subtotal	114,634	94,832
<b>Trading securities - hedging</b>		
Listed stocks	1,810,735	1,573,401
OTC stocks	446,088	470,773
Convertible corporate bonds	3,437,205	3,948,040
Foreign stocks	1,092	1,114
	5,695,120	5,993,328
Valuation adjustment	(38,606)	(105,180)
Subtotal	5,656,514	5,888,148

	December 31, 2016	December 31, 2015
<b>Derivatives</b>		
Call options	-	641
Futures margin - proprietary fund	120,025	93,648
IRS asset swaps	20,743	22,878
Asset swap options - long position	5,682	11,940
Structured notes	3	-
Currency swaps	16,584	8,482
Interest Rate Swap	4,942	-
Subtotal	167,979	137,589
Total	<b>\$ 27,122,854</b>	<b>25,608,050</b>

As of December 31, 2016 and 2015, the par value of trading securities - bonds under repurchase agreement of the Company were \$36,074,859 and \$24,431,835, respectively (please refer to Note 6(10) and 8 for details).

B. Financial assets available for sale - current:

	December 31, 2016	December 31, 2015
Listed stocks	\$ 221,734	101,535
OTC stocks	162,878	-
Overseas bonds	18,904,893	7,757,004
Valuation adjustment	7,959	(23,084)
Total	<b>\$ 19,297,464</b>	<b>7,835,455</b>

C. Financial assets at fair value through profit and loss - non-current:

	December 31, 2016	December 31, 2015
<b>Financial assets held for trading:</b>		
Government bonds	\$ 185,799	188,818
Valuation adjustment	274	1,736
Total	<b>\$ 186,073</b>	<b>190,554</b>

As of December 31, 2016 and 2015, the Company took advantage of government bonds as margin of bills business, interest rate swaps, structured notes transaction, and settlement fund guarantee deposits (please refer to Note 8 for details).

D. Financial assets measured at cost - non-current:

	December 31, 2016	
Non-listed (or non-over-the-counter)	Ownership ratio	Amount
Taiwan Depository & Clearing Corp.	1.29%	\$ 18,661
Taiwan Futures Exchange Corp.	1.33%	27,498
Taiwan Stock Exchange Corporation	0.06%	12,242
Global Securities Finance Corporation	6.05%	202,681
Chou Chin Industrial Co., Ltd.	0.05%	-
Jong-Yih Industrial Development Co., Ltd.	0.68%	1,369
Reliance Securities Investment Trust Co., Ltd	3.02%	9,767
Top Taiwan III Venture Capital Co., Ltd.	7.00%	34,258
Prudence Venture Investment Corp.	1.50%	35,365
Total		<b>\$ 341,841</b>



Non-listed (or non-over-the-counter)	December 31, 2015	
	Ownership ratio	Amount
Taiwan Depository & Clearing Corp.	1.29%	\$ 18,661
Taiwan Futures Exchange Corp.	1.33%	27,498
Taiwan Stock Exchange Corporation	0.06%	12,242
Global Securities Finance Corporation	6.05%	202,681
Chou Chin Industrial Co., Ltd.	0.05%	-
Jong-Yih Industrial Development Co., Ltd.	0.68%	1,369
Reliance Securities Investment Trust Co., Ltd	3.02%	9,767
Top Taiwan III Venture Capital Co., Ltd.	7.00%	71,008
Prudence Venture Investment Corp.	1.50%	37,377
Total		<b>\$ 380,603</b>

For the year ended December 31 2016 and 2015, Top Taiwan III Venture Capital Co., Ltd. refunded the proceeds of capital reduction amounted to \$36,500 and \$7,000 respectively, and Prudence Venture Investment Corp. refunded the proceeds of capital reductions which amounted to \$2,012 and \$1,750 respectively.

- E. The Company uses Value at Risk (VAR) to monitor and measure the market risk of its investment in equity stocks. VAR refers to the unexpected loss of financial instruments derived from the changes in market risk factors within certain time periods and confidence level. The table below discloses the VAR, which is the estimation of potential loss in ten days and is covered by 99% of the adverse changes in market prices. In the table below by using this assumption, 2.5 out of 250 days VAR will exceed the disclosed amounts due to the changes in market price. Year 2016 and 2015 VAR (99%, per 10-day) of equity stocks are as follows:

Type of market risk	December 31 2016	December 31 2015	2016			2015		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	641,484	750,181	692,555	821,890	596,609	793,730	970,662	620,732

### (3) Accounts Receivable

	December 31, 2016	December 31, 2015
Receivable on securities purchased by customers	\$ 22,024	40,724
Settlement	-	50,397
Interests receivable	494,248	452,745
Receivables on securities sold	3,256,653	3,822,280
Others	99,455	253,210
Subtotal	3,872,380	4,619,356
Less: allowance for doubtful accounts	(3,424)	(4,123)
Total	<b>\$ 3,868,956</b>	<b>4,615,233</b>

### (4) Investments under Equity Method

	December 31, 2016	December 31, 2015
Subsidiaries		
Capital Investment Management Corp.	\$ 105,330	105,094
CSC International Holdings Ltd.	1,742,614	1,814,659
Capital Futures Corp.	1,869,075	1,741,933
Capital Insurance Advisory Corp.	104,489	72,720
Capital Insurance Agency Corp.	52,200	48,274
CSC Venture Capital Corp.	1,006,512	-
Taiwan International Securities (B.V.I.) Corp.	-	641
Taiwan International Securities Investment Consulting Corp.	13,298	13,550
Total	<b>\$ 4,893,518</b>	<b>3,796,871</b>



	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Subsidiaries		
Taiwan International Securities (B.V.I.) Corp.(Note)	<u>\$ (157)</u>	<u>-</u>

Note: Recognized on other non-current liabilities.

Profit sharing of gain or loss from the subsidiaries for the year 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Based on the audited financial statements	<u>\$ 369,739</u>	<u>314,198</u>

The Board of Directors resolved to establish the venture capital company with investment \$1,000,000 on May 11, 2015 and got the approval by the FSC No. 1040034071 on September 8, 2015, and the incorporation registration is approved by Ministry of Economic Affairs on January 12, 2016.

Please refer to the consolidated financial statements as of December 31, 2016 for the financial information of the subsidiaries of the Company.

#### (5) Property and equipment

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
<b>Cost or deemed cost</b>					
Balance at January 1, 2016	\$ 3,340,307	1,660,175	494,328	84,418	5,579,228
Additions	-	-	48,583	42,710	91,293
Reclassified to investment property	(73,321)	(28,013)	-	-	(101,334)
Disposals & retirements	-	(263,557)	(100,888)	(12,038)	(376,483)
<b>Balance at December 31, 2016</b>	<u>\$ 3,266,986</u>	<u>1,368,605</u>	<u>442,023</u>	<u>115,090</u>	<u>5,192,704</u>
Balance at January 1, 2015	\$ 3,548,469	1,740,532	466,171	267,550	6,022,722
Additions	-	254	145,166	31,148	176,568
Reclassified to investment property	(41,711)	(80,611)	-	-	(122,322)
Transferred from prepayment for equipment	-	-	4,830	2,680	7,510
Disposals & retirements	(166,451)	-	(121,839)	(216,960)	(505,250)
<b>Balance at December 31, 2015</b>	<u>\$ 3,340,307</u>	<u>1,660,175</u>	<u>494,328</u>	<u>84,418</u>	<u>5,579,228</u>
<b>Depreciation and impairment</b>					
Balance at January 1, 2016	\$ -	742,128	268,444	33,131	1,043,703
Depreciation	-	27,624	89,035	20,487	137,146
Reclassified to investment property	-	(5,725)	-	-	(5,725)
Disposals & retirements	-	(263,557)	(100,078)	(8,741)	(372,376)
<b>Balance at December 31, 2016</b>	<u>\$ -</u>	<u>500,470</u>	<u>257,401</u>	<u>44,877</u>	<u>802,748</u>
Balance at January 1, 2015	\$ -	712,290	303,867	236,198	1,252,355
Depreciation	-	36,010	85,997	13,733	135,740
Reclassified to investment property	-	(6,172)	-	-	(6,172)
Disposals & retirements	-	-	(121,420)	(216,800)	(338,220)
<b>Balance at December 31, 2015</b>	<u>\$ -</u>	<u>742,128</u>	<u>268,444</u>	<u>33,131</u>	<u>1,043,703</u>
Carrying amount:					
December 31, 2016	<u>\$ 3,266,986</u>	<u>868,135</u>	<u>184,622</u>	<u>70,213</u>	<u>4,389,956</u>
December 31, 2015	<u>\$ 3,340,307</u>	<u>918,047</u>	<u>225,884</u>	<u>51,287</u>	<u>4,535,525</u>

As of December 31, 2016 and 2015, the property and equipment which are provided as collateral or pledge, please refer to Note 8 for details.

(6) Investment property

	Land and improvements	Buildings	Total
<b><u>Cost or deemed cost</u></b>			
Balance at January 1, 2016	\$ 1,624,835	1,044,204	2,669,039
Transferred from property and equipment	73,321	28,013	101,334
Disposals & retirements	-	(125,195)	(125,195)
<b>Balance at December 31, 2016</b>	<b>\$ 1,698,156</b>	<b>947,022</b>	<b>2,645,178</b>
Balance at January 1, 2015	\$ 1,583,124	963,333	2,546,457
Additions	-	260	260
Transferred from property and equipment	41,711	80,611	122,322
<b>Balance at December 31, 2015</b>	<b>\$ 1,624,835</b>	<b>1,044,204</b>	<b>2,669,039</b>
<b><u>Depreciation and impairment loss</u></b>			
Balance at January 1, 2016	\$ -	398,271	398,271
Depreciation	-	19,314	19,314
Transferred from property and equipments	-	5,725	5,725
Disposals & retirements	-	(125,195)	(125,195)
<b>Balance at December 31, 2016</b>	<b>\$ -</b>	<b>298,115</b>	<b>298,115</b>
Balance at January 1, 2015	\$ -	374,320	374,320
Depreciation	-	17,779	17,779
Transferred from property and equipment	-	6,172	6,172
<b>Balance at December 31, 2015</b>	<b>\$ -</b>	<b>398,271</b>	<b>398,271</b>
<b><u>Carrying amount</u></b>			
December 31, 2016	\$ 1,698,156	648,907	2,347,063
December 31, 2015	\$ 1,624,835	645,933	2,270,768
<b><u>Fair value</u></b>			
December 31, 2016			\$ 3,623,639
December 31, 2015			\$ 3,578,321

The Company elected to apply Cost Method to evaluate investment properties. The investment properties were evaluated and estimated using Market Method based on the market evidence of transaction price of similar properties.

As of December 31, 2016 and 2015, the property and equipment were provided as collateral or pledge, please refer to Note 8 for details.

(7) Intangible assets

A. Goodwill

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized goodwill. As of December 31, 2016 and 2015, the book value was \$3,126,698 for both the year.

For the purpose of impairment test, goodwill was allocated to the operating segments of the Company. The operating segment is the lowest level at which the goodwill is monitored for internal management purposes, and should not be larger than the operating departments of the Company.

Goodwill is allocated to the operating segments as follows:

	December 31, 2016	December 31, 2015
Brokerage segment	\$ 1,304,458	1,304,458
Underwriting segment	265,144	265,144
Proprietary trading segment	1,557,096	1,557,096
Total	<b>\$ 3,126,698</b>	<b>3,126,698</b>

Recoverable amount of the cash-generating units is assessed by the value in use, which is the present value of the future cash flows expected to be derived from the cash-generating unit.

In measuring value in use, the key assumptions are as follows.

The past experience, the actual operating results and the pre-tax cash flows of the next year's financial budget approved by the board of directors are the basis to estimate the future cash flows. The growth rate was both 1.00% and the discount rate was 4.32% and 5.00% in year 2016 and 2015 respectively. But the cash flow projections for periods after five years will be estimated with no growth conservatively.

After impairment test, the recoverable amounts of both year 2016 and 2015 exceeded the carrying amount, no impairment occurred for both years.

#### B. Customer relationships

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized other intangible assets - customer relationships as \$17,082. As of December 31, 2016 and 2015, the amortized book value was \$0 and \$1,139 respectively.

#### C. Operation franchise

The Company acquired the operation of securities corporation operation franchise during 1994 to 2005 and expected the franchise will generate continuing cash inflows. In accordance with IAS No.38 "Intangible Assets," the franchise is regarded as an intangible asset with an indefinite useful life. As of December 31, 2016 and 2015, the book value of the operation franchise was \$389,999 for both years.

#### D. Computer software

Computer software was booked at cost and amortized by using the straight-line method over the estimated useful life. As of December 31, 2016 and 2015, the book value was \$15,923 and \$33,152 respectively.

### (8) Short-term loans

<u>Nature of borrowings</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Collateralized loan	\$ 380,000	380,000
Credit loans	3,856,402	1,199,717
Total	<u>\$ 4,236,402</u>	<u>1,579,717</u>

Short-term loans were based on floating interest rates. As of December 31, 2016 and 2015, the loan interest rate range was 0.60%~2.75% and 0.90%~3.06% respectively.

As of December 31, 2016 and 2015, the Company had provided the land, buildings, and certificates of time deposits as collateral, please refer to Note 8.

(9) Financial liabilities at fair value through profit or loss

	December 31, 2016	December 31, 2015
Liabilities on sale of borrowed securities	\$ 1,004,515	1,463,540
Redeem liabilities on sale of borrowed securities	-	(1,566)
Valuation adjustment	(66,466)	(30,959)
Subtotal	938,049	1,431,015
Settlement coverage bonds payable of short sale	-	300,550
Valuation adjustment	-	(1,146)
Subtotal	-	299,404
Stock warrants issued	10,892,801	10,530,591
Stock warrants repurchased	(10,617,763)	(10,170,444)
Subtotal	275,038	360,147
Put options	1,073	7,176
IRS asset swaps	1,974	5,398
Asset swap options - short position	177,405	193,888
Structured notes	7,515	12,243
Currency swaps	9,089	3,476
Interest rate swaps	-	1,528
Subtotal	197,056	223,709
Total	\$ 1,410,143	2,314,275

(10) Bonds sold under repurchase agreements

	December 31, 2016	December 31, 2015
Bonds sold under repurchase agreements	\$ 35,105,445	24,014,573
Agreed-upon repurchase amounts	35,151,666	24,036,826
Interest rates	0.30%~9.00%	0.30%~5.00%
Designated repurchase date	2017.1.3~2017.3.30	2016.1.4~2016.6.20

(11) Customer equity of separate account ledger in settlement account

According to article 38, subparagraph 2 of the “Regulations Governing Securities Firms”, a securities firm may, with the consent of the customer, retain the customer's settlement funds in the securities firm's settlement account. The securities firm shall set up a separate account ledger for each customer in the settlement account. Also, according to article 22-4, paragraph 1, subparagraph 5 of the “Offshore Banking Act”, an offshore securities branch may conduct account custody business for natural persons, juristic persons, government agencies, or financial institutions within or outside the territory of the ROC.

	December 31, 2016	December 31, 2015
Customer equity of separate account ledger in settlement account	\$ 4,537	4,104

(12) Accounts payable

	December 31, 2016	December 31, 2015
Payable of securities sold by customers	\$ 21,890	34,151
Settlement	49,986	-
Payable of settlement	3,183,985	3,567,036
Others	87,459	35,031
Total	\$ 3,343,320	3,636,218

## (13) Operating leases

## A. Lessee

Non-cancellable operating lease payables are as follows:

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Within 1 year	\$ 109,281	110,652
1-5 years	174,783	175,579
Over 5 years	-	1,710
	<b>\$ 284,064</b>	<b>287,941</b>

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. The rentals are adjusted yearly to reflect market condition. Some lease terms bear the additional rental payments depends on the fluctuations of a local price index.

For the year 2016 and 2015, the operating lease expenses recognized in profit or loss were \$138,261 and \$160,444 respectively.

## B. Lessor

The Company leases investment property to other under operating lease agreements, please refer to Note 6(6) for details. The future lease receivables under non-cancellable leases are as follows:

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Within 1 year	\$ 16,709	2,775
1-5 years	66,373	135,469
	<b>\$ 83,082</b>	<b>138,244</b>

The rental revenue from investment property for the year 2016 and 2015 amounted to \$76,896 and \$65,195 respectively.

## (14) Employee benefit

## A. Defined benefit plans

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

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Present value of defined benefit obligations	\$ (1,010,725)	(1,043,855)
Fair value of plan assets	500,033	550,031
Recognized liabilities for defined benefit obligations	<b>\$ (510,692)</b>	<b>(493,824)</b>

The Company's employee benefits liabilities are as follows:

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Compensated absences	\$ 57,782	42,929

Under the defined benefit plan, the Company deposited the pension fund to the labor pension preparatory special account in Bank of Taiwan. For employee subject to the Labor Standards Law, the retirement benefit are determined based on the years of services and average monthly salary in the last six-months prior to the employee's 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.

The balance of the Company’s labor pension preparatory special account in Bank of Taiwan amounted to \$318,750 and \$ 253,665 as of December 31, 2016 and 2015 respectively. The utilization of the labor pension fund includes the assets allocation and yield of the fund, please refers to the information published on the website under Labor Pension Fund Supervisory Committee of the Council of Labor Affairs Executive Yuan.

The balance of employee retirement fund management committee was \$181,283 and \$296,366 as of December 31, 2016 and 2015, respectively.

b. Movements in present value of the defined benefit obligations

The movements in present value of the defined benefit obligations of the Company in 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Defined benefit obligation on January 1	\$ 1,043,855	1,033,138
Current service costs and interest	22,891	26,648
Remeasurement of net defined liability		
- Actuarial loss (gain) arising from changes in financial assumptions	12,191	20,799
- Experience adjustments	2,590	10,802
Benefits paid by the plan	(70,802)	(47,532)
Defined benefit obligation on December 31	<u><u>\$ 1,010,725</u></u>	<u><u>1,043,855</u></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 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Fair value of plan assets on January 1	\$ 550,031	568,071
Interest revenue	6,770	8,823
Remeasurement of net defined liability		
- Return on plan assets (excluding interest)	(2,222)	2,773
Contributions from the employer	16,257	17,896
Benefits paid from plan assets	(70,803)	(47,532)
Fair value of plan assets on December 31	<u><u>\$ 500,033</u></u>	<u><u>550,031</u></u>

d. Expense recognized in profit or loss

The expenses recognized of the Company in 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Current service cost	\$ 10,190	10,847
Net interest of net defined benefit liability (asset)	5,931	6,978
Current pension cost	<u><u>\$ 16,121</u></u>	<u><u>17,825</u></u>

- e. Re-measurement of net defined liability (asset) recognized in other comprehensive income

For the year ended December 31, 2016 and 2015, the re-measurement of net defined liability (asset) recognized accumulatively in other comprehensive income was as follows:

	<u>2016</u>	<u>2015</u>
Balance at January 1	\$ (69,042)	(40,214)
Recognized amount during the period	<u>(17,003)</u>	<u>(28,828)</u>
Balance at December 31	<u><u>\$ (86,045)</u></u>	<u><u>(69,042)</u></u>

- f. Actuarial assumptions

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Discount rate	1.03%	1.22%
Expected rate of return on plan assets	1.03%	1.22%
Future salary growth rate	2.00%	2.00%

The expected contribution to the defined benefit plan for the within one year is \$1,756. The weighted average duration of the defined benefit obligation is 2 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 year ended December 31, 2016 and 2015, the effects of adopting significant actuarial assumptions to defined benefit obligations were as follows:

	<u>Effects to Defined Benefit Obligations</u>	
	<u>Increase 0.5%</u>	<u>Decrease 0.5%</u>
December 31, 2016		
Discount rate	(28,642)	29,974
Future adjustment rate of salary	24,477	(23,691)
December 31, 2015		
Discount rate	(31,063)	32,561
Future adjustment rate of salary	26,896	(25,990)

The sensitivity analysis presented above is based on the condition that other variables are fixed. In practice, the changes in 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 plan

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 \$71,048 and \$75,478 under defined contribution plan to the Bureau of the Labor Insurance in the year 2016 and 2015 respectively.



(15) Income tax

A. Income tax expense (benefit)

The amount of income tax expense (benefit) for year 2016 and 2015 were as follows:

	2016	2015
Current income tax expense		
Current year	\$ 81,782	(167)
Adjustment to the prior years' income tax	23,109	3,557
	<u>104,891</u>	<u>3,390</u>
Deferred income tax expense		
Unrealized gains (losses) on derivative financial instruments	(12,041)	33,675
Unrealized gains (losses) on foreign investments under Equity Method	(6,959)	(4,872)
Amortization of goodwill	35,436	106,308
Decrease in tax loss carried forward	-	75,935
Adjustments of deferred income tax assets and liabilities	50,011	20,583
	<u>66,447</u>	<u>231,629</u>
Income tax expenses	<u>\$ 171,338</u>	<u>235,019</u>

The amount of income tax expense or benefit recognized in other comprehensive income in year 2016 and 2015 were as follows:

	2016	2015
Foreign exchange difference from translating financial statements of foreign operations	<u>\$ (5,424)</u>	<u>12,032</u>

Reconciliation of income tax expense (benefit) and income before tax in year 2016 and 2015 were as follows:

	2016	2015
Net income before tax	\$ 1,368,094	1,784,346
Income tax using the Company's domestic tax rate	\$ 232,576	303,339
Tax-exempt income	(134,195)	(92,293)
Income tax difference of bonds purchased under resale agreements and income tax separately levied	(163)	(167)
Adjustments to prior years' income tax	23,109	3,557
Unrecognized temporary differences for prior years	50,011	20,583
Total	<u>\$ 171,338</u>	<u>235,019</u>

B. Deferred income tax assets and liabilities

a. Recognized deferred income tax assets

	December 31, 2016	December 31, 2015
Tax loss carried forward and amortization of intangible assets	\$ 404,694	484,791
Unrealized losses on foreign investments under Equity Method	2,678	-
Deferred income tax assets	<u>\$ 407,372</u>	<u>484,791</u>

## b. Recognized deferred income tax assets

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Foreign exchange difference resulted from translation of financial statements of foreign operations	\$ 19,139	27,713
Unrealized gains on derivative financial instruments	34,631	46,672
Unrealized gains on foreign investments under Equity Method	-	4,281
Losses on intercompany transactions	1,639	1,639
Amortization of operation franchise	36,448	63,384
Amortization of goodwill	531,539	496,103
Land value incremental tax	47,691	47,691
Deferred income tax liabilities	<b>\$ 671,087</b>	<b>687,483</b>

## C. Income tax assessment status

The Company's income tax returns through 2014 were assessed by the Tax Authority.

## D. The information about imputation system is as follows:

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Undistributed earnings after 1998	<b>\$ 1,188,633</b>	<b>1,586,994</b>
Imputation credit account	<b>\$ 2,675,250</b>	<b>3,072,442</b>
	<b>2016 (Estimated)</b>	<b>2015 (Actual)</b>
Deductible ratio for earnings distributed to ROC residents	<b>24.20%</b>	<b>23.80%</b>

The above imputation information was calculated based on the Ruling No. 10204562810 issued by the Ministry of Finance on October 17, 2013.

## E. Income tax administrative relief

Since income tax of securities trading and amortization of intangible assets withheld from year 2010 to 2014 were assessed differently from those reported by the Company, and the Company has filed for administrative relief. The additional tax was accrued based on conservative concept. And the different assessment of amortization of intangible assets, which resulted to decrease on loss of income tax, is in the procedures for administrative remedies. The Company disclosed the total of deferred income tax assets and liabilities separately and appropriately, based on conservative concept.

## (16) Capital and other equity

## A. Capital stock

As of December 31, 2016 and 2015, the Company had authorized capital of \$30,000,000 and issued common stock of \$2,269,073 thousand and \$2,319,073 thousand shares with \$10 dollars face value per share. The disclosure of treasury shares retired and reduction of capital for 2016 and 2015, please refer to Note 6(16) D for more details.

## B. Capital surplus

In accordance with the ROC Company Act amended in January 2012, 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 followings are the capital surplus of the Company:

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Premium from stock issuance	\$ 1,858,310	1,899,259
Treasury stock transactions	253,940	191,489
Paid-in capital from merger	630,450	644,342
Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,399	1,430
Changes in ownership interests in subsidiaries	6,873	6,287
	<b>\$ 2,750,972</b>	<b>2,742,807</b>

### C. Retained earnings

#### a. Legal reserve

In accordance with Company Act amended in January 2012, 10 percent of the current year's earnings after tax should be set aside as legal reserve, until the cumulative balance equals to the total amount of paid-in capital. If the Company incurs no loss for the year, the distribution of the legal reserve, either by issuing new shares or by cash, shall be decided at the shareholders' meeting, and only the portion of legal reserve which exceeds 25 percent of the paid-in capital may be distributed.

#### 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. 1010028514 issued by the Financial Supervisory Commission on June 29, 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.

#### c. Unappropriated earnings

According to the Company's Articles of Incorporation, after-tax earnings should first offset accumulated deficit, and then 10% and 20% of the remainder should be appropriated as legal reserve and special reserve, respectively.

The Company's earnings distribution was proposed by board of directors and is subject to the resolution of the shareholders' meeting. The shareholders' meeting may declare dividends after retaining a certain portion of earnings. The amount of earnings to distribute after retaining earnings must be higher than 10% of the distributable balance. According to the budget plan, stock dividends are distributed to retain necessary funds first, and may then be paid as cash dividends subsequently. Cash dividends cannot be less than 10%.

The Company's 2014 earnings distribution for cash dividends \$1,421,444 had been resolved by the shareholders meeting on June 22, 2015.

The Company's 2015 earnings distribution for cash dividends \$1,111,845 had been resolved by the shareholders' meeting on June 27, 2016.

The information about the appropriations is available at the Market Observation Post System website.

## D. Treasury stocks

Pursuant to Article 28-2 of the Securities and Exchange Act, the Company repurchased 92,677 thousand and 97,485 thousand shares as treasury shares to maintain the Company's credit and shareholders' equity for the year 2015 and 2016. As of December 31, 2016, a total 100,000 thousand shares were retired and the rest 90,162 thousand shares were not.

Based on the Securities and Exchange Act of the ROC, the number of reacquired shares should not exceed 10% of a company's issued and outstanding shares, and the total purchase amount should not exceed the sum of the retained earnings, additional paid-in capital in excess of par and realized capital surplus. Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

On September 21, 2015, the Company's board meeting resolved a share buyback plan, which was based on the latest audited financial report on June 30, 2015. The cap of the repurchase was 236,907 thousand shares which were amounted to \$6,809,506. The company repurchased 50,000 thousand shares at this buyback plan. All the repurchased shares were retired and the registration of capital reduction was completed on November 26, 2015.

On November 11, 2015, the Company's board meeting resolved a share buyback plan, which was based on the latest reviewed financial report on September 30, 2015. The cap of the repurchase was 236,907 thousand shares which were amounted to \$6,791,127. The company repurchased 50,000 thousand shares at this buyback plan. All the repurchased shares were retired and the registration of capital reduction was completed on February 15, 2016.

On November 11, 2016, the Company's board meeting resolved a share buyback plan, which was based on the latest reviewed financial report on September 30, 2016. The cap of the repurchase was 226,907 thousand shares which were amounted to \$7,356,004. The company repurchased 90,162 thousand shares at this buyback plan as of December 31, 2016.

## (17) Earnings per share

The basic earnings per share and dilutive earnings per share of year 2016 and 2015 were calculated as follows:

	<u>2016</u>	<u>2015</u>
Net income	<u>\$ 1,196,756</u>	<u>1,549,327</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	<u>2,265,158</u>	<u>2,357,324</u>
Basic earnings per share (dollar)	<u>\$ 0.53</u>	<u>0.66</u>
Effect of potentially dilutive common stock		
- Employee remuneration (thousands of shares) (Note)	<u>1,248</u>	<u>1,740</u>
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	<u>2,266,406</u>	<u>2,359,064</u>
Dilutive earnings per share (dollar)	<u>\$ 0.53</u>	<u>0.66</u>

Note: The shares were calculated based on the closing price at the reporting date.

(18) Items of comprehensive income statement

A. Brokerage commissions

	2016	2015
Brokerage commission from TSE market	\$ 1,133,638	1,456,999
Brokerage commission from OTC market	474,588	576,174
Handling fee from security financing	32,595	56,824
Others	51,463	61,682
	<b>\$ 1,692,284</b>	<b>2,151,679</b>

B. Underwriting commissions

	2016	2015
Revenues from underwriting securities on a firm commitment basis	\$ 49,824	46,428
Handling fee revenues from underwriting securities on best-efforts basis	895	1,548
Processing fee revenues from underwriting operations	17,346	54,436
Revenues from underwriting consultation	7,975	13,856
Others	17,423	51,428
	<b>\$ 93,463</b>	<b>167,696</b>

C. Net gains or losses on sale of trading securities

	2016	2015
Revenue from securities sold - proprietary trading	\$ 201,084,349	329,591,436
Cost of securities sold - proprietary trading	(200,898,414)	(329,460,185)
Subtotal	185,935	131,251
Revenue from securities sold - underwriting	2,568,524	244,644
Cost of securities sold - underwriting	(2,560,057)	(228,856)
Subtotal	8,467	15,788
Revenue from securities sold - hedging	23,463,311	41,194,934
Cost of securities sold - hedging	(23,552,918)	(41,297,404)
Subtotal	(89,607)	(102,470)
Total	<b>\$ 104,795</b>	<b>44,569</b>

D. Interest revenue

	2016	2015
Interest revenue - margin loans	\$ 737,656	1,009,722
Interest revenue - bonds	657,211	323,029
Others	33,935	40,720
	<b>\$ 1,428,802</b>	<b>1,373,471</b>

E. Net gains or losses on valuation of trading securities measured at fair value through profit or loss

	2016	2015
Trading securities - proprietary	\$ (27,658)	65,413
Trading securities - underwriting	918	1,719
Trading securities - hedging	66,573	(286,984)
Settlement coverage bonds payable of short sale	(1,146)	1,162
	<b>\$ 38,687</b>	<b>(218,690)</b>

## F. Net gains on stock warrants issued

	2016	2015
Gains on changes in fair value of stock warrants	\$ 30,713,780	30,567,126
Gains on exercise of stock warrants before maturity	7,721,981	9,065,630
Losses on changes in fair value of stock warrants repurchased	(37,563,166)	(38,715,506)
Gains on expiration of stock warrants	23,683	44,439
Stock warrants issuance expenses	(149,169)	(119,455)
	<b>\$ 747,109</b>	<b>842,234</b>

## G. Employee benefits, depreciation and amortization expenses

	2016	2015
Employee benefit expenses		
Salary expense	\$ 1,631,634	1,722,051
Health and labor insurance expense	135,384	148,170
Pension expense	87,169	93,303
Others	49,033	53,747
Depreciation expense	156,460	153,519
Amortization expense	32,060	34,457
	<b>\$ 2,091,740</b>	<b>2,205,247</b>

## H. Other operating expenses

	2016	2015
Rental expense	\$ 138,261	160,444
Taxes	235,440	327,325
Information technology expense	99,196	110,228
Postage expense	103,272	106,865
Professional service fee	93,611	95,336
Other expenses	364,688	459,036
	<b>\$ 1,034,468</b>	<b>1,259,234</b>

## I. Other gains and losses

	2016	2015
Financial revenue	\$ 4,275	2,170
Currency exchange gains (losses)	94,068	(58,458)
Net gains (losses) on disposal of investment	(3,611)	8,439
Net gains (losses) on measurement of non-operating instruments at fair value through profit or loss	(9,781)	(267)
Revenue from bank's allocation fee	142,111	149,594
Lease revenue	76,896	65,195
Revenue from information technology service	22,127	18,434
Net gains (losses) on disposal of property and equipment	(4,107)	59,064
Dividend revenue	18,976	20,602
Revenue on reversal of prior year's liabilities	34,584	14,670
Others	13,962	11,582
	<b>\$ 389,500</b>	<b>291,025</b>

## J. Remuneration to employees, directors and supervisors

According to the Company's Articles of Incorporation, the Company shall appropriate 0.6% to 2% of its earnings, if applicable, as remuneration to employees. The Board of Directors shall determine if the employees' remuneration distributed, in the form of shares or in cash. The targets of remuneration shall include the employees of subsidiaries meeting certain specific requirement that shall be determined by the Company's Board of Directors. The Company shall also allocate no more than 3% of the aforementioned amount of earnings as

remuneration to the Directors. The proposal for the remuneration to employees and directors shall be reported to the shareholders' meeting.

If there is accumulated deficit, specific amount shall be retained to cover, and appropriate the remainder in the aforementioned percentage as remuneration to employees and directors and supervisors.

For the year, 2016 and 2015, the estimated amounts of remuneration to employee were \$12,090 and \$17,241, and to directors and supervisors by the Company were \$20,149 and \$28,734, respectively, which were calculated based on the Company's net profit before income tax and remuneration to employees and directors and supervisors multiple the earnings allocation percentage as stated under the Company's articles of incorporation. It is recognized as operating expense for the year 2016 and 2015. If the actual amounts were subsequently decided after the approval and the issuance date of the financial statements in the following year differ from the estimated amounts, the differences are accounted for as changes in accounting estimates and recognized in profit or loss in the following year. If the Board of Directors resolved to distribute the employees' remuneration in the form of shares, the number of shares of the distribution is based on the closing price of the day before the Board of Directors' meeting date.

The estimated amounts of remuneration to employee and director and supervisors by the Company for 2015 were \$17,241 and \$28,734, respectively. The difference between actual employee bonuses of \$14,994 and actual remuneration to directors and supervisors of \$26,527 was \$4,454 in total. The difference was accounted for as changes in accounting estimates and would be reflected in the statement of income in 2016. The information about the appropriations is available at the Market Observation Post System website.

#### (19) Financial instruments

##### A. Credit risk

##### a. Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of December 31, 2016 and 2015, the maximum credit exposure amounted to \$57,640,422 and \$47,889,857 respectively. The credit risk as follows:

The regional distribution of financial assets' credit risk exposure amount which owned by the Company is as the list. The region of exposure is mostly in Taiwan (63.75%); secondly, is in Asia (10.75%, exclusion of Taiwan); then, is in Europe (15.14%). Compare to the same period of last year, there is no significant change in proportion of region of investments.

Region	December 31, 2016	December 31, 2015
Taiwan	\$ 36,746,213	39,137,000
Asia (Taiwan is excluded)	6,196,567	2,761,988
Europe	8,727,072	3,701,923
America	4,241,397	1,960,043
Other areas	1,729,173	328,903
Total	<u>\$ 57,640,422</u>	<u>47,889,857</u>



## b. Impairment loss

The Company's ageing analysis of receivables at reporting date is as follows:

	December 31, 2016		December 31, 2015	
	Total amount	Impairment	Total amount	Impairment
Not past due	\$ 15,595,337	1,389	18,925,866	2,646
Past due 0~30 days	363	363	336	336
Past due 31~120 days	188	188	234	234
Past due 121~360 days	-	-	1,714	1,714
Past due more than one year	1,712	1,712	15	15
	<u>\$ 15,597,600</u>	<u>3,652</u>	<u>18,928,165</u>	<u>4,945</u>

Allowance for doubtful debts under receivables is recorded for the debt expense or impairment loss. Where a claim becomes definitely uncollectible, the allowance for doubtful debts should be written off to financial assets account. As of December 31, 2016 and 2015, the impairment losses of account receivables were recognized \$3,652 and \$4,945 respectively.

## 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.

	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
<b>December 31, 2016</b>							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 938,049	938,049	938,049	-	-	-	-
Stock warrants issued	275,038	275,038	254,719	19,620	699	-	-
Put options - futures	1,073	1,073	1,073	-	-	-	-
Interest rate swaps and currency swaps (including IRS asset swaps)	11,063	11,063	9,130	696	1,194	43	-
Put options	177,405	177,405	32,773	41,655	68,186	34,791	-
Short-term borrowings	4,236,402	4,236,402	4,236,402	-	-	-	-
Bonds sold under repurchase agreements	35,105,445	35,151,666	35,151,666	-	-	-	-
Securities financing refundable deposits	1,722,840	1,722,840	1,722,840	-	-	-	-
Deposits payable for securities financing	1,947,104	1,947,104	1,947,104	-	-	-	-
Securities lending refundable deposits	878,866	878,866	878,866	-	-	-	-
Notes payable and accounts payable	281,767	281,767	281,767	-	-	-	-
Receipts under custody	143,630	143,630	143,630	-	-	-	-
Other payables	500,534	500,534	500,534	-	-	-	-
Structured notes	2,674,610	2,674,610	2,293,958	141,018	184,695	54,939	-
	<u>\$ 48,893,826</u>	<u>48,940,047</u>	<u>48,392,511</u>	<u>202,989</u>	<u>254,774</u>	<u>89,773</u>	<u>-</u>
<b>December 31, 2015</b>							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 1,431,015	1,431,015	1,431,015	-	-	-	-
Settlement coverage bonds payable of short sale	299,404	299,404	299,404	-	-	-	-
Stock warrants issued	360,147	360,147	342,817	16,145	1,185	-	-
Put options - futures	7,176	7,176	7,176	-	-	-	-
Interest rate swaps and currency swaps (including IRS asset swaps)	10,402	10,402	5,568	(2,160)	5,867	1,127	-
Put options	193,888	193,888	6,017	34,126	100,470	53,275	-
Short-term borrowings	1,579,717	1,579,717	1,579,717	-	-	-	-
Bonds sold under repurchase agreements	24,014,573	24,036,826	24,036,826	-	-	-	-
Securities financing refundable deposits	2,025,011	2,025,011	2,025,011	-	-	-	-
Deposits payable for securities financing	2,242,680	2,242,680	2,242,680	-	-	-	-
Securities lending refundable deposits	1,622,937	1,622,937	1,622,937	-	-	-	-
Notes payable and accounts payable	190,708	190,708	190,708	-	-	-	-
Receipts under custody	1,344,056	1,344,056	1,344,056	-	-	-	-
Other payables	607,492	607,492	607,492	-	-	-	-
Structured notes	4,088,809	4,088,809	3,798,140	48,678	180,348	61,643	-
	<u>\$ 40,018,015</u>	<u>40,040,268</u>	<u>39,539,564</u>	<u>96,789</u>	<u>287,870</u>	<u>116,045</u>	<u>-</u>



C. Currency risk

a. Currency risk exposure

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

December 31, 2016			
	Foreign Currency (thousands)	Exchange Rate	Amount
<b>Financial assets</b>			
<b><u>Monetary Item</u></b>			
USD	\$ 10,851	32.2500	349,945
HKD	763	4.1580	3,173
EUR	188	33.9000	6,373
JPY	26,108	0.2756	7,195
CAD	1	23.9100	24
ZAR	3	2.3600	7
AUD	2,432	23.2850	56,629
SGD	7	22.2900	156
CNY	44,507	4.6170	205,489
PHP	9	0.6684	6
<b><u>Non-Monetary Item</u></b>			
USD	486,351	32.2500	15,684,820
HKD	19,735	4.1580	82,058
JPY	1,540	0.2756	424
CNY	133,526	4.6170	616,490
AUD	217,379	23.2850	5,061,670
<b><u>Investments under Equity Method</u></b>			
USD	54,118	32.2000	1,742,614
<b>Financial liabilities</b>			
<b><u>Monetary Item</u></b>			
USD	483,481	32.2500	15,592,262
HKD	35,666	4.1580	148,299
JPY	72	0.2756	20
AUD	216,704	23.2850	5,045,953
CNY	58,128	4.6170	268,377
SGD	1	22.2900	22
<b><u>Non-Monetary Item</u></b>			
<b><u>Other non-current liabilities</u></b>			
USD	5	32.2000	157
December 31, 2015			
	Foreign Currency (thousands)	Exchange Rate	Amount
<b>Financial assets</b>			
<b><u>Monetary Item</u></b>			
USD	\$ 7,317	32.8300	240,217
HKD	714	4.2400	3,027
EUR	28	35.8800	1,005
JPY	16,127	0.2727	4,398
AUD	994	23.9900	23,846
SGD	7	23.2500	163
CNY	50,216	4.9950	250,829
<b><u>Non-Monetary Item</u></b>			
USD	202,223	32.8300	6,638,981
HKD	55,140	4.2400	233,794
CNY	233,206	4.9950	1,164,864
EUR	343	35.8800	12,307
AUD	58,860	23.9900	1,412,051
<b><u>Investments under Equity Method</u></b>			
USD	55,387	32.7800	1,815,300

December 31, 2015			
<u>Financial liabilities</u>	Foreign Currency	Exchange Rate	Amount
	(thousands)		
<u>Monetary Item</u>			
USD	226,579	32.8300	7,438,589
HKD	50,000	4.2400	212,000
JPY	14,927	0.2727	4,071
AUD	49,880	23.9900	1,196,621
CNY	117,363	4.9950	586,228

Because there are a variety of functional currencies, the Company discloses a summary of its information on exchange gain or loss. The realized and unrealized exchange gain (loss) amounted to \$94,068 and (\$58,458) for the year ended December 31, 2016 and 2015, respectively.

b. Sensitivity analysis

The currency risk of the Company arises mainly from cash and cash equivalents, other receivables, security borrowing margin, financial assets measured at fair value through profit or loss and securities lending refundable deposits, which are denominated in foreign currencies. Foreign exchange gain or loss occurs when translating the foreign currency assets to NTD assets. For the year ended December 31, 2016 and 2015, given all other factors remain the same, if NTD increase or decrease 5% contrary to other currencies, the income after tax will increase or decrease by \$742,844 and \$298,552, and the other comprehensive income will increase or decrease by \$785,156 and \$396,629, respectively.

D. Sensitivity analysis of interest rate risk

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and non-derivative financial instruments on the reporting date. For floating rate instruments, the sensitivity analysis assumes the liabilities are outstanding for the whole year at the reporting date. The variable rate is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. This is mainly attributable to the Company's exposure to floating rates on its bond position.

market risk type	December 31, 2016	December 31, 2015	2016			2015		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
interest risk	1,492,731	1,201,645	1,331,427	1,492,731	1,119,156	1,003,569	1,250,286	734,670

E. Fair value information and hierarchy

a. Fair value information

(1) General description

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

Initially, financial instruments should be measured at fair value, which mostly refers to transaction price. Except for those measured at amortized cost, financial instruments are subsequently measured at fair value. A quoted market in an active market provides the most reliable evidence of fair value. If the market is not active, the Company determines the fair value of financial instruments in accordance with (a) the calculation of valuation techniques, (b) valuation provided by the professional

electronic information company and commonly used by market participants, or (c) quoted prices of the counter party.

(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 are considered 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). The bond instruments without public quotes in an active market and most of the derivative financial instruments of the Company are considered Level 2.

C) Level 3

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

b. Not based on fair value measurement

As of December 31, 2016 and 2015, the fair value information of the financial assets and financial liabilities of the Company was as follows:

(1) Fair value information

	December 31, 2016		December 31, 2015	
	Book value	Fair value	Book value	Fair value
<b>Financial assets :</b>				
Cash and cash equivalents	\$ 1,142,072	1,142,072	1,968,456	1,968,456
Accrued receivable	17,405,924	17,405,924	21,464,755	21,464,755
Pledged assets - current	557,002	557,002	416,604	416,604
Financial assets measured at cost - non-	341,841	341,841	380,603	380,603
Other non-current assets	1,260,835	1,260,835	1,357,718	1,357,718
<b>Financial liabilities :</b>				
Short-term borrowings	4,236,402	4,236,402	1,579,717	1,579,717
Bonds sold under repurchase	35,105,445	35,105,445	24,014,573	24,014,573
Accrued payable	8,724,584	8,724,584	11,600,311	11,600,311
Other financial liabilities - current	2,427,461	2,427,461	3,834,575	3,834,575
Other financial liabilities - non-current	239,634	239,634	241,991	241,991
Other non-current liabilities	73,609	73,609	73,759	73,759

(2) Hierarchy information of fair value

	Level 1	Level 2	Level 3	Total
Investment property				
December 31, 2016	-	-	3,623,639	3,623,639
December 31, 2015	-	-	3,578,321	3,578,321

## (3) Valuation techniques used in estimating the fair values of financial instruments

- A) For short term financial instruments, the fair values are determined based on their book value because of their short maturities. The method is applied to cash and cash equivalents, bonds purchased under resale agreements, accrued receivable, other current assets, other non-current assets, short term borrowings, commercial paper payable, bonds sold under repurchase agreements, accrued payable, other financial liabilities - current, other financial liabilities - non-current, and other non-current liabilities.
- B) Financial assets measured at cost and equity investments in unlisted stocks do not have the quoted market prices in an active market and the variability in the range of reasonable fair values is significant or the probabilities of the various estimates within the range cannot be reasonably assessed, so the fair value is unable to be reliably measured. Therefore, the Company considers the book value as a reasonable approximation of fair value.
- C) The investment properties were evaluated and estimated using Market Method based on the market evidence of transaction price of similar properties.

## c. 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 as of December 31, 2016 and 2015 were as follows:

	Level 1	Level 2	Level 3	Total
<b>December 31, 2016</b>				
Financial assets at fair value through profit or loss	\$ 9,604,490	17,536,458	-	27,140,948
Financial assets available for sale	378,156	18,919,308	-	19,297,464
Derivative financial assets	120,025	47,954	-	167,979
	<b>\$ 10,102,671</b>	<b>36,503,720</b>	<b>-</b>	<b>46,606,391</b>
Financial liabilities at fair value through profit or loss	1,213,087	-	-	1,213,087
Derivative financial liabilities	1,073	195,983	-	197,056
	<b>\$ 1,214,160</b>	<b>195,983</b>	<b>-</b>	<b>1,410,143</b>
<b>December 31, 2015</b>				
Financial assets at fair value through profit or loss	\$ 8,405,711	17,255,304	-	25,661,015
Financial assets available for sale	93,483	7,741,972	-	7,835,455
Derivative financial assets	94,289	43,300	-	137,589
	<b>\$ 8,593,483</b>	<b>25,040,576</b>	<b>-</b>	<b>33,634,059</b>
Financial liabilities at fair value through profit or loss	2,090,566	-	-	2,090,566
Derivative financial liabilities	7,176	216,533	-	223,709
	<b>\$ 2,097,742</b>	<b>216,533</b>	<b>-</b>	<b>2,314,275</b>

## (2) Valuation techniques

## A) Non-derivative financial instruments

Financial instruments are initially recognized at fair value. For active markets, fair value is measured according to quoted prices. Publicly listed and over-the-counter traded equity instruments of primary stock exchanges along with central

government bonds that are popular securities, all regard active market quotes as the basis of fair value.

When quotes of financial instruments are obtained from the Stock Exchange, Reuters, Bloomberg, dealers or competent authorities and the prices represent arm's length transactions with sufficient frequency, the financial instruments are regarded as active market quotes. If the aforementioned requirements are not met, then the financial instruments are regarded as quotes without an active market. Large bid-ask spreads or low trade volumes are features of quotes without an active market.

Excluding the above-mentioned financial instruments with active market quotes, the fair value of the remaining financial instruments are obtained by financial valuation models or referencing counterparty quotes. Fair value obtained through the calculations of financial valuation models include, but are not limited to, fair value references of substantive factors and characteristics from similar financial instruments, which are obtained from using the cash flow discounting method or other financial valuation techniques. Fair values obtained through financial valuation techniques are derived from market information on the balance sheet date, and utilizes the fair values derived from the calculations of financial valuation models (for example referencing the yield curve from the Taipei Exchange, Reuters' average commercial paper interest etc.).

#### B) Derivative financial instruments

The fair value of derivative financial instruments is determined using the valuation model. Option instruments are determined using the Black-Scholes Model and non-option derivative financial instruments are determined using the discounted cash flow method. The market inputs for the valuation are derived from stock exchange market and independent financial information service institution, such as Stock Exchange, Futures Exchange, Reuters, and Bloomberg. Closing price, settlement price, and the average rate of ask and bid price during a certain specific time are adopted.

#### d. Transfer between Level 1 and Level 2

There is no significant transfer between Level 1 and Level 2 for the year ended December 31, 2016 and 2015.

#### e. Fair value adjustments

Financial valuation techniques do not necessarily completely reflect all relevant elements of financial or non-financial instruments held by the Company. Thus, the outputs of financial valuation models may need necessary adjustments in line with important relevant elements. The valuation models and adjustment parameters were verified to ensure valuation procedures and results are in accordance with the requirements, so the valuation adjustments are pertinent and appropriate. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market condition.

## F. Transfer of financial assets

The transferred financial assets of the Company that are not qualified for de-recognition in the daily operation are mainly debt securities under repurchased agreements or equity securities under securities lending agreement. Since the right to receive cash flow is transferred and it reflects the associated liabilities to repurchase transferred financial assets at fixed price in future period, the Company cannot use, sell or pledge these transferred financial assets during the valid transaction period. However, since the Company still bears the interest rate risk and credit risk, the transferred financial assets are not fully derecognized. Financial assets that do not meet criteria for de-recognition and related financial liabilities are as below:

December 31, 2016					
Types of financial assets	Book value of the transferred financial assets	Book value of relevant financial liabilities	Fair value of the transferred financial assets (Note)	Fair value of relevant financial liabilities (Note)	Fair value net position (Note)
Under repurchase agreements	\$ 35,279,210	35,105,445	-	-	-
December 31, 2015					
Types of financial assets	Book value of the transferred financial assets	Book value of relevant financial liabilities	Fair value of the transferred financial assets (Note)	Fair value of relevant financial liabilities (Note)	Fair value net position (Note)
Under repurchase agreements	\$ 24,178,626	24,014,573	-	-	-

Note: The counterparties in repurchase agreements hold the right of recourse not merely on the transferred assets against the Company; hence according to IFRS 7 pg.42 D(d), disclosure of the fair values of transferred assets and their relevant liabilities and fair value net position is not mandatory.

## G. Offsetting financial assets and financial liabilities

The Company does not hold any financial instruments contracts which meet Section 42 of the FSC endorsed by IAS 32 therefore, the financial assets and financial liabilities will be offset on the balance sheet.

The Company has transactions, such as repurchase and resell agreements, that are or are similar to net settled master netting arrangements, but do not meet the offsetting criteria. The above transactions are settled on a net basis after offsetting financial assets with financial liabilities if both parties of the transaction choose to use net settlement; the transactions above are settled on a gross basis if both parties choose not to use the net settlement. However, if one party defaults, the other party can choose to use net settlement.

The offsetting of financial assets and liabilities information is as below:

December 31, 2016					
Financial assets under offsetting or general agreement of net amount settlement or similar norms					
Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offsetting in the balance sheet	Net amount of financial assets presented in the balance sheets	Related amount not offset in the balance sheet (d)		
			Financial instruments	Cash received as collaterals	Net amount
(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)
Derivative financial assets					
\$ 47,954	-	47,954	-	-	47,954

December 31, 2016					
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms					
Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offsetting in the balance sheet	Net amount of financial liabilities presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
			Financial instruments	Cash received as collaterals	
(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)
Derivative financial liabilities	\$ 195,983	-	195,983	-	195,983
Under repurchase agreements	35,105,445	-	35,105,445	-	-
Total	<u>\$ 35,301,428</u>	<u>-</u>	<u>35,301,428</u>	<u>-</u>	<u>195,983</u>

December 31, 2015					
Financial assets under offsetting or general agreement of net amount settlement or similar norms					
Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offsetting in the balance sheet	Net amount of financial assets presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
			Financial instruments	Cash received as collaterals	
(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)
Derivative financial assets	\$ 43,300	-	43,300	-	43,300

December 31, 2015					
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms					
Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offsetting in the balance sheet	Net amount of financial liabilities presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
			Financial instruments	Cash received as collaterals	
(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)
Derivative financial liabilities	\$ 216,533	-	216,533	-	216,533
Under repurchase agreements	24,014,573	-	24,014,573	-	-
Total	<u>\$ 24,231,106</u>	<u>-</u>	<u>24,014,573</u>	<u>-</u>	<u>216,533</u>

Note: Including netting settlement agreement and non-cash financial collaterals.

## (20) Financial risk management

### A. Brief

The Company is exposed to the following risks due to the usage of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The disclosure hereby presents above-mentioned risk information, evaluation, and objectives, policies, and procedures of managing information. Further information regarding quantity disclosure please refers to related disclosures.

### B. Risk management framework

The risk management system includes the set-up of an independent risk management department and whole risk management framework which comprises segregation of duties and delegation of board of directors, president, risk management department, auditing department, finance department, settlement and clearing department and other business department. The Company also established an operating strategy, capital structure, risk management policy and executive procedure by risk and operating activities. Furthermore, the Company set up a risk management information system to assist whole risk management

execute effectively.

#### C. Credit risk

Credit risk refers to the risk of financial losses to the Company arising from default by the clients or counterparties of financial instruments on the contract obligation.

The Company sets up the credit limits for issuers and counterparties according to the credit information requirements of the authorities and the credit rating information release by credit rating agencies. The credit limit of securities margin transactions is subject to the requirements of the competent authority. The derivatives' credit exposure of counterparty shall be measured on a daily basis. If the limits are exceeded, to increase of collateral or lower transaction position is required. The bonds can be invested only its credit rating is above a prescribed level. And monitor the material information disclosed, information on capital raising activities and operation status of counterparty as a reference for measuring the possibility of credit default. The bond position should be disposed if the credit rating is lower than required.

#### D. Liquidity risk

Liquidity risk refers to the risk that the Company cannot meet obligations because of the inability to obtain adequate funding or liquidate of other financial assets to settle the financial liabilities. It includes financial funding risk and financial market liquidity risk.

Besides decentralizing the financial institutions, the Company also to diversify the financing channels for funding. The Company plans and controls the daily funding operation in advance as the need for funding from various business situations. Also utilizes the simulation analysis mechanism of special event to keep up with the abnormal funding need from the system risks. The Company has set up the rules based on the different risk factors such as issue amount, trading volume, counterparty and etc to address the liquidity risk of each holding position. Moreover, the Company operates a dynamic monitoring of the volatility of market to manage the liquidity risk of holding positions.

#### E. Market risk

Market risk refers to the risk that change in market prices, exchange rates, interest rates and equity instrument prices, which will affect the Company's revenue or the value of its holdings of financial instruments.

The Company has set up the trading quotas and upper limit of Value at Risk ("VaR") in all operation to ensure the capital adequacy ratio meets the qualification requirements and maximum loss limit to be controlled. The different risk factors that the Company uses to measure the market risk are as follows:

- a. Equity securities: calculate by variance-covariance method and to conduct back testing to estimate the VaR of one day at 99% of confidence interval.
- b. Bond: use the base point (0.01%) value as the controlling base, and estimate the VaR of one day at 99% of confidence interval.
- c. Financial derivatives: use the Delta and Gamma value as the controlling base, and estimate the VaR of one day at 99% of confidence interval.
- d. Margin trading: use the maintenance ratio ruled by the competent authority as the standard for disposal.

Each business departments of the Company can utilize approved financial hedging instruments (such as Futures, Options, Swap and etc) to adjust the risk level to improve the risk management system implemented.



#### F. Hedging strategies (financial hedging)

The Company's strategies use financial derivatives to hedge market price fluctuations in the attainable scope. The Company sets up each business quota, the capacity for tolerating risk and hedging strategy according to risk tolerance and establishes a monitoring system to understand variation of hedging position. In addition, the Company also formulates principal to conduct over or under limitations with hedging position.

##### a. Equity securities:

As equity securities prices fluctuate, the Company will suffer losses when the unfavorable variation of equity securities price is incurred. To reduce the above risk, the Company not only relies on its well-designed risk management system but also uses index futures and options to hedge the market risk of equity securities.

##### b. Fixed income instruments:

Risk of fixed income instruments is mainly affected by the fluctuations of market rate. The Company will suffer losses when unfavorable variation of market rate is incurred. The Company uses financial derivatives such as interest rate swap, government bond futures and bond options whose variation in fair value and cash flow are negative correlated with the hedged position to hedge the market risk.

##### c. Stock warrants:

The market risk of stock warrants issued arises from the fluctuations of market price of the underlying securities and the risk of investors' exercising the stock warrants. The Company will acquire stock warrants of the same underlying securities issued by others whose theoretical price was underestimated to hedge against the fluctuations. Furthermore, the Company will also adjust the hedged position such as the underlying securities, convertible corporate bonds and stock warrants based on the dynamic hedging strategies with the variation of Delta.

##### d. Structured notes:

Structured notes are the combination of fixed income and asset option. The market risk includes variation of interest rate, stock price and the volatility. In order to hedge the interest rate risk in the fixed income aspect, the Company uses the interest which it generates from investing to repay the principal due. In the asset option aspect, the Company establishes related hedged position to hedge the stock price and the volatility risk.

##### e. Asset swap:

Convertible bond asset swap is a hybrid derivative comprising of an interest rate swap and a call option on a convertible bond. The related risks are market risk and credit risk of the counterparties. The Company manages its risk through selling of the interest rate swap and options with third parties and verifies its counterparty's credit limit to lower the above risk.

#### G. Financial risk information of derivative financial instruments

As of December 31, 2016 and 2015 the related financial risk and the presentation of the Company's financial derivatives were as follows:

Stock warrants

- a. Notional principal (nominal amount) and credit risk

<u>Financial Instruments</u>	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>
For trading purpose:				
Stock warrants issued	\$ 7,931,022	-	10,260,292	-

The Company collects premium from investors prior to issuing stock warrants, and therefore, does not assume any credit risk.

- b. Market risk

Market risk of stock warrants issued arises from changes in prices of the underlying securities. Market risk can be hedged by adjusting the positions of stock warrants.

- c. Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand.

The Company establishes hedging positions by collecting margins or premium prior to the issue of stock warrants, which are based on the underlying securities. Therefore there is no significant funding demand. Furthermore, since the underlying security is restricted by certain market prices and diversification requirements, the risk of being unable to sell securities at reasonable prices is rather low; likewise for liquidity risk as well. The only risk is capital demands resulting from hedged positions adjusted for changes in securities prices. However, under the assumption of good market liquidity, cash flow risk is assessed to be low.

The duration of stock warrants issued is three months to two years from the issue date. Except for cash flows from hedging transactions, there is no additional cash demand.

- d. Type, purpose, and strategy of financial derivatives held

The Company's strategy is to avoid as much market risk as possible. Non-trading marketable securities hedging positions are used to hedge against risk from investors' exercising of stock warrants. These underlying securities, used as hedging instruments, exhibit highly positive correlation with the fair values of stock warrants issued, and positions held are evaluated and adjusted periodically.

- e. Presentation of financial derivatives

Relevant transaction pertaining to issuance of stock warrants, its presentation and valuation, and gains or losses on sale and expiration and settlement prior to maturity date, were reflected as follows:

In 2016 and 2015:

- (1) Gains (losses) on valuation

	<u>2016</u>	<u>2015</u>	<u>Account</u>
Stock warrants issued	\$ 8,811,311	11,070,099	Gains (losses) on stock warrants issued
Stock warrants repurchased	(8,606,442)	(10,814,221)	Gains (losses) on stock warrants issued

(2) Gains (losses) on sale

	2016	2015	Account
Security borrowing	\$ 7,011	(45,496)	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	(122,647)	(366,765)	Gains (losses) on sale of trading securities
Futures	(221,525)	(5,348)	Gains (losses) on derivative financial instruments - futures

(3) Gains (losses) on maturity

	2016	2015	Account
Stock warrants issued	\$ 29,648,133	28,607,096	Gains (losses) on stock warrants issued
Stock warrants repurchased	(28,956,724)	(27,901,285)	Gains (losses) on stock warrants issued

Futures

a. Notional principal (nominal amount) and credit risk

Financial Instruments	December 31, 2016		December 31, 2015	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Taichex Futures	\$ 534,198	-	49,722	-
Stock Futures	12,286	-	985	-
U.S. 30-Year T-Bond Futures	-	-	15,187	-
FTSE China A50 Index Futures	111,524	-	4,209	-
U.S. 5-Year T-Note Futures	169,495	-	-	-
U.S. 10-Year T-Note Futures	40,005	-	-	-
Euro Bund Futures	-	-	455,705	-
One week maturity Taichex Option	1,137	-	-	-
For non-trading purpose:				
Taichex Futures	239,765	-	197,542	-
Electronic Sector Index Futures	7,357	-	-	-
Stock Futures	501,055	-	320,278	-
Taichex Gold Futures	11,151	-	17,276	-
H stock Index Futures	-	-	35,626	-
HSI Futures	4,569	-	9,336	-
Mini-H Stock Index Futures	-	-	838	-
Mini-HSI Futures	17,930	-	16,805	-
FTSE China A50 Index Futures	66,764	-	-	-
Nikkei Index Futures	10,209	-	-	-
Taichex Options	-	-	18,390	-
Stock Options	-	-	355	-

Should counterparties default to futures and options, the associated losses are borne by the futures commission merchants. Hence, the Company is subject to an insignificant credit risk.

b. Market risk

Market risk results from the purchase and sale of futures and options. Since the fair values of futures and options are available, and stop-loss points are established in order to manage risk, the Company can confine losses to a predictable range. Therefore, there is no significant market risk.

For non-trading futures or options contracts, gain or loss from the fluctuations of index tends to offset gain and loss of the hedged items. Hence, there is no significant market risk.

- c. Liquidity risk, cash flow risk, and the amount, period and uncertainty of future cash demand

The open positions of futures and options held by the Company can be settled on the market at reasonable prices, and as such there is no liquidity risk.

Stock index futures and government bond futures are considered margin transactions. Margins are collected in advance and valued daily on open futures positions established by the Company. For margin calls, the Company has sufficient operating funds to meet the liquidity requirement. As a result, there is no liquidity risk, cash flow risk, or significant cash demand.

For options, premiums are collected or paid in advance. If the counterparty of a short put position exercises the option, the Company has sufficient operating funds to meet the liquidity requirement. Therefore, there is no liquidity risk, no cash flow risk, and no significant cash demand.

- d. Presentation of financial derivatives

In 2016 and 2015, gains (losses) on futures and options transactions amounted to (\$425,947) and \$80,915, respectively, and were reflected as gains or losses on derivatives - futures. As of December 31, 2016 and 2015, futures margin - proprietary fund amounted to \$120,025 and \$93,648, respectively, and were reflected as financial assets at fair value through profit or loss - current t; future margin – excess margin amounted to \$202,491 and \$795,609 and were reflected as cash and cash equivalents.

In 2016 and 2015, the balance of call options which recognized as financial assets at fair value through profit or loss - current amounted to \$0 and \$641, respectively, put options which recognized as financial liabilities at fair value through profit or loss - current amounted to \$1,073 and \$7,176, respectively.

#### Derivative financial instruments - OTC

- a. Interest rate financial derivatives

- (1) Notional principal (nominal amount) and credit risk

Financial Instruments	December 31, 2016		December 31, 2015	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
NT dollar interest swaps	\$ 46,500,000	-	55,700,000	-

Counterparties to interest rate swaps are banks with good credit ratings. The Company pays fixed and collects floating interest payments. Since the trend of interest rate is stabilized, no default is expected and credit risk is accordingly remote.

- (2) Market risk

Non-trading NT dollar interest rate swaps are primarily held for hedging. Gain or loss from the fluctuations of interest rate tends to offset gains and losses of the hedged items, therefore market risk is insignificant.

In order to manage risk, Stop-loss points are established in accordance to the changes in the contract value of trading NT dollar interest rate. Loss is kept within prediction, therefore there is no significant market risk.

- (3) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand

The Company's non-trading NT dollar interest rate swaps are used to hedge against interest rate fluctuations of claims and obligations. On the settlement date, interest

receivables or payables are derived from multiplying the notional principals by interest rate differences, and the amount is insignificant. Given that there is no physical transfer of principals on maturity, there is no liquidity risk, cash flow risk, or significant cash demand.

For trading NT dollar interest rate swaps, the interest receivables or payables are derived through the multiplication of its notional principals by interest rate differences on the settlement dates; and the product amount is insignificant. Given that there is no physical transfer of principals on maturity, there is no liquidity risk, cash flow risk, or significant cash demand associated.

(4) Type, purpose, and strategy of financial derivatives held

The Company entered into non-trading NT dollar interest rate swaps with banks to hedge against interest rate fluctuations of claims and obligations. The Company's strategy is to avoid as much market risk as possible. Financial derivatives exhibiting highly negative correlation with the fair value of hedged items are used as hedging instruments and evaluated periodically.

The Company engages in trading NT dollar interest rate swaps to gain from the differences in interest rates upon evaluation of the trending of interest rates.

b. Structured notes

(1) Notional principal (nominal amount) and credit risk

Financial Instruments	December 31, 2016		December 31, 2015	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Equity-linked notes	\$ 3,000		2,000	-
Principal guaranteed notes	2,173,544		3,761,609	-
Credit-linked notes	488,700		317,200	-
Principal guaranteed notes	USD 100 thousand		USD -	-

The Company collects premium from investors prior to conducting structured note transactions, and therefore, does not assume any credit risk.

(2) Market risk

For structured notes, the respective products are exercised at their fair value and the hedged items all have fair values. Therefore, there is no significant market risk of structured notes.

(3) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand

The Company collects premium from investors prior to transacting in structured notes, therefore there is no significant liquidity risk.

c. Convertible bond asset-backed swaps

(1) Notional principal (nominal amount) and credit risk

Financial Instruments	December 31, 2016		December 31, 2015	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Convertible bond asset-backed swaps	\$ 1,230,100	-	1,304,600	-
Convertible bond options	2,528,400	-	2,947,200	-

Counterparties to convertible bond asset-backed swaps are institutions with good credit ratings. The Company swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties.

Since the counterparties are governed by relevant regulatory authorities, and the Company maintains good credit risk control over counterparties, the credit risks are minimal.

For convertible bond options, the Company collects premium or margins from investor prior to issuing convertible bond options, therefore, there is no credit risk.

(2) Market risk

For convertible bond asset-backed swaps, the Company swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. Therefore, there is no market risk.

For convertible bond options, the exercise price of the convertible bonds acquired through underwriting or proprietary trading is determined on the contract date, therefore there is no market risk.

(3) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand.

Convertible bonds acquired through underwriting or proprietary trading are the underlying assets of asset-backed swaps. The underlying assets are sold to the counterparties for commission. Within the term of the contract, the Company swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. The Company also receives the right to call the convertible bond prior to the expiration of the contract. Therefore, there is no significant liquidity risk or significant cash demand.

The underlying assets of Convertible bond option transaction in which the Company engages in were acquired through underwriting or proprietary trading. Prior to issuing convertible bond options, the Company has collected premium or margins from investors; therefore there is no significant liquidity risk.

d. Presentation of derivative financial instruments - OTC

As of December 31, 2016 and 2015, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options, and convertible bond asset-backed swaps were presented on the balance sheets as follows:

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Financial assets at fair value through profit or loss - current		
IRS asset swaps	\$ 20,743	22,878
Interest rate swaps	4,942	-
Currency swaps	16,584	8,482
Asset swap options - long position	5,682	11,940
Structured note	3	-
<b>Total</b>	<b>\$ 47,954</b>	<b>43,300</b>

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Financial liabilities at fair value through profit or loss - current		
IRS asset swaps	\$ 1,974	5,398
Interest rate swaps	-	1,528
Currency swaps	9,089	3,476
Asset swap options - short position	177,405	193,888
Structured notes	7,515	12,243
Total	<u>\$ 195,983</u>	<u>216,533</u>
Other financial liabilities - current		
Structured notes principal value	<u>\$ 2,427,461</u>	<u>3,834,575</u>
Other financial liabilities - non-current		
Structured notes principal value	<u>\$ 239,634</u>	<u>241,991</u>

In year 2016 and 2015, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options, and convertible bond asset-backed swaps are presented on statements of income as follows:

	<u>2016</u>		<u>2015</u>	
	<u>Gains (losses) on derivative financial instrumnets - OTC</u>	<u>Unrealized Gains (losses)</u>	<u>Gains (losses) on derivative financial instrumnets - OTC</u>	<u>Unrealized Gains (losses)</u>
Interest rate swaps	\$ 3,893	4,942	(830)	(1,528)
Equity derivatives	92	-	245	-
Structured notes	(32,536)	(6,146)	(48,375)	(8,003)
IRS asset swaps	533	18,769	511	527
Asset swap options	(43,107)	66,482	(41,617)	158,261
Currency swaps	(167,857)	7,495	35,796	5,005
Total	<u>\$ (238,982)</u>	<u>91,542</u>	<u>(54,270)</u>	<u>154,262</u>

## (21) Capital management

The Board's goal is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and to sustain future development of the business. The Capital base includes shares capital, capital surplus, and retained earnings. The Board of Directors monitors the return on capital as well as the level of dividends to make sure the Company has sufficient financial resources to cope with the future need of operating fund, capital expenditure, and other operating needs.

As of December 31, 2016, the Company maintains no change of its capital management.

## 7. RELATED PARTY TRANSACTIONS

### (1) Relationships between parents and subsidiaries

Refer to Note 13(2) for a detailed list of the Company's subsidiaries.

### (2) Parent company and ultimate controlling party

The Company is the ultimate controlling party of the consolidated Company.

### (3) Key management personnel transactions

#### A. Key management personnel compensation:

	<b>2016</b>	<b>2015</b>
Short-term employee benefits	\$ 91,821	106,219
Post-employment benefits	946	1,080
Termination benefits	-	1,056
Total	<u><u>\$ 92,767</u></u>	<u><u>108,355</u></u>

#### B. Bond transactions

Bonds sold under repurchase agreements between key management personnel in year 2016 and 2015 are as follows:

	<b>December 31, 2016</b>		<b>December 31, 2015</b>	
	<b>Par value</b>	<b>Purchase price</b>	<b>Par value</b>	<b>Purchase price</b>
Key management personnel	<u><u>\$ 43,600</u></u>	<u><u>43,749</u></u>	<u><u>50,500</u></u>	<u><u>50,691</u></u>
<b>Total financial expenses</b>		<b>2016</b>		<b>2015</b>
Key management personnel		<u><u>\$ 230</u></u>		<u><u>415</u></u>

#### C. Structured notes transactions

The Company engaged in structured notes transactions with key management personnel. As of December 31, 2016 and 2015, the balances of structured notes transactions were \$20,700 and \$17,600 respectively.

### (4) Significant transactions with related parties

#### A. Bond transactions

Bonds sold under repurchase agreements in year 2016 and 2015 are as follows:

	<b>December 31, 2016</b>		<b>December 31, 2015</b>	
	<b>Par value</b>	<b>Purchase price</b>	<b>Par value</b>	<b>Purchase price</b>
Subsidiaries	\$ 158,800	159,384	451,800	451,865
Associates	14,900	15,000	13,400	13,400
Total	<u><u>\$ 173,700</u></u>	<u><u>174,384</u></u>	<u><u>465,200</u></u>	<u><u>465,265</u></u>
		<b>2016</b>		<b>2015</b>
		<b>Total financial expense</b>		<b>Total financial expense</b>
Subsidiaries		\$ 1,606		881
Associates		77		67
Other related parties		-		43
Total		<u><u>\$ 1,683</u></u>		<u><u>991</u></u>

Transaction terms are the same as those with general clients.



B. Structured notes transaction

As of December 31, 2016 the balances of structured notes transactions with associate of the Company was \$4,995.

C. Futures commission revenue

The Company provided futures trading assistance for subsidiary.

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Commission receivable	<u>\$ 11,482</u>	<u>14,267</u>
	<u>2016</u>	<u>2015</u>
Futures commission revenue	<u>\$ 155,588</u>	<u>146,813</u>

D. Futures trading

The futures margin in subsidiary of the Company is as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Futures margin - proprietary fund	<u>\$ 308,212</u>	<u>874,376</u>
	<u>2016</u>	<u>2015</u>
Interest revenue of futures margin	<u>\$ 183</u>	<u>424</u>
Handling fees	<u>\$ 10,300</u>	<u>6,695</u>

E. Lease agreements

a. Lease revenue

	<u>2016</u>	<u>2015</u>
Subsidiaries	<u>\$ 19,844</u>	<u>16,742</u>

b. Guarantee deposits received

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Subsidiaries	<u>\$ 4,069</u>	<u>3,909</u>

F. Information technology service

In year 2016 and 2015, the Company provided information technology service to subsidiaries, and the revenue of information technology service amounted to \$22,127 and \$18,434 respectively.

G. Stock service income

In year 2016 and 2015, the Company provided stock service to subsidiaries, the stock service income amounted to \$427 for both years, and stock service receivable amounted to \$30 and \$28 respectively.

H. Securities commission expense - introducing brokers

The Company delegated subsidiaries for introducing brokers. As of December 31, 2016 and 2015, securities commission expense payable amounted to \$252 and \$353 respectively. In year 2016 and 2015, securities commission expenses amounted to \$2,936 and \$3,610 respectively.

## I. Consulting fee

Subsidiaries agreed to provide investment information, training courses, and services of publishing non-periodicals. In year 2016 and 2015, consulting fee paid amounted to \$86,100 for both years.

## J. Insurance commission income

The Company assists subsidiaries to recruit insurance contracts and charge commission income. The details are as follows:

## a. Commission revenues

	2016	2015
Subsidiaries	\$ 18,315	10,304

## b. Accounts receivable

	December 31, 2016	December 31, 2015
Subsidiaries	\$ 2,452	1,200

## K. Brokerage commissions

The investors of CSC Securities (HK) Ltd. traded market securities with the Company through the trust account named "Capital Securities Nominee Limited." In year 2016 and 2015, the brokerage commissions were \$6,423 and \$7,406 respectively. Also the subsidiaries were engaged in stock exchange, the brokerage commissions received from the subsidiaries were \$217 and \$382 respectively.

## L. Human resources and legal service income

The Company provided human resources and legal service for subsidiaries and other related parties, and the human resources and legal service income amounted to \$1,080 and \$1,045, respectively in years 2016 and 2015.

## M. The Company issued Letter of Comfort to the banks which loaned to subsidiaries.

## 8. PLEDGED ASSETS

The following assets were pledged as collateral or restricted in use as of December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015	The collateral use
Restricted assets - current	\$ 557,002	416,604	Bank borrowings, commercial paper, accounts settled and repurchase agreement
Restricted assets - non - current	130,586	130,586	Trust to a impartial third party (Note 12)
Trading securities and bonds purchased under resale agreements (par value)	36,074,859	24,431,835	Repurchase agreement
Property and equipment	3,618,890	3,734,644	Bank borrowings
Financial assets at fair value through profit or loss - non-current	186,073	190,554	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business
Investment property	1,311,584	1,230,067	Bank borrowings
Total	\$ 41,878,994	30,134,290	

## 9. SIGNIFICANT CONTINGENT LIABILITY AND UNRECOGNIZED CONTRACT COMMITMENT

- (1) Information of handling margin purchase and short sale lending operations in securities trading are as follows:

	December 31, 2016		December 31, 2015	
	Shares		Shares	
	(in thousands)	Par value	(in thousands)	Par value
Securities procured through margin purchase	663,916	\$ 6,639,160	826,231	8,262,310
Collateral for margin purchase	12,555	125,550	33,476	334,760
Collateral for short sales	4,427	44,270	13,332	133,320
Lending securities to customers through short sales	37,135	371,350	44,174	441,740

- (2) Information on the collateral provided or the securities borrowed of refinancing margin from securities finance companies are as follows:

	December 31, 2016		December 31, 2015	
	Shares		Shares	
	(in thousands)	Par value	(in thousands)	Par value
Securities borrowed from securities finance companies	1,346	\$ 13,460	217	2,170
Collateral for refinancing margin	144	1,440	-	-

- (3) Information on issuing promissory notes in connection with guarantee for segregated error accounts, debt, and issuance of commercial paper are as follows:

	December 31, 2016		December 31, 2015	
	\$		\$	
Promissory notes	24,160,000		21,850,000	
Promissory notes	USD 85,000		USD 80,000	

- (4) As of December 2016, the market value of collaterals which received from customers on conducting borrowing and lending business with unrestricted purposes was \$311,755.
- (5) Securities and Futures Investors Protection Center claims against the Company for compensation of \$2,004; due to the fact that the Company, being the underwriter of client's year 2002 cash capital increase case, had provided false information on the contents disclosed in the prospectus. The case is under the trial of Taiwan Shilin District Court. According to the opinion from the attorney of the Company, the case had no impact to the Company.
- (6) The client, Mr. Wu, declared that a resigned employee of Tung-Hu branch stole and sold off his stocks and withdrew his deposit illegally. The clients filed a lawsuit against the Company, for allegedly taking joint responsibility, for a compensation for damages of \$36,000 with additional interest. Based on Year 2008 Chung Su No.684 verdict, the Taiwan Taipei District Court ruled in favor of the Company. Mr. Wu was unwilling accept the result and appealed to the high court. This case is currently under the review of the Supreme Court. According to the opinion from the attorney of the Company, the case is a personal financial dispute between customer and the former employee and had no impact to the Company.
- (7) According to the documentation No. 0990030563 verdict of Financial Supervisory Commission (dated June 14, 2010), Taiwan International Securities Corporation (hereinafter known as "TISC") was suspected in violating the Regulations Governing Securities Firms due to the sale of private placed products of Genesis Growth Income Preferred Shares B1 issued by GVEC (Genesis Voyager Equity Corporation, Danny Pang as related party) by some employees. According to the understanding and inspection of TISC, some employees may have been selling the aforementioned product and the suspected sales amount was US\$15 million. However, relevant evidence is still under inspection and the legal responsibilities are pending for clarification. Some investors instituted proceedings towards TISC and claimed damages amounting to US\$8,464,801 dollars

(including claim amount US\$354,006 dollars towards Taiwan International Securities Investment Consulting Corp.). As of December 31, 2016, the damages claimed for amounted to US\$2,930,000, which was in favor of the Company, instead of US\$5,026,873, and the investors reached a compromise to waive off the appeal rights. Since the case is currently on trial, the possible loss remains uncertain at the moment according to the opinion from the attorney of the Company. Nevertheless, the Company had signed an agreement with the Unitech Printed Circuit Board Corp. and nine other companies which were the original major shareholders of TISC on May 2, 2011, the date of merging with TISC. According to this agreement, the maximum claim damage compensation afforded by the Company was \$173,000, thus the Company recognized this amount as other liabilities. As of December 31, 2016, the balance of other liabilities was \$48,034.

- (8) The original shareholder of Taiwan International Securities Corporation (hereinafter known as “TISC”), China Development Financial Holdings (hereinafter known as “CDFH”), possessed a different point of view towards the election motion of 2009 shareholder’s meeting and instituted a proceeding in terms of the existence of fiduciary relation toward the TISC. On December 28, 2016 the CDFH withdraw the litigation and this lawsuit has been concluded.
- (9) The Company provided the Letter of Comfort for its subsidiary CSC International Holdings Ltd. and CSC Securities (HK) Ltd.
- (10) On October 2005, the former account executive of the Company’s subsidiary - Taiwan International Futures Corporation (hereinafter known as “TIFC”) was suspected for deceiving futures investors and causing a material loss. Several investors instituted proceedings towards TIFC and claimed joint responsibility of compensation for damages. After review by TIFC and its attorney, these litigations were classified as actual situations and relevant matters, thereon adopted different solutions. As of December 31, 2016, sixteen litigations with civic claims were filed (including seven cases with ancillary civil action transferred from Taiwan Taipei District Court Criminal Division to Taiwan Taipei District Court Civic Division). Two litigations had been settled and dismissed. Eleven litigations were ruled in favor of TIFC by the Supreme Court, Taiwan High Court and Taiwan Taipei District Court, respectively. Three litigations were ruled by the Supreme Court that the resigned-employee and TIFC should be jointly responsible for the compensation for damages, and TIFC had indemnified \$125,117 for the investor. As of December 31, 2016, TIFC has paid \$162,812 for compensation and the estimated losses amounted to \$254,389 in other non-current liabilities – other.

Those cases applied to the court for provisional seizure and the amount of provisional seizure and execution fees were \$222,991.

As of December 31, 2016, the objects of provisional seizure are as follows:

	<b>Provisional Seizure Amount</b>
Bank deposit	\$ 88,821
Clearing and Settlement fund	15,121
Accounts receivable and other accounts receivable	13
	<b>\$ 103,955</b>

The Financial Supervisory Commission Executive Yuan voided TIFC’s business license on December 27, 2007. Thus, the shareholders’ special meeting of TIFC decided to dissolve the company on September 18, 2008. Mr. Kuo, a certified public accountant, and Mr. Liu, a lawyer were designated as liquidators. TIFC is still in the process of liquidation.

(11) According to the Article 17 of Enforcement Rules of the Trust Enterprise Act, the balance sheet, income statement and list of trust properties of trust accounts were declared as follows:

a. Balance sheet of trust accounts

Balance Sheet of Trust Accounts					
December 31, 2016 and 2015					
Trust Assets	December 31, 2016	December 31, 2015	Trust Liabilities	December 31, 2016	December 31, 2015
Bank deposits	\$ 971,862	801,071	Accounts payable	\$ 380	723
Short-term investment			Trust capital	8,902,241	7,995,479
Funds	6,893,668	5,844,770	Accumulated	(176,994)	(273,608)
Stocks	529,461	428,052	earnings or deficit		
Securities lent	195,508	345,528			
Bond investment under agreements to repurchase	48,788	266,975			
Bond	1,386	-			
Structured notes	31,109	5,400			
Accounts receivable	53,845	30,798			
<b>Total Assets</b>	<b>\$ 8,725,627</b>	<b>7,722,594</b>	<b>Total Liabilities</b>	<b>\$ 8,725,627</b>	<b>7,722,594</b>

b. Income statement of trust accounts

Income Statement of Trust Accounts		
Year Ended December 31, 2016 and 2015		
	2016	2015
Revenue		
Interest revenue	\$ 10,289	5,580
Cash dividends revenue	134,857	90,984
Rental revenue	7,733	7,912
Realized investment gain	179,128	239,909
Unrealized investment gain	138,573	71,832
Unrealized foreign exchange gain	121,607	218,494
Currency exchange gain	55,880	76,773
Subtotal	648,067	711,484
Expense		
Administrative fee	1,304	1,464
Commission expenses	54,264	54,058
Realized investment loss	183,197	235,269
Unrealized investment loss	467,130	601,332
Unrealized foreign exchange loss	71,042	32,758
Postage expense	1	-
Currency exchange loss	40,244	29,403
Supplementary insurance premium	256	226
Subtotal	817,438	954,510
Net loss before tax	(169,371)	(243,026)
Income tax expense	(1,015)	(464)
Net loss after income tax	<b>\$ (170,386)</b>	<b>(243,490)</b>

c. List of trust properties

List of Trust Properties		
December 31, 2016 and 2015		
Investment items	December 31, 2016	December 31, 2015
Bank deposits	\$ 971,862	801,071
Short-term investment		
Stocks	529,461	428,052
Securities lent	195,508	345,528
Bond investments under agreement to	48,788	266,975
Structured notes	31,109	5,400
Bond	1,386	-
Funds	6,893,668	5,844,770
<b>Total</b>	<b>\$ 8,671,782</b>	<b>7,691,796</b>

**10. SIGNIFICANT CATASTROPHIC LOSS : NONE****11. SIGNIFICANT SUBSEQUENT EVENTS :**

The cumulative shares by the Company repurchased were 100,000 thousand after the reporting date. All the repurchased shares were retired and the registration of capital reduction was completed on February 10, 2017.

On January 23, 2017, the Company's board meeting resolved to subscribe the new shares issue of Capital Futures Corp. The amount of investment was \$716,008 and has completed the relevant investment procedures.

**12. OTHERS**

Taiwan International Securities Corp. (hereinafter known as "TISC"), the Company's merged entity, entrusted \$182,000 to an impartial third party on the merging date with First Securities Co., Ltd. and Far East Securities Co., Ltd. In relations to the agreement of indemnification to the stockholders with aforementioned companies arising from the fraud involving Taiwan International Futures Corporation (hereinafter known as "TIFC"). Such deposit shall be allocated by the trustee to the stockholders who are merged in proportion of their shareholdings in TISC, after being decided by the court or accommodated by the investors of TIFC.

The TIFC had reached partial consensus with its investors, and the accumulated amount of compensation was \$162,812. According to the indemnification to the former stockholders of First Securities Co., Ltd. and Far Eastern Securities Co., Ltd, the Company needs to pay all of the compensation to the company participating in the merger. As of December 31, 2016, the trust amount of the impartial third party is \$130,586 and the accumulated compensation expense is \$51,414.

**13. DISCLOSURES REQUIRED****(1) Information on significant transaction:**

The followings are the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Firms" for the Company:

- A. Loans to others: Exhibit 1.
- B. Endorsements and guarantee for others: None.
- C. Acquisition of real estate over \$100 millions or 20% of paid-in capital: None.
- D. Disposal of real estate over \$100 millions or 20% of paid-in capital: None.
- E. Discount on commissions of transactions with related parties over \$5 millions: None.
- F. Receivables from related parties over \$100 millions or 20% of paid-in capital: None.

**(2) Information on reinvestment business: Exhibit 2.****(3) Information on branch units or representative offices overseas**

Unit: NT\$ thousands

Name	Region	Date of establishment	Approval date and number of FSC	Primary business operation	Operating Income	Net Income after Tax	Assignment of working capital				Transactions with parent company	Note
							Beginning amount	Add	Less	Ending amount		
CSC International Holdings Ltd. Shanghai Representative	Shanghai	1997.11.27	Ruling No. 16322 by FSC on Feb. 22, 1997	Investigation of business, research of industrial technology and related information collection						-		

(4) Information on investments in China:

A. Investment in Mainland China and related information:

Unit: NT\$ thousands

Name of the investee in Mainland China	Major operations	Issued capital	Method of investment (Note 1)	Accumulated remittance as of January 1, 2016	Remittance or recoverable investment this period		Accumulated remittance as of December 31, 2016	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, 2016
					Remittance amount	Recoverable amount						
Capital True Partner Co., Ltd.	Management, consulting and information service business	5,013	C	24,372	-	-	24,372	(8,321)	30.10%	(2,384) B (2)	12,626	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service	Note 3	C	-	Note 3	-	Note 3	-	59.01%	- %	-	-

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

A. Direct investment 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 accountant.

Note 3: Capital Futures Technology (Shanghai) Co., Ltd. established in October, 2016, but the paid-in capitals CNY\$4,000 thousands was completed until January 10, 2017.

B. Quota for investment in China:

Unit: NT\$ thousands

Company Name	Accumulated investments in Mainland China	Investment Amounts Authorized by Investment Commission (MOEA)	Upper Limit on Investment regulated by Investment Commission (MOEA)
Capital International Technology Corp.	24,372	24,372	80,000

Note: The Company invests through a subsidiary to invest in Mainland China and the upper limit on investment is \$80,000.

(5) Disclosures required for securities firm investing in countries or regions without securities authority:

According to article 4, no. 5 of the letter no. 10400414001 issued by Financial Supervisory Commission on November 19, 2015, the required supplementary disclosures of the Company's information on reinvestment in overseas businesses for the year ended December 31, 2016 are as follows:

## A. Balance sheet and income statement:

## a. Balance sheet

Unit: US\$ thousands

Company	CSC International Holdings Ltd.	Taiwan International Securities (B.V.I) Corp.
Nature	December 31, 2016	December 31, 2016
Current assets	11,548	23
Long-term investments	21,517	-
Property and premises	2,249	-
Other assets	19,394	3,380
Total assets	54,708	3,403
Current liabilities	504	-
Other liabilities	86	3,408
Total liabilities	590	3,408
Common stock	45,000	9,516
Retained earnings (Accumulated deficit)	9,153	(9,439)
Cumulative translation adjustments	(35)	(82)
Total stockholders' equity	54,118	(5)
Total liabilities and stockholders' equity	54,708	3,403

## b. Income statement

Unit: US\$ thousands

Company	CSC International Holdings Ltd.	Taiwan International Securities (B.V.I) Corp.
Nature	2016	2016
Operating revenue	(721)	(26)
Operating expense	(896)	(1)
Non-operating revenue	431	-
Non-operating expense	(45)	-
Income (Loss) before tax	(1,231)	(27)
Net income (loss)	(1,231)	(27)

## B. Marketable securities held as of December 31, 2016

Unit: shares / US\$ thousands

Name of holding company	Securities types and name	Account classification	December 31, 2016	
			Shares	Book value
CSC International Holdings Ltd.	Capital Securities (Hong Kong) Ltd.	Long-term investments	4,864,400	\$ 6,759
	CSC Securities (HK) Ltd.	Long-term investments	89,600,000	14,758
	Total			<b>\$ 21,517</b>
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Other	265,000,000	<b>\$ (3,408)</b>

## C. Transactions of financial derivatives: None.

## D. Revenue on advisory and consulting service and related lawsuit: None

## 14. SEGMENT INFORMATION:

Please refer to the consolidated financial statements of the Company as of December 31, 2016.



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

Exhibit 1: Loans to others

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 (Note)	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 International Holdings Ltd.	CSC Securities (HK) Ltd.	Account receivables - Related party	Yes	US 22,289	US 19,322	US 19,322	-	2	-	Operations	-		-	US 54,118	US 54,118
2	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Ltd.	Other receivables - Related party	Yes	US 3,380	US 3,403	US 3,380	-	2	-	Operations & repayment of financing	-		-	US 3,403	US 3,403
3	TIS Securities (HK) Limited	Taiwan International Capital (HK) Ltd.	Other receivables	Yes	HK 1,463	HK 1,463	HK 1,463	-	2	-	Repayment of financing	-		-	HK 1,463	HK 1,463
4	CSC Futures (HK) Ltd.	AP CAPITAL INVESTMENT LIMITED	Account receivables - Customer	No	HK 10,856	HK 10,856	HK -	5%	2	-	Tradings	-		-	HK 10,856	HK 92,534
5	CSC Futures (HK) Ltd.	KLAW TRADING LIMITED	Account receivables - Customer	No	HK 10,856	HK 10,856	HK 775	5%	2	-	Tradings	-		-	HK 10,856	HK 92,534
6	CSC Futures (HK) Ltd.	THREE ARROWS CAPITAL LTD	Account receivables - Customer	No	HK 10,856	HK 10,856	HK 3,220	5%	2	-	Tradings	-		-	HK 10,856	HK 92,534
7	CSC Futures (HK) Ltd.	FUTURE LEADING INVESTMENT PTE LTD	Account receivables - Customer	No	HK 10,856	HK 10,856	HK -	3.5%	2	-	Tradings	-		-	HK 10,856	HK 92,534

Note: Type of Loans  
1. Business transactions  
2. Necessaries of short-term financing □

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

Exhibit 2. Disclosure required of investee companies

Ref. No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and order number of FSC	Primary business operation	Original investment amount			Equity Ownership by Company (Note 3)			Operating income of investee company	Net income or loss of investee company	Investment gain or loss recognized by the Company	Cash dividend	Note
						the period ending of	the period ending of	Ratio	Book value	Shares	Ratio					
0	Capital Investment Management Corp.	Taipei, Taiwan, R.O.C.	February 16, 1990		Engaged in providing advice on securities investment and related matters, or securities investment consultancy, analyzing the published materials on securities investments, engaged in domestic and foreign futures business.	72,515	72,515	100.00%	105,330	7,000,000	100.00%	82,000	11,646	11,646	11,410	Subsidiary
0	Capital Futures Corp.	Taipei, Taiwan, R.O.C.	February 26, 1997		Engaged in domestic and foreign futures business.	649,610	649,610	59.01%	1,869,075	72,221,126	59.01%	1,677,399	511,890	302,019	178,401	Subsidiary
0	CSC International Holdings Ltd.	British Virgin Island	March 4, 1996	No. FSC-65350 dated January 12, 1996	Long-term equity investment business.	1,339,555	1,339,555	100.00%	1,742,614	45,000,000	100.00%	(23,477)	(40,052)	(40,052)	-	Subsidiary
0	Capital Insurance Advisory Corp.	Taipei, Taiwan, R.O.C.	November 9, 2000		Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business.	3,890	3,890	100.00%	104,489	500,000	100.00%	249,915	87,396	87,396	55,627	Subsidiary
0	Capital Insurance Agency Corp.	Taipei, Taiwan, R.O.C.	November 8, 2000		Manages personal insurance agent business.	7,400	7,400	100.00%	52,200	740,000	100.00%	110,525	14,286	14,286	10,360	Subsidiary
0	Taiwan International Futures Corp. (Note 4)	Taipei, Taiwan, R.O.C.	November 25, 1993		Liquidation in progress.	429,990	429,990	99.99%	-	11,999,721	100.00%	(850)	(885)	(885)	-	Subsidiary
0	Taiwan International Securities (BVI) Corp.	British Virgin Island	December 10, 1996	No. FSC-53981	Holding company for international securities business.	1,394,817	1,394,817	100.00%	(157)	300	100.00%	(850)	(885)	(885)	-	Subsidiary
0	Taiwan International Securities Investment Consulting Corp. (Note 5)	Taipei, Taiwan, R.O.C.	March 3, 1994	No. FSC-104007513 dated July 16, 2015	Liquidation in progress.	9,992	9,992	99.92%	13,288	999,200	99.92%	-	(252)	(252)	-	Subsidiary
0	CSC Venture Capital Corp.	Taipei, Taiwan, R.O.C.	January 12, 2016	No. FSC-104007513 dated October 31, 1998	Venture Capital and consulting business	1,000,000	-	100.00%	1,006,512	100,000,000	100.00%	1,446	(4,419)	(4,419)	-	Subsidiary
1	Capital Securities (Hong Kong) Ltd. (Note 7)	Hong Kong	June 29, 1993	No. FSC-17433 dated April 7, 1993	Liquidation in progress.	HK\$48,644 thousand	HK\$48,644 thousand	100.00%	HK\$52,429 thousand	4,864,400	100.00%	HK\$1,658 thousand	HK\$1,720 thousand	-	-	Subsidiary
1	CSC Securities (HK) Ltd.	Hong Kong	May 3, 1994	No. FSC-90931 dated January 5, 1998	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong.	HK\$9,600 thousand	HK\$9,600 thousand	70.00%	HK\$114,472 thousand	89,600,000	70.00%	HK\$25,166 thousand	HK\$5,526 thousand	-	-	Subsidiary
2	CSC Securities (HK) Ltd.	Hong Kong	May 3, 1994	No. FSC-90931 dated January 5, 1998	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong.	HK\$3,400 thousand	HK\$3,400 thousand	30.00%	HK\$49,059 thousand	38,400,000	30.00%	HK\$25,166 thousand	HK\$5,526 thousand	-	-	Third-level subsidiary
3	TIS Securities (HK) Ltd. (Note 6)	Hong Kong	August 17, 1993	No. FSC-40912 dated November 4, 1993	Liquidation in progress.	HK\$265,000 thousand	HK\$265,000 thousand	100.00%	HK\$26,432 thousand	265,000,000	100.00%	HK-	HK\$203 thousand	-	-	Second-level subsidiary
4	Taiwan International Capital (HK) Ltd. (Note 6)	Hong Kong	July 16, 1997	No. FSC-110159	Liquidation in progress.	HK2	HK2	100.00%	HK\$49,216 thousand	2	100.00%	HK-	HK\$7 thousand	-	-	Third-level subsidiary
5	CSC Futures (HK) Ltd.	Hong Kong	December 9, 1998	No. FSC-86239 dated October 31, 1998 No. FSC-1010027412 dated November 18, 2014 No. FSC-102050525 dated January 29, 2014	Futures dealing business.	862,631	450,631	97.27%	928,880	214,000,000	97.27%	643,870	77,457	-	-	Second-level subsidiary
5	Capital International Technology Corp.	Taipei, Taiwan, R.O.C.	December 29, 2014	No. FSC-103038387 dated October 21, 2016	Management and consulting business. Information technology software.	50,000	50,000	100.00%	45,739	5,000,000	100.00%	2,030	(5,326)	-	-	Second-level subsidiary
5	True Partner Advisor Hong Kong Ltd.	Hong Kong	May 31, 2010	No. FSC-1040027513 dated July 16, 2015	Asset Management	36,701	36,701	49.00%	41,516	245,000	49.00%	66,027	10,276	-	-	Associates
6	Capital Securities Nominees Ltd.	Hong Kong	April 17, 1995		Agency services.	HK2	HK2	100.00%	HK-	2	100.00%	HK-	HK-	-	-	Third-level subsidiary

Note 1: (0) Capital Securities Corporation (1) CSC International Holdings Ltd. (2) Capital Securities (Hong Kong) Ltd. (3) Taiwan International Securities (BVI) Corp. (4) TIS Securities (HK) Ltd. (5) Capital Futures Corp. (6) CSC Securities (HK) Ltd.

Note 2: Includes the Company's investment in overseas business and its reinvestments in other businesses, etc.

Note 3: Book value is the investment balance according to equity method, including investment income (loss), cash dividends, and cumulative translation adjustment, etc.

Note 4: The stockholders' special meeting of Taiwan International Securities Corp. resolved to dissolve the investee company on September 18, 2008 and the liquidation procedure is ongoing.

Note 5: The stockholders' special meeting resolved to dissolve on June 27, 2012 and the liquidation procedure is ongoing.

Note 6: The board of directors of the Company resolved to dissolve the investee company on December 30, 2011.

Note 7: The board of directors of Company resolved to cease operation on October 30, 2012.

## VII Review of financial position, business performance and risk issues

### 7.1 Financial position

(Consolidated)

Unit: NTD thousands

Item \ Year	2016	2015	Difference	
			Amount	%
Current assets	94,506,013	79,591,301	14,914,712	18.74
Property and equipment	5,129,823	5,177,406	(47,583)	(0.92)
Other non-current assets	8,408,377	8,542,484	(134,107)	(1.57)
Total assets	108,044,213	93,311,191	14,733,022	15.79
Current liabilities	75,399,960	59,982,074	15,417,886	25.70
Non-current liabilities	1,799,975	1,801,450	(1,475)	(0.08)
Total liabilities	77,199,935	61,783,524	15,416,411	24.95
Capital stocks	22,690,730	23,190,730	(500,000)	(2.16)
Capital surplus	2,750,972	2,742,807	8,165	0.30
Retained earnings	4,763,521	4,697,083	66,438	1.41
Other equity interest	150,373	129,135	21,238	16.45
Treasury stocks	(835,048)	(469,155)	(365,893)	77.99
Non-controlling interests	1,323,730	1,237,067	86,663	7.01
Total shareholders' equity	30,844,278	31,527,667	(683,389)	(2.17)

(Standalone)

Item \ Year	2016	2015	Difference	
			Amount	%
Current assets	65,616,894	58,594,636	7,022,258	11.98
Property and equipment	4,389,956	4,535,525	(145,569)	(3.21)
Other non-current assets	13,000,064	12,061,158	938,906	7.78
Total assets	83,006,914	75,191,319	7,815,595	10.39
Current liabilities	51,991,187	43,403,662	8,587,525	19.79
Non-current liabilities	1,495,179	1,497,057	(1,878)	(0.13)
Total liabilities	53,486,366	44,900,719	8,585,647	19.12
Capital stocks	22,690,730	23,190,730	(500,000)	(2.16)
Capital surplus	2,750,972	2,742,807	8,165	0.30
Retained earnings	4,763,521	4,697,083	66,438	1.41
Other equity interest	150,373	129,135	21,238	16.45
Treasury stocks	(835,048)	(469,155)	(365,893)	77.99
Total shareholders' equity	29,520,548	30,290,600	(770,052)	(2.54)

Material changes in assets, liabilities, and shareholders' equity in the last two years; describe the causes and impacts of such variations, and any responsive plans:

A. Current liabilities (consolidated): The increase of NT\$15.4 billion was mainly due to additional short-term loans.

B. Treasury stocks: Additional treasury stock buybacks were made in the current period.

## 7.2 Financial performance:

(Consolidated)

Unit: NT\$ thousands

Item \ Year	2016	2015	Difference	
			Amount	%
Income	6,347,011	6,564,157	(217,146)	(3.31)
Operating expenses	5,327,077	5,199,417	127,660	2.46
Operating profits	1,019,934	1,364,740	(344,806)	(25.27)
Other income and expenses	652,299	669,295	(16,996)	(2.54)
Income before tax	1,672,233	2,034,035	(361,802)	(17.79)
Income tax	265,736	305,677	(39,941)	(13.07)
Net income from continuing operations	1,406,497	1,728,358	(321,861)	(18.62)

(Standalone)

Item \ Year	2016	2015	Difference	
			Amount	%
Income	4,147,470	5,003,528	(856,058)	(17.11)
Operating expenses	3,538,615	3,824,405	(285,790)	(7.47)
Operating profits	608,855	1,179,123	(570,268)	(48.36)
Other income and expenses	759,239	605,223	154,016	25.45
Income before tax	1,368,094	1,784,346	(416,252)	(23.33)
Income tax	171,338	235,019	(63,681)	(27.10)
Net income from continuing operations	1,196,756	1,549,327	(352,571)	(22.76)

Explanation to major variations:

- (1) Other income and expenses (standalone): The increase was mainly attributed to appreciation of NTD currency, which resulted in gain on exchange of foreign currency liabilities.
- (2) Operating profit, income before tax and net income: Operating profit, income before tax and net income had decreased compared to the previous period mainly because: (1) The brokerage segment earned lesser commission revenues compared to the previous period as investors were deterred from trading given the prevailing domestic and foreign economy; and (2) Net gains (losses) on derivatives - the rise of TAIEX caused losses to the futures hedging position undertaken by the proprietary trading department.

## VII Review of financial position, business performance and risk issues

### 7.3 Cash flow

#### 7.3.1 Cash flow analysis for 2016

Unit: NTD thousands

Cash and cash equivalents, beginning of year (1)	Net cash flow from operating activities (2)	Cash outflow for the year (3)	Cash surplus (deficit) (1)+(2)-(3)	Leverage of cash deficit	
				Investment plans	Financing plans
1,968,456	(441,870)	384,514	1,142,072	-	-

#### 7.3.2 Liquidity analysis for the last 2 years

Item \ Year	2016	2015	Variation (%)
Current ratio	-	14.83	-
Cash flow adequacy ratio	118.20	538.41	(78.05)
Cash reinvestment ratio	-	15.28	-

#### Explanation to major variations:

The decrease in cash flow adequacy ratio was mainly due to additional overseas bond investments, which resulted in an increase of net cash outflow from operating activities.

#### 7.3.3 Cash flow analysis for the coming year

Unit: NTD thousands

Cash and cash equivalents, beginning of year	Net cash flow from operating activities for the year	Projected annual Cash outflow	Projected cash surplus (deficit)	Leverage of cash deficit	
				Investment plans	Financing plans
1,142,072	2,330,509	1,820,000	1,652,581	-	-

### 7.4 Impacts of major capital expenditures in the last year to financial performance: None.

### 7.5 Causes of profit or loss incurred on investments in the last year, and any improvements or investments planned for the next year:

A. Capital Financial Group's investment strategies are consistent with the government's financial deregulations, and have been focused toward futures, brokerage, proprietary trading, underwriting, insurance agency, and venture capital. The Company follows the government's free economy and financial globalization policies. It places great emphasis on research and strives to becoming an all-round security and financial service provider. The Company's current plans include: expanding the scope of wealth management service, development of high value-adding financial instruments, exploring fundraising and distribution channels local and abroad, establishment of overseas offices, building strategic/marketing alliance, and offering cross-border investment services. All the above plans have been devised to maximize group profitability.

B. Investment plans for the coming year: None.

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## 7.6 Analysis of risk factors:

### 7.6.1 Impact of interest rate, exchange rate, and inflation on the Company's earnings, and responsive measures:

- A. Interest rate changes affect the Company's earnings mainly in the margin trading and bond trading segments (including government bonds, corporate bonds and repurchase agreements). The Company's interest rate risk exposure, in risk-equivalent terms, in 2016 was between NT\$1,119,156,000 and NT\$1,492,731,000, and averaged NT\$1,331,427,000. Currently, the Company holds very limited position in foreign currency, therefore impact of exchange rate variation on earnings is considered immaterial.
- B. Future responsive measures: The Company manages interest rate risk on bond positions by following its risk management policy and operating processes. The Company also engages other financial institutions in interest rate swap agreements and utilizes futures and derivatives to hedge against risks. Following the commencement of international securities and foreign currency derivative services, exchange rate variation now has a larger impact on the Company's earnings than it used to. In order to mitigate adverse effects of interest rate and exchange rate variations, the Company will be exercising position control and applying dynamic hedge among other market practices.
- C. Impacts of inflation on the Company's revenues and profitability are indirect and immaterial.

### 7.6.2 Policies on high-risk and highly leveraged investments, loans to third parties, endorsements / guarantees, and trading of derivatives; describe the main causes of any profits or losses incurred and future responsive measures

- A. The Company did not lend capital or offer endorsement or guarantee to any third party in the last year.
- B. The Company trades derivatives only within the scope permitted by the authority and the board of directors. It uses stop-losses as a means of risk control for proprietary trading of index futures and options. The Company undertakes Delta hedge using stock or derivative, and hedges Gamma risk using warrants or options when issuing new warrants and structured instruments, and thereby keeping risk appetite within the safety range.
- C. Future responsive measures: The Company will revise its derivative trading rules at times deemed appropriate, and adopt a market-neutral strategy to hedge exposures and manage deviations arising from the trade of derivatives.

### 7.6.3 Future research and development plans and projected expenses: The Company remains active in the development of high margin, high value-adding and problem-solving financial instruments, and will launch them at an appropriate time after permission is given by the authority. This year, the Company is expected to invest a total of NT \$20,000 thousands in the research, development, and application of techniques relating to Fin-tech issues.

### 7.6.4 Financial impacts and responsive measures in the event of changes in local and foreign regulations: None.

## VII > Review of financial position, business performance and risk issues

### 7.6.5 Financial impacts and responsive measures in the event of technological or industrial changes

A. Impacts: Advancement of Internet technology has changed the ways transactions are made and how services are delivered. This development has prompted securities firms to hire specialized IT talents and upgrade IT equipment to support the growth of electronic trading, and develop software that offers more value-adding services to customers over the Internet.

B. Responsive measures:

- (1) Hire additional IT personnel and focus on the development of professional knowledge.
- (2) Acquire new IT equipment.
- (3) Constantly renew and develop new service software for customers.

### 7.6.6 Crisis management, impacts, and responsive measures in the event of a change in corporate image: None.

### 7.6.7 Expected benefits, risks and responsible measures in relation to mergers and acquisitions

A. The Company engages in mergers and acquisitions mainly for the purpose of expanding the branch network. Doing so may bring higher market share and profitability to the Company's brokerage/margin trading service.

B. Responsive measures: All mergers and acquisitions will be subjected to due diligence assessment by relevant departments. Once merger/acquisition is completed, the Company will ensure proper database integration by the IT Department and compliance of internal control policy by relevant departments to minimize risks.

### 7.6.8 Expected benefits, risks and responsive measures associated with plant expansions: None.

### 7.6.9 Risks and responsive measures associated with concentrated sales or purchases: Not applicable.

### 7.6.10 Impacts, risks and responsive measures following a major transfer of shareholding by directors, supervisors, or shareholders with more than 10% ownership interest: None.

### 7.6.11 Impacts, risks, and responsive measures associated with a change of management: None.

### 7.6.12 Major litigation and non-contentious cases

Event	Brief of Facts	Litigants	Current progress	Litigation Start date	Value of Claim
Civil	The Plaintiff claims that the prospectus prepared by ABIT Computer Corporation for the 2002 cash issue contained false information that misled investors and caused them to suffer losses. The Company, being the underwriter of that cash issue, was being held jointly responsible under Article 32 of the Securities and Exchange Act.	Plaintiff: Securities and Futures Investors Protection Center Defendant: ABIT Computer Corporation Capital Securities Corp. and othes	The case is being reviewed by Taiwan Shilin District Court.	2006.11.23	2,003,697 (NTD)

Event	Brief of Facts	Litigants	Current progress	Litigation Start date	Value of Claim
Civil	<p>O -Te Wu, a customer of the Company's Donghu Branch, accused former sales representative O -Cheng Yeh of the fraudulent sale of Wu's shares and fraudulent withdrawal of Wu's deposit. According the Civil Code Article 188, the plaintiff claim the Company shall be jointly liable with the employee to make compensation.</p>	<p>Plaintiff: O -Te Wu  Defendant: O -Cheng Yeh  Capital Securities Corp.  Yuanta Securities Co., Ltd.  SinoPac Securities Co., Ltd.</p>	<p>According the judgement of the the first instance and the second instance,The Company did not need to be jointly liable with the employee for compensation. Customer O -Te Wu appeal to the court of third instance . The case is being reviewed by the Supreme Court.</p>	2008.06.04	36,000,000 (NTD)
Civil	<p>16 customers of Taiwan International Securities Corp. including O -Hua Lai accused Taiwan International Securities Corp. for illegal sale of GVEC products that caused them US\$1,930,000 in losses (the amount claimed during appeal of the third instance has been reduced to US\$703,919), and held Taiwan International Securities Corp. liable for compensation. Given the fact that Taiwan International Securities Corp. was dissolved after being merged by the Company, the litigation has since been assumed by the Company.</p>	<p>Plaintiff: 16 customers including O -Hua Lai (currently only 9 remain, including O -Rong Huang)  Defendant: Capital Securities Corp.  Chun Jin Co., Ltd.</p>	<p>According the judgement of the the first instance and the second instance,The Company did not liable for compensation.It has been confirmed that the Company is not liable to compensate for the losses of 7 customers including O -Hua Lai. 9 other customers including O -Rong Huang raised an appeal. The Supreme Court remand the case to the High Court. The High Court judgemanated the Company and Chun Jin Co., Ltd. shall compensate 8 customers including O -Rong Huang for a total of US\$507,928. Appeals were raised by the Company, Chun Jin Co., Ltd. and O -Hua Cheng. The Supreme Court remand the case to the High Court again . The case is being reviewed by the High Court.</p>	2010.03.02	703,919 (USD)



## VII > Review of financial position, business performance and risk issues

### 7.6.13 Risk management framework and responsibilities

Department	Responsibilities
(1) Board of Directors	<ol style="list-style-type: none"> <li>1. The highest decision-making authority with respect to risk management.</li> <li>2. Responsible for determining risk management policy and strategies.</li> <li>3. Approves the risk management system.</li> </ol>
(2) Risk Management Committee	<ol style="list-style-type: none"> <li>1. Approves the risk management system and risk management guidelines for various business activities</li> <li>2. Resolves improvements of existing business practices.</li> <li>3. Allocates risky assets and evaluates business strategies.</li> <li>4. Approves new businesses and authorized transaction limits.</li> </ol>
(3) President	<ol style="list-style-type: none"> <li>1. Reports to the board of directors on: risks of current holding position, trade performance, and accomplishment of prescribed goals.</li> <li>2. Instructs business units to take necessary actions in response to abnormal market price movements (e.g. when holding position suffers losses in excess of limit).</li> </ol>
(4) Risk Management Department	<ol style="list-style-type: none"> <li>1. Assists in the design of risk management system.</li> <li>2. Assists in setting and assigning risk limits for various departments.</li> <li>3. Ensures proper execution of approved risk management guidelines.</li> <li>4. Presents comprehensive risk management reports to the President in a timely manner.</li> <li>5. Investigates the nature of transactions before they are executed by business units. Monitors holding position after transactions are completed.</li> <li>6. Adopts advanced risk assessment technology for financial instruments with quantifiable risks.</li> <li>7. Investigates risk limits of various business units and monitors usage.</li> <li>8. Evaluates the Company's risk exposures and concentration.</li> <li>9. Develops and executes stress testing and back testing.</li> <li>10. Examines the difference between actual and expected portfolio gains/losses.</li> <li>11. Validates the product pricing and valuation models used by business units.</li> <li>12. Other risk management-related affairs.</li> </ol>
(5) Business units (Subsidiaries)	<p>Mid-office risk controllers:</p> <ol style="list-style-type: none"> <li>1. Makes regular reports on risk exposure of the business unit (subsidiary).</li> <li>2. Ensures that risk management information is conveyed in a timely and accurate manner.</li> <li>3. Ensures that risk limits are properly executed by the business unit (subsidiary).</li> <li>4. Monitors risk exposure and reports limit breach, including actions taken by the business unit (subsidiary) in response to the breach.</li> <li>5. Ensures that the business unit (subsidiary) adopts consistent assumptions and basis for its risk assessment and valuation models.</li> <li>6. Ensures that internal control procedures are effectively executed by the business unit (subsidiary) in a manner that complies with laws and the risk management policy.</li> </ol> <p>Head of business unit (subsidiary's person-in-charge):</p> <ol style="list-style-type: none"> <li>1. Oversees all risk management-related affairs of the business unit (subsidiary). Analyzes and monitors business risks within the business unit (subsidiary), and takes appropriate responses.</li> <li>2. Supervises exchange of risk management information.</li> </ol>
(6) Audit Department	<ol style="list-style-type: none"> <li>1. Investigates, on a regular basis, the adequacy of internal control practices adopted by business units in relation to trading activities.</li> <li>2. Reviews execution of risk management system within the Company, and makes accurate disclosures in the audit report. Any defects or findings discovered in an inspection must be addressed in the audit report and tracked for improvement. Follow-up reports are prepared on a regular basis to ensure that appropriate measures are undertaken by the relevant unit.</li> <li>3. Conducts monthly audit on business units and other departments to determine whether the risk management system is duly carried out, and analyzes the transaction cycle.</li> <li>4. Reviews laws that are relevant to the Company's financial and business activities, and conducts audit on how business units have complied with such laws.</li> </ol>

Department	Responsibility
(7) Finance Department	<ol style="list-style-type: none"> <li>1. Performs bookkeeping or funding according to approved contracts and trade instructions.</li> <li>2. Produces memos for off-balance sheet transactions undertaken by the Company.</li> <li>3. Performs secondary valuation on existing holding positions by obtaining price information from a quotation system that is independent from the trading department.</li> <li>4. Performs timely bookkeeping and recognizes gains/losses for completed transactions.</li> <li>5. Makes announcements according to rules of the authority.</li> </ol>
(8) Settlement & Clearing Department	<ol style="list-style-type: none"> <li>1. Holds custody and files transaction contracts.</li> <li>2. Settles and clears traded instruments.</li> <li>3. Executes claim against collateral.</li> <li>4. Reports transaction contracts to relevant authorities.</li> <li>5. Confirms transaction details.</li> </ol>
(9) Compliance and Legal Division	<ol style="list-style-type: none"> <li>1. Consults legal advisors and reviews management policies.</li> <li>2. Reviews the rights, obligations, legitimacy and documentation of transaction contracts before they are signed with counterparties.</li> <li>3. Supervises legal and compliance affairs.</li> <li>4. Supervises business units in assessing impact of new regulations on the Company's businesses.</li> <li>5. Before the launch of any new product, service or business segment, the compliance officer is required to issue a signed opinion regarding compliance with laws and internal policies.</li> </ol>
(10) Information Tech. Department	Development and maintenance of the risk management information system.

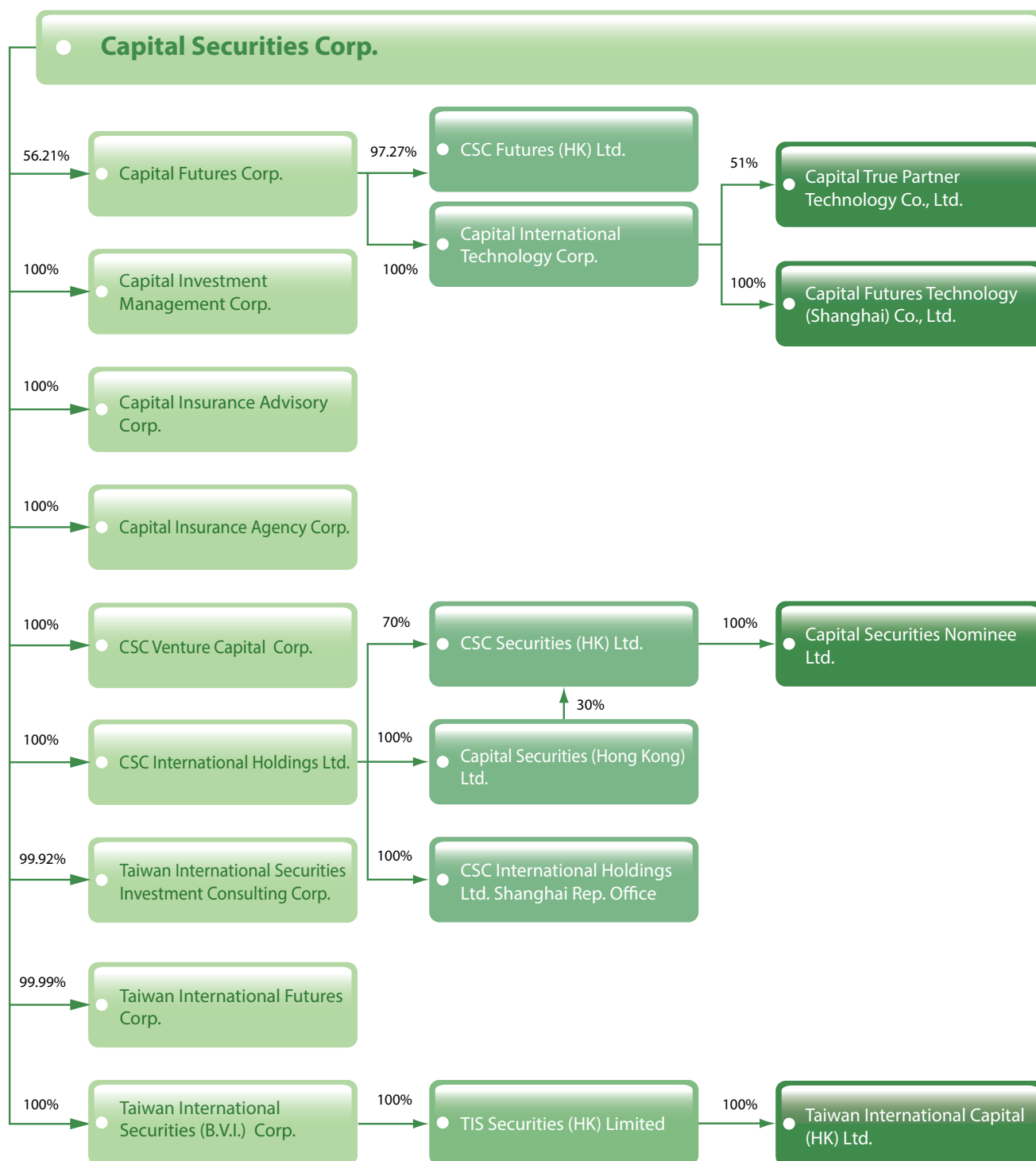
7.6.14 Other significant risks and responsive measures: None.

## 7.7 Other material issues: N/A.

## 8.1 Information of affiliated companies

### 8.1.1 Organizational chart of affiliates

As of March 31, 2017



Note 1: Chun Jin Co., Ltd., Jing Ding Co., Ltd., TIS Securities (HK) Limited, and Taiwan International Capital (HK) Ltd are currently undergoing liquidation.

Note 2: The board of directors of Capital Securities (Hong Kong) Ltd. has resolved a dissolution.

Note 3: Incorporation of Capital Futures Technology (Shanghai) Co., Ltd. was approved by Market Supervisory Administration of Shanghai Free Economy Pilot Zone on 2016/10/14

## 8.1.2 Profile of Affiliated Companies

Unit: \$

Company name	Date of Establishment	Address	Paid-up capital	Main business activities or products
Capital Futures Corp.	1997.02.26	32F and B1, No. 97, Section 2, Dunhua South Road, Taipei City	NT\$ 1,603,978,040	Futures brokerage Proprietary futures trading Futures consultation service Futures management Futures introducing broker Securities investment consulting service Proprietary securities trader Leveraged trader
Capital International Technology Corp	2014.12.29	32F, No. 97, Section 2, Dunhua South Road, Da'an District, Taipei City	NT\$ 50,000,000	Management consulting service Information and software service Data processing services Digital information supply service Retail sale of computing and business machinery equipment Retail sale of computer software All business items that are not prohibited or restricted by law, except those that are subject to special approval
Capital Investment Management Corp.	1990.02.16	4F-1, No. 97, Songren Road, Taipei City	NT\$ 70,000,000	Securities investment consulting service Fully fiduciary discretionary investment service
Capital Insurance Advisory Corp.	2000.11.09	13F, No. 97, Songren Road, Taipei City	NT\$ 5,000,000	Personal insurance broker Property insurance broker
Capital Insurance Agency Corp.	2000.11.08	13F, No. 97, Songren Road, Taipei City	NT\$ 7,400,000	Life insurance agency
CSC Venture Capital Corp.	2016.01.12	13F, No. 97, Songren Road, Taipei City	NT\$ 1,000,000,000	General investment, venture investment, investment consultancy, management consultancy, All business items that are not prohibited or restricted by law, except those that are subject to special approval
CSC International Holdings Ltd.	1996.03.04	P.O. Box 957 Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	US\$ 45,000,000	Establishment or merger of legally licensed securities, futures, banking and related businesses at the place of domicile
CSC International Holdings Ltd. Shanghai Representative Office	1997.11.27	18F New Shanghai International Tower, 360 Pudong South Road, Shanghai City	-	According to regulations, the office is only permitted to conduct market survey, industry/technology research, and gather information
Capital Securities (Hong Kong) Ltd.	1993.06.29	Rooms 3204-3207, 32F Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong	HK\$ 48,644,000	(Liquidation in progress)
CSC Securities (HK) Ltd.	1994.05.03	Rooms 3204-3207, 32F Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong	HK\$ 128,000,000	Securities brokerage, underwriting, proprietary trading, financing and other securities-related services permitted by the laws of Hong Kong

## VIII Special Remarks

Company name	Date of Establishment	Address	Paid-up capital		Main business activities or products
Capital Securities Nominee Ltd.	1995.04.07	Rooms 3204-3207, 32F Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong	HK\$	2	Agency service
CSC Futures (HK) Ltd.	1998.12.09	Rooms 3204-3207, 32F Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong	HK\$	220,000,000	Securities trading Futures trading
Capital True Partner Technology Co., Ltd	2008.08.20	No. 1 Fuxing Street, Jinjiang District, Chengdu City, Sichuan Province, China	CNY	1,000,000	Design, research and development of computer hardware, software and system; sale of proprietary technologies and products; offering of technical support and consultation (unless prohibited or restricted by state laws).
Capital Futures Technology (Shanghai) Co., Ltd.	2016.10.14	Building S, 6F, 360 Pudong South Road, Shanghai City, China	CNY	4,000,000	Wholesale, import and export of computer hardware, software and auxiliary equipment, electronic equipment, and parts and accessories to the above. (Excluding state-regulated goods; merchandises that involve quota and special authorization are requested according to state regulations). Offering of technical consultation/service, and consultation on business management.
Chun Jin Co., Ltd. (Formerly known as Taiwan International Securities Investment Consulting Corp.)	1994.03.03	13F-1, No. 97, Songren Road, Taipei City	NT\$	10,000,000	(Liquidation in progress)
Jing Ding Co., Ltd. (Formerly known as Taiwan International Futures Brokerage Corp.)	1993.11.25	13F, No. 97, Songren Road, Taipei City	NT\$	120,000,000	(Liquidation in progress)
Taiwan International Securities (B.V.I.) Corp.	1996.12.10	Tropic Isle Building, P.O. BOX 438, Road Town, Tortola, British Virgin Islands	US\$	9,516,300	Long-term equity investments
TIS Securities (HK) Limited	1993.08.17	Rooms 3204-3207, 32F Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong	HK\$	265,000,000	(Liquidation in progress)
Taiwan International Capital (HK) Ltd	1997.07.16	Rooms 3204-3207, 32F Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong	HK\$	2	(Liquidation in progress)

8.1.3 Information on shareholders presumed to have a controlling and dependent relationship:  
None

## 8.1.4 Directors, Supervisors, and President of Affiliated Companies

Unit: shares; % Date: March 31, 2017

Company name	Title	Name or name of representative	Shares held	
			Shares	Shareholding percentage
Capital Futures Corp.	Corporate entity	Capital Securities Corp.	90,222,223	56.21%
	Corporate entity	Hong Ye Investment Co., Ltd.	1,600	0.001%
	Chairman	Capital Securities Corp. - Representative: SUN, TIAN-SHAN	0	0
	Director	Capital Securities Corp. - Representative: LIU, CHING-TSUN	0	0
	Director	Capital Securities Corp. - Representative: WANG, JIUNN-CHIH	0	0
	Director	Hong Ye Investment Co., Ltd. - Representative: CHIA, CHUNG-TAO	0	0
	Independent Director	SHEA, JIA-DONG	0	0
	Independent Director	CHANG, YAO-TSAI	0	0
	Independent Director	CHUANG, CHIH-CHENG	0	0
	President	LI, WEN-CHU	142,794	0.09%
Capital International Technology Corp.	Corporate entity	Capital Futures Corp.	5,000,000	100%
	Chairman	Capital Futures Corp. - Representative: SUN, TIAN-SHAN	0	0
	Director	Capital Futures Corp. - Representative: CHIA, CHUNG-TAO	0	0
	Director	Capital Futures Corp. - Representative: CHEN, WEN-TSAI	0	0
	Supervisor	Capital Futures Corp. - Representative: LIN, LI-CHUAN	0	0
Capital Investment Management Corp.	Corporate entity	Capital Securities Corp.	7,000,000	100%
	Chairman	Capital Securities Corp. - Representative: TSAI, MING-YEN	0	0
	Director	Capital Securities Corp. - Representative: LIN, YEN-YU	0	0
	Director	Capital Securities Corp. - Representative: KUO, HSING-LAN	0	0
	Supervisor	Capital Securities Corp. - Representative: LI, MEI-YU	0	0
Capital Insurance Advisory Corp.	Corporate entity	Capital Securities Corp.	500,000	100.00%
	Chairman	Capital Securities Corp. - Representative: CHIU, CHAO-CHIEN	0	0
	Director	Capital Securities Corp. - Representative: WENG, CHIN-NENG	0	0
	Director	Capital Securities Corp. - Representative: ZHANG, PEI-WEN	0	0
	Supervisor	Capital Securities Corp. - Representative: TAN, DE-CHENG	0	0
	President	FANG, YA-RONG	0	0
Capital Insurance Agency Corp.	Corporate entity	Capital Securities Corp.	740,000	100.00%
	Chairman	Capital Securities Corp. - Representative: CHIU, CHAO-CHIEN	0	0
	Director	Capital Securities Corp. - Representative: WENG, CHIN-NENG	0	0
	Director	Capital Securities Corp. - Representative: ZHANG, PEI-WEN	0	0
	Supervisor	Capital Securities Corp. - Representative: TAN, DE-CHENG	0	0
	President	Wen-Tung Hsu	0	0

## VIII Special Remarks

Company name	Title	Name or name of representative	Shares held	
			Shares	Shareholding percentage
CSC Venture Capital Corp.	Corporate entity	Capital Securities Corp.	100,000,000	100%
	Chairman	Capital Securities Corp. - Representative: WANG, JIUNN-CHIH	0	0
	Director and President	Capital Securities Corp. - Representative: CHAO, YONG-FEI	0	0
	Director	Capital Securities Corp. - Representative: HUNG, YUNG-PEI	0	0
	Supervisor	Capital Securities Corp. - Representative: TAN, DE-CHENG	0	0
CSC International Holdings Ltd.	Corporate entity	Capital Securities Corp.	45,000,000	100.00%
	Director	Capital Securities Corp. - Representative: WANG, JIUNN-CHIH	0	0
	Director	Capital Securities Corp. - Representative: WENG, CHIN-NENG	0	0
Capital Securities (Hong Kong) Ltd.	Corporate entity	CSC International Holdings Ltd.	48,644,000	100.00%
	Director	CSC International Holdings Ltd. - Representative: WANG, JIUNN-CHIH	0	0
	Director	CSC International Holdings Ltd. - Representative: TAN, TE-CHENG	0	0
	Director	CSC International Holdings Ltd. - Representative: YAO Chung-Jyh	0	0
	Director	CSC International Holdings Ltd. - Representative: WENG, CHIN-NENG	0	0
CSC Securities (HK) Ltd.	Corporate entity	CSC International Holdings Ltd.	89,600,000	70.00%
	Corporate entity	Capital Securities (Hong Kong) Ltd.	38,400,000	30.00%
	Director	CSC International Holdings Ltd. - Representative: WANG, JIUNN-CHIH	0	0
	Director	Capital Securities (Hong Kong) Ltd. - Representative: LIN, SHOU-TONG	0	0
	Director	Capital Securities (Hong Kong) Ltd. - Representative: CHANG, TUN-FU	0	0
Capital Securities Nominee Ltd.	Corporate entity	CSC Securities (HK) Ltd.	2	100.00%
	Director	CSC Securities (HK) Ltd. - Representative: CHANG, TUN-FU	0	0
	Director	CSC Securities (HK) Ltd. - Representative: WENG, CHIN-NENG	0	0
CSC Futures (HK) Ltd.	Corporate entity	Capital Futures Corp.	214,000,000	97.27%
	Director	Capital Futures Corp. - Representative: WANG, JIUNN-CHIH	0	0
	Director	Capital Futures Corp. - Representative: CHANG, TUN-FU	0	0
	Director	Capital Futures Corp. - Representative: WENG, CHIN-NENG	0	0
	Director	Capital Futures Corp. - Representative: KAO, CHENG-YUNG	0	0
	Director	Capital Futures Corp. - Representative: LIANG, CHENG-CHUNG	0	0
	Director	Capital Futures Corp. - Representative: SUN, TIEN-SHAN	0	0

Company name	Title	Name or name of representative	Shares held	
			Shares	Shareholding percentage
Capital True Partner Technology Co., Ltd.	Corporate entity	Capital International Technology Corp.	510,000	51%
	Corporate entity	True Partner China Holding Limited	490,000	49%
	Chairman	Capital International Technology Corp - Representative: LI, YI-FANG	0	0
	Director	Capital International Technology Corp - Representative: SUN, TIAN-SHAN	0	0
	Director	True Partner China Holding Limited - Representative: Ralph Paul Johan VAN PUT	0	0
	Director	True Partner China Holding Limited - Representative: Tobias Benjamin Hekster	0	0
	Supervisor	Capital International Technology Corp - Representative: CHIA, CHUNG-TAO	0	0
	Supervisor	True Partner China Holding Limited - Representative: Remco Janssen	0	0
	President	DENG, YI	0	0
Capital Futures Technology (Shanghai) Co., Ltd.	Corporate entity	Capital International Technology Corp	4,000,000	100%
	Chairman	Capital International Technology Corp - Representative: SUN, TIAN-SHAN	0	0
	Director	Capital International Technology Corp - Representative: CHIA, CHUNG-TAO	0	0
	Director	Capital International Technology Corp - Representative: LI, WEN-CHU	0	0
	Supervisor	Capital International Technology Corp - Representative: CHEN, WEN-TSAI	0	0
	President	HUNG, MING-NAN	0	0
Chun Jin Co., Ltd. (Liquidation in progress)	Corporate entity	Capital Securities Corp.	999,200	99.92%
	Liquidator	TSAI, MING-YEN	100	0.01%
	Supervisor	Capital Securities Corp. - Representative: HUANG, YEN-HSIANG	0	0
Jing Ding Co., Ltd. (Liquidation in progress)	Corporate entity	Capital Securities Corp.	11,999,721	99.99%
	Liquidator	KUO, HSU-KUANG	0	0
	Liquidator	LIU, CHUN-LIANG	0	0
	Supervisor	Capital Securities Corp. - Representative: HUANG, YEN-HSIANG	0	0
Taiwan International Securities (B.V.I.) Corp.	Legal person	TIS Securities (HK) Limited	9,516,300	100.00%
	Director	TIS Securities (HK) Limited's representative: WENG, CHIN-NENG	0	0
TIS Securities (HK) Limited (Liquidation in progress)	Corporate entity	Taiwan International Securities (B.V.I.) Corp.	265,000,000	100.00%
	Director	Taiwan International Securities (B.V.I.) Corp. - Representative: WENG, CHIN-NENG	0	0
	Director	Taiwan International Securities (B.V.I.) Corp. - Representative: HUANG, SHAO-MEI	0	0
Taiwan International Capital (HK) Ltd. (Liquidation in progress)	Corporate entity	TIS Securities (HK) Limited	2	100.00%
	Director	TIS Securities (HK) Limited - Representative: WENG, CHIN-NENG	0	0



## VIII Special Remarks

### 8.1.5 Operational Overview of Affiliated companies

Unit: NTD thousands

Company name	Capital	Total assets	Total liabilities	Net worth	Operating revenues	Operating profit	Current period profit/loss (after-tax)	EPS (\$) (after-tax)
Capital Futures Corp.	1,223,979	25,883,246	22,715,857	3,167,389	1,677,309	333,681	511,809	4.18
Capital International Technology Corp	50,000	46,558	496	46,062	2,030	(1,189)	(5,326)	(1.07)
Capital Investment Management Corp.	70,000	122,869	17,539	105,330	82,000	12,802	11,646	1.66
Capital Insurance Advisory Corp.	5,000	135,150	30,661	104,489	249,915	104,690	87,396	174.79
Capital Insurance Agency Corp.	7,400	59,824	7,624	52,200	110,525	17,430	14,286	19.30
CSC Venture Capital Corp.	1,000,000	1,008,075	1,563	1,006,512	1,446	(9,366)	(4,419)	(0.04)
CSC International Holdings Ltd. (Note 1)	1,449,000	1,761,605	18,991	1,742,614	(23,477)	(52,622)	(40,052)	(0.89)
Capital Securities (Hong Kong) Ltd. (Note 1)(Note 6)	200,802	216,426	-	216,426	(6,958)	(7,253)	(7,246)	(1.49)
CSC Securities (HK) Ltd. (Note 1)	528,384	1,414,651	739,597	675,054	105,620	(52,894)	(23,192)	(0.18)
Capital Securities Nominee Ltd. (Note 1)	-	-	-	-	-	-	-	0.00
CSC Futures (HK) Ltd. (Note 1)	862,631	3,518,441	2,563,491	954,950	643,870	85,100	77,457	0.36
Capital True Partner Technology Co., Ltd	5,013	4,181	4,905	(724)	7,859	(8,602)	(8,321)	NA
Chun Jin Co., Ltd. (Note 2)	10,000	13,581	272	13,309	-	(294)	(252)	(0.25)
Jing Ding Co., Ltd. (Note 3)	120,000	353,706	290,490	63,216	-	(3,108)	7,813	0.65
Taiwan International Securities (B.V.I.) Corp. (Note 1)	306,425	109,569	109,726	(157)	(850)	(885)	(885)	(2,948.86)
TIS Securities (HK) Limited (Note 1) (Note 4)	1,093,920	1,967	111,077	(109,110)	-	(946)	(850)	(0.00)
Taiwan International Capital (HK) Ltd. (Note 1) (Note 5)	-	69,168	272,330	(203,162)	-	(36)	(30)	(15,132.91)

Note 1: Capital Securities Corp. (the parent company) had adjusted and recognized net worth and profit and loss of its subsidiaries using the following exchange rates as at December 31, 2016:

Assets and liabilities: TWD/USD = 32.20/1; TWD/HKD = 4.128/1; TWD/CNY = 4.592/1.

Profit and loss: TWD/USD = 32.5375/1; TWD/HKD = 4.197/1; TWD/CNY = 4.806/1.

Note 2: During the annual general meeting of Chun Jin Co., Ltd. held on June 27, 2012, a resolution was made to dissolve the company. The entity is currently undergoing liquidation.

Note 3: During the extraordinary shareholder meeting of Jing Ding Co., Ltd. held on September 18, 2008, a resolution was made to dissolve the company. The entity is currently undergoing liquidation.

Note 4: During the board of directors meeting of TIS Securities (HK) Limited held on December 30, 2011, a resolution was made to dissolve the company.

Note 5: During the board of directors meeting of Taiwan International Capital (HK) Ltd. held on December 30, 2011, a resolution was made to dissolve the company.

Note 6: Capital Securities (Hong Kong) Ltd. had already been liquidated on December 30, 2016.

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**8.2 Private placement of securities in the last year up till the publication date of this annual report:** None

**8.3 Holding or disposal of the Company's shares by subsidiaries in the last financial year, up till the publication date of this annual report:** None

**8.4 Other supplementary information:**

Industry-specific KPI (Key Performance Indicator):

Capital adequacy ratio: 391% (December 31, 2016)

342% (March 31, 2017)

## IX > Occurrences of significant impact on shareholders' equity or security prices

Any occurrences of events defined under Subparagraph 2, Paragraph 3, Article 36 of the Securities and Exchange Act in 2016 up till the publication date of this annual report that significantly impacted shareholders' equity or security prices:

None.

**Capital Securities Corp.**

Capital Center, No.101, Songren Rd., Xinyi Dist., Taipei City 11073, Taiwan, R.O.C.

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**Brokerage Department**

Capital Center, No.101, Songren Rd., Xinyi Dist., Taipei City 11073, Taiwan, R.O.C.

TEL : 886-2-87898888 FAX : 886-2-87892961

**Investment Banking Department**

Capital Center, No.101, Songren Rd., Xinyi Dist., Taipei City 11073, Taiwan, R.O.C.

TEL : 886-2-87898888 FAX : 886-2-87892950

**Registrar Agency Department**

B2F., No.97, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 10601, Taiwan, R.O.C.

TEL : 886-2-27035000 FAX : 886-2-27085000

**Fixed Income Department**

Capital Center, No.101, Songren Rd., Xinyi Dist., Taipei City 11073, Taiwan, R.O.C.

TEL : 886-2-87898888 FAX : 886-2-87892955

**Derivatives Department**

Capital Center, No.101, Songren Rd., Xinyi Dist., Taipei City 11073, Taiwan, R.O.C.

TEL : 886-2-87898888 FAX : 886-2-87892948

**Proprietary Trading Department**

Capital Center, No.101, Songren Rd., Xinyi Dist., Taipei City 11073, Taiwan, R.O.C.

TEL : 886-2-87898888 FAX : 886-2-87892947

**Wealth Management Department**

Capital Center, No.101, Songren Rd., Xinyi Dist., Taipei City 11073, Taiwan, R.O.C.

TEL : 886-2-87898888 FAX : 886-2-27237971

**Brokerage Division**

Capital Center, 4F., No.101, Songren Rd., Xinyi Dist., Taipei City 11073, Taiwan, R.O.C.

TEL : 886-2-87808888 FAX : 886-2-27226767

**Jhongsiao Branch**

15F., No.87, Sec. 4, Zhongxiao E. Rd., Da'an Dist., Taipei City 10690, Taiwan, R.O.C.

TEL : 886-2-27771077 FAX : 886-2-27316236

**Dunnan Branch**

B1F.-1, No.97, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 10601, Taiwan, R.O.C.

TEL : 886-2-27052888 FAX : 886-2-27064530

**Xinyi Branch**

6F., No.132, Songshan Rd., Xinyi Dist., Taipei City 11090, Taiwan, R.O.C.

TEL : 886-2-27688299 FAX : 886-2-27687966

**Nanjing Branch**

9F., No.71, Sec. 2, Nanjing E. Rd., Zhongshan Dist., Taipei City 10457, Taiwan, R.O.C.

TEL : 886-2-25427088 FAX : 886-2-25716694

**Xisong Branch**

3F., No.213, Sec. 5, Nanjing E. Rd., Songshan Dist., Taipei City 10569, Taiwan, R.O.C.

TEL : 886-2-27683388 FAX : 886-2-27633252

**Guanqian Branch**

5F., No.49, Guanqian Rd., Zhongzheng Dist., Taipei City 10047, Taiwan, R.O.C.

TEL : 886-2-23615678 FAX : 886-2-23119140

**Guting Branch**

1F., No.85, Sec. 2, Nanchang Rd., Zhongzheng Dist., Taipei City 10084, Taiwan, R.O.C.

TEL : 886-2-23279288 FAX : 886-2-23567201

**Jhongsan Branch**

2F., No.372, Linsen N. Rd., Zhongshan Dist., Taipei City 10446, Taiwan, R.O.C.

TEL : 886-2-21002798 FAX : 886-2-21002780

**Shilin Branch**

1F., No.118-1, Zhongzheng Rd., Shilin Dist., Taipei City 11145, Taiwan, R.O.C.

TEL : 886-2-28380567 FAX : 886-2-28312433

**Donghu Branch**

8F., No.460, Sec. 5, Chenggong Rd., Neihu Dist., Taipei City 11490, Taiwan, R.O.C.

TEL : 886-2-26333988 FAX : 886-2-26333987

**Tianmu Branch**

3F., No.18, Sec. 7, Zhongshan N. Rd., Shilin Dist., Taipei City 11152, Taiwan, R.O.C.

TEL : 886-2-28767388 FAX : 886-2-28767377

**Neihu Branch**

6F., No.50, Sec. 4, Chenggong Rd., Neihu Dist., Taipei City 11489, Taiwan, R.O.C.

TEL : 886-2-27911999 FAX : 886-2-27925974

**Taipei Branch**

4F., No.30, Sec. 1, Chongqing N. Rd., Datong Dist., Taipei City 10350, Taiwan, R.O.C.

TEL : 886-2-25561133 FAX : 886-2-25551297

**Yanping Branch**

4F., No.96, Sec. 2, Yanping N. Rd., Datong Dist., Taipei City 10344, Taiwan, R.O.C.

TEL : 886-2-25553888 FAX : 886-2-25580964

**Wanhua Branch**

B1F., No.203, Sec. 2, Xiyuan Rd., Wanhua Dist., Taipei City 10864, Taiwan, R.O.C.

TEL : 886-2-23097211 FAX : 886-2-23396955

**Songshan Branch**

11F., No.130, Sec. 4, Nanjing E. Rd., Songshan Dist., Taipei City 10553, Taiwan, R.O.C.

TEL : 886-2-25708889 FAX : 886-2-25706776

**Da'an Branch**

2F., No.169, Sec. 4, Zhongxiao E. Rd., Da'an Dist., Taipei City 10690, Taiwan, R.O.C.

TEL : 886-2-27730899 FAX : 886-2-87719629

**Da Hsing Branch**

6F., No.270, Sec. 4, Zhongxiao E. Rd., Da'an Dist., Taipei City 10694, Taiwan, R.O.C.

TEL : 886-2-55585558 FAX : 886-2-27738180

**Yonghe Branch**

2F., No.353, Fuhe Rd., Yonghe Dist., New Taipei City 23450, Taiwan, R.O.C.

TEL : 886-2-29207777 FAX : 886-2-29296363

**Banciao Branch**

3F., No.216, Sec. 1, Sanmin Rd., Banciao Dist., New Taipei City 22067, Taiwan, R.O.C.

TEL : 886-2-89518089 FAX : 886-2-89518076

**Tucheng Branch**

1F., No.261, Sec. 1, Zhongyang Rd., Tucheng Dist., New Taipei City 23665, Taiwan, R.O.C.

TEL : 886-2-22625988 FAX : 886-2-22610074

**Xindian Branch**

2F.-5, No.262, Sec. 2, Beixin Rd., Xindian Dist., New Taipei City 23143, Taiwan, R.O.C.

TEL : 886-2-29121818 FAX : 886-2-29113568

**Xinzhuan Branch**

2F., No.160, Sec. 2, Zhonghua Rd., Xinzhuan Dist., New Taipei City 24246, Taiwan, R.O.C.

TEL : 886-2-89918899 FAX : 886-2-89914587

**Danfong Branch**

1F., No.16, Fuguo Rd., Danfong Dist., New Taipei City 24267, Taiwan, R.O.C.

TEL : 886-2-29082388 FAX : 886-2-29082333

**Nan sanchong Branch**

1F., No.97, Zhengyi S. Rd., Sanchong Dist., New Taipei City 24142, Taiwan, R.O.C.

TEL : 886-2-29734388 FAX : 886-2-29734998

**Haishan Branch**

3F., No.30-2, Dongmen St., Haishan Dist., New Taipei City 22055, Taiwan, R.O.C.

TEL : 886-2-29699977 FAX : 886-2-29696300

**Keelung Branch**

8F., No.255, Ren 2nd Rd., Ren'ai Dist., Keelung City 200, Taiwan, R.O.C.

TEL : 886-2-24221212 FAX : 886-2-24262444

**Taoyuan Branch**

4F., No.32, Sec. 1, Chenggong Rd., Taoyuan City, Taoyuan County 33043, Taiwan, R.O.C.

TEL : 886-3-3377555 FAX : 886-3-3373003

**Jhongli Branch**

3F., No.88, Zhongshan Rd., Zhongli City, Taoyuan County 32041, Taiwan, R.O.C.

TEL : 886-3-4278699 FAX : 886-3-4278611

**Xinli Branch**

4F., No.18, Sec. 1, Zhongmei Rd., Xinli City, Taoyuan County 32085, Taiwan, R.O.C.

TEL : 886-3-4270888 FAX : 886-3-4279974

**Hsinchu Branch**

5F., No.307, Beida Rd., North Dist., Hsinchu City 30044, Taiwan, R.O.C.

TEL : 886-3-5237777 FAX : 886-3-5235555

**Jingguo Branch**

3F., No.62, Sec. 2, Jingguo Rd., North Dist., Hsinchu City 30051, Taiwan, R.O.C.

TEL : 886-3-5317777 FAX : 886-3-5327799

**Zhunan Branch**

5F., No.87, Minzu St., Zhunan Township, Miaoli County 35041, Taiwan, R.O.C.

TEL : 886-37-478345 FAX : 886-37-465010

**Taichung Branch**

1F., No.40, Zhongming S. Rd., West Dist., Taichung City 40361, Taiwan, R.O.C.

TEL : 886-4-23200088 FAX : 886-4-23230317

**Jiancheng Branch**

2F., No.735, Jiancheng Rd., East Dist., Taichung City 40150, Taiwan, R.O.C.

TEL : 886-4-22830099 FAX : 886-4-22830055

**Minquan Branch**

4F., No.91, Minquan Rd., West Dist., Taichung City 40341, Taiwan, R.O.C.

TEL : 886-4-22208822 FAX : 886-4-22204208

**Chongde Branch**

B1-1., No.416, Sec. 2, Chongde Rd., Beitun Dist., Taichung City 40653, Taiwan, R.O.C.

TEL : 886-4-22468899 FAX : 886-4-22462783

**Zhonggang Branch**

1F., No.369, Sec. 2, Daren Rd., Wuqi Dist., Taichung City 43542, Taiwan, R.O.C.

TEL : 886-4-26577599 FAX : 886-4-26574837

**Dajia Branch**

2F., No.295, Jiangong Rd., Dajia Dist., Taichung City 43745, Taiwan, R.O.C.

TEL : 886-4-26882828 FAX : 886-4-26882882

**Tanzi Branch**

No.418, Xinghua 1st Rd., Tanzi Dist., Taichung City 42757, Taiwan, R.O.C.

TEL : 886-4-25319898 FAX : 886-4-25315779

**Changhua Branch**

6F., No.279, Minsheng Rd., Changhua City, Changhua County 50045, Taiwan, R.O.C.

TEL : 886-4-7250888 FAX : 886-4-7251366

**Chiayi Branch**

1F., No.87, Chuiyang Rd., East Dist., Chiayi City 60043, Taiwan, R.O.C.

TEL : 886-5-2258666 FAX : 886-5-2246978

**Tainan Branch**

3F., No.76, Sec. 2, Minsheng Rd., West Central Dist., Tainan City 70054, Taiwan, R.O.C.

TEL : 886-6-2252588 FAX : 886-6-2252388

### Dungmen Branch

4F., No.97, Sec. 1, Beimen Rd., West Central Dist., Tainan City 70044, Taiwan, R.O.C.

TEL : 886-6-2290077 FAX : 886-6-2295611

### Kaiyuan Branch

3F., No.280, Kaiyuan Rd., North Dist., Tainan City 70456, Taiwan, R.O.C.

TEL : 886-6-2348899 FAX : 886-6-2348800

### Kaohsiung Branch

1F., No.165, Hedong Rd., Qianjin Dist., Kaohsiung City 80144, Taiwan, R.O.C.

TEL : 886-7-2150077 FAX : 886-7-2151414

### Sanmin Branch

1F., No.169, Yangming Rd., Sanmin Dist., Kaohsiung City 80773, Taiwan, R.O.C.

TEL : 886-7-3952588 FAX : 886-7-3869191

### Gausheng Branch

1F., No.505, Zhongshan 2nd Rd., Qianjin Dist., Kaohsiung City 80146, Taiwan, R.O.C.

TEL : 886-7-2615211 FAX : 886-7-2110089

### Xinxing Branch

4F., No.247, Minsheng 1st Rd., Xinxing Dist., Kaohsiung City 80046, Taiwan, R.O.C.

TEL : 886-7-2264999 FAX : 886-7-2269111

### North Kaohsiung Branch

3F., No.317, Minghua Rd., Gushan Dist., Kaohsiung City 80453, Taiwan, R.O.C.

TEL : 886-7-5559933 FAX : 886-7-5597000

### Fengshan Branch

1F., No.8, Yongfeng Rd., Qianzhen Dist., Kaohsiung City 80643, Taiwan, R.O.C.

TEL : 886-7-7169788 FAX : 886-7-7168559

### Rueifeng Branch

2F., No.174, Sanduo 1st Rd., Lingya Dist., Kaohsiung City 80282, Taiwan, R.O.C.

TEL : 886-7-7211828 FAX : 886-7-7110238

### Pingtung Branch

3F., No.9, Yongfu Rd., Pingtung City, Pingtung County 90075, Taiwan, R.O.C.

TEL : 886-8-7339602 FAX : 886-8-7339280

### Yilan Branch

5F., No.50, Jiucheng S. Rd., Yilan City, Yilan County 26043, Taiwan, R.O.C.

TEL : 886-3-9331999 FAX : 886-3-9328274

### Capital Securities Corp.Offshore Securities Unit

Capital Center, 4F., No.101, Songren Rd., Xinyi Dist., Taipei City 11073, Taiwan, R.O.C.

TEL : 886-2-87898888 FAX : 886-2-87892939

### Capital Futures Corp.

81F., No.97, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 10682, Taiwan, R.O.C.

TEL : 886-2-27002888 FAX : 886-2-27059777

### Capital International Technology Corp.

32F., No.97, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 10682, Taiwan, R.O.C.

TEL : 886-2-27061077

### Capital True Partner Technology Co.,Ltd.

No.1 Fuxing Street, Jinjiang District, Chengdu, Sichuan, P. R. China

TEL : (8628)6555-2888 FAX : (8628)6555-2999

### Capital Futures Technology (Shanghai) Co., Ltd.

65 New Shanghai International Tower, No. 360 Pudong Road(S), Shanghai, China (200120).

TEL : (8621)6882-5928

### Capital Investment Management Corp.

Capital Center, 4F.-1, No.97, Songren Rd., Xinyi Dist., Taipei City 11073, Taiwan, R.O.C.

TEL : 886-2-87806789 FAX : 886-2-87892760

### Capital Insurance Advisory Corp.

Capital Center, 13F., No.97, Songren Rd., Xinyi Dist., Taipei City 11073, Taiwan, R.O.C.

TEL : 886-2-87896777 FAX : 886-2-87893174

### Capital Insurance Agency Corp.

Capital Center, 13F., No.97, Songren Rd., Xinyi Dist., Taipei City 11073, Taiwan, R.O.C.

TEL : 886-2-87896777 FAX : 886-2-87893174

### CSC Venture Capital Corp.

Capital Center, 13F., No.97, Songren Rd., Xinyi Dist., Taipei City 11073, Taiwan, R.O.C.

TEL : 886-2-87899988 FAX : 886-2-87899898

### CSC Securities (HK) Ltd.

Units 3204-3207, 32F, Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong

TEL : (852)2530-9966 FAX : (852)2104-6006

### CSC Futures (HK) Ltd.

Units 3204-3207, 32F, Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong

TEL : (852)2530-9966 FAX : (852)2104-6006

### CSC International Holdings Ltd. Shanghai Rep. Office

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TEL : (8621)5888-7188 FAX : (8621)5888-2929



**CAPITAL**

**群益金鼎證券股份有限公司**  
**CAPITAL SECURITIES CORP.**

**Chairman Alex Jiunn-Chih Wang**

