

2017

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.

Taiwan Stock Exchange Market Observation Post System:

<http://mops.twse.com.tw>

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

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Annual Report

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Name: XIE, YU-LIN;

HUANG, CHI-MING

Title: Senior Vice President; Executive Vice President

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▪ Headquarters & Branches

Headquarters

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Tel: 886-2-8789-8888

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▪ Auditors in the most recent year

KPMG

Auditors: Lee, Feng Hui; Chung, Tan Tan

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▪ Corporate Website

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

▪ Overseas Securities Exchange

N/A

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I. Letter to Shareholders

Dear Shareholders:

According to the global economic prospect report released by OECD in June 2017, the economies of the 45 countries it traces are expected to witness a simultaneous expansion for the first time since 2007. The Wall Street Journal further pointed out on August 23 that there have been only three similar situations in the past 50 years. In 2017, global stock markets continued to go higher in the thriving global economic environment.

There are three major milestones in the development of Taiwan stocks in 2017. First, the Taiwan Stock Index dissolved the 10,000 spell over the years after it hit ten thousand points in May, raising the confidence of domestic funds in their investment in Taiwan stocks. Secondly, the development of big data and AI applications led the Nasdaq and Philadelphia Semiconductor Index in the U.S. to hit new highs, and the Taiwan stock market, with technology stocks accounting for more than half of the market capitalization, also attracted active foreign investment. Thirdly, the stock price of Largan Precision hit a record high for one single stock, and the ratio of TSMC's market capitalization to that of the entire Taiwan stock market also hit a record high, making the high-growth blue chip stocks once again the mainstream of Taiwan stocks.

The Company's management team promotes business development in a steady and positive manner to create the Company's operating performance. With shareholders' and Directors' support and all colleagues' efforts, the Company's pre-tax profit in 2017 reached NT\$3,083,354 thousand, an increase of 125.38% from NT\$1,368,094 thousand in 2016. The net profit after tax was NT\$2,893,600 thousand, a growth of 141.79% from NT\$1,196,756 thousand in 2016.

The business operations in 2017 are described as follows:

- I. **Brokerage:** The market share was 4.2187% of the centralized trading market for the whole year, and the market share was 5.2524% of the over-the-counter market. The overall market share was 4.4696%; the business scale ranked the fifth among all brokerage firms, and the first among independent brokerage firms.
- II. **Investment Banking:** In 2017, the Company led the OTC listing case of Promate Solutions. On the secondary market, the Company launched the CB of Easywell Biomedicals and SPOs for the cash capital increase of Atomtech Group and Chime Ball Technology. The Company's underwriting team has rich experience and has been entrusted to complete domestic and overseas cases with different sizes and types.
- III. **Derivatives Products:** In 2017, the amount of the Company's issuance of warrants totaled NT\$42.636 billion, and the number of warrants issued was 4,235; the issuance amount and the number of issuances ranked the second on the market. The Company's annual issuance amount of structured products was NT\$16.675 billion.
- IV. **Fixed Income:** In the whole year, the Company participated in the bidding for issuance of six domestic straight corporate bonds, accounting for 10% of the market share and ranking the fifth among all securities firms. The Company's cumulative amount of public bidding for domestic straight corporate bonds reached NT\$32.97 billion, accounting for 12.95% of the market share and ranking the second among all securities firms. The major cases of the Company's large-sale corporate bond underwriting include well-known domestic companies such as Taipower, Hon Hai Precision, Far Eastern New Century, Uni-President Enterprise, Pegatron Corporation and Yulon Motor.

Capital Securities takes the vision of "providing high value-added services that exceed customer expectations, and becoming the partner for long-term customer growth", and creates financial services that surpass its peers through innovative business models and high-quality financial products. The Company won several awards in 2017:

1. The "Best Non-Financial Holding Brand Image Award" in Excellence Magazine's "2017 Excellent Financial Securities Service Review".
2. The "Best Wealth Management Team Award" of the Wealth Magazine's management award.
3. The "Best Brokerage Image Quality Award" of the "2017 Wealth Magazine's Financial Award".
4. The "Best Wealth Management Securities Excellence Award" and the "Best Wealth Growth Award" of Business Today's "2017 Wealth Management Bank and Securities Firm Review".
5. The Taiwan Stock Exchange's "Trading Award for Warrant Issuers and Stock Brokers" for the Company's second place in the number of new warrants issued and the third place in the value of warrants issued.
6. The Futures Exchange's "3rd Futures Diamond Award" for the Company's second place in futures trading volume among securities firms, the second place in futures trading volume growth among securities firms, and the fourth place in introducing broker's trading volume.
7. The Shanghai Representative Office won the first place in Thomson Reuters StarMine's "Media Industry Profit Forecast" in the Asia Pacific region in 2017.
8. The "Top 100 Innovative Product Award" in the Information Month of 2017; the Company was the only award-winning financial institution in the Financial Technology Group.

Looking forward to 2018, China and the United States have both promoted tax reforms and lowered income taxes of enterprises and individuals. It is expected that it will lead to a further growth of corporate investment and private consumption, thereby increasing the energy for global economic growth.

However, the Fed began to implement a reduction plan in October 2017, and it is expected that it will continue reducing another US\$420 billion in 2018. The European Central Bank (ECB) will reduce the scale of bond purchases by half since 2018, and China also declares to continue reducing financial leverage and implement risk-prevention policies. The global ultra-loose capital environment will be reversed, and this will be disadvantageous for the stock prices to go higher. The technology industry which is closely linked to the Taiwan stock market has been filled with bad news, such as the downward adjustment of the shipment volume of Apple's iPhone X and the outbreak of Facebook's personal information leakage, which seriously impacts the prices of FANG stocks, the focus of bullish U.S. stocks, and will increase the volatility of Taiwan stocks.

On the other hand, the recovery of the economy led to the rise of raw material prices, causing concerns over possible inflation. Besides, frequent geopolitical conflicts and the Trump administration's start of a trade protection war increase the volatility of the market. In addition to continuing to promote the diversification of profit sources, it is necessary to implement a disciplined risk control mechanism in response to the above.

In 2018, the Company's operational planning and business development strategies are as follows:

1. Actively transform traditional channels into digital channels, and create channel advantages and values to improve the Company's operating efficiency.
2. Carry out customer classification through the analysis of financial data, and increase the promotion of niche-type products (including overseas corporate bonds, structured products, ETFs and fixed-term and fixed-amount Taiwan stock investment), so as to develop the competitive advantage of the

Company's differentiation in its wealth management business, and make the Company a forward-looking brand of wealth management business.

3. Refine the underwriting team, diversify underwriting cases and focus on high value-added cases in order to become an investment bank with a stable profit.
4. Develop domestic and foreign customers, and strive to sell fixed-income products and issue corporate bonds. Steadily expand foreign-currency bond positions while developing products and channels.
5. Provide diversified derivative financial products (ELN/PNG/ETF/ETN/DLC...) in line with government policies and the needs of channel customers, so as to increase business and profit sources.
6. Form various strategic alliances with peers in the financial industry, and strengthen business cooperation with the Company's subsidiaries in futures, securities investment management, insurance advisory and agency and investment advisory to provide customers with a full range of financial services.
7. Grasp the FINTECH financial innovation trend, improve the ability to independently develop and customize systems, assist in business development and improve business management efficiency, provide differentiated and high value-added services, and create core competitiveness.
8. Use objective and rigorous quantitative models to quantify the market and credit risks, so as to rationalize the Company's allocation of risk assets and maximize shareholders' return under affordable risks.
9. Implement customer and transaction risk assessments, strengthen measures to prevent money laundering, combat information terrorism and information security, and provide safe and reliable trading environments.

Capital Securities strives to create a healthy and safe workplace. In 2017, the Company won the "Sports Corporation Certification" by the Sports Administration, Ministry of Education, and was awarded the "Certification for Healthy Working Environment and Good Health" by the Health Promotion Administration, Ministry of Health and Welfare.

The Company's brand value is "Capital Care". It has long assumed the role of a corporate citizen and continued organizing blood donations in the Group's "Offer Love and Convey Happiness" activity. The Company cooperates with the New Taipei City Welfare Association for the Blind, and every week the staff provides massage services. The Company promotes the "Love Reading Program" to pay attention to education in rural areas; volunteer workers will go to their adopted elementary schools to read and tell stories to children. In 2017, the Company specifically focused the theme of reading activities on the introduction of wealth management related books, so as to allow rural children to grasp the correct concept of financial management.

In the future, Capital Securities will continue upholding its vision and care for the society, establish long-term partnership with customers, and continue providing high value-added financial services that exceed customer expectations. In the 30th anniversary of its establishment, the Company will continue to reward its shareholders with its excellent operating performance.

Alex Jiunn- Chih Wang

Chairman

Capital Securities Corporation

II. Company Profile

1. Establishment and registration date: June 21, 1988
2. Paid-in capital: NT\$21.691 billion
3. Company history:

In view of the key importance of the capital market to raising capital and promoting industrial upgrade in the domestic market, in 1988 the founder of the Company invited well-known individuals of domestic companies to jointly establish the Company. The initial paid-in capital for the Company as a professional brokerage firm was NT\$300 million, and it has since developed into an integrated international securities firm with its business covering brokerage, proprietary trading, underwriting, registrar agency, fixed income, credit transactions, derivatives, etc., and stands out in both the primary and the secondary market. In order to provide a full range of financial management services to domestic and foreign corporations as well as the general investing public, the Company successively established affiliates such as Capital Futures, Capital Investment Management, Capital Insurance Agency, Capital Insurance Advisory, CSC Securities (HK) and CSC International Holdings, etc. In 2016, the Company also set up CSC Venture Capital and extended the reach of its services to pre-listing companies. In addition to its affiliates and branches in all major cities in Taiwan, the Group also established strongholds in financial centers such as Hong Kong and Shanghai. With the full support of all shareholders as well as its directors and supervisors, the Group has been able to expand its business and advance toward the goal of being a professional and international investment bank.

Since the establishment of the Company, the quality of the services it provides has been well received by investors and repeatedly awarded medals from the competent authorities and all walks of life as well: In 2014, its Shanghai Representative Office won in StarMine's Global Analyst Evaluation the first place in "Best Industry Profit Forecast" and six other awards in the Asia Pacific region, Mainland China and Hong Kong. In the same year, the Company won the "Best Non-Financial Holding Brand Image Award" in Excellence Magazine's "2014 Excellent Financial Securities Service Review", and the "Best Service Award - Securities Group" in Business Today's "2014 Wealth Management Bank Review". In the 13th Golden Goblet Award in 2015, the Company's General Manager YONG-FEI CHAO won the "Outstanding Corporate Leadership Talent Award". In the same year, the Company won the "Best Non-Financial Holding Securities Firm Award" in Excellence Magazine's "2015 Excellent Financial Securities Service Review", and the Shanghai Representative Office won the first place in StarMine's "Best Media Industry Profit Forecast" in the Asia Pacific region in 2015. In 2016, the Company's Chairman JIUNN-CHIH WANG won the "2016 Excellent Merchant" award by the Ministry of Economic Affairs. In the same year, the Company won the "Best Non-Financial Holding Brand Image Award" in Excellence Magazine's "2016 Excellent Financial Securities Service Review", and the "Best Wealth Management Securities Excellence Award" in Business Today's "2016 Wealth Management Bank and Securities Firm Review". The Shanghai Representative Office won the first place in Thomson Reuters StarMine's "Media Industry Stock Selection Capability" in the Asia Pacific region in 2016, and Capital Investment Management won the 3rd place in Thomson Reuters StarMine's "Auto Industry Stock Selection Capability" in the Asia Pacific region in 2016. In 2017, the Company won the "Best Non-Financial Holding Brand Image Award" in Excellence Magazine's "2017 Excellent Financial Securities Service Review", the "Best Wealth Management Team Award" of the Wealth Magazine's management award, the

"Best Brokerage Image Quality Award" of the "2017 Wealth Magazine's Financial Award", as well as the "Best Wealth Management Securities Excellence Award" and the "Best Wealth Growth Award" of Business Today's "2017 Wealth Management Bank and Securities Firm Review". Capital Securities Corp. is committed to the development of smart finance and the offering of more optimized financial services. The "MinText AR+ Smart Industrial Spectrometer" the Company develops won the "Top 100 Innovative Product Award" in the Information Month of 2017, and it was the only award-winning financial institution in the Financial Technology Group. Capital Securities is also the only financial institution that won the "Top 100 Innovative Product Award" for two years in a row, following its award-winning "GOODi Smart Money Management Robot" in 2016.

In 1989, the Company's paid-in capital was increased to NT\$1.6 billion. In September and October of the same year, the Company obtained its underwriting and proprietary trading licenses and was upgraded to a comprehensive securities firm, and started its OTC brokerage business at the end of the same year. In order to meet the Company's overall and long-term development needs and the market trends, in 1991 the Company increased its paid-in capital to NT\$2 billion, and expanded its business scope to provide margin financing and securities lending. In July 1993, the Company merged with Hongtai Securities Co., Ltd. and increased its paid-in capital to NT\$3.28 billion. In April 1995, it arranged capital increase from surplus, capital reserve and employee bonuses and increased the paid-in capital to NT\$4.08 billion. In August of the same year, the Company's shares were formally listed on the GreTai Securities Market of the Republic of China. In June and July 1996, the Company arranged capital increase from surplus and cash capital increase respectively and increased the paid-in capital to NT\$5 billion. After the Company's capital increase from surplus and capital reserve in July 1997, the paid-in capital increased to NT\$6.742 billion. In July 1998, the Company arranged capital increase from surplus, capital reserve and employee bonuses and increased the paid-in capital to NT\$8.996 billion. In August 1999, the Company again arranged capital increase from surplus, capital reserve and employee bonuses and increased the paid-in capital to NT\$9.223 billion.

The paid-in capital increased to NT\$9.975 billion due to a merger in February 2001. In June 2001, the Company arranged capital increase from surplus, capital reserve and employee bonuses and increased the paid-in capital to NT\$12.733 billion. In July 2002, the Company arranged capital increase from surplus and capital reserve and increased the paid-in capital to NT\$13.643 billion. In November 2005, the Company's shares were formally listed on the Taiwan Stock Exchange. In October 2006, the Company arranged capital increase from surplus and increased the paid-in capital to NT\$14.010 billion. In September 2007, the Company arranged capital increase from surplus and increased the paid-in capital to NT\$14.741 billion. In 2008, the Company increased the paid-in capital by NT\$1.527 billion to NT\$16.268 billion. In February 2009, the Company cancelled NT\$160 million of treasury shares and decreased the paid-in capital to NT\$16.108 billion. In March 2010, the Company completed the merger with Entie Securities Finance Co., Ltd. and increased the paid-in capital to NT\$18.797 billion. In August 2010, the Company arranged capital increase from surplus and increased the paid-in capital to NT\$20.375 billion. In October 2010, the Company completed the public acquisition of the shares of Taiwan International Securities Co., Ltd., and issued new shares with the value of NT\$2.682 billion, and the paid-in capital increased to NT\$23.057 billion. In May 2011, the Company merged with Taiwan International Securities Co., Ltd. and the paid-in capital increased to NT\$23.341 billion. In July 2011, the Company

arranged capital increase from surplus for NT\$350 million, and increased the paid-in capital to NT\$23.691 billion. In November 2015 and January 2016, the Company respectively cancelled NT\$500 million of treasury shares and decreased the paid-in capital to NT\$22.691 billion. In January 2017, the Company cancelled NT\$1 billion of treasury shares and decreased the paid-in capital to NT\$21.691 billion.

Looking forward to 2018, in response to the globalization and group-oriented development trends of the financial service industry, the Company will adopt the concept of technology finance to optimize the service quality and operating performance of each business location, and fully meet the needs of the investing public to become an all-around securities firm that combines humanity and digital services. The Company will continue upholding the belief that priority should be given to the interests of the people, and continue providing financial services with high added-values that exceed the expectations of customers.

III. Corporate Governance Report

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)

Title	Nationality or place of registration	Name	Gender	Elected / appointed date	Service term	First elected/ appointed date	Shareholding at time of election		Current shareholding		Shares held by spouse and underage children		Shares held by proxy		Major career (academic) achievements	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
Chairman	Republic of China	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	Male	2016.06.27	3 years	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%	Ph.D. of Technology Management, Chung Hua University 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 CSC Securities (HK) Ltd.-Director CSC Futures (HK) Ltd. - Director CSC Venture Capital Corporation -Chairman	None	None	None
Director	Republic of China	Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN	Male	2016.06.27	3 years	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	None
Director	Republic of China	Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIH-MING	Male	2016.06.27	3 years	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%	Department of General Commerce, Shixin Senior Commercial Vocational School Fu Tai Construction Corporation -Chairman	Yu Chun Enterprise Co., Ltd. Chairman Fu Tai Construction corporation - Chairman Tai Min Constuction 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 Lian Mao Investment Co., Ltd. - Director Chen Chen Co., Ltd.- Supervisor Chao Long Investment Co., Ltd. - Supervisor Yu Bao Enterprise Co., Ltd. - Supervisor Run Hsiang Enterprise Co., Ltd. - Supervisor Hong Sheng Construction Co., Ltd Tai Fa Investment Co., Ltd. - Supervisor Collins Co., Ltd. - Supervisor	None	None	None
Director	Republic of China	Tai Chun Enterprise Co., Ltd. Representative: KUO,GUAN-CHYUN(Note 1)	Male	2016.06.27	3 years	2016.06.27 2017.09.27	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%	Carnegie Mellon University MSIA/Masters KHL Investment Advisors Ltd.-Chairman	United Advertising Co., Ltd.-Director KHL Investment Advisors Ltd.-Chairman	None	None	None
Director	Republic of China	Tai Chun Enterprise Co., Ltd. Representative: TSAI, I-CHING	Male	2016.06.27	3 years	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	The Chinese Commercial & Industrial Service Co., Ltd.-Supervisor Taiwan Federation of Commerce -Deputy Secretary-General	None	None	None

Title	Nationality or place of registration	Name	Gender	Elected / appointed date	Service term	First elected/ appointed date	Shareholding at time of election		Current shareholding		Shares held by spouse and underage children		Shares held by proxy		Major career (academic) achievements	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	Kwang Hsing Industrial Co., Ltd. Representative: TING, HSUEH-WEN (Note 2)	Male	2016.06.27	3 years	2001.04.03 2018.03.08	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%	Cornell University General KYMCO Private Equity Management Co., Ltd.-Managing Director/Partner	KYMCO Private Equity Management Co., Ltd.-Managing Director/Partner	None	None	None
Director	Republic of China	San Ho Enterprise Co., Ltd. Representative: CHU, HAI-YING (Note 3)	Female	2016.06.27	3 years	2007.06.15 2017.11.01	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%	National Open University Chia Shih Construction Co., Ltd.-Chairman Secretary	None	None	None	None
Director	Republic of China	Hung Lung Enterprise Co., Ltd. Representative: KUO, YUH-CHYI	Male	2016.06.27	3 years	2016.06.27 2010.06.15	47,543,260 252,020	2.09% 0.01%	47,543,260 191,020	2.19% 0.00%	0 3,300	0.00% 0.00%	0 0	0.00% 0.00%	National Taipei University Department of Cooperative Economics Taiwan Cooperative Bank- Director and Deputy General Manager Agricultural Credit Guarantee Fund- General Manager EnTie Securities Finance Company- Chairman Bankers Association of the Republic of China -Secretary general Capital Securities Corporation -Supervisor	None	None	None	None
Independent Director	Republic of China	SHEA, JIA-DONG	Male	2016.06.27	3 years	2015.05.20	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Ph.D. of Economics, Stanford University Director, Institute of Economics, Academia Sinica Professor of Economics, National Taiwan University Central 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 years	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 years	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	Hiyes International Co., Ltd. Independent Director	None	None	None

Note 1: On September 27, 2017, Tai Chun Enterprise Co., Ltd. reassigned the original representative LIN, CHUN-YU to KUO, GUAN-CHYUN

Note 2: On March 8, 2018, Kwang Hsing Industrial Co., Ltd. reassigned the original representative YANG, CHE-HUNG to TING, HSUEH-WEN

Note 3: On November 1, 2017, San Ho Enterprise Co., Ltd. reassigned the original representative ANGEL CHANG to CHU, HAI-YING

Table 1: Major shareholders of corporate shareholders

March 31, 2018

Name of corporate shareholder	Major shareholders of the corporate shareholder	
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%
Kwang Hsing Industrial Co., Ltd.	Tai Sheng Investment Co., Ltd.	3.42%
	Kwang Yang Motor Co., Ltd.	100%
San Ho Enterprise Co., Ltd.	CHEN TIEN-WEN	41%
	CHEN TIEN-XING	20%
	Zhong Lun Development Co.,Ltd.	26%
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%

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

March 31, 2018

Name of corporate entity (Note 1)	Major shareholders of the corporate entity (Note 2)	
Chuan Yi Investment 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%
	Fu Tai Construction Co., Ltd.	2.22%
	Wang Hsing Enterprise Co., Ltd.	2.19%

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 Jian 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 Huei 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)	
Bao 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 Ding 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%
Bao Sheng Investment Co., Ltd.	Tai He Investment Co., Ltd.	56.09%
	Tai Fa Investment Co., Ltd.	9.25%
	Tai Hsiang Investment Co., Ltd.	9.25%
	Chao Long Investment Co., Ltd.	9.25%
	Tai Chun Enterprise Co., Ltd.	2.73%
	Hong Sheng Enterprise Co., Ltd.	2.24%
	Kai Da Enterprise Co., Ltd.	2.15%
	Chen Huei Enterprise Co., Ltd.	1.99%
	Yu Bao Enterprise Co., Ltd.	1.91%
	Yin Feng Enterprise Co., Ltd.	1.82%
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%

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%
Kwang Yang Motor Co., Ltd.	Chuan Yi Construction Co., Ltd.	3.54%
	Hsin Sheng Investment Co., Ltd.	11.31%
	Hong Kuang Investment Co., Ltd.	7.99%
	Kuang Chou Investment Co., Ltd.	6.66%
	Da Ming Investment Co., Ltd.	6.54%
	Kwang Hsing Industrial Co., Ltd.	5.39%
	KO HUNG-MING	1.21%
	KO YUAN WANG-SHU-YUAN	1.09%
	KO HSING-LANG	1.03%
	CHEN TIEN-WEN	1.03%
Zhong Lun Development Co., Ltd.	Hsing-Lang Ko	1.00%
Financial Information Corporation	Tien-Wen Chen	84%
	Rui Cheng Construction Co., Ltd.	18.14%
	Chuan Shun Construction and Development Co., Ltd.	18.14%
	Hong Yong Construction Co., Ltd.	17.05%
	Sheng Hsiang Enterprise Co., Ltd.	13.67%
	Hong Tai Construction Co., Ltd.	13.61%
	Han Bao Enterprise Co., Ltd.	11.17%
	Bao Zuo Investment Co., Ltd.	8.07%

Name of corporate entity (Note 1)		Major shareholders of the corporate entity (Note 2)
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%
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.	2.66%

Name of corporate entity (Note 1)	Major shareholders of the corporate entity (Note 2)	
Run Hsiang Enterprise Co., Ltd.	Chuan Yi Investment Co., Ltd.	15.90%
	Hong Ye Investment Co., Ltd.	13.82%
	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.	8.95%
	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.	4.70%
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%

3.2.1 Background of Directors and Supervisors (2)

2018.3.31

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 require to perform the assigned duties	1	2	3	4	5	6	7	8	9	10	
Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	V		V			V	V	V	V	V	V	V		N/A
Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN			V	V		V	V	V	V	V	V	V		N/A
Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIH-MING			V	V	V	V	V	V	V	V	V	V		N/A
Tai Chun Enterprise Co., Ltd. Representative: KUO, GUAN-CHYUN			V	V	V	V	V	V	V	V	V	V		N/A
Tai Chun Enterprise Co., Ltd. Representative: TSAI, I-CHING			V	V	V	V	V	V	V	V	V	V		N/A
Kwang Hsing Industrial Co., Ltd. Representative: TING, HSUEH-WEN			V	V	V	V	V	V	V	V	V	V		N/A
San Ho Enterprise Co., Ltd. Representative: CHU, HAI-YING			V	V	V	V	V	V	V	V	V	V		N/A
Hung Lung Enterprise Co., Ltd. Representative: KUO, YUH-CHYI			V	V	V	V	V	V	V	V	V	V		N/A
SHEA, JIA-DONG	V		V	V	V	V	V	V	V	V	V	V	V	1
LIN, HSIN-HUI	V		V	V	V	V	V	V	V	V	V	V	V	N/A
HWANG, JYH-DEAN	V		V	V	V	V	V	V	V	V	V	V	V	1

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, 2018

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 Technonology	CSC Venture Capital Corp. - Director CSC Venture Capital Corp. - President	N/A	N/A	N/A
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	N/A	N/A	N/A
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		N/A	N/A	N/A
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) - Director Capital Securities Nominee - Director CSC Futures (HK) - Director	N/A	N/A	N/A
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 CSC Securities (HK) - 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	N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
Senior Vice President	Republic of China	LIN, SHU-CHUAN	Female	2013/09/01	6,880	0.00%	0	0.00%	0	0.00%	EMBA, National Chengchi University		N/A	N/A	N/A
Senior Vice President	Republic of China	FANG, CHIH-HONG	Male	2014/06/18	0	0.00%	0	0.00%	0	0.00%	MBA, The City University of New York		N/A	N/A	N/A
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	N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
Senior Vice President	Republic of China	CHANG, LI-FEN	Female	2017/04/01	0	0.00%	0	0.00%	0	0.00%	Graduate Institute of Society, National Chengchi University		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
Executive Vice President	Republic of China	TAN, DE-CHENG	Male	2008/11/01	21,014	0.00%	0	0.00%	0	0.00%	Master of Accounting, Drexel University	Capital Insurance Advisory - Supervisor Capital Insurance Agency - Supervisor CSC Venture Capital Supervisor	N/A	N/A	N/A

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	HUANG, ZI-RONG	Female	2011/05/02	0	0.00%	0	0.00%	0	0.00%	Master of Finance, TamKang University		N/A	N/A	N/A
Senior Vice President	Republic of China	HOU, LE-PING	Female	2000/07/01	550,023	0.03%	0	0.00%	0	0.00%	MBA, Armstrong University		N/A	N/A	N/A
Senior Vice President	Republic of China	XIE, YU-LIN	Female	2000/07/01	849,471	0.00%	0	0.00%	0	0.00%	Department of Accounting, Soochow University		N/A	N/A	N/A
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		N/A	N/A	N/A
Executive Vice President	Republic of China	YANG, JIE-BIN	Male	2002/11/01	570	0.00%	0	0.00%	0	0.00%	Master of Finance, University of London		N/A	N/A	N/A
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		N/A	N/A	N/A
Senior Vice President	Republic of China	XU, TSUI-YUN	Female	2016/04/01	3,106	0.00%	0	0.00%	0	0.00%	Master of Finance, Chaoyang University of Technology		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
Senior Vice President	Republic of China	CHIU, TSAN-HSI	Male	2017/04/01	0	0.00%	0	0.00%	0	0.00%	The City University of N.Y. Baruch College, MS in Finance		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
Senior Vice President	Republic of China	ZHANG, JING-YAO	Male	2017/04/01	0	0.00%	0	0.00%	0	0.00%	Master of Finance, TamKang University		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
Executive Vice President	Republic of China	MA, JIA-HUAN	Male	2009/09/01	100,000	0.00%	0	0.00%	0	0.00%	EMBA, National Chengchi University		N/A	N/A	N/A
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		N/A	N/A	N/A
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 Hua University of Medical Technology		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A

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
											University				
Senior Vice President	Republic of China	ZHENG, YU-LING	Female	2003/06/19	417,793	0.02%	0	0.00%	0	0.00%	Department of International Trade, Open Junior College		N/A	N/A	N/A
Senior Vice President	Republic of China	SONG, FEN-LAN	Female	2017/04/01	0	0.00%	0	0.00%	0	0.00%	Department of German Language and Literature, Chinese Culture University		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
Vice President	Republic of China	ZHU, DE-REN	Male	2004/06/01	13,183	0.00%	0	0.00%	0	0.00%	Master of Business Administration, Tamkang University		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
Vice President	Republic of China	LIN, JIANG-HE	Male	2013/09/01	10,816	0.00%	560		0	0.00%	Department of Statistics, National Tamkang University		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
Assistant Vice President	Republic of China	ZHANG, ZHE-MING	Male	2017/10/1	0	0.00%	0	0.00%	0	0.00%	Department of Information Engineering, University of Sydney		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A

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
											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		N/A	N/A	N/A
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		N/A	N/A	N/A
Vice President	Republic of China	ZHANG, XUE-HE	Male	2006/07/20	10,491	0.00%	0	0.00%	0	0.00%	Department of Political Study, Fu Hsing Kang College		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
Vice President	Republic of China	CAI, QING-FEN	Female	2006/11/15	8,213	0.00%	0	0.00%	0	0.00%	Master of Finance, On-job Master Program, National Taiwan University		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
Vice President	Republic of China	YAN, SHI-TANG	Male	2017/08/01	0	0.00%	0	0.00%	0	0.00%	Department of Marketing, Pasadena City College		N/A	N/A	N/A
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		N/A	N/A	N/A
Assistant Vice President	Republic of China	YANG, YAN-QIU	Female	2013/09/01	11,373	0.00%	1,302	0.00%	0	0.00%	Department of Accounting,		N/A	N/A	N/A

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
											National Taichung 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		N/A	N/A	N/A
Assistant Vice President	Republic of China	HUANG, MIU-IN	Female	2017/06/02	429	0.00%	0	0.00%	0	0.00%	Department of Accounting and Statistics, Overseas Chinese University		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
Assistant Vice President	Republic of China	PENG, XIAN-HE	Male	2017/05/13	0	0.00%	0	0.00%	0	0.00%	Department of Wealth and Taxation, National Kaohsiung University of Applied Sciences		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
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		N/A	N/A	N/A
Senior Vice President	Republic of China	PAN, HUI-MEI	Female	1999/08/01	18,000	0.00%	0	0.00%	0	0.00%	MBA, University of South Carolina		N/A	N/A	N/A

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

1. Remuneration to Directors (including Independent Directors) (Individual disclosure of names and 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
												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	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	
Amount paid in cash	Amount paid in cash															Amount paid in cash	Amount paid in cash					
Chairman	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	12,308	12,308	0	0	14,301	14,301	866	891	0.95%	0.95%	0	0	0	0	0	0	0	0	0.95%	0.95%	N/A
Director	Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN	0	0	0	0	4,767	4,767	140	175	0.17%	0.17%	0	0	0	0	0	0	0	0	0.17%	0.17%	N/A

*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 most recent year, except those disclosed in the above table: NT\$ 0

Note 1: A sum of NT\$880 thousands was paid to drivers

2. 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
												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	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	
																Amount paid in cash	Amount paid in cash	Amount paid in cash	Amount paid in cash			
Director	Kwang Hsing Industrial Co., Ltd. Representative: YANG, CHE-HUNG	1,800	2,280	0	0	42,903	43,883	1,290	1,380	1.59%	1.64%	0	0	0	0	0	0	0	0	1.59%	1.64%	None
Director	San Ho Enterprise Co., Ltd. Representative: Angel Chang, (Note 1), CHU, HAI-YING (Note 2)																					
Director	Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIH-MING																					
Director	Tai Chun Enterprise Co., Ltd. Representative: TSAI, I-CHING																					
Director	Tai Chun Enterprise Co., Ltd. Representative: LIN, CHUN-YU (Note 3), KUO, GUAN-CHYUN (Note 4)																					
Director	Hong Long Enterprise Co., Ltd. Representative: KUO, YUH-CHYI																					
Independent Director	HWANG, JYH-DEAN																					
Independent Director	LIN, HSIN-HUI																					
Independent Director	SHEA, JIA-DONG																					

*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 most recent year, except those disclosed in the above table: NT\$ 0

Note 1: Resigned on 2017/10/31

Note 2: Elected and on board on 2017/11/01

Note 3: Resigned on 2017/09/26

Note 4: Elected and on board on 2017/09/27

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 H
Below NT\$2,000,000				
NT\$2,000,000 (inclusive) ~ NT\$5,000,000 (not inclusive)	Kwang Hsing Industrial Co., Ltd. Representative: YANG, CHE-HUNG Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIH-MING Tai Chun Enterprise Co., Ltd. Representative: TSAI, I-CHING Hong Long Enterprise Co., Ltd. Representative: KUO, YUH-CHYI San Ho Enterprise Co., Ltd. Representative: Angel Chang, CHU, HAI-YING Tai Chun Enterprise Co., Ltd. Representative: LIN, CHUN-YU, KUO, GUAN-CHYUN	Kwang Hsing Industrial Co., Ltd. Representative: YANG, CHE-HUNG Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIH-MING Tai Chun Enterprise Co., Ltd. Representative: TSAI, I-CHING Hong Long Enterprise Co., Ltd. Representative: KUO, YUH-CHYI San Ho Enterprise Co., Ltd. Representative: Angel Chang, CHU, HAI-YING Tai Chun Enterprise Co., Ltd. Representative: LIN, CHUN-YU, KUO, GUAN-CHYUN	Kwang Hsing Industrial Co., Ltd. Representative: YANG, CHE-HUNG Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIH-MING Tai Chun Enterprise Co., Ltd. Representative: TSAI, I-CHING Hong Long Enterprise Co., Ltd. Representative: KUO, YUH-CHYI San Ho Enterprise Co., Ltd. Representative: Angel Chang, CHU, HAI-YING Tai Chun Enterprise Co., Ltd. Representative: LIN, CHUN-YU, KUO, GUAN-CHYUN	Kwang Hsing Industrial Co., Ltd. Representative: YANG, CHE-HUNG Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIH-MING Tai Chun Enterprise Co., Ltd. Representative: TSAI, I-CHING Hong Long Enterprise Co., Ltd. Representative: KUO, YUH-CHYI San Ho Enterprise Co., Ltd. Representative: Angel Chang, CHU, HAI-YING Tai Chun Enterprise Co., Ltd. Representative: LIN, CHUN-YU, KUO, GUAN-CHYUN
NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (not inclusive)	HWANG, JYH-DEAN, LIN, HSIN-HUI SHEA, JIA-DONG	HWANG, JYH- DEAN, LIN, HSIN-HUI SHEA, JIA-DONG	HWANG, JYH- DEAN, LIN, HSIN-HUI SHEA, JIA-DONG	HWANG, JYH- DEAN, LIN, HSIN-HUI SHEA, JIA-DONG
NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (not inclusive)				
NT\$15,000,000 (inclusive) ~ NT\$30,000,000 (not inclusive)	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH
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

3. 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	25,214	25,214	866	866	30,882	30,882	2,503	0	2,503	0	2.06%	2.06%	N/A
President	CHAO, YONG-FEI													
Senior Vice President	YAO, ZHONG-ZHI (Note 2)													
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	LIN, YAN-FEN													
Executive Vice President	MA, JIA-HUAN													

Note 1: A sum of NT\$666 thousands was paid to drivers

Note 2: Resigned on 2017/04/01

Remuneration bracket table

Range of remunerations to the President and Executive Vice Presidents	Name of President and Executive Vice Presidents	
	The Company	All companies included in the consolidated statements E
Below NT\$2,000,000	WANG, JIUNN-CHIH, YAO, ZHONG-ZHI	WANG, JIUNN-CHIH, YAO, ZHONG-ZHI
NT\$2,000,000 (inclusive) ~ NT\$5,000,000 (not inclusive)	WENG, CHIN-NENG; HUANG, CHI-MING; ZHANG, PEI-WEN; GUO, MEI-LING; TAN, DE-CHENG;	WENG, CHIN-NENG; HUANG, CHI-MING; ZHANG, PEI-WEN; GUO, MEI-LING; TAN, DE-CHENG;
NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (not inclusive)	MA, JIA-HUAN	MA, JIA-HUAN
NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (not inclusive)	CHAO, YONG-FEI, YANG, JIE-BIN, LIN, YAN-FEN	CHAO, YONG-FEI, 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	11	11

4. Names of managers who received employee remuneration

2018/03/31

	Title	Name	Amount paid in shares	Amount paid in cash	Total	Total as a percentage of net income (%)
Managers	CSO	WANG, JIUNN-CHIH	0	25,027	25,027	0.86%
	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	ZHANG, DUN-FU; PAN, HUI-MEI; LIN,				
		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; CHANG, LI-FEN; LIU, SHU-RU; WU, YUN-WEN; HUANG, ZI-RONG;XIE, YU-LIN; YAO, MING-QING; XU, TSUI-YUN; QIU,CAN-XI; CHEN, YI-REN; YE, YI-LING; ZHANG,JING-YAO; CHEN, YI-RU; LI, MU-XIAN; ZHAO, FENG-RONG; HUANG, ZHI-HUA; WONG, HE-MING; ZHENG, YU-LING; SONG,FEN-LAN				
	Vice President	LAI, AI-WEN; WU, HONG-ZHI; ZHANG, TIAN-MU; WU, ZHEN-MING; ZHU, DE-REN; YANG, ZHI-KAI; WEI, YU-MEI; 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; KAI,SHI-HUA; ZHANG,MING-YI; HUANG,QING-YAN; LIN,HUI-JING; CHEN,XUAN-ZHI; ZHANG,XUE-HE; ZHAO,ZHI-MING; CAO,HOU-SHENG; ZHENG,YU-CHANG; XU,LI-FEN; TIAN,DA-ZHONG; SU,RUI-YI; WEI,WEN-JIN; CAI,QING-FEN; CHEN,BO-XUN; CHEN,MEI-RU; XIE,JIA-JUN; CHEN,ZHI-ZHONG; TANG,WEN-JI; YAN,SHI-TANG; LIN,JING-WEN; CHEN,ZHI-SHAN; HAI,YAN; LIN,JIN-ZHI; CHEN,ZHENG-YANG; HUANG,YI-LIAN; XU,JUN-YANG; ZHANG,REN-FANG; RUAN,YUAN-JUN; DENG,XUE-REN				
	Assistant Vice President	WU, CHEN-YI;WU, ZHENG-HAN; ZHANG, ZHE-MING; YANG, KUN-LONG; YEN, HSIU-RONG;YANG, YAN-QIU; HUANG, MIAO-YIN; PENG, XIAN-HE				
	Senior Manager	YANG, ZONG-MU				

3.2.4 Percentage of remuneration paid to the Company's Directors, Supervisors, President and Executive 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 Executive Vice Presidents relative to net income in 2016 and 2017:

1. 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, Executive Vice Presidents and managers represented 4.87% of 2016 net income.
2. The sum of remuneration, travel allowance and meeting allowance paid to the Company's Directors and Supervisors in 2017 represented 2.71% and 0% of net income, respectively; the sum of remuneration paid to the President, Executive Vice Presidents and managers represented 2.06% of 2017 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 10 meetings (A) were held during the period 2017.01.01 ~ 2018.03.31, attendance records of the directors are as follows:

Title	Name	Actual attendance (B)	Proxy attendance	Percentage of actual attendance (%) (B/A)	Remarks
Chairman	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	10	0	100%	
Director	Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN	10	0	100%	
Director	Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIH-MING	10	0	100%	
Director	Tai Chun Enterprise Co., Ltd. Representative: KUO, GUAN-CHYUN	9	1	90%	2017.09.27 Tai Chun Enterprise representative change to KUO, GUAN-CHYUN (Original LIN, CHUN-YU)
Director	Tai Chun Enterprise Co., Ltd. Representative: TSAI, I-CHING	10	0	100%	
Director	Kwang Hsing Industrial Co., Ltd. Representative: TING, HSUEH-WEN	9	1	90%	2018.03.08 Kwang Hsing Industrial Co., Ltd. representative change to TING, HSUEH-WEN (Original YANG, CHE-HUNG)
Director	San Ho Enterprise Co., Ltd. Representative: CHU, HAI-YING	10	0	100%	2017.11.01 San Ho Enterprise Co., Ltd. representative change to CHU, HAI-YING (Original ANGEL CHANG)
Director	Hung Lung Enterprise Co., Ltd. Representative: KUO, YUH-CHYI	8	2	80%	
Independent Director	SHEA, JIA-DONG	9	1	90%	
Independent Director	LIN, HSIN-HUI	10	0	100%	
Independent Director	HWANG, JYH-DEAN	10	0	100%	

Other remarks:

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.
- The 4th meeting of the 10th board (2017.01.23)
 1. Agenda: The tenth purchase of the Treasury Shares by the Company was retired and the capital reduction case was processed.
Description: Purchasing the Treasury Shares pursuant to the resolution of the Board of Directors of the Company on November 11, 2016, was completed on January 10, 2017. A total of 100,000,000 shares were bought back this time. The total purchase price was NT\$ 926,587,260, and the average purchase price per share is NT\$ 9.27. It is proposed to retire the above 100,000,000 shares in full, and the base day for reducing the capital will be January 31, 2017.
Resolution: The case was consulted by all the directors without objection. (All Independent Directors' Comments: Passed without objection.)
 2. Agenda: It is proposed to use its own funds to entrust Capital Futures Corp.'s managerial department to operate derivative financial commodity transactions on its behalf, with an appointment of NT\$100 million.
Description: According to Article 18(1)(5) of the Securities Management Rules, the FSC No.1050014687 order, and the Company's "Guidelines for the Operation of Fully Assignment of Derivative Financial Commodities for Non-Hedging Purposes". This case is a regular business transaction, and the charging standards are in line with market conditions.
Resolution: The case was consulted by all the directors without objection. (All Independent Directors' Comments: Passed without objection.)
 3. Agenda: It is proposed to participate in the subscription of the cash increase in the Company's reinvestment business Capital Futures Corp.
Description: The current increase in Capital Futures Corp. intends to issue 38,000,000 ordinary shares with a denomination of NT\$10 per share. The purpose of the capital increase is to reinvest US subsidiaries and enrich working capital. Each stock is issued at NT\$31.38 per share. It is expected that the total amount raised will be approximately NT\$ 1.192 billion. The Company intends to subscribe for 59.01% of the current shareholder's shareholding ratio, and the total amount of the Company's total cash paid for the capital increase at the deadline of the payment period and has not been fully paid, and the full amount of the Company's balance is fully recognized by a specific person method, total planned to participate in the subscription of a total of 22,817,328 shares, with a subscription amount of approximately NT\$ 716 million. The original shareholders are scheduled to pay for the period from January 6, 2017 to February 7, 2017, and the subscription period for specific people will be paid from February 8, 2017 to February 9, 2017, it is planned to ask the board of directors to authorize the chairman to handle the relevant subscription within the above-subscription limit of 22,817,328 shares.
Resolution: The case was consulted by all the directors without objection. (All Independent Directors' Comments: Passed without objection.)
- The 5th meeting of the 10th board (2017.03.27)
 1. Agenda: Amendment and accreditation to the Company's "Internal Control Policy".
Description: According to the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets", February 14, 2017 TPEX No.10600023642. The letter has been circulated in accordance with external communications or methods.
Resolution: The case was consulted by all the directors without objection on the accreditation. (All Independent Directors' Comments: Passed without objection.)
 2. Agenda: Amendment some of the articles of the Company's "Procedures for Acquisition or Disposal of Assets".
Description: According to No. 1060001296 Order issued by the Financial Supervisory Commission's Securities and Futures Bureau on February 9, 2017.
Resolution: The case was consulted by all the directors without objection. (All Independent Directors' Comments: Passed without objection.)
 3. Agenda: In response to the development of financial science and technology and the protection of the rights and interests of employees, we plan to increase the provision of 0.5% of Special Reserves when we distribute the 2016 to 2018 fiscal year surplus.
Description: In response to the development of financial science and technology, and protecting the rights and interests of employees, special reserves will be included within the range of 0.5% to 1% of the net profit after taxation when the 2016-2018 fiscal year surplus is allocated.
Resolution: The case was consulted by all the directors without objection. (All Independent Directors' Comments: Passed without objection.)
 4. Agenda: The Company's 2016 earnings distribution.
Description: According to the 2016 earning distribution plan, NT\$ 802,557,005 is proposed to be distributed in cash dividends. The original shareholders will receive the number of shares held in the shareholder's register on the basis of the ex-dividend basis minus the number of Treasury shares, with a total of NT\$0.37 per

share. The amount is rounded off by the dollar; its total amount of abnormal zeros is included in other income of the Company. After the resolution of the shareholders' meeting, the board of directors sets a benchmark date for dividend payments distributing.

Resolution: The case was consulted by all the directors without objection. (All Independent Directors' Comments: Passed without objection.)

- The 6th meeting of the 10th board (2017.05.12)

1. Agenda: Amendment and accreditation to the Company's "Internal Control Policy".

Description: Based on the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets", December 29, 2016 TWSE No. 1050505273, February 3, 2017 TSANo. 1060000590, March 24, 2017 TWSE No. 1060004997 shall be handled. The letter has been circulated in accordance with external communications or methods.

Resolution: The case was consulted by all the directors without objection on the accreditation. (All Independent Directors' Comments: Passed without objection.)

2. Agenda: The Company's 2016 annual directors' and supervisors' remuneration distribution.

Description: Year 2016 distribution to board directors' remuneration was NT\$17,410,335 and will report to the 2017 annual shareholders' meeting.

Resolution: The case was consulted by all the directors without objection. (All Independent Directors' Comments: Passed without objection.)

- The 3rd extraordinary meeting of the 10th board (2017.08.28)

1. Agenda: Amendment and accreditation to the Company's "Internal Control Policy" and "Implementation Rules for Internal Audit Regulations".

Description: Based on the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets", February 18, 2017 TDCC No. 10600026612 and No. 10600026613, and May 10, 2017 TAIEX No. 10600013760, June 5, 2017 TAIEX No. 10600016102, June 15, 2017 TWSE No. 1060502161, and July 3, 2017 TDCC No. 10600128581 and No. 10600128582, July 5, 2017 TSA No. 1060003763, July 25, 2017 TWSE No. 1060502786, and July 28th, 2017 TWSE No. 1060502846, will be handled. The letter has been circulated in accordance with external communications or methods.

Resolution: The case was consulted by all the directors without objection on the accreditation. (All Independent Directors' Comments: Passed without objection.)

- The 9th meeting of the 10th board (2017.11.10)

1. Agenda: Amendment and accreditation to the Company's "Internal Control Policy" and "Implementation Rules for Internal Audit Regulations".

Description: Based on the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets", August 1, 2017 TWSE No. 1060004193, August 21, 2017 TWSE No. 1060004661, September 8, 2017 TAROC No. 1060000449 shall be handled. The letter has been circulated in accordance with external communications or methods.

Resolution: The case was consulted by all the directors without objection on the accreditation. (All Independent Directors' Comments: Passed without objection.)

2. Agenda: 2017 Annual Accountant Independence Evaluation.

Description: According to Article 29(2) of the Code of Practice for Corporate Governance of Securities Firms and Corporate Governance Evaluation Indicator (3.30), securities firms should periodically assess the independence of the appointment of a certified public accountant. The Company formulates an independent assessment form in accordance with the provisions of Article 47 of the Accountants Law and No 10 "Integrity, Impartiality, Objectivity and Independence" Certified Public Accountant's Professional Ethics Communique, and obtains an accountant's statement. It has been assessed that both Certified Public Accountants, Lee, Feng-Hui and Chung, Tan-Tan, of KPMG, have met the criteria for independence assessment and are qualified to serve as financial and tax auditing accountants of the Company.

Resolution: The case was consulted by all the directors without objection. (All Independent Directors' Comments: Passed without objection.)

- The 4th extraordinary meeting of the 10th board (2017.12.15)

1. Agenda: It is proposed to dispose of the investment in shares of Reliance Securities Investment Trust Co., Ltd.

Description: It is proposed to dispose 940,800 shares of Reliance Securities Investment Trust Co., Ltd. at a price not lower than the shareholding cost of NT\$10.38 per share. According to the "Procedures for Acquisition or Disposal of Assets" of the Company, the most recent (2016) audited financial report of the target Company was obtained and its net worth per share of 2016 was used for evaluating the transaction price.

Resolution: The case was consulted by all the directors without objection. (All Independent Directors' Comments: Passed without objection.)

2. Agenda: The Company plans to invest in the equity of Capital Investment Trust Corp.

Description: It is proposed to obtain 39,754,350 ordinary shares of Capital Investment Trust Corp. at a price of NT\$38.482 per share, which is 24.04% of the total equity. The total amount of NT\$1,529,828,112 is the cap. After obtaining a review opinion on the reasonableness of the consideration of the transaction issued by the PricewaterhouseCoopers Taiwan in relation to the transaction price, the transaction acquisition cost is in the range of the equity fair value of the equity in which it is evaluated.

Resolution: The case was consulted by all the directors without objection. (All Independent Directors' Comments: Passed without objection.)

- The 10th meeting of the 10th board (2018.01.29)

1. Agenda: Amendment and accreditation to the Company's "Internal Control Policy" and "Implementation Rules for Internal Audit Regulations"

Description: Based on the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets", November 13, 2017 TPEX No. 10600295802, will be handled. The letter has been circulated in accordance with external communications or methods.

Resolution: The case was consulted by all the directors without objection on the accreditation. (All Independent Directors' Comments: Passed without objection.)

- The 11th meeting of the 10th board (2018.03.26)

1. Agenda: The Company's 2017 earnings distribution proposal.

Description: For the Company's 2017 earnings distribution, the proposed total cash dividend to shareholders is NT\$433,814,597 (a cash dividend of NT\$0.20 per share). The cash dividend is paid to 1 NT\$ (the amount less than 1 NT\$ will be discarded), and the odd amount will be posted into the Company's other income. In addition, a total stock dividend of NT\$1,518,351,100 (a stock dividend of NT\$0.70 per share) will be distributed. After the resolution of the dividend distribution is made in the shareholders' meeting, matters such as the ex-dividend date and the distribution date will be further decided in the board meeting.

Resolution: The case was consulted by all the directors without objection. (All Independent Directors' Comments: Passed without objection.)

2. Agenda: The proposal for issuance of new shares through capitalization of 2017 earnings.

Description: According to the 2017 earnings distribution plan, it is planned that earnings of NT\$1,518,351,100 will be used for capital increase and issuance of new shares at a par value of NT\$10 per share, for a total of 151,835,110 shares. 70 shares per 1,000 shares held will be distributed to the original shareholders in the shareholder's register based on their number of shares held on the ex-dividend date.

Resolution: The case was consulted by all the directors without objection. (All Independent Directors' Comments: Passed without objection.)

3. Agenda: TING, HSUEH-WEN, a representative of Kwang Hsing Industrial Co., Ltd. plans to serve as the legal director of Capital Investment Trust Corp. and the representative of Kwang Yang Motor Co., Ltd.

Description: The representative of the Company's legal person Kwang Hsing Industrial Co., Ltd. was relocated to TING, HSUEH-WEN on March 8, 2018.

Kwang Hsing Industrial Co., Ltd. is a 100% investment Company of Kwang Yang Motor Co., Ltd., Kwang Yang Motor Co., Ltd. is a legal director of Capital Investment Trust Corp., TING, HSUEH-WEN served as the representative of the corporate directors of the Capital Investment Trust Corp.

Resolution: Director TING, HSUEH-WEN did not attend or participate in the resolution. The case was consulted by all the directors without objection. (All Independent Directors' Comments: Passed without objection.)

4. Agenda: Lift the restriction on the Competition prohibition of legal directors of the Company's representative proposal.

Description:

Personnel lift the restriction on the competition prohibition		Hold position in Capital Investment Trust Corp.	
Director	Kwang Hsing Industrial Co., Ltd. Representative: TING, HSUEH-WEN	Director	Kwang Yang Motor Co., Ltd. Representative: TING, HSUEH-WEN

Resolution: Director TING, HSUEH-WEN did not attend or participate in the resolution. The case was consulted by all the directors without objection. (All Independent Directors' Comments: Passed without objection.)

2. 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 4th meeting of the 10th board (2017.01.23)

Agenda: The performance appraisal result of the supervisor of the Company's 2016 managerial level or above.

Reason for avoidance and the vote outcome: The chairman of the Company, WANG, JIUNN-CHIH, is one of the list of performance appraisals for this case, in this case, the stakeholders were evaded. The case was circumvented by the chairman (the chairman of the case, WANG, JIUNN-CHIH was evaded, and was chaired by the director LIU, CHING-TSUN) The remaining directors were consulted and passed without objection.

- The 8th meeting of the 10th board (2017.09.25)

Agenda: The festive bonuses attributed to the Company's chairman, general manager, and manager-level or above-level supervisors for the first half of 2017.

Reason for avoidance and the vote outcome: Chairman WANG, JIUNN-CHIH is on the attribution list, and is therefore avoid as an interest party. The case was circumvented by the chairman (the chairman of the case, WANG, JIUNN-CHIH was evaded, and was

chaired by the director LIU, CHING-TSUN) The remaining directors were consulted and passed without objection.

- The 11th meeting of the 10th board (2018.03.26)

1. Agenda: The Company's overseas transfer business CSC Securities (HK) Ltd. applied for a short-term financing amount of USD 10 million in the case of its parent Company, CSC international Holding Ltd.

Reason for avoidance and the vote outcome: Chairman WANG, JIUNN-CHIH is the legal representative of Capital International Holdings Ltd. and the representative of Capital Securities Corp. and the representative of Capital International Holdings Ltd., the corporate director of CSC Securities (HK) Ltd., in this case, the stakeholders were evaded. The case was circumvented by the chairman (the chairman of the case, WANG, JIUNN-CHIH was evaded, and was chaired by the director LIU, CHING-TSUN) The remaining directors were consulted and passed without objection.

2. Agenda: In order to meet the capital requirements for the expansion of the subsidiary Capital International Holdings Ltd., Letter of Comfort is proposed.

Reason for avoidance and the vote outcome: Chairman WANG, JIUNN-CHIH is the legal representative of Capital International Holdings Ltd. and the representative of Capital Securities Corp. in this case, the stakeholders were evaded. The case was circumvented by the chairman (the chairman of the case, WANG, JIUNN-CHIH was evaded, and was chaired by the director LIU, CHING-TSUN) The remaining directors were consulted and passed without objection.

3. Agenda: In order to meet the capital requirements for the expansion of the subsidiary CSC Securities (HK) Ltd., Letter of Comfort is proposed.

Reason for avoidance and the vote outcome: Chairman WANG, JIUNN-CHIH is the legal representative of CSC Securities (HK) Ltd., and the representative of CSC international Holding Ltd., in this case, the stakeholders were evaded. The case was circumvented by the chairman (the chairman of the case, WANG, JIUNN-CHIH was evaded, and was chaired by the director LIU, CHING-TSUN) The remaining directors were consulted and passed without objection.

4. Agenda: TING, HSUEH-WEN, a representative of Kwang Hsing Industrial Co., Ltd. plans to serve as the legal director of Capital Investment Trust Corp. and the representative of Kwang Yang Motor Co., Ltd.

Reason for avoidance and the vote outcome: The Company has an investment relationship with Capital Investment Trust Corp, director TING, HSUEH-WEN intends to serve as the representative of its legal director, in this case, the stakeholders were evaded. Director TING, HSUEH-WEN did not attend or participate in the resolution. The remaining directors were consulted and passed without objection.

5. Agenda: Lift the restriction on the Competition prohibition of legal directors of the Company's representative proposal.

Reason for avoidance and the vote outcome: The Company has an investment relationship with Capital Investment Trust Corp., director TING, HSUEH-WEN intends to serve as the representative of its legal director, in this case, the stakeholders were evaded. Director TING, HSUEH-WEN did not attend or participate in the resolution. The all directors were consulted and passed without objection.

3. 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.

3.3.2 Functionality of the Audit Committee

A total of 8 (A) Audit Committee meetings were held in the most recent year (2017.01.01 ~ 2018.03.31); 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	8	0	100%	
Independent Director	LIN, HSIN-HUI	8	0	100%	
Independent Director	HWANG, JYH-DEAN	8	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.

- 2017.01.09, the 3rd audit committee meeting of the 1st board (Reported on the 4th meetings of the 10th board on 2017.01.23)

1. Agenda: It is proposed to use its own funds to entrust Capital Futures Corp.'s managerial department to operate derivative financial commodity transactions on behalf of the Company, with an appointment of NT\$100 million.

Description: Pursuant to the provisions of Article 18(1)(5) of the Securities Management Rules, the FSC No. 1050014687 Order and the Company's "Guidelines for the Fully Assignment of Transactions of Derivative Financial Commodities for Non-Hedging Purposes". This case is a regular business transaction, and the charging standards are in line with market conditions.

Opinions from independent directors:

- (1) In response to the trading strategy operation part, Hwang Independent Director asked questions such as whether liquidity, profits and losses in the data have deducted transaction costs and part of the model back testing.
- (2) Shea Independent Director asked if there are other companies operating this model, the average charge, and the difference between the contract and the model of the competent authority.

Responses made by the Company: Capital Futures Corp. Jia, Zhong-Dao, vice chairman of the board and Capital Futures Corp. Research Department Xu, Ji-Qing senior associate, separately explained the issues concerning trading strategy operations. It also states that the charging standard of the case is the same as the previous contract signed by Capital Futures Corp., and it is neither excessive nor too low. The difference between a contract and a model is that our contractual restrictions cannot trade stocks.

Resolution: The all directors were consulted and passed without objection.

2. Agenda: It is proposed to participate in the subscription of the cash increase in the Company's reinvestment business group Capital Futures Corp.

Description: The current increase in Capital Futures Corp. intends to issue 38,000,000 ordinary shares with a denomination of NT\$10 per share. The purpose of the capital increase is to reinvest US subsidiaries and enrich working capital. Each stock is issued at NT\$31.38 per share. It is expected that the total amount raised will be approximately NT\$1.192 billion. The Company intends to subscribe for 59.01% of the current shareholder's shareholding ratio, and the total amount of the Company's total cash paid for the capital increase at the deadline of the payment period and has not been fully paid, and then the balance of the Company's total amount by specific person. It is sufficient to subscribe for a total of 22,817,328 shares to be subscribed for. The subscription amount is approximately NT\$716 million. The original shareholders are scheduled to pay for the period from January 6, 2017 to February 7, 2017. The subscription period for specific individuals: 2017 From February 8 to February 9, 2017, the Company intends to ask the board of directors to authorize the chairman to handle the relevant subscription within the above-subscription limit of 22,817,328 shares.

Opinions from independent directors: Shea Independent Director requested an explanation of the active purchase.

Responses made by the Company: The deputy general manager of Corporate planning Dept. WENG, QIN-NENG explained that although the group's futures scale is not the largest, its operating performance and earnings per share is the leading position in the market. Compared with other investment businesses of the Company, the investment return for Capital Futures Corp. is stable and important source of profit. Capital Futures Corp. has stable operations and innovative operating models. In the future, the layout of the international market will have a clear direction, which will increase the proportion of profit contribution to the Company. Looking forward to optimistic earnings this year, so the current capital increase in the Company to take an active attitude to subscribe.

Resolution: The all directors were consulted and passed without objection.

- The 4th audit committee meeting of the 1st board on 2017.03.16 (Reported at the 5th meeting of the 10th board on 2017.03.27)
 1. Agenda: Amendment and accreditation to the Company's "Internal Control Policy".
Description: Based on the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets", February 14, 2017 TPEX No.10600023642. The letter has been circulated in accordance with external communications or methods.
Resolution: The all directors were consulted and passed without objection.
 2. Agenda: The Company's 2016 standalone financial statements and consolidated financial statements have been prepared and completed. They are audited by Lee, Feng-Hui and Chung, Tan-Tan Certified Public Accountants of KPMG and plans to issue an audit report.
Opinions from independent directors:
 - (1) Shea Independent Director suggested that the accountants be required to go to the board of directors to explain the 2016 financial statements and audit report.
 - (2) The three independent directors discussed the contents of the 2016 annual financial statements and audit report.Responses made by the Company:
 - (1) The accountants will be invited to attend the board of directors.
 - (2) The contents of the 2016 annual financial statement and audit report are explained.Resolution: The all directors were consulted and passed without objection.
 3. Agenda: In response to the development of financial science and technology and the protection of the rights and interests of employees, we plan to increase the provision of 0.5% of special reserves when we distribute the 2016 to 2018 fiscal year surplus.
Description: In response to the development of financial science and technology and the protection of the rights and interests of employees, 0.5% to 1.0% of the current year's earnings after tax should be set aside as special reserves for year 2016 to 2018.
Opinions from independent directors:
 - (1) Hwang Independent Director further asked about the direction of using this special reserves.
 - (2) Shea Independent Director, proposed that the period of special reserves should be stated in the case 2. The reason for amendment should be revised.Responses made by the Company: Explain the current regulations on the use of special reserves by the competent authority.
Resolution:
 - (1) Amendment: (a) The case is set for the year by increasing the content. (b) Delete the second point of the explanation.
 - (2) The all directors were consulted and passed without objection.
 4. Agenda: The Company's 2016 earnings distribution proposal.
Description: A cash dividend for amount to NT\$802,557,005 is to be distributed in accordance with the 2016 earnings distribution plan. The earnings per share of NT\$0.37 will be issued to the original shareholder that is computed in accordance with the shareholding of each shareholder registered in the shareholder roster and net of the Treasury stock shares; also, it will be rounded up to dollar. The total number of odd shares will be booked as "other income" of the Company. After a resolution is reached in the shareholders' meeting, the Board of Directors shall schedule the ex-dividend date, distribution date, and other related matters.
Resolution: The all directors were consulted and passed without objection.
 5. Agenda: Amendment partial articles of the Company's "Procedures for the Acquisition or Disposal of Assets".
Description: According to the No. 1060001296 Order of the Securities and Futures Bureau of Financial Supervisory Commission dated February 9, 2017.
Resolution: The all directors were consulted and passed without objection.
- The 5th audit committee meeting of the 1st board on 2017.04.28 (Reported on 6th meeting of the 10th board on 2017.05.12)
 1. Agenda: Amendment and accreditation to the Company's "Internal Control Policy".
Description: Based on the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets", December 29, 2016 TWSE No. 1050505273, February 3, 2017 TSA No. 1060000590, March 24, 2017 TWSE No. 1060004997 shall be handled. The letter Has been circulated in accordance with external communications or methods.
Opinions from independent directors: The three independent directors conducted full discussions with the audit supervisor on how to conduct the audit work and how to cope with the changes in the internal control system in response to adjustments. In addition, they asked questions and opinions on the auditing process, the hardware construction, the training of auditors, and the implementation of the audit

framework.

Responses made by the Company: HUANG, QI-MING, the supervisor of the Auditing Dep. explained and exchanged opinions on the issues raised by the independent directors.

Resolution: The all directors were consulted and passed without objection.

- The 6th audit committee meeting of the 1st board on 2017.08.17 (Reported on the 3rd extraordinary meeting of the 10th board on 2017.08.28)
 1. Agenda: Amendment and accreditation to the Company's "Internal Control Policy" and "Implementation Rules for Internal Audit Regulations".

Description: Based on the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets", February 18, 2017 TDCC No. 10600026612 and No. 10600026613, and May 10, 2017 TAIEX No. 10600013760, June 5, 2017 TAIEX No. 10600016102, June 15, 2017 TWSE No. 1060502161, and July 3, 2017 TDCC No. 10600128581 and No. 10600128582, July 5, 2017 TSA No. 1060003763, July 25, 2017 TWSE No. 1060502786, and July 28th, 2017 TWSE No. 1060502846, will be handled. The letter has been circulated in accordance with external communications or methods.

Resolution: The all directors were consulted and passed without objection.
 2. Agenda: The 2nd quarter of the Company's 2017 standalone financial statements and consolidated financial statements have been prepared and completed. They are audited by LEE, FENG-HUI and CHUNG, TAN-TAN CPA of KPMG and plans to issue an audit report.

Resolution: The all directors were consulted with accountant and passed without objection.
- The 7th audit committee meeting of the 1st board on 2017.10.27 (Reported at 9th meeting of the 10th board on 2017.11.10)
 1. Agenda: Amendment and accreditation to the Company's "Internal Control Policy" and "Implementation Rules for Internal Audit Regulations".

Description: Based on the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets", August 1, 2017 TWSE No. 1060004193, August 21, 2017 TWSE No.1060004661, September 8, 2017TAROC No. 1060000449 shall be used. The letter has been circulated in accordance with external communications or methods.

Resolution: The all directors were consulted and passed without objection.
 2. Agenda: 2017 Annual Accountant Independence Evaluation.

Description: According to Article 29(2) of the Code of Practice for Corporate Governance of Securities Firms and Corporate Governance Evaluation Indicator (3.30), securities firms should periodically assess the independence of the appointment of a certified public accountant. The Company formulates an independent assessment worksheet in accordance with the provisions of Article 47 of the Accountants Law and No 10 "Integrity, Impartiality, Objectivity and Independence" of the Certified Public Accountant's Professional Ethics Communique, and obtains an accountant's declaration. It has been assessed that both Certified Public Accountants, Lee, Feng-Hui and Chung, Tan-Tan, of KPMG, have met the criteria for independence assessment and are qualified to serve as financial and tax auditing accountants of the Company.

Resolution: The all directors were consulted and passed without objection.
- The 1st audit committee extraordinary meeting of the 1st board on 2017.12.15 (Reported at the 4th extraordinary meeting of the 10th board on 2017.12.15)
 1. Agenda: It is proposed to dispose of the investment in shares of Reliance Securities Investment Trust Co., Ltd.

Description: It is proposed to sell 940,800 shares of Reliance Securities Investment Trust Co., Ltd. at a price not lower than the shareholding cost of NT\$10.38 per share. In this case, according to the "Procedure for Acquiring or Disposing of Assets" of the Company, the financial statements of the target Company for the most recent (2016) audited by the accountant were used to obtain the reference price of the estimated transaction price per year of the net value per share for 2016.

Opinions from independent directors: Shea Independent Director and Hwang Independent Director asked whether it is a good time to dispose of the equity, and confirm the selling price and other related issues.

Responses made by the Company: The ordinance stipulates that securities firms can only invest in one investment trust Company. In order to file a case for two investment cases, the Company must dispose of the equity of the trust stock held by Reliance Securities Investment Trust Co., Ltd. The current market is not easy to punish, but the Company will endeavor to reach a price of not less than 10.38 dollars per share.

Resolution: In this case, after the attended staff left the meeting, the chairman consulted all members with no objections and submitted the report to the board of directors for consideration.
 2. Agenda: The Company plans to acquire shares of Capital Investment Trust Corp.

Description: It is proposed to obtain 39,754,350 common shares of Capital Investment Trust Corp at a price of NT\$38.482 per share, which is 24.04% of the total equity. The total amount of NT\$1,529,828,112 is

the cap. After obtaining the review opinion on the reasonableness of the consideration of the transaction issued by the PricewaterhouseCoopers Taiwan in relation to the transaction price, the transaction acquisition cost is between the equity fair value range of the equity interests it seeks to invest in.

Opinions from independent directors: Hwang Independent Director asked the pricing of the transaction in this case, in addition to the general equity valuation method, whether it is consistent with market practices, and compliance with laws and procedures. In addition, the benchmark date for evaluation of valuation is September 30, 2017. What should happen if there are other events during the actual transaction completion date? If so, what should be done to safeguard equity?

Zhang, Xiao-Fen from PricewaterhouseCoopers Taiwan stated: According to the past cases, investors focused on the management of assets. Therefore, we use the market value of companies to manage the asset multiplier as the basis for evaluation, besides, we take into account the high proportion of the group equity investment trust fund, the relatively high management fee that can be charged, that is, the relatively high operating profitability, so we also use the adjusted equity value as the basis for evaluation of the operating profit multiplier. In addition, it is considered that major events that occurred before the actual transaction date affect the management assets by Capital Investment Trust Corp., which are mostly handled through contractual arrangements and are less frequently dealt with during the pricing period.

Opinions from independent directors: Shea Independent Director asked the Company's internal evaluation of the subject price range?

Responses made by the Company: According to the evaluation of the target Company, the Company is based on internal related methods, the verification method for the price is based on profit ratio and return rate, and the three Asia-Pacific investment companies with similar size are also sampled, and the cross-validated P/E ratio is considered to be 15 times reasonable in the end; According to the Company's annual profit-making and steady flow of cash dividends, according to the prices we have obtained, the assessment of our return on investment of 6% is beneficial to our shareholders' equity. Because it is a minority investment, it is impossible to perform Due Diligence in practice. However, Capital Investment Trust Corp. is a highly supervised industry. The competent authority requires the disclosure of information to be compared with the public Company. Therefore, the information obtained by us is open.

Resolution: In this case, after the attended staff left the meeting, the chairman consulted all members with no objections and submitted the report to the board of directors for consideration.

- The 8th audit committee meeting of the 1st board on 2018.01.15 (Reported at the 10th meeting of the 10th board on 2018.01.29)
 1. Agenda: Amendment and accreditation to the Company's "Internal Control Policy" and "Implementation Rules for Internal Audit Regulations".

Description: Based on the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets", November 13, 2017 TPEX No. 10600295802, will be handled. The letter has been revamped according to external communications or procedures.

Resolution: The all directors were consulted and passed without objection.
- The 9th audit committee meeting of the 1st board on 2018.03.15 (Reported at the 11th meeting of the 10th board on 2018.03.26)
 1. Agenda: The Company's 2017 standalone financial statements and consolidated financial statements have been prepared and completed. They are audited by LEE, FENG-HUI and CHUNG, TAN-TAN CPA of KPMG and plans to issue an audit report.

Resolution: The case was explained and discussed with the accountant, and after the attended staff left the meeting, the chairman consulted all members with no objections.
 2. Agenda: The Company's 2017 earnings distribution proposal.

Description: For the Company's 2017 earnings distribution, the proposed total cash dividend to shareholders is NT\$433,814,597 (a cash dividend of NT\$0.20 per share). The cash dividend is paid to 1 NT\$ (the amount less than 1 NT\$ will be discarded), and the odd amount will be posted into the Company's other income. In addition, a total stock dividend of NT\$1,518,351,100 (a stock dividend of NT\$0.70 per share) will be distributed. After the resolution of the dividend distribution is made in the shareholders' meeting, matters such as the ex-dividend date and the distribution date will be further decided in the board meeting.

Resolution:

 - (1) After discussion with the finance department, please provide supplementary explanations for the background of decision making on distribution of earnings.
 - (2) After the attended staff left the meeting, the chairman consulted all members with no objections.

3. Agenda: The proposal for issuance of new shares through capitalization of 2017 earnings.

Description: According to the 2017 earnings distribution plan, it is planned that earnings of NT\$1,518,351,100 will be used for capital increase and issuance of new shares at a par value of NT\$10 per share, for a total of 151,835,110 shares. 70 shares per 1,000 shares held will be distributed to the original shareholders in the shareholder's register based on their number of shares held on the ex-dividend date.

Resolution: After the attended staff left the meeting, the chairman consulted all members with no objections.

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 during 2017.01.01 ~ 2018.03.31 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).

- (1) The Company submits the monthly summary report of the previous month's check for missing and improvement tracking reports to the independent directors for review, and the independent directors provide instructions/reports or other suggestions for the report.
- (2) The Company's internal audit supervisor regularly conducts audits of the auditing business, audit results, and follow-up situations of the independent directors on quarterly audit committees.
- (3) The Company convenes the board of directors every two months to audit the supervisor and report the internal audit of the business on each board of directors.
- (4) When reviewing the semi-annual and annual financial reports, the certified accountant attends the audit committee to explain the review of the Company's financial statement process, scope issues, and updates of relevant laws and regulations, and fully discusses with the independent directors. Certified accountants also attended the board of directors and explained and communicated with the directors.
- (5) Audit supervisors, accountants, and independent directors may contact each other at any time, as required, and have a smooth communication channel.

3.3.3 Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/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?"	V		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?	V		(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 Registrar Agency Dept., a Compliance and Legal Division 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?	V		(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?	V		(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?	V		(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
3.Assembly and obligations of the board of directors				
(1) Has the board devised and implemented policies to ensure diversity of its members?	V		(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

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	
(2) Apart from the Remuneration Committee and Audit Committee, has the Company assembled other functional committees at its own discretion?	V		(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?		V	(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 director's performance evaluation policy based on the rules and practices stated by the authority.
(4) Are external auditors' independence assessed on a regular basis?	V		(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.	No deviation
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.)?		V	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)?		V	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?	V		Capital Securities Corporation is an integrated securities service provider, and has a Registrar Agency Department to handle shareholder meeting affairs.	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	
7. Information disclosure				
(1) Has the Company established a website that discloses financial, business, and corporate governance-related information?	V		(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)?	V		(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
8. Does the Company have any other important information (including but not limited to employee rights, employee care, investor relations, supplier relationships, rights of interested parties, education for directors and supervisors, and other risks, the implementation of policies and risk measurement standards, the implementation of customer policies, the Company's purchase of liability insurance for directors and supervisors, etc.)?	V		(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. (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. (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. (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. (5) Directors' and supervisors' ongoing education: All of the Company's directors and supervisors have completed the required number of training hours	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	
			<p>stated in "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies."</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.</p>	
<p>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 1,539 TWSE/TPEX listed companies were assessed during the 2017 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.</p>				

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:

1. Remuneration Committee members

Identity (Note 1)	Criteria Name	Having more than 5years 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	V		V	V	V	V	V	V	V	V	V	0	
Other	CHUANG, CHIH-CHENG		V	V	V	V	V	V	V	V	V	V	0	
Other	YEN, CHIEN-SAN		V	V	V	V	V	V	V	V	V	V	1	

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

Note 2: place a "v" 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.

2. 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 7 meetings (A) in the most recent 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	7	0	100%	
Committee member	CHUANG, CHIH-CHENG	7	0	100%	
Committee member	YEN, CHIEN-SAN	7	0	100%	

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.

3.3.5 Fulfillment of social responsibilities

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. Sound corporate governance (1) Does the Company have a corporate social responsibility policy or system in place? Is progress reviewed on a regular basis?	V		(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 2017, the Company organized: a Family Day hiking event to a total participant size of 1,519, a blood donation event to a total participant size of 1,622, 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 6,576 cubic meters, power usage by 850,139 KWH, and fuel usage by 86 liters. Please visit the Company's website for more details.	No deviation
(2) Does the Company organize social responsibility training on a regular basis?	V		(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?	V		(3) During the board of directors meeting held on March 27, 2015, the Corporate Planning Dept. 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 Dept. in regards to corporate social responsibilities is to assist in practical actions. In addition to establishing/amending corporate social responsibility policies, the Corporate Planning Dept. 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 Dept. takes into consideration the possible impacts of the Company's business activities on the society and the natural environment when making strategic plans. The Dept. 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?	V		(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)			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies
	Yes	No	Summary description	
2. Fostering a sustainable environment				
(1) Is the Company committed to achieving efficient use of resources, and using renewable materials that produce less impact on the environment?	V		(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?	V		(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?	V		(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 2017 was calculated at 3.576 million kg, which was 11% 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
3. Enforcement of public welfare				
(1) Has the Company developed its policies and procedures in accordance with laws and International Bill of Human Rights?	V		(1) 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. 2. The Company has established "Workplace Sexual Harassment Prevention, Grievance and Disciplinary Policy" in compliance with "Act of Gender Equality in Employment." 3. 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. 4. 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?	V		(2) 1. The Company provides all managers with an electronic mailbox, which employees may use to make recommendations and express opinions. 2. 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. 3. In response to employee complaints, the Company has established the "Sexual Harassment Grievance Disposal Committee" and "Workplace	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) Does the Company provide employees with a safe and healthy work environment? Are employees trained regularly on safety and health issues?	V		Violence Appeal Handling Committee” to provide employees with appropriate complaint mechanisms and channels.	No deviation	
			(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.		
			Implemented measures		Item
Implemented measures	Item	Description			
Employee Health	Insurance and welfare	Measures mandated by law: <ol style="list-style-type: none"> 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: <ol style="list-style-type: none"> 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 			

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												
			<table><tr><td></td><td>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. (2) The Company acquired "Badge of Accredited Healthy Workplace" from Health Promotion Administration, Ministry of Health and Welfare (3) The Company acquired "Certification for Voluntary Public Indoor Air Quality Management" from Taipei City Department of Environmental Protection</td></tr><tr><td rowspan="3">Safety of work environment</td><td>Safety certification</td><td>The Company received ISO22301 certification for continuity management from British Standards Institution. The main purpose of this certification is to ensure that the Company is able to minimize damage and recover operations within the target time in the event of an emergency, and thereby ensure personnel safety, compliance with laws, and protection of customers' interests, corporate reputation and assets.</td></tr><tr><td>Certification for personal information</td><td>The Company is the first financial institution to obtain international certification for personal information management with respect to securities, futures, and insurance brokerage/agency services. It shows that the Personal Information Management System (PIMS) adopted by the Company offers effective protection and management of personal information, and complies with all requirements of the Personal Information Protection Act to protect the rights of information owners, while at the same time minimize possible impacts from event of attack. It represents the Company's commitment to continually manage and improve its personal information management system.</td></tr><tr><td>Workers' safety</td><td>The Company has complied with the "Occupational Safety and Health Act" by appointing an OSH Officer, a team of first aid officers, and organizing training according</td></tr></table>		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. (2) The Company acquired "Badge of Accredited Healthy Workplace" from Health Promotion Administration, Ministry of Health and Welfare (3) The Company acquired "Certification for Voluntary Public Indoor Air Quality Management" from Taipei City Department of Environmental Protection	Safety of work environment	Safety certification	The Company received ISO22301 certification for continuity management from British Standards Institution. The main purpose of this certification is to ensure that the Company is able to minimize damage and recover operations within the target time in the event of an emergency, and thereby ensure personnel safety, compliance with laws, and protection of customers' interests, corporate reputation and assets.	Certification for personal information	The Company is the first financial institution to obtain international certification for personal information management with respect to securities, futures, and insurance brokerage/agency services. It shows that the Personal Information Management System (PIMS) adopted by the Company offers effective protection and management of personal information, and complies with all requirements of the Personal Information Protection Act to protect the rights of information owners, while at the same time minimize possible impacts from event of attack. It represents the Company's commitment to continually manage and improve its personal information management system.	Workers' safety	The Company has complied with the "Occupational Safety and Health Act" by appointing an OSH Officer, a team of first aid officers, and organizing training according	
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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							
			<table><tr><td></td><td>to the Worker Safety Education Principles The Company has formulated and promoted the "Human Hazard Prevention Plan" to prevent human-caused harm caused by work-induced musculoskeletal injuries or diseases. In addition, it has formulated and promoted the “Abnormal Workload Induced Disease Prevention Plan” to plan and take the necessary safety and health measures for the prevention of diseases caused by abnormal workloads such as shifts, night work, and long working hours.</td></tr><tr><td>Fire safety</td><td>1. Fire drills are organized on a regular basis. 2. Employees are trained at least once every three years as instructed by National Fire Agency, Ministry of the Interior, in Notes on Establishment of Fire Safety Management.</td></tr><tr><td>Safety assurance</td><td>All of the Company's business premises and branches are covered by the following insurance: 1. Commercial fire insurance 2. Electronic equipment insurance 3. Public liability insurance</td></tr></table>		to the Worker Safety Education Principles The Company has formulated and promoted the "Human Hazard Prevention Plan" to prevent human-caused harm caused by work-induced musculoskeletal injuries or diseases. In addition, it has formulated and promoted the “Abnormal Workload Induced Disease Prevention Plan” to plan and take the necessary safety and health measures for the prevention of diseases caused by abnormal workloads such as shifts, night work, and long working hours.	Fire safety	1. Fire drills are organized on a regular basis. 2. Employees are trained at least once every three years as instructed by National Fire Agency, Ministry of the Interior, in Notes on Establishment of Fire Safety Management.	Safety assurance	All of the Company's business premises and branches are covered by the following insurance: 1. Commercial fire insurance 2. Electronic equipment insurance 3. Public liability insurance	
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Safety assurance	All of the Company's business premises and branches are covered by the following insurance: 1. Commercial fire insurance 2. Electronic equipment insurance 3. Public liability insurance									
(4) Does the Company have means to communicate with employees on a regular basis, and inform them of operational changes that maybe of significant impact?	V		(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?	V		(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, and won the bronze medal of evaluation grade certification.	No deviation						
(6) Has the Company implemented consumer protection and grievance policies with regards to its research, development, procurement,	V		(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.	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	
production, operating and service activities?			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	
(7) Has the Company complied with laws and international standards with regards to the marketing and labeling of products and services?	V		(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' environment and social conducts before commencing business relationships?	V		(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
(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?	V		(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?	V		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.

3.3.6 Integrity performance

Assessment criteria	Compliance			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
<p>1.Establishment of integrity policies and solutions</p> <p>(1) Has the Company stated in its Memorandum or external correspondence about the policies and practices it has to maintain business integrity? Are the board of directors and the management committed in fulfilling this commitment?</p> <p>(2) Does the Company have any measures against dishonest conducts? Are these measures supported by proper procedures, behavioral guidelines, disciplinary actions and complaint systems?</p> <p>(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?</p>	V		<p>(1) The Company has "Integrity Code of Conduct" and "Operational Procedures and Guidelines of Ethical Corporate Management Best Practice" 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.</p> <p>(2) The Company's "Operational Procedures and Guidelines of Ethical Corporate Management Best Practice" 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.</p> <p>(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 "Operational Procedures and Guidelines of Ethical Corporate Management Best Practice" outlines rules and procedures specifically for business activities that exhibit high integrity risks.</p>	<p>No deviation</p> <p>No deviation</p> <p>No deviation</p>
<p>2.Enforcing ethical management</p> <p>(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?</p> <p>(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?</p> <p>(3) Does the Company have any policy that prevents conflict of interest, and channels that facilitate the report of conflicting interests?</p> <p>(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</p>	V		<p>(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.</p> <p>(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 "Operational Procedures and Guidelines of Ethical Corporate Management Best Practice" 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 12 online courses of different topics were arranged in 2017. They delivered 6,200 training hours and 2,000 completions in total.</p> <p>(3) The Company has "Operational Procedures and Guidelines of Ethical Corporate Management Best Practice" 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.</p> <p>(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.</p>	<p>No deviation</p> <p>No deviation</p> <p>No deviation</p> <p>No deviation</p>

Assessment criteria	Compliance			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
regular basis? (5) Does the Company organize internal or external training on a regular basis to maintain business integrity?	V		(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 12 online courses of different topics were arranged in 2017; they delivered 6,200 training hours and 2,000 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?	V		(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?	V		(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 Auditing Dept. before submitting it to the President for the final decision. 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. The same procedures apply for opinions raised by external parties through spokesperson and investor relations contact.	No deviation
(3) Has the Company provided proper whistleblower protection?	V		(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.	No deviation
4.Enhanced information disclosure (1) Has the Company disclosed its integrity principles and progress onto its website and MOPS?	V		(1) The Company's "Integrity Code of Conduct" and "Operational Procedures and Guidelines of Ethical Corporate Management Best Practice" 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.	No deviation
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 "Operational Procedures and Guidelines of Ethical Corporate Management Best Practice" are fully compliant with "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies."				
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.				

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 website (www.capital.com.tw)/About Capital /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

1. Statement of Internal Control System

Capital Securities Corporation Statement of Internal Control System

Date: March 26, 2018

The following statement has been made based on a self-assessment of the Company's internal control system in 2017:

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, 2017. 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 26, 2018 by all 10 attending directors without objection.

Capital Securities Corporation
Chairman: WANG, JIUNN-CHIH
President: CHAO, YONG-FEI

2. 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:

1. Decision letter issued by Taiwan Stock Exchange Corporation on July 06, 2017: The Company's securities specialist was found to have violated the Standards and Regulations for the Internal Control System of Securities Dealers CA-11210, Paragraph 2, Article 18 of Regulations Governing Responsible Persons and Associated Persons of Securities Firms. The Company was issued an improvement while 7 violators was ordered a 2 months' 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.
2. Decision letter issued by Taiwan Stock Exchange Corporation on November 03, 2017, decision letter issued by Financial Supervisory Commission on January 4, 2018: The Company's securities specialist was found to have violated Subparagraph 9, Subparagraph 10, Subparagraph 20, Paragraph 2, Article 2 of Regulations Governing Securities Firms. The Company was issued an order of correction while the violator Dismissal and self-deliberation of managers.
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 director's meetings held in the most recent year up till the publication date of this annual report:

1. Material resolutions and execution

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

- (1) The 4th meeting of the 10th board (2017.01.23)
Agenda: It is planned to use its own funds to fully entrust the manager of the Capital Futures Corp. to operate derivative financial commodity transactions on behalf of the Company, with an appointment of NT\$100 million.
Resolution: The all directors were consulted and passed without objection.
Execution status: After the all directors were consulted and passed without objection, according to the application of its own funds, it is the sole responsibility of entrusting the group manager of the Capital Futures Corp. to operate derivative financial commodity transactions on its behalf.
- (2) The 3rd extraordinary meeting of the 10th board (2017.08.28)
 - i. Agenda: Pursuant to the relevant regulations on the prevention of money laundering and the fight against capital and terrorism, it is proposed to provide personal data on the identification of directors to various financial institutions and other relevant administrative authority such as Depository & Clearing Corporation.
Resolution: The all directors were consulted and passed without objection.
Execution status: After the all directors were consulted and passed without objection, it is handled according to the resolution.
 - ii. Agenda: The Company's 2017 directors and supervisors and important staff liability insurance case.
Resolution: The all directors were consulted and passed without objection.
Execution status: After the all directors were consulted and passed without objection, the Company has completed the 2017 liability insurance purchase procedure of Board of Directors and key staffs.
- (3) The 9th meeting of the 10th board (2017.11.10)
 - i. Agenda: 2017 Annual Accountant Independence Evaluation.
Resolution: The all directors were consulted and passed without objection.
Execution status: After the all directors were consulted and passed without objection, the independence of Company's Accountants has been confirmed.
- (4) The 4th extraordinary meeting of the 10th board (2017.12.15)
 - i. Agenda: The Company plans to invest in the equity of Capital Investment Trust Corp.
Resolution: The all directors were consulted and passed without objection.
Execution status: After the all directors were consulted and passed without objection, it is confirmed that the Company completed the acquisition of 20% of the shares of the Capital Investment Trust Corp., Ltd. on February 9, 2018, with the transaction counterpart, COMMERZBANK AKTIENGESELLSCHAFT.

- (5) The 10th meeting of the 10th board (2018.01.29)
- i. Agenda: Amendments to the “Guidelines for Preventing Money Laundering and Combating Threats from Terrorism” and “Controlling Money Laundering and Combating Terrorist Policies”.
Resolution: The all directors were consulted and passed without objection.
Execution status: After the all directors were consulted and passed without objection, and approved for reference by the Financial Supervisory Committee of the Financial Supervisory Commission No. 1070302042 dated February 14, 2018, it shall be announced in accordance with the approved contents.
 - ii. Agenda: It is proposed to employ KPMG Management Co., Ltd. as the consultant of the Company and assist in optimizing the Company's case of preventing money laundering and cracking down on operational procedures.
Resolution: The all directors were consulted and passed without objection.
Execution status: After the all directors were consulted and passed without objection, appointment by resolution suggested.
- (6) The 11th meeting of the 10th board (2018.03.26)
- i. Agenda: The proposal for issuance of new shares through capitalization of 2017 earnings.
Resolution: The all directors were consulted and passed without objection.
Execution status: After the all directors were consulted and passed without objection, and proposed to submit a report to the regular shareholders meeting in 2018.
 - ii. Agenda: Revision of the Company's accounting system.
Resolution: The all directors were consulted and passed without objection.
Execution status: After the all directors were consulted and passed without objection, and handled according to the resolution.
 - iii. Agenda: In order to prevent money-laundering in the securities and futures industry and to combat internal control points of capital and terrorism, the Company issued the 2017 statement on the prevention and control of money laundering and the internal control system for combating terrorism.
Resolution: The all directors were consulted and passed without objection.
Execution status: After the all directors were consulted and passed without objection, and has been disclosed on the Company's website / corporate governance Area.

2. Execution progress

Resolutions of shareholders' meeting dated June 26, 2017:

Item		Proposal	Voting results/Resolution	Execution
Approved items	No. 1	Approval of the Company's 2016 business report and financial statements	There were a total of 1,494,407,937 votes in favor (of which 321,466,433 votes were exercised using the electronic method) and 309,174 votes against (of which 309,174 votes were exercised using the electronic method). A total of 63,018,642 votes were abstained (of which 63,018,642 were exercised using the electronic method), 0 votes were void, and 219,753,582 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 2016 earnings appropriation	There were a total of 1,494,374,071 votes in favor (of which 321,432,567 votes were exercised using the electronic method) and 354,177 votes against (of which 354,177 votes were exercised using the electronic method). A total of 63,007,505 votes were abstained (of which 63,007,505 were exercised using the electronic method), 0 votes were void, and 219,753,582 votes were not exercised. A statutory majority voted in favor, and the proposal was approved as proposed.	A cash dividend of NT\$0.37 per share was distributed based on the resolution reached in the shareholders' meeting. (ex-dividend date was August 21, 2017 and cash dividend were distributed on September 13, 2017)
Discussion items	No. 1	Amendments to the Company's "Procedures for the Acquisition or Disposal of Assets"	There were a total of 1,494,209,089 votes in favor (of which 321,267,585 votes were exercised using the electronic method) and 366,341 votes against (of which 366,341 votes were exercised using the electronic method). A total of 63,160,323 votes were abstained (of which 63,160,323 were exercised using the electronic method), 0 votes were void, and 219,753,582 votes were not exercised. A statutory majority voted in favor, and the proposal was approved as proposed.	The " Procedures for the Acquisition or Disposal of Assets " have been amended and implemented accordingly.

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, 2018

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:

1. Managers:

Title	Name	Course start time	Course end time	Organizer	Hours	Course name
Vice President	LAI, AI-WEN	2017.02.13	2017.02.17	Taiwan Securities Association	15	On-job Training of Securities Specialists
		2017.03.10	2017.03.10	Taiwan Academy of Banking and Finance	6	Trust Supervisors On-the-job Training
		2017.06.12	2017.06.19	Securities and Futures Institute	24	Anti-Money Laundering and Combat Financial Terrorism Personnel and Special Duty Competent Qualifications (24 hours) Training Course
		2017.10.28	2017.10.28	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
		2017.11.21	2017.11.21	Taipei Exchange	3	Money laundering prevention method
		2017.12.16	2017.12.16	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
Senior Vice President	XIE, XIU-YING	2017.07.07	2017.07.07	Securities and Futures Institute	4	Insider equity transaction explanation
		2017.09.19	2017.09.19	Taiwan Academy of Banking and Finance	4	New Trends in Trust Law and Trust Business Development Seminar
		2017.09.26	2017.09.26	Taiwan Academy of Banking and Finance	4	Asian Financial Supervisor Summit Forum
Executive Vice President	HUANG, CHI-MING	2017.03.06	2017.03.06	Taiwan Stock Exchange Corporation	4	The content description propaganda of the amendments to the "Standards for the Internal Control System of Securities Firms" in 2017
		2017.03.21	2017.03.21	Taiwan Securities Association	3	Capital security and corporate corruption
		2017.03.31	2017.03.31	Trust Association of R.O.C	3	Trust Supervisors On-the-job Training
		2017.04.17	2017.04.22	Securities and Futures Institute	24	Anti-Money Laundering and Combat Financial Terrorism Personnel and Special Duty Competent Qualifications (24 hours) Training Course
		2017.06.08	2017.06.08	Taiwan Securities Association	8	On-job Training of Securities Specialists
		2017.06.30	2017.06.30	Taipei Exchange	3	2017 Securities Dealers Money Laundering Prevention and Legal Compliance System Seminar
		2017.08.01	2017.08.01	Trust Association of R.O.C	6	Trust Supervisors On-the-job Training
		2017.09.15	2017.09.15	Securities and Futures Institute	6.5	Securities dealers audit example briefing seminar

Title	Name	Course start time	Course end time	Organizer	Hours	Course name
		2017.09.21	2017.09.21	Taiwan Securities Association	3	Securities Firm Internal Audit Workshop
Senior Vice President	LIN, SHU-CHUAN	2017.02.17	2017.02.17	Taiwan Securities Association	2	Securities Dealers Prevent Money Laundering and Combat Financial Terrorism performance evaluation briefing
		2017.03.01	2017.03.01	Taiwan Academy of Banking and Finance	4	Financial Technology Innovation Experiment and Supervision Sandbox Seminar
		2017.03.02	2017.03.02	Taiwan Stock Exchange Corporation	4	2017 amendment to the "Standards for Internal Control Systems of Securities Firms" seminar
		2017.03.21	2017.03.21	Taiwan Securities Association	3	Information communication security and corporate corruption
		2017.05.04	2017.05.04	Taiwan Securities Association	3	Foreign exchange regulations
		2017.05.05	2017.05.05	Taiwan Securities Association	3	Foreign exchange declaration
		2017.06.12	2017.06.19	Securities and Futures Institute	24	Anti-Money Laundering and Combat Financial Terrorism Personnel and Special Duty Competent Qualifications (24 hours) Training Course
		2017.06.22	2017.06.22	Taiwan Futures Exchange	3	Announcement on the Revised Proposal of Internal Control System for Futures Merchants and Futures Trading in 2017
		2017.09.29	2017.09.29	Securities and Futures Institute	6	Securities dealers audit example briefing seminar
		2017.12.12	2017.12.12	Taiwan Securities Association	3	Dealer's Statement on Prevention of Money Laundering and Fight against Financial Terrorism
Senior Vice President	FANG, CHIH-HUNG	2017.06.06	2017.06.06	Taiwan Academy of Banking and Finance	6	[Financial Risk Control and Legal Compliance Innovation] Forum
		2017.06.30	2017.06.30	Taipei Exchange	3	Comprehensive Securities Dealers Money Laundering Prevention and Legal Compliance Seminar
Executive Vice President	TAN, DE-CHENG	2017.01.11	2017.01.11	Taiwan Securities Association	3	Payroll Committee's Operational Practice Discussion
		2017.03.09	2017.03.09	Taiwan Securities Association	3	Consolidated Statement Preparation Specification and Practice Discussion
		2017.03.10	2017.03.10	Taiwan Academy of Banking and Finance	6	Trust Supervisors On-the-job Training
		2017.03.30	2017.03.30	Taiwan Securities Association	3	Entrusted with the purchase and sale of foreign securities laws and professional ethics
		2017.04.25	2017.04.25	Taiwan Securities Association	3	Cross-border remittances and anti-tax avoidance reform trends
		2017.06.28	2017.06.28	Taiwan Securities Association	3	Directors and Supervisors, Transfer of Equity Interests of Accounting Supervisors and Tax Planning Practice
		2017.09.23	2017.09.24	Taiwan Securities Association	12	Spot Forex Trading Business Qualification Training Course
Senior Vice President	HUANG, ZI-RONG	2017.04.25	2017.04.25	Taiwan Securities Association	3	Cross-border remittances and anti-tax avoidance reform trends
		2017.05.10	2017.05.10	Taiwan Securities Association	3	Case Analysis of Legal Responsibility of Supervisors and Financial Supervisors of Enterprises
		2017.06.08	2017.06.08	Taiwan Securities Association	8	On-job Training of Securities Specialists
		2017.06.28	2017.06.28	Taiwan Securities Association	3	Directors and Supervisors, Transfer of Equity Interests of Accounting Supervisors and Tax

Title	Name	Course start time	Course end time	Organizer	Hours	Course name
						Planning Practice
		2017.08.09	2017.08.09	Taiwan Securities Association	3	Continuing Education for Accounting Supervisors - Up-to-date taxation laws that companies and high-value individuals should care about
		2017.09.23	2017.09.24	Taiwan Securities Association	12	Spot Forex Trading Business Qualification Training Course
Executive Vice President	LIN, YAN-FEN	2017.12.10	2017.12.10	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
		2017.12.16	2017.12.16	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
Senior Vice President	WANG, JUAN-HUI	2017.03.10	2017.03.11	Chinese National Futures Association	15	On-duty training of futures salesmen – Senior managers' class
		2017.07.13	2017.07.14	Securities and Futures Institute	12	Anti-money laundering business unit supervision supervisor qualification acquisition (12 hours) training course
		2017.08.01	2017.08.01	The Bankers Association Of R.O.C., Trust Association of R.O.C	6	"The Practice of Money Laundering Prevention and Control in the International Financial Industry - Taking the United States and Hong Kong as Examples"
		2017.12.10	2017.12.10	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
		2017.12.16	2017.12.16	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
Senior Vice President	ZHENG, SHU-FEN	2017.02.07	2017.02.09	Taiwan Academy of Banking and Finance	12	Trust management staff on-the-job training
		2017.09.04	2017.09.05	Taiwan Securities Association	6	Wealth Management Business on-the-job training
		2017.09.19	2017.09.19	Taiwan Academy of Banking and Finance	5	New Trends in Trust Law and Trust Business Development
		2017.10.14	2017.10.14	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
		2017.11.03	2017.11.04	Securities and Futures Institute	12	Anti-money laundering business unit supervision supervisor qualification acquisition (12 hours) training course
		2017.12.16	2017.12.16	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
Executive Vice President	MA, JIA-HUAN	2017.07.27	2017.07.27	Taiwan Academy of Banking and Finance	2	Bitcoin and blockchain, subvert the new technology of the future financial industry
		2017.10.19	2017.10.19	Trust Association of R.O.C	4	Trust Supervisors On-the-job Training
		2017.10.23	2017.10.23	Trust Association of R.O.C	3	Trust Supervisors On-the-job Training
Senior Vice President	ZHONG, XUAN-FENG	2017.02.07	2017.02.09	Taiwan Academy of Banking and Finance	12	Trust management staff on-the-job training
		2017.06.08	2017.06.08	Taiwan Securities Association	8	On-job Training of Securities Specialists
		2017.09.04	2017.09.05	Taiwan Securities Association	6	Wealth Management Business on-the-job training

2. Directors and supervisors:

Title	Name	Organizer	Course name	Course date	Hours
Chairman	WANG, JIUNN-CHIH	Association of Taiwan Listed Companies	Corporate Sustainability and International Trends of Responsible Investment	2017.03.15	3
		Securities and Futures Institute	The Company's operating rights competition behavior norms and practical case commentary	2017.05.18	3
Director	LIU, CHING-TSUN	Securities and Futures Institute	Corporate Performance Information Interpretation - Directors and Supervisors (Independent) Practice Advanced Workshop	2017.07.19	3
		Securities and Futures Institute	Analysis of Corporate Finance and Financial Applications - Advanced Seminar of Directors and Supervisors (Independent)	2017.07.20	3
Director	YANG, CHE-HUNG	Securities and Futures Institute	2017 Insider Trading and Corporate Social Responsibility Forum	2017.05.05	3
		Taiwan Securities Association	Directors and Supervisors, Transfer of Equity Interests of Accounting Supervisors and Tax Planning Practice	2017.11.09	3
Director	CHANG, CHIH-MING	Securities and Futures Institute	Research on the external directors and supervisors under asymmetric information caused dilemma of corporate governance	2017.11.16	3
		Securities and Futures Institute	Enterprise Financial Crisis Early Warning and Type Analysis	2017.11.16	3
Director	TSAI, I-CHING	Taiwan Corporate Governance Association	[Summit] The 13th International Forum on Corporate Governance - Enhancing the Role of Directors and Creating Company Value	2017.10.25	3
		Taiwan Corporate Governance Association	How Directors Do Their Best "Duty of care"	2017.11.17	3
Director	KUO, YUH-CHYI	Securities and Futures Institute	2017 Insider Trading and Corporate Social Responsibility Forum	2017.04.07	3
		Taiwan Securities Association	The Enterprise's Countermeasures and Countermeasures in the Face of Exchange Rate Fluctuations	2017.09.13	3
		Taiwan Securities Association	Exploring Financial Reports' window dressing and fraud from Problem Enterprises	2017.10.25	3
		Taiwan Securities Association	How to quickly understand the master financial statements (including IFRS analysis)	2017.11.15	3
		Taiwan Securities Association	The Application of "Fortuitous Accounting" to the Fraud Detection of Enterprises	2017.12.13	3
Director	CHU, HAI-YING	Securities and Futures Institute	Analysis of Enterprise Financial Information and Application of Decision Making	2017.11.23	3
		Securities and Futures Institute	How Directors and Supervisors Supervises the Company to Conduct Risk Management and Crisis Management and Strengthen Corporate Governance	2017.12.12	3
		Taiwan Securities Association	The Application of "Fortuitous Accounting" to the Fraud Detection of Enterprises	2017.12.13	3
		Securities and Futures Institute	Discussion on Opening Enterprise Information and Preventing Insider Trading	2017.12.14	3
Director	KUO, GUAN-CHYUN	Taiwan Corporate Governance Association	Corporate Governance and Securities Regulations	2017.05.12	3
		Taiwan Corporate Governance Association	[Summit] The 13th International Forum on Corporate Governance - Enhancing the Role of Directors and Creating Company Value	2017.10.25	6
		Securities and Futures Institute	Civil liability of insiders under corporate governance and securities transaction law	2017.12.12	3
Independent Director	SHEA, JIA-DONG	Taiwan Securities Association	Payroll Committee's Operational Practice Discussion	2017.01.11	3
		Taiwan Academy of Banking and Finance	Corporate Governance Forum - Regulatory Compliance and Directors' Rights and Responsibilities	2017.02.22	3
		Taiwan Institute of Directors	Audit Committee Challenges and Priorities	2017.04.14	3
		Taiwan Securities Association	Digital Financial Risk Management	2017.05.25	3
		Taiwan Academy of Banking and Finance	IT governance trends and challenges	2017.06.29	3

Title	Name	Organizer	Course name	Course date	Hours
Independent Director	LIN, HSIN-HUI	Taiwan Institute of Directors	Audit Committee Challenges and Priorities	2017.04.14	3
		Taiwan Stock Exchange Corporation	Internal transaction specification and prevention practices	2017.11.17	3
Independent Director	HWANG, JYH-DEAN	Taiwan Corporate Governance Association	[Summit] The 13th International Forum on Corporate Governance - Enhancing the Role of Directors and Creating Company Value	2017.10.25	3
		Taiwan Corporate Governance Association	Evaluation of Effectiveness of Board of Directors from the Perspective of Directors and Supervisors	2017.11.24	3

3.3.15 Qualification of personnel associated with financial transparency

Name of certification	Auditing Department	Finance Department	Risk Management Department
	(25 people)	(43 people)	(6 people)
Securities Specialist	8	11	1
Senior Securities Specialist	24	18	5
Margin trading and short sale	14	3	1
Securities lending	2		
Futures specialist	21	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	
First-time internal auditor seminar	6		
Bank internal control and internal audit		1	
Advanced securities capital adequacy ratio calculation and reporting personnel	10	22	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		5	
Proficiency test for junior foreign exchange specialist		1	
Anti-money laundering and countering terrorism financing 24-hour courses	5		
Total	183	106	26

3.4 Disclosure of CPAs' remuneration:

3.4.1 Audit remuneration brackets table

Name of accounting firm	Name of CPA		Audit period	Remarks
KPMG	Lee, Feng Hui	Chung, Tan Tan	January 2016 till now	

Fee category Amount range		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 2017, the Company paid non-audit remuneration totaling NT\$0 to auditor, accounting firm and related businesses. This amount did not exceed 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: 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 most recent 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 Pledge of share by Directors, Supervisors Managers and Major Shareholders

Title	Name	2017		Year-to-date as at April 29 2018	
		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: KUO GUAN-CHYUN	0	0	0	0
Director	Tai Chun Enterprise Co., Ltd. representative: TSAI, I-CHING	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: TING, HSUEH-WEN	0	0	0	0
Director	San Ho Enterprise Co., Ltd. representative: CHU, HAI-YING	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-DEAN	0	0	0	0
Chairman	WANG, JIUNN-CHIH	0	0	0	0
President	CHAO, YONG-FEI	0	0	0	0

Title	Name	2017		Year-to-date as at April 29 2018	
		Shares held Increase (Decrease)	Shares pledged Increase (Decrease)	Shares held Increase (Decrease)	Shares pledged Increase (Decrease)
Vice President	MA, JIA-HUAN	0	0	0	0
Vice President	YANG, JIE-BIN	(130,000)	0	0	0
Vice President	TAN, DE-CHENG	(255,000)	0	(40,000)	0
Vice President	WENG, QIN-NENG	0	0	0	0
Vice President	GUO, MEI-LING	0	0	0	0
Vice President	HUANG, QI-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	6,000	0	463	0
Assistant Manager	LI, MU-XIAN	0	0	0	0
Assistant Manager	WANG, JUAN-HUI	0	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-JUAN	(20,000)	0	0	0
Assistant Manager	ZHAO, FENG-RONG	0	0	0	0
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	CHEN, YI-REN	0	0	0	0
Assistant Manager	YIE, YI-LING	0	0	0	0
Assistant Manager	FANG, ZHI-HONG	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-HSI	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	0	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

Title	Name	2017		Year-to-date as at April 29 2018	
		Shares held Increase (Decrease)	Shares pledged Increase (Decrease)	Shares held Increase (Decrease)	Shares pledged Increase (Decrease)
Manager	YANG, ZHI-KAI	0	0	0	0
Manager	XU, HONG-BO	0	0	0	0
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 (Note 4)	0	0	0	0
Manager	LIN, LI-KAI	0	0	0	0
Manager	ZHANG, XUE-HE	(15,000)	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	CHANG, REN-FANG	0	0	0	0
Manager	WANG, WAN-QI	0	0	0	0
Manager	CHEN, ZHI-SHAN	0	0	0	0
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
Manager	YEN, HSIU-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
Manager	PENG, HSIAN-HE	0	0	0	0
Manager	HUANG, MIAO-IN	429	0	0	0
Manager	YIAN, XI-TANG	0	0	0	0
Manager	CHANG, CHE-MING	0	0	0	0

Note 1: Transfer and pledged of share by directors, supervisors, managers and major shareholders are as listed above.

Note 2: Under which case, was the relative person of the transfer of shares a related person: None.

Note 3: Under which case, was the relative person of the pledge of shares a related person: None.

Note 4: Departed on 2018/4/1.

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	93,345,510	4.30%	0	0.00%	0	0.00%	-	-	-
Hontai Life Insurance Co., Ltd. Representative: LU,HUAN-YI	83,834,345	3.87%	0	0.00%	0	0.00%	-	-	-
Kwang Yang Motor Co., Ltd. Representative: KO,SHENG-FENG	73,800,000	3.40%	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: LIAO,CHIEN-HUNG	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%	-	-	-
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: XIE,YU-TING	57,027,023	2.63%	0	0.00%	0	0.00%	-	-	-
Bao Qing Investment Co., Ltd. Representative: YANG,SHU-HUEI	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, 2018

Invested business (Note)	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 Corporation	7,000,000	100.00%	—	—	7,000,000	100.00%
Capital Futures Corporation	90,166,233	56.21%	510,440	0.32%	90,676,673	56.53%
Capital Insurance Advisory Corporation	500,000	100.00%	—	—	500,000	100.00%
Capital Insurance Agency Corporation	740,000	100.00%	—	—	740,000	100.00%
CSC International Holdings Ltd.	45,000,000	100.00%	—	—	45,000,000	100.00%
CSC Venture Capital Corporation	100,000,000	100.00%	—	—	100,000,000	100.00%
Taiwan International Securities Investment Consulting Corp.	999,200	99.92%	100	0.01%	999,300	99.93%
Capital Investment Trust Corporation	33,067,507	20.00%	—	—	33,067,507	20.00%
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%

Note: Investee business which is recognized as long term investments under equity method.

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	Issue price (\$)	Authorized capital		Paid-up capital		Remarks		
		Number of shares	Amount	Number of shares	Amount	Sources of share capital	Paid in properties other than cash	Others
2011.06	10	3,000,000	30,000,000	2,334,062	23,340,621	New shares totaling NT\$283,395,000 were issued for merger	None	Note 1
2011.10	10	3,000,000	30,000,000	2,369,073	23,690,730	Capitalization of retained earnings totaling NT\$350,109,000	None	Note 2
2015.11	10	3,000,000	30,000,000	2,319,073	23,190,730	Reduced share capital by NT\$500,000,000	None	Note 3
2016.02	10	3,000,000	30,000,000	2,269,073	22,690,730	Reduced share capital by NT\$500,000,000	None	Note 4
2017.02	10	3,000,000	30,000,000	2,169,073	21,690,730	Reduced share capital by NT\$1,000,000,000	None	Note 5

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

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

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

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

Note 5: Authority's approval date and reference: Letter No. Jin-Guan-Zheng-Jiao-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.

4.1.2 Shareholder Structure

Shareholder Structure Quantity	Government Agencies	Financial Institutions	Other Institutional Investors	Domestic Natural Persons	Foreign Institutions & Individuals	Total
Number of shareholders	3	8	274	84,156	270	84,711
Shares held	9,737,576	139,638,394	1,005,834,582	625,544,263	38,318,172	2,169,072,987
Percentage	0.45%	6.44%	46.37%	28.84%	17.90%	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

(NT\$10 per share) April 29, 2018

Class of Shareholding (Unit: Shares)	Number of Shareholders	Share Held	Percentage
1 ~ 999	46,571	8,522,003	0.39%
1,000 ~ 5,000	21,868	51,323,323	2.37%
5,001 ~ 10,000	6,734	48,983,267	2.26%
10,001 ~ 15,000	2,809	34,036,338	1.57%
15,001 ~ 20,000	1,609	29,049,807	1.34%
20,001 ~ 30,000	1,656	40,973,165	1.89%
30,001 ~ 40,000	824	28,767,365	1.33%
40,001 ~ 50,000	505	23,259,658	1.07%
50,001 ~ 100,000	1,053	75,444,988	3.48%
100,001 ~ 200,000	504	70,593,199	3.26%
200,001 ~ 400,000	261	72,458,402	3.34%
400,001 ~ 600,000	86	41,594,419	1.92%
600,001 ~ 800,000	43	29,601,936	1.36%
800,001 ~ 1,000,000	35	31,172,053	1.43%
1,00,001 or over (based on Company's self-classification)	153	1,583,293,064	72.99%
Total	84,711	2,169,072,987	100.00%

4.1.4 List of Major Shareholders

Name of Shareholder	Shareholding	
	Shares	Percentage
CTBC Bank Trust Account	93,345,510	4.30%
Hontai Life Insurance Co., Ltd.	83,834,345	3.87%
Kwang Yang Motor Co., Ltd.	73,800,000	3.40%
Fu Ting Investment Co., Ltd.	71,407,143	3.29%
Pao Tso Investment Co., Ltd.	70,908,014	3.27%
Pao Sheng Investment Co., Ltd.	67,583,007	3.12%
Tai Shen Investment 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 2 years and the current year (2018) up till March 31, 2018:

Item		Year	2016	2017	Current year (2018) up till March 31 (Note 8)
Market price per-share (Note 1)	Highest		9.89	12.20	12.30
	Lowest		7.80	8.88	10.60
	Average		8.53	10.14	11.49
Net worth per-share (Note 2)	Before distribution		13.55	14.49	--
	After distribution		13.18	--	--
Earnings per-share	Weighted average outstanding shares (in thousands)		2,265,158	2,169,193	2,169,073
	EPS (Note 3)		0.53	1.33	--
Dividend per-share	Cash dividend		0.37	--	--
	Stock dividend	From earnings	0	--	--
		From capital surplus	0	--	--
	Cumulative undistributed dividends (Note 4)		0	--	--
Investment return analysis	P/E ratio (Note 5)		16.09	7.62	--
	Price to dividend ratio (Note 6)		23.95	--	--
	Cash dividend yield (Note 7)		4.34%	--	--

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

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 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 or 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, after tax earnings should first offset accumulated deficit, and then appropriated 10% as legal reserve, 20% as special reserve and any other as required by law.

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 capital budget of the Company, the payout of stock dividend is for retaining necessary capital and the remainder can be paid as cash dividend. Cash dividend shall not fall below 10% of the total dividend.

B. Dividend distribution proposed for the annual shareholders' meeting:

The proposed distribution of 2017 earnings includes cash dividends totaling NT\$433,814,597 (NT\$0.20 per share), also it will be distributed rounded up to dollar. In addition, a total stock dividend NT\$ 1,518,351,100 (NT\$ 0.70 per share) will be distributed. Once the proposal is approved in the 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:

The proposal for issuance of new shares through capitalization of earnings for the shareholders' meeting is totaling of 151,835,100 shares (70 shares per 1,000 shares held) for the purpose of enriching working capital and improving Company operating performance. The dilution of earnings per share should be limited.

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.

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.

B. Accounting treatment for differences between estimated and actual employee/director remuneration:

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

According to the Company's Articles of Incorporation, the Company shall appropriate 0.6% to 2% of its earnings as remuneration to employees and no more than 3% of the aforementioned amount of earnings as remuneration to the Directors. If there is accumulated deficit, specific amount shall be retained to cover. The Company's 2017 employees' and directors' remuneration which were calculated based on the Company's net profit before income tax and remuneration to employees and directors multiple the earnings allocation percentage as stated under the Company's articles of incorporation.

(2) 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.

(3) 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 resolved by the board of directors:

(1) Difference, cause and treatment of any differences between the board-proposed employee/director/supervisor remuneration (in cash or in shares) and expenses previously recognized:

The distribution of remuneration to employees for an amount of NT\$30,515,460 and remuneration to directors for an amount of NT\$50,859,100 was resolved in the board meeting of the Company on March 26, 2018. The difference between the amount of remuneration to employees and

directors resolved by the Board of Directors and the estimated amount recognized as expense of the fiscal year is as follows:

Item (Year 2017)	Proposed amount of distribution resolved by the Board of Directors (A)	Estimated amount recognized as expense of the fiscal year (B)	Difference (A - B)	Cause and treatment of difference
Employee stock bonus	0	0	0	-
Employee cash bonus	30,515,460	33,369,999	(2,853,540)	Previous estimates were made based on unaudited profit and loss; the difference will be treated as a change of accounting estimate and adjusted to 2018 profit and loss.
Directors' remuneration	50,859,100	61,971,000	(11,111,900)	

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

D. Actual payment of employees'/directors'/supervisors' remuneration in the previous year (2016) (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 discrepancies):

Item (Year 2016)	Actual amount of distribution resolved by the Board of Directors (A)	Estimated amount recognized as expense of the fiscal year (B)	Difference (A - B)	Cause and treatment of difference
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 was 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)	

4.1.9 Shares repurchased by the Company in the most recent year:

As at April 29, 2018

Buyback count	10th
Purpose of buyback	Maintain Company's credit status and shareholders' equity
Buyback period	From November 14, 2016 to January 13, 2017
Buyback price range	NT\$ 7.5 ~ NT\$ 11.9
Types and numbers of shares bought back	100,000,000 common shares
Value of shares bought back	NT\$ 926,587,260
Number of shares retired and transferred	100,000,000 shares
Cumulative holding of own shares	0 shares
Cumulative holding of own shares as a percentage to total outstanding shares (%)	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 New shares issued for merger or acquisition: None.

4.8 Progress on planned use of capital: Not applicable.

V. Business Performance

5.1 Business activities

5.1.1 Scope of business

A. Principal business activities

1. Underwriting of securities
2. Proprietary trading of securities over Taiwan Stock Exchange (TWSE).
3. Consigned trading of securities over Taiwan Stock Exchange (TWSE).
4. Proprietary trading of securities over Taipei Exchange (TPEX).
5. Consigned trading of securities over Taipei Exchange (TPEX).
6. Margin trading and short sale service.
7. Securities administration agency services.
8. Consigned trading of foreign securities.
9. Short term notes and bills.
10. Introducing brokerage for futures.
11. Lending against securities.
12. Management of customers' securities settlement proceeds.
13. Lending and borrowing of securities (except book-entry central government bonds).
14. Trust services.
15. International securities services.
16. Other securities services approved by the competent authority.

B. Weight of business activities in the last 3 years

Unit: NTD thousands

Year	2015		2016		2017	
Product category	Amount	%	Amount	%	Amount	%
Brokerage	3,456,022	69	2,742,954	65	3,584,085	54
Proprietary trading	1,191,387	24	1,227,556	29	2,729,602	41
Underwriting	356,119	7	271,028	6	307,545	5
Total	5,003,528	100	4,241,538	100	6,621,232	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, and 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

- Continuous development of new derivatives to satisfy investors' needs.

- Continuous 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 commencement of foreign currency service.

5.1.2 Industry overview:

A. Current state and prospect of the industry:

The overviewing of the securities market in 2017 is detailed in the table below. The trade volume of stocks and stock warrants increased over the previous year. Market-wise, the trade volume increased by 36.39%, in TWSE and 52.74% in TPEx. Overall, trade volume of equity instruments had risen by 39.90% as compared to the previous year.

Securities Market Trade Volume in the Last 3 Years

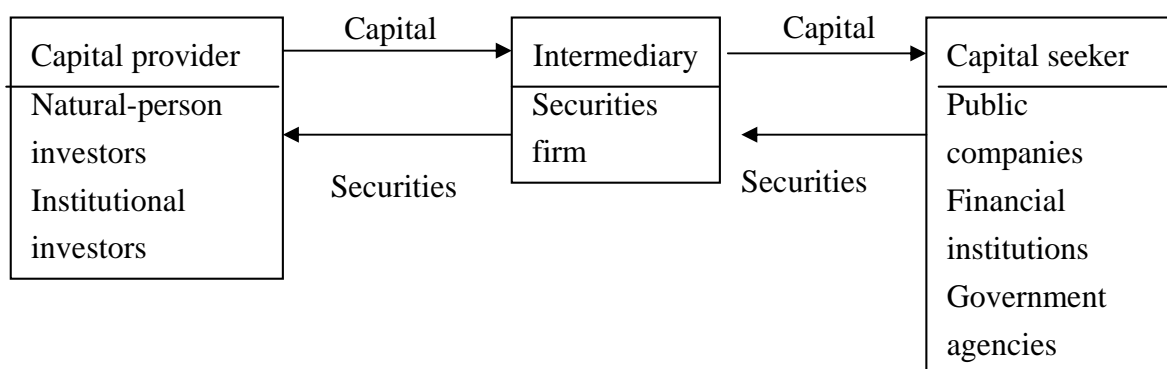
Unit: NTD billions

Year	2015	2016	2017	Increase/decrease in 2017
TSE				
Shares	20,191.49	16,771.14	23,972.24	7,201.10
ETF	1,634.42	1,707.40	1,231.73	-475.67
Beneficiary securities	12.01	7.11	4.26	-2.85
Stock warrants	644.96	425.54	584.47	158.93
TDR	22.22	4.43	6.18	1.75
Subtotal	22,505.10	18,915.62	25,798.88	6,883.26
OTC				
Shares	5,689.20	5,050.30	7,683.50	2,633.20
Stock warrants	156.60	128.50	226.50	98.00
Bond	52,239.00	49,696.50	45,815.30	-3,881.20
Subtotal	58,084.80	54,875.30	53,725.30	-1,150.00
Total	80,589.90	73,790.92	79,524.18	5,733.26
Excluding bonds	28,350.90	24,094.42	33,708.88	9,614.46

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.

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 27 from 1,624 in 2016 to 1,651 in 2017, whereas market capitalization of TWSE and TPEx listed companies had also increased by NT\$5.17 trillion from NT\$29.97 trillion to NT\$35.14 trillion. In 2017, a total of 155 fundraising projects were organized by TWSE and TPEx listed companies, which was 22 projects lesser compared to 177 in 2016.

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. The underwriting

segment will continue to play its role as the facilitator of direct finance.

(3) Derivatives:

Introduction of trade incentives and change of deal-matching system in 2017 has 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 footstep.

(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 enhanced to facilitate innovative data mining. Doing so would provide in-depth knowledge about each customer for more value-adding services. The goal of the Company is to continuously bring quality wealth management products and services to the market, and establish itself as the all-round broker with wealth management at its center of business.

5.1.3 Technological research and development

A. Research and development expenses in the last 3 years

Year	Amount ((NTD thousands))
2015	53,143
2016	55,563
2017	57,958
2018 (estimated)	75,159

B. Recent R&D progress

New financial product development

The Company issued 4,235 call (put) options worth NT\$42.636 billion in 2017, ranking 2nd in terms of both amount issued and variety. The Company has also issued structured products worth NT\$16.675 billion in 2017.

The Company will cooperate with the opening of laws and regulations and market demand, commit to the research and development of various trading strategies and evaluation models, plan more diversified and tailor-made new financial products for investors, and provide excellent and stable warrants to create a market environment and upgrade the market quality.

Financial Innovation Trends and Innovative Marketing Technology

Capital is committed to the development of smart finance, upholds the concept of “Leading Innovation, Customer First” to protect the wealth of every customer and create greater value. The "MinText AR+ Smart Industrial Spectrometer" the Company develops won the "Top 100 Innovative Product Award" in the Information Month of 2017, and it was the only award-winning financial institution in the Financial Technology Group. Capital Securities is also the only financial institution that won the "Top 100

Innovative Product Award" for two years in a row, following its award-winning "GOODi Smart Money Management Robot" in 2016.

Looking ahead to 2018, the Company will continue to combine artificial intelligence and text exploration deep learning with the development of Big Data, extend the application services of smart money management robots, integrate diversified investment tools, stocks, warrants, ETFs, futures, options, insurance, funds, financial products, overseas stocks, bonds, etc., provide customers with global asset allocation and exclusive smart financial services.

In addition, in conjunction with the development and innovation of FinTech, Capital has proposed the innovative business model for smart contract asset transfer accelerator T+ 0 project, using Block Chain DLTs (Distributed ledger Technologies) to spread the concepts and technologies of the account network and accelerate the conversion time of customers' different commodity asset allocations, and using smart contracts to break through the current delivery system to enable effective capital use of active assets to increase market capacity and strengthen supervision.

Apart from the commitment to pursuing the development of financial technology, the Company also promoted the use of scientific methods to reduce the cost of manual operations and enhance the efficiency and effectiveness of risk management in customer risk and management, prevent and reduce the occurrence risk. Given recent financial information security incidents emerging in an endless stream, the development of FinTech must keep pace with information security. Capital continues to maintain ISO27001 international standard information security certification, ISO 22301 business continuity management, ISO20000 information service management, and BS 10012 personal data protection external verification and strengthen the ability of information security protection to protect customer rights.

5.1.4 Long-term 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 10,642 points in 2017, up 1,389 points or 15% from the previous year. Overall market capitalization had increased by NT\$4.55 trillion as a result. TPEx, on the other hand, closed at 148.5 points in 2017, up 23 points or 19% for the year. TPEx's performance was a success comparing to the underwhelming performance of the previous year, reflecting the increase in domestic companies'

willingness and confidence in investing in the Taiwan stock market. Small and medium-sized electronic stocks have once again become hot targets in the market.

TAIEX has once again hit 10,000 points in late May 2017. However, after the index hit 10,000 points, more than half of the industries and stocks were outperformed by the broader market, resulting in a limited incentive for investors. The major rising industries in 2017 included oil, electricity, plastics, semiconductors, electronics, etc., while the poor performing industries include textiles, biotech, tourism and automotive.

Below are some of the distinctive characteristics of Taiwan's 2017 economic performance:

1. Exports benefited from the growth of the global economy. In particular, the strength of US consumerism has increased. Exporting countries in Asia have clearly felt that the demand for recovery of the economy has increased. Taiwan's GDP growth rate in the fourth quarter of 2017 reached 3.28%, driving the annual GDP growth rate to 2.84%.
2. Domestic demand performance was not satisfactory, partly due to changes in the industry (such as department store retail facing challenges from online shopping) and partly to pricing failures (such as the stagnancy in the real estate sector), but the biggest reason is that the actual investment and production plans are limited: in addition to large-scale electronics factories expanding the factory to increase production capacity, domestic-driven investments are almost stagnant.
3. Development trends vary between industries, for example, zero growth of the PC industry, gradual saturation of mobile phone market, development of science and technology industry towards artificial intelligence, network applications and parts related to electric vehicles; policies actively encourage biotechnology and green energy industries, while real estate is still suppressed by policies.
4. China's influence on Taiwan's economy has increased, including changes in Chinese-funded investments due to volatile cross-strait relations in recent years and changes in the number of Chinese tourists visiting Taiwan. In 2017, China implemented new environmental protection laws and regulations, and also expanded requirements for Taiwanese companies to cooperate in improving the addition of decontamination equipment or relocation of factories

Five distinctive characteristics of Taiwan's stock market performance in 2017:

1. In late August 2017, Largan Precision's stock price hit a record high of NT\$6,075, mainly due to technological advancement and customer order growth. The profit for the year was approximately NT\$26 billion, and the EPS was NT\$193.65, which may be an unprecedented record. Leading small-cap technology stocks have become an important feature of Taiwan stock market.
2. At the end of November 2017, the market value of TSMC exceeded NT\$6.3 trillion, and TSMC's market value accounted for 19.5% of the Taiwan stock market value, both of which reached a new high. TSMC is not only Taiwan's most representative Company, the ups and downs of its stock price almost definitely affected the index. TSMC's foreign holdings reached 79.8%, this also synchronized the performance of Taiwan stocks and U.S. technology stocks.
3. Foreign investment in Taiwan tech stocks has increased. Over the past few years, as a result of the rise of China, foreign investors had once cooled down on the Taiwan stock market. However, with the growth of semiconductor economy, Taiwan stocks have consolidated the status as a global semiconductor center (for wafer foundry and IC design). With Apple's product supply chain spreading across Taiwan, China, Japan and South Korea, Taiwanese stocks are the most loyal supporters of the Apple Empire in terms of production scale, assembly capacity and cost control.

4. Recovery of the confidence of domestic investors in the Taiwan stock market: In the past, the Taiwan Stock Index suffered several plummets after hitting the 10,000 points, leading to a strong atmosphere for domestic investors to wait and see on the stock market prior to 2016 and trading volumes were in decline. Thanks to the overall rise in international stock markets, policies side actively encouraged investment in the stock market, and loosened restrictions on short-sales. Since the second half of 2017, domestic investments have apparently returned to Taiwan stocks.

Below are the key factors that will influence the performance of Taiwan's stock market in 2018:

1. U.S. stocks may turn from booming to decline.

Since 2016, consumer confidence in the U.S. economy has improved, and companies have improved their outlook. At the end of 2017, the U.S. tax reform bill reduced corporate income tax from 35% to 21%. The focus of the US economy in 2018 is on the tax preference of repatriation of overseas profits of large companies, and the move of manufacturing companies back to the U.S. to provide employment opportunities... etc. The core of Trump policy is to reduce the U.S. trade deficit through trade war measures, which will help the economy of some regions in the US, but it is a major variable for large companies and U.S. stocks that target the global market.

2. Federal Reserve raising interest rate and market expectations

U.S. Federal Reserve to play two-handed strategy: It is estimated that interest rates will be raised gradually by 3 or 4 times in 2018. Through various forecast adjustments to convey outlook on interest rates, it is hoped that the normalization of monetary policy will not trigger a stock market crash. However, regardless of how the Federal Reserve chairman sugar-coats or improves market communication skills, the cumulative effects of tightening monetary policy are detrimental to the stock market.

3. Global currency stability

The US dollar index depreciated by 10.9% in 2017, resulting in an overall appreciation of the Euro, Yen and emerging market currencies. The Taiwan dollar appreciated by 7.53%, the South Korean Won, caught in the Korean peninsula crisis, appreciated by 11.7%, and the RMB appreciated by 6.3%. The key to the growth of the U.S. dollar index in 2018 lies in the political and economic environment of the Eurozone. The sharp appreciation of the Euro in 2017 has caused the growth of European exports to slow down. In 2018, it is necessary to pay attention to the political and economic changes in Germany and Italy. If the populist parties supporting EU-exit come into force, the Euro may depreciate and the US dollar may appreciate, triggering potential withdrawal of funds from emerging markets.

4. Influence of China stock market on the Taiwan stock market

MSCI will include China A shares in two phases in May and August 2018. Initially, the 5% factor will account for 0.73% of the emerging market weight index. It is expected that the impact on foreign capital will be limited. The stock price of individual stocks is affected by the impact of Chinese funds, for example, the semiconductor and technology industries are facing increased risks due to rapid progress of China's science and technology industry and the support of government policies. The gap between China and Taiwan/US technology industries has been significantly shortened in 3 to 5 years. In addition, over half of the world's top 10 mobile phone manufacturers are Chinese brands, customer-supplier relationship has been reversed and such impact is expanding. The A-share listing of Foxconn

Industrial Internet (FII), Hon Hai's subsidiary, at Shanghai Stock Exchange is an important milestone in the development of cross-strait politics, economy and stock markets. Other variables include environmental factors, such as pollution prevention, and political factors.

5. Individual stocks are the core of investment

The essence of the stock market investment is market value growth. For example, the market value of TSMC increased from NT\$1.92 trillion in 2012 to NT\$5.9 trillion at the end of 2017, which is a two-fold increase. Compared with AUO's market value in the same period, TSMC and AUO shareholders might have completely different impressions. In particular, after the 2017 index hit a record high, fluctuation will expand, which means the importance of investment analysis on individual stocks will increase. Other spontaneous key variables includes: trade wars, bitcoin growth, the Middle East situation, North Korea crisis, etc.

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 registrar 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 2017:

Ranking	Brokerage volume		Margin trading balance (2017)	
	Securities firm	Market share	Securities firm	Market share
1	Yuanta	12.60%	Yuanta	15.52%
2	KGI	8.41%	KGI	8.43%
3	Fubon	6.30%	Sinopac	7.45%
4	Sinopac	5.22%	Capital	6.11%
5	Capital	4.47%	Fubon	5.99%
6	Masterlink	3.83%	Masterlink	5.35%
7	JihSun	3.52%	JihSun	4.92%
8	President	3.23%	Mega	4.86%
9	Mega	3.10%	President	4.68%
10	Hua Nan	3.09%	Hua Nan	4.08%

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.

(2) Supply

The trend of the industry is toward large-scale economic giants, and focuses on the niche market. Due to the changes of generations, there is great room for development of online securities

companies. Foreign brokers continue to shrink their operating scale in Taiwan due to overall strategic considerations, but continue to increase the number of Taiwan stocks. 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) High-growth stocks of the electronic industry are the mainstream stocks of the Taiwan stock market, and the stock's lively trading volume has been enlarged.
- (3) Taiwan stocks offer high cash dividend yield, and the investment value of defensive targets increases when the stock market fluctuates.

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.
- (3) The diversification of investment means and the decentralized investment have placed pressure on service competition.

Responsive strategies:

The Company will strive to maintain the stability of all its departments, strengthen and integrate various securities service systems, implement plans and growth of business principles and objectives, so as to enhance profitability, using financial technology FinTech or AI to help develop new business opportunities.

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

March 31, 2018

Year		2016	2017	Year-to-date March 31, 2018
Employee count		2019	1,853	1,832
Average age		47.38	45.56	45.43
Average years of service		12.12	12.89	12.80
Academic Qualification	Doctoral Degree	0.10%	0.11%	0.16%
	Masters Degree	9.26%	10.69%	10.91%
	Bachelor Degree	71.17%	70.48%	69.99%
	Senior high school	19.47%	18.72%	18.94%
	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:

A. 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\$7,331 thousands in 2017. A total of 4,096 enrollments were registered with external training courses, which represented 221% of total employees. The Company held 135 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.

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.

B. List of losses incurred during the recent year and up to the publication date of the annual report due to labor disputes, and disclosure of the estimated and possible future estimates and countermeasures that may occur. If it is impossible to reasonably estimate, the facts for this should be stated:

In accordance with the letter of the No. 10637837600 dated September 12, 2017 of the Kaohsiung City Government, the Company was found guilty of a violation of Article 38 of the Labor Standards Act and was fined NT\$20,000.

The Labor Standards Act and the Enforcement Rules were promulgated after being amended on January 31, 2018 and February 27, 2018. The relevant regulations have been stipulated. The Company complies with labor-related laws and regulations and applies for leniency in order to avoid similar situations.

5.6 Major contracts: None

5.7 Work environment and employees' safety:

The Company values employees' safety and health, and is committed to providing a good working environment. Below are some of the protection and welfare measures offered in this regard:

Implemented measures	Category	Description
Employee Health	Insurance and welfare	<p>(1) Measures mandated by law</p> <ol style="list-style-type: none"> 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 <p>(2) Measures provided above legal requirements</p> <ol style="list-style-type: none"> 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. "Healthy Lifestyle Promotion Seminar" and "Health (Physical) Test + Aerobics Seminar" were organized to build employees' awareness towards physical health and regular exercise.

Implemented measures	Category	Description
		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. (2) The Company acquired "Badge of Accredited Healthy Workplace" from Health Promotion Administration, Ministry of Health and Welfare (3) The Company acquired "Certification for Voluntary Public Indoor Air Quality Management" from Taipei City Department of Environmental Protection
Safety of work environment	Safety certification	The Company received ISO22301 certification for continuity management from British Standards Institution. The main purpose of this certification is to ensure that the Company is able to minimize damage and recover operations within the target time in the event of an emergency, and thereby ensure personnel safety, compliance with laws, and protection of customers' interests, corporate reputation and assets.
	Certification for personal information	The Company is the first financial institution to obtain international certification for personal information management with respect to securities, futures, and insurance brokerage/agency services. It shows that the Personal Information Management System (PIMS) adopted by the Company offers effective protection and management of personal information, and complies with all requirements of the Personal Information Protection Act to protect the rights of information owners, while at the same time minimize possible impacts from event of attack. It represents the Company's commitment to continually manage and improve its personal information management system.
	Workers' safety	The Company has complied with the "Occupational Safety and Health Act" by appointing an OSH Officer, a team of first aid officers, and organizing training according to the Worker Safety Education Principles The Company has formulated and promoted the "Human Hazard Prevention Plan" to prevent human-caused harm caused by work-induced musculoskeletal injuries or diseases. In addition, it has formulated and promoted the "Abnormal Workload Induced Disease Prevention Plan" to plan and take the necessary safety and health measures for the prevention of diseases caused by abnormal workloads such as shifts, night work, and long working hours.
	Fire safety	1. Fire drills are organized on a regular basis 2. Employees are trained at least once every three years as instructed by National Fire Agency, Ministry of the Interior, in Notes on Establishment of Fire Safety Management.
	Safety assurance	All of the Company's business premises and branches are covered by the following insurance 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 cannot 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.

VI. Financial Summary

6.1 Summary balance sheet and income statement for the last 5 years

6.1.1 Summary balance sheet (consolidated and standalone) - IFRS-compliant

Unit: NTD thousands

Year Item		Financial information for the latest 5 years (Note 1)									
		Consolidated					Standalone				
		2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
Current assets		128,220,873	94,506,013	79,591,301	69,531,529	63,088,970	93,599,832	65,616,894	58,594,636	52,867,228	50,687,555
Property, plant and equipment		4,966,752	5,129,823	5,177,406	5,390,207	6,266,465	4,231,972	4,389,956	4,535,525	4,770,367	5,643,817
Intangible assets		3,628,174	3,612,248	3,627,517	3,605,104	3,600,204	3,544,235	3,532,620	3,550,988	3,552,023	3,543,873
Other assets		4,670,519	4,796,129	4,914,967	5,161,503	4,981,412	9,767,364	9,467,444	8,510,170	8,521,678	7,748,766
Total assets		141,486,318	108,044,213	93,311,191	83,688,343	77,937,051	111,143,403	83,006,914	75,191,319	69,711,296	67,624,011
Current liabilities	Before distribution	106,463,149	75,399,960	59,982,074	49,996,260	44,403,427	78,368,174	51,991,187	43,403,662	37,422,576	35,206,511
	After distribution	(Note 2)	76,202,518	61,093,919	51,417,704	45,469,510	(Note 2)	52,793,745	44,515,507	38,844,020	36,272,594
Non-current liabilities		1,545,169	1,799,975	1,801,450	1,489,963	2,666,431	1,353,599	1,495,179	1,497,057	1,190,240	2,369,983
Total liabilities	Before distribution	108,008,318	77,199,935	61,783,524	51,486,223	47,069,858	79,721,773	53,486,366	44,900,719	38,612,816	37,576,494
	After distribution	(Note 2)	78,002,493	62,895,369	52,907,667	48,135,941	(Note 2)	54,288,924	46,012,564	40,034,260	38,642,577
Equity attributable to parent Company shareholders		31,421,630	29,520,548	30,290,600	31,098,480	30,047,517	-	-	-	-	-
Share capital		21,690,730	22,690,730	23,190,730	23,690,730	23,690,730	21,690,730	22,690,730	23,190,730	23,690,730	23,690,730
Capital reserves		2,852,299	2,750,972	2,742,807	2,711,760	2,705,473	2,852,299	2,750,972	2,742,807	2,711,760	2,705,473
Retained earnings	Before distribution	6,790,451	4,763,521	4,697,083	4,598,641	3,658,236	6,790,451	4,763,521	4,697,083	4,598,641	3,658,236
	After distribution	(Note 2)	3,960,963	3,585,238	3,177,197	2,592,153	(Note 2)	3,960,963	3,585,238	3,177,197	2,592,153
Other equity items		88,150	150,373	129,135	97,349	(6,922)	88,150	150,373	129,135	97,349	(6,922)
Treasury stocks		-	(835,048)	(469,155)	-	-	-	(835,048)	(469,155)	-	-
Non-controlling interests		2,056,370	1,323,730	1,237,067	1,103,640	819,676	-	-	-	-	-
Total equity	Before distribution	33,478,000	30,844,278	31,527,667	32,202,120	30,867,193	31,421,630	29,520,548	30,290,600	31,098,480	30,047,517
	After distribution	(Note 2)	30,041,720	30,415,822	30,780,676	29,801,110	(Note 2)	28,717,990	29,178,755	29,677,036	28,981,434

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

Note 2: Appropriation of 2017 earnings had yet to be resolved in a shareholders' meeting.

6.1.2 Summary income statement (consolidated and standalone) - IFRS-compliant

Unit: NTD thousands

Year Item	Financial information for the last 5 years (Note)									
	Consolidated					Standalone				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
Operating revenues	9,244,897	6,437,645	6,564,157	6,868,876	5,974,094	6,621,232	4,241,538	5,003,528	5,718,477	4,883,763
Gross profit	7,237,386	5,091,449	5,601,522	6,041,154	5,255,912	5,807,603	3,829,131	4,643,604	5,363,306	4,597,213
Operating profit	2,751,541	1,110,568	1,364,740	1,806,703	1,138,590	2,264,634	702,923	1,179,123	1,713,748	1,015,307
Non-operating revenues and expenses	752,096	561,665	669,295	625,998	655,287	818,720	665,171	605,223	551,555	632,740
Pre-tax profit	3,503,637	1,672,233	2,034,035	2,432,701	1,793,877	3,083,354	1,368,094	1,784,346	2,265,303	1,648,047
Net income	3,215,395	1,406,497	1,728,358	2,143,663	1,573,409	2,893,600	1,196,756	1,549,327	2,025,305	1,471,784
Loss from discontinued operations	0	0	0	0	0	0	0	0	0	0
Net income (loss)	3,215,395	1,406,497	1,728,358	2,143,663	1,573,409	2,893,600	1,196,756	1,549,327	2,025,305	1,471,784
Other comprehensive income/loss for the current period (net, after-tax)	(139,233)	4,196	5,573	97,761	102,450	(65,893)	2,765	2,345	85,906	92,837
Total comprehensive income (loss) in current period	3,076,162	1,410,693	1,733,931	2,241,424	1,675,859	2,827,707	1,199,521	1,551,672	2,111,211	1,564,621
Net income attributable to parent Company shareholders	2,893,600	1,196,756	1,549,327	2,025,305	1,471,784	-	-	-	-	-
Net income attributable to non-controlling shareholders	321,795	209,741	179,031	118,358	101,625	-	-	-	-	-
Comprehensive income attributable to parent Company shareholders	2,827,707	1,199,521	1,551,672	2,111,211	1,564,621	-	-	-	-	-
Comprehensive income attributable to non-controlling shareholders	248,455	211,172	182,259	130,213	111,238	-	-	-	-	-
Earnings per share (NT\$)	1.33	0.53	0.66	0.85	0.62	1.33	0.53	0.66	0.85	0.62

Note: All financial information for 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
2013	CHUNG, TAN TAN, CHEN, FU-WEI	Unqualified opinion
2014	LEE, FENG HUI (Note), CHEN, FU-WEI	Unqualified opinion
2015	LEE, FENG HUI, CHEN, FU-WEI	Unqualified opinion
2016	LEE, FENG HUI, CHUNG, TAN TAN (Note)	Unqualified opinion
2017	LEE, FENG HUI, CHUNG, TAN TAN	Unqualified opinion

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

6.2 Financial analysis for the previous 5 years

Financial analysis (consolidated and standalone) - IFRS-compliant

Analysis		Year	Financial analysis for the latest 5 years (Note 1)									
			Consolidated					Standalone				
			2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
Financial Structure (%)	Debt to assets ratio		76.34	71.45	66.21	61.52	60.39	71.73	64.44	59.72	55.39	55.57
	Long-term capital to property, plant and equipment ratio		705.15	636.36	643.74	625.06	535.13	774.47	706.52	700.86	676.86	574.39
Solvency (%)	Current ratio		120.44	125.34	132.69	139.07	142.08	119.44	126.21	135.00	141.27	143.97
	Quick ratio		120.40	125.27	132.63	139.00	141.98	119.41	126.16	134.96	141.21	143.89
Profitability	Return on assets (%)		2.58	1.40	1.95	2.65	2.13	2.98	1.51	2.14	2.95	2.32
	Return on equity (%)		10.00	4.51	5.42	6.80	5.21	9.50	4.00	5.05	6.62	5.00
	As a percentage of paid-in capital (%)	Operating profit	12.69	4.89	5.88	7.63	4.81	10.44	3.10	5.08	7.23	4.29
		Pre-tax profit	16.15	7.37	8.77	10.27	7.57	14.22	6.03	7.69	9.56	6.96
	Net profit margin (%)		34.78	21.85	26.33	31.21	26.34	43.70	28.22	30.96	35.42	30.14
	Earnings per share (NT\$)		1.33	0.53	0.66	0.85	0.62	1.33	0.53	0.66	0.85	0.62
Cash flow (%)	Cash flow ratio		-	0.76	9.97	-	-	-	-	14.83	-	-
	Cash flow adequacy ratio		111.99	134.18	509.72	127.95	137.59	91.81	118.20	538.41	126.55	137.96
	Cash reinvestment ratio		-	-	13.00	-	-	-	-	15.28	-	-
Special Purpose Ratio (%)	Total liabilities to equity ratio		322.62	250.29	195.97	159.88	152.49	253.72	181.18	148.23	124.16	125.06
	Fixed assets to total assets ratio		4.25	5.66	6.85	8.13	9.91	4.57	6.26	7.42	8.64	10.36
	Underwritten securities to quick asset ratio		1.19	0.59	0.48	0.60	3.08	1.71	0.83	0.62	0.76	3.71
	Margin trading balance to equity ratio		44.47	38.66	48.07	60.97	58.16	45.81	39.17	47.20	62.52	59.28
	Short-sale balance to equity ratio		14.12	11.90	13.54	14.99	17.42	15.04	12.43	14.09	15.52	17.89

Variations exceeding 20% in the last 2 years:

Analysis		Reasons
Profitability	Return on assets (%)	Mainly due to an increase of profit in the current period.
	Return on equity (%)	
	Operating profit as a percentage of paid-in capital (%)	
	Pre-tax profit as a percentage of paid-in capital (%)	
	Net profit margin (%)	
	Earnings per share (NT\$)	
Cash flow (%)	Cash flow ratio	Mainly due to a decrease in net cash flow from operating activities in the current period.
	Cash flow adequacy ratio	Mainly due to a decrease in net cash flow from operating activities in the last 5 years.
Special purpose ratios (%)	Total liabilities to net worth	Mainly due to an increase in total liabilities in the current period.
	Fixed assets to total assets	Mainly due to an increase in total assets in the current period.
	Underwritten securities to quick asset ratio	Mainly due to an increase in underwritten securities in the current period.
	Short-sale balance to equity ratio	Mainly due to an increase in short-sale 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, plant and equipment.

2. Solvency

- (1) Current ratio = current assets / current liabilities.
- (2) Liquid ratio = (current assets - inventory - prepayments) / current liabilities.
- 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-in capital ratio = operating profit / paid-in capital.
 - (4) Pre-tax profit to paid-in capital ratio = pre-tax profit / paid-in 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.
- 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) Underwritten securities to quick asset ratio = total amount of underwritten securities / (current assets - current liabilities).
 - (4) Margin trading balance to equity ratio = total margin trading balance / shareholders' equity
 - (5) Short-sale balance to equity ratio = total short-sale balance / shareholders' equity

6.3 Supervisors' or Audit Committee's review of the latest financial reports: See page 92

6.4 Consolidated financial statements for the most recent years: See page 93~203

6.5 Standalone financial statements for the most recent years: See page 204~291

6.6 Financial distress encountered by the Company and affiliates for the most recent years, up till the publication date of this annual report, with descriptions on impacts to the Company's financial position: None.

Capital Securities Corporation
Audit Committee Review Report

The 2017 business report, financial statements (including consolidated financial statements) and earnings appropriation have been presented by the board of directors. The presented financial statements were audited by KPMG, for which they issued an unqualified opinion.

We, the Audit Committee, have completed a review of the abovementioned business report, financial statements (including consolidated financial statements) and earnings appropriation proposal, and found no abnormalities. We hereby issue this report in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act.

Regards

Capital Securities Corporation 2018 Annual General Meeting

Capital Securities Corporation
Convener of the Audit Committee
Shea, Jia-Dong

March 26, 2018

Representation Letter

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, 2017 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 International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." 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 its Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Capital Securities Corporation

Chairman: Jiunn- Chih Wang

Date: March 26, 2018



安侯建業聯合會計師事務所
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Independent Auditors' Report

The Board of Directors
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, 2017 and 2016, the consolidated statement of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, 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 at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation 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 Certification 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 Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of 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 of the current period. 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(g) for the related accounting policy regarding the valuation of financial instruments, Note 6(b) financial assets, note 6(k) Financial liabilities at fair value through profit or loss and note 6(u)(v) 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(q) 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(h)(i) for details 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 analysing sensitivity on the assumptions related to evaluating impairment.

Other Matter

The Group has prepared its parent-company-only financial statements as of and for the years ended December 31, 2017 and 2016, on which we have issued an unqualified 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 Regulations Governing the Preparation of Financial Reports by Securities Firms with the IFRSs, IASs, interpretation 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 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.

Auditor's 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 auditor's 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 consolidated 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 auditor's 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 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 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 of the current period 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.

The engagement partners on the audit resulting in this independent auditors' report are LEE, FENG HUI and CHUNG, TAN TAN.

KPMG

Taipei, Taiwan (Republic of China)
March 26, 2018

Notes 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

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

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2017		December 31, 2016				December 31, 2017		December 31, 2016	
		Amount	%	Amount	%			Amount	%	Amount	%
Assets						Liabilities and Equity					
110000	Current assets:					210000	Current liabilities:				
111100	Cash and cash equivalents (note 6(a))	\$ 7,104,077	5	5,423,415	5	211100	Short-term borrowings (note 6(i))	\$ 7,081,698	5	4,236,402	4
112000	Financial assets at fair value through profit or loss - current (note 6(b))	34,737,268	24	27,730,008	25	211200	Commercial paper payable (note 6(j))	4,099,184	3	-	-
113400	Financial assets available for sale - current (note 6(b))	32,807,779	23	19,337,878	18	212000	Financial liabilities at fair value through profit or loss - current (note 6(k))	2,903,193	2	1,475,764	2
114030	Receivable for securities provided as collateral	14,886,813	11	11,924,515	11	214010	Bonds sold under repurchase agreements (note 6(l))	47,056,312	33	34,956,642	32
114040	Refinancing margin	46,095	-	93,353	-	214040	Guarantee deposited for short sales	2,226,264	2	1,722,840	2
114050	Refinancing collateral receivable	38,888	-	79,289	-	214050	Proceeds payable from short sales	2,500,853	2	1,947,104	2
114060	Receivable of securities business money lending	1,532,231	1	144,552	-	214070	Securities lending refundable deposits	1,190,277	1	878,866	1
114070	Customers' margin account (note 6(d))	27,302,712	19	23,169,842	21	214080	Futures traders' equity (note 6(d))	27,268,226	19	23,132,231	21
114080	Receivable - futures margin	1	-	894	-	214090	Customer equity of separate account ledger in settlement account (note 6(m))	13,479	-	4,537	-
114090	Collateral for securities borrowed	914,343	1	802,737	1	214100	Leverage contract trading - customers' equity	152,840	-	70	-
114100	Security borrowing margin	931,868	1	775,251	1	214110	Notes payable	879	-	879	-
114110	Notes receivable	21,811	-	16,931	-	214130	Accounts payable (note 6(n))	5,778,758	4	3,478,124	3
114130	Accounts receivable (note 6(c))	6,726,055	5	4,106,313	4	214150	Advance receipts	55,544	-	33,569	-
114150	Prepayments	33,940	-	50,564	-	214160	Receipts under custody	346,023	-	147,328	-
114170	Other receivables	70,107	-	100,312	-	214170	Other payables	995,443	1	663,830	1
114300	Leverage contract trading - customers' margin account	151,540	-	72	-	214200	Other financial liabilities - current (note 6(v))	4,509,983	3	2,427,461	2
114600	Current income tax assets	26,763	-	44,685	-	214600	Current income tax liabilities	228,401	-	225,883	-
119000	Other current assets	888,582	1	705,402	1	215100	Provisions - current (note 6(p))	49,066	-	65,365	-
		<u>128,220,873</u>	<u>91</u>	<u>94,506,013</u>	<u>87</u>	219000	Other current liabilities	6,726	-	3,065	-
								<u>106,463,149</u>	<u>75</u>	<u>75,399,960</u>	<u>70</u>
120000	Non-current assets:					220000	Non-Current liabilities:				
122000	Financial assets at fair value through profit or loss - non-current (notes 6(b) and 8)	186,015	-	186,073	-	224200	Other financial liabilities - non-current (note 6(v))	266,037	-	239,634	-
123100	Financial assets measured at cost - non-current (note 6(b))	754,545	1	448,460	-	228000	Deferred income tax liabilities (note 6(q))	479,193	-	675,975	1
123400	Financial assets available for sale - non-current (note 6(b))	-	-	76,261	-	229000	Other non-current liabilities (note 6(p))	799,939	1	884,366	1
124100	Investments accounted for under equity method (note 6(e))	173,588	-	198,205	-			<u>1,545,169</u>	<u>1</u>	<u>1,799,975</u>	<u>2</u>
125000	Property and equipment (notes 6(f) and 8)	4,966,752	3	5,129,823	5		Total liabilities	<u>108,008,318</u>	<u>76</u>	<u>77,199,935</u>	<u>72</u>
126000	Investment property (notes 6(g) and 8)	1,796,541	1	1,727,324	2		Equity attributable to shareholders of the parent:				
127000	Intangible assets (note 6(h))	3,628,174	3	3,612,248	3	301000	Common stock (note 6(r))	21,690,730	15	22,690,730	21
128000	Deferred income tax assets (note 6(q))	174,236	-	407,397	1	302000	Capital surplus:				
129000	Other non-current assets	1,585,594	1	1,752,409	2	302010	Premium from stock issuance	1,776,413	1	1,858,310	2
		<u>13,265,445</u>	<u>9</u>	<u>13,538,200</u>	<u>13</u>	302020	Treasury stock transactions	437,096	-	253,940	-
						302070	Paid-in capital from merger	602,665	1	630,450	1
						302095	Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,338	-	1,399	-
						302096	Changes in ownership interests in subsidiaries	34,787	-	6,873	-
						304000	Retained earnings:				
						304010	Legal reserve	1,230,275	1	1,110,600	1
						304020	Special reserve	2,709,623	2	2,464,288	2
						304040	Unappropriated earnings (note 6(q))	2,850,553	2	1,188,633	1
						305120	Exchange differences on translation of foreign operations	(103,566)	-	97,158	-
						305150	Unrealized gains (losses) on financial assets available for sale	191,716	-	53,215	-
						305500	Treasury stocks (note 6(r))	-	-	(835,048)	(1)
							Total equity attributable to the parent company	<u>31,421,630</u>	<u>22</u>	<u>29,520,548</u>	<u>27</u>
							Non-controlling interests	<u>2,056,370</u>	<u>2</u>	<u>1,323,730</u>	<u>1</u>
							Total equity	<u>33,478,000</u>	<u>24</u>	<u>30,844,278</u>	<u>28</u>
	Total assets	<u>\$ 141,486,318</u>	<u>100</u>	<u>108,044,213</u>	<u>100</u>		Total liabilities and equity	<u>\$ 141,486,318</u>	<u>100</u>	<u>108,044,213</u>	<u>100</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Share Data)

		2017		2016	
		Amount	%	Amount	%
Income:					
401000	Brokerage commissions (note 6(t))	\$ 3,932,846	43	3,226,451	50
402000	Revenues from securities business money lending	620	-	46	-
403000	Revenue from securities lending	112,679	1	71,164	1
404000	Underwriting commissions (note 6(t))	121,517	1	93,463	1
406000	Commissions on wealth management business	103,629	1	64,802	1
410000	Net gains (losses) on sale of trading securities (note 6(t))	1,592,039	17	87,379	1
421100	Securities management, distribution, and management fees	137,373	1	139,497	3
421200	Interest revenue (note 6(t))	2,029,921	22	1,463,945	22
421300	Dividend revenue	227,475	3	175,857	3
421500	Net gains (losses) on measurement of trading securities at fair value through profit or loss (note 6(t))	72,955	1	45,390	1
421600	Net gains (losses) on covering of borrowed securities and bonds with resale agreements	(2,549)	-	17,194	-
421610	Net gains (losses) on measurement of borrowed securities and bonds with resale agreements	27,654	-	36,005	1
422200	Net gains (losses) on stock warrants issued (notes 6(t) and 6(v))	691,161	8	747,109	12
424100	Futures commission income (note 6(t))	770,614	8	564,369	9
424400	Net gains (losses) on derivative instruments - futures (note 6(v))	(421,005)	(5)	(254,211)	(4)
424500	Net gains (losses) on derivative instruments - OTC (note 6(v))	(323,820)	(3)	(238,978)	(4)
424800	Management fee revenue	37	-	76	-
424900	Consultancy fee revenue	18,009	-	14,251	-
428000	Other operating revenues	153,742	2	183,836	3
		<u>9,244,897</u>	<u>100</u>	<u>6,437,645</u>	<u>100</u>
Expenses:					
501000	Brokerage fees	546,603	6	474,143	7
502000	Brokerage and clearing fees - proprietary trading	20,227	-	16,577	-
503000	Clearing and exchange fees - refinancing	2,192	-	3,309	-
504000	Clearing and exchange fees - underwriting	1,413	-	1,749	-
521200	Financial costs	638,730	7	288,309	4
524100	Commission expense - futures (note 6(t))	646,399	7	411,695	7
524300	Clearing and settlement expenses	147,313	2	143,607	3
528000	Other operating expenditure	4,634	-	6,807	-
531000	Employee benefits expenses (note 6(t))	2,682,982	29	2,418,060	38
532000	Depreciation and amortization expense (note 6(t))	215,975	2	217,980	3
533000	Other operating expenses (note 6(t))	1,586,888	17	1,344,841	21
		<u>6,493,356</u>	<u>70</u>	<u>5,327,077</u>	<u>83</u>
Other income (expenses):					
601000	Share of profits of associates and joint venture (note 6(e))	67,844	1	106,717	2
602000	Other gains and losses (note 6(t))	684,252	7	454,948	7
		<u>752,096</u>	<u>8</u>	<u>561,665</u>	<u>9</u>
902001	Net income before income tax	3,503,637	38	1,672,233	26
701000	Income tax expense (note 6(q))	(288,242)	(3)	(265,736)	(4)
	Net income	<u>3,215,395</u>	<u>35</u>	<u>1,406,497</u>	<u>22</u>
805000	Other comprehensive income:				
805500	Items that may not be reclassified to profit or loss in subsequent periods				
805510	Gains (losses) on remeasurements of defined benefit plans	(28,741)	-	(19,494)	-
805599	Income tax related to components of other comprehensive income	-	-	-	-
	Subtotal of items that may not be subsequently reclassified into profit or loss	<u>(28,741)</u>	<u>-</u>	<u>(19,494)</u>	<u>-</u>
805600	Items that may be reclassified to profit or loss in subsequent periods				
805610	Exchange differences on translation of foreign operations	(271,032)	(3)	(49,443)	(1)
805620	Unrealized gains (losses) on financial assets available for sale, net	122,771	1	66,182	1
805699	Income tax benefit related to components of other comprehensive income (note 6(q))	37,769	1	6,951	-
	Subtotal of items that may be subsequently reclassified into profit or loss	<u>(110,492)</u>	<u>(1)</u>	<u>23,690</u>	<u>-</u>
805000	Other comprehensive income for the year, net of income tax	<u>(139,233)</u>	<u>(1)</u>	<u>4,196</u>	<u>-</u>
902006	Total comprehensive income for the year	<u>\$ 3,076,162</u>	<u>34</u>	<u>1,410,693</u>	<u>22</u>
Net income attributable to:					
913100	Shareholders of the parent	\$ 2,893,600	31	1,196,756	19
913200	Non-controlling interests	321,795	4	209,741	3
		<u>\$ 3,215,395</u>	<u>35</u>	<u>1,406,497</u>	<u>22</u>
Total comprehensive income attributable to:					
914100	Shareholders of the parent	\$ 2,827,707	31	1,199,521	19
914200	Non-controlling interests	248,455	3	211,172	3
		<u>\$ 3,076,162</u>	<u>34</u>	<u>1,410,693</u>	<u>22</u>
975000	Basic earnings per share (note 6(s))	<u>\$ 1.33</u>		<u>0.53</u>	
985000	Diluted earnings per share (note 6(s))	<u>\$ 1.33</u>		<u>0.53</u>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to the parent company										
	Stock	Retained earnings				Total other equity interest					
					Unappropriated earnings	Exchange differences on translation of foreign operations	Unrealized gains (losses) on financial assets available for sale	Treasury stocks	Total equity attributable to the parent company	Non-controlling interests	Total equity
Common stocks	Capital surplus	Legal reserve	Special reserve								
Balance at January 1, 2016	\$ 23,190,730	2,742,807	955,667	2,154,422	1,586,994	135,985	(6,850)	(469,155)	30,290,600	1,237,067	31,527,667
Net income for the year ended December 31, 2016	-	-	-	-	1,196,756	-	-	-	1,196,756	209,741	1,406,497
Other comprehensive income	-	-	-	-	(18,473)	(38,827)	60,065	-	2,765	1,431	4,196
Total comprehensive income	-	-	-	-	1,178,283	(38,827)	60,065	-	1,199,521	211,172	1,410,693
Appropriation and distribution of retained earnings:											
Legal reserve	-	-	154,933	-	(154,933)	-	-	-	-	-	-
Special reserve	-	-	-	309,866	(309,866)	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	(1,111,845)	-	-	-	(1,111,845)	(123,923)	(1,235,768)
Purchase of treasury shares	-	-	-	-	-	-	-	(858,314)	(858,314)	-	(858,314)
Retirement of treasury shares	(500,000)	7,579	-	-	-	-	-	492,421	-	-	-
Capital surplus changes in ownership interests in subsidiaries	-	586	-	-	-	-	-	-	586	(586)	-
Balance at December 31, 2016	22,690,730	2,750,972	1,110,600	2,464,288	1,188,633	97,158	53,215	(835,048)	29,520,548	1,323,730	30,844,278
Net income for the year ended December 31, 2017	-	-	-	-	2,893,600	-	-	-	2,893,600	321,795	3,215,395
Other comprehensive income	-	-	-	-	(28,401)	(200,724)	163,232	-	(65,893)	(73,340)	(139,233)
Total comprehensive income	-	-	-	-	2,865,199	(200,724)	163,232	-	2,827,707	248,455	3,076,162
Appropriation and distribution of retained earnings:											
Legal reserve	-	-	119,675	-	(119,675)	-	-	-	-	-	-
Special reserve	-	-	-	245,335	(245,335)	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	(802,558)	-	-	-	(802,558)	(155,227)	(957,785)
Purchase of treasury shares	-	-	-	-	-	-	-	(91,539)	(91,539)	-	(91,539)
Retirement of treasury shares	(1,000,000)	73,413	-	-	-	-	-	926,587	-	-	-
Capital surplus changes in ownership interests in subsidiaries	-	27,914	-	-	-	-	(24,731)	-	3,183	639,412	642,595
Indemnification to stockholders due to merger (note 12)	-	-	-	-	(35,711)	-	-	-	(35,711)	-	(35,711)
Balance at December 31, 2017	\$ 21,690,730	2,852,299	1,230,275	2,709,623	2,850,553	(103,566)	191,716	-	31,421,630	2,056,370	33,478,000

See accompanying notes to consolidated financial statements.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from (used in) operating activities:		
Net income before tax	\$ 3,503,637	1,672,233
Adjustments:		
Income and expenses items with no effect on cash flows:		
Depreciation expense	179,486	180,741
Amortization expense	36,489	37,239
Provision of bad debt expense	138,530	7,393
Net losses (gain) on financial assets or liabilities at fair value through profit or loss	(72,955)	(45,390)
Interest expense	638,730	288,309
Interest revenue (including financial income)	(2,289,092)	(1,666,227)
Dividend revenue	(258,256)	(207,993)
Share-based payment compensation cost	17,530	-
Cash dividend received from investments under equity method	91,452	65,987
Share of profit of associates and joint ventures	(67,844)	(106,717)
Net losses (gains) on disposal and retirement of property and equipment	3,034	4,202
Losses (gains) on disposal of investment	(40,386)	(90)
Net losses (gains) on non-operating financial instruments at fair value through profit or loss	(23,198)	31,837
Net changes of income and expense items with no effect on cash flows	<u>(1,646,480)</u>	<u>(1,410,709)</u>
Changes in assets and liabilities from operating activities:		
Changes in operating assets:		
Decrease (increase) in financial assets at fair value through profit or loss	(6,911,031)	(1,726,844)
Decrease (increase) in financial assets available for sale - current	(13,305,842)	(11,451,162)
Decrease (increase) in receivable for securities provided as collateral	(3,108,222)	3,230,705
Decrease (increase) in refinancing margin	47,258	(84,269)
Decrease (increase) in receivable on refinancing collateral	40,401	(71,739)
Decrease (increase) in receivable of securities business money lending	(1,387,679)	(144,552)
Decrease (increase) in customers' margin account	(4,132,870)	(6,865,086)
Decrease (increase) in margin receivable of futures trading	893	6
Decrease (increase) in collateral for securities borrowed	(111,606)	271,393
Decrease (increase) in security borrowing margin	(156,617)	685,298
Decrease (increase) in notes receivable	(4,880)	(8,976)
Decrease (increase) in accounts receivable	(2,478,807)	911,973
Decrease (increase) in prepayments	18,090	(14,112)
Decrease (increase) in other receivables	34,752	(12,186)
Decrease (increase) in pledged assets - current	-	73,717
Decrease (increase) in current income tax assets	17,896	15,097
Decrease (increase) in other current assets	(255,111)	1,049,937
Decrease (increase) in guarantee deposited for business operations	(2,106)	54,540
Decrease (increase) in settlement fund	5,614	17,633
Decrease (increase) in refundable deposits	54,698	16,507
Decrease (increase) in leverage contract trading - customers' margin account	(151,468)	(72)
Decrease (increase) in other non-current assets	<u>135,247</u>	<u>44,858</u>
Total changes in assets from operating activities	<u>(31,651,390)</u>	<u>(14,007,334)</u>

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Changes in liabilities from operating activities:		
Increase (decrease) in financial liabilities at fair value through profit or loss	\$ 1,427,429	(933,192)
Increase (decrease) in bonds sold under repurchase agreements	12,099,670	11,380,399
Increase (decrease) in guarantee deposited for short sales	503,424	(302,171)
Increase (decrease) in proceeds payable from short sales	553,749	(295,576)
Increase (decrease) securities lending refundable deposits	311,411	(744,071)
Increase (decrease) in futures traders' equity	4,135,995	6,844,919
Increase (decrease) in customers' equity of separate account ledger in settlement account	8,942	433
Increase (decrease) in leverage contract trading - customers' equity	152,770	70
Increase (decrease) in notes payable	-	33
Increase (decrease) in accounts payable	2,300,634	(369,640)
Increase (decrease) in advance receipts	21,975	13,634
Increase (decrease) in receipts under custody	198,695	(1,199,831)
Increase (decrease) in other payable	308,458	(120,360)
Increase (decrease) in other current liabilities	12,250	5,755
Increase (decrease) in other financial liabilities - current	2,082,522	(1,407,114)
Increase (decrease) in other financial liabilities - non-current	26,403	(2,357)
Increase (decrease) in provision - current	(16,299)	15,714
Increase (decrease) in other non-current liabilities	(113,130)	(708)
Total changes in liabilities from operating activities	<u>24,014,898</u>	<u>12,885,937</u>
Total changes in assets and liabilities from operating activities	<u>(7,636,492)</u>	<u>(1,121,397)</u>
Total cash generated from adjustment items	<u>(9,282,972)</u>	<u>(2,532,106)</u>
Cash generated from operating activities	(5,779,335)	(859,873)
Interest received	2,151,528	1,624,466
Dividends received	258,256	208,790
Interest paid	(616,098)	(269,740)
Income taxes paid	(211,577)	(128,279)
Net cash provided by (used in) operating activities	<u>(4,197,226)</u>	<u>575,364</u>
Cash flows from (used in) investing activities:		
Proceeds from disposal of financial assets available for sale	71,827	-
Acquisitions of financial assets measured at cost	(315,453)	(75,901)
Decrease (increase) in deferred debits	(343)	(1,902)
Proceeds from capital reduction of financial assets measured at cost	9,368	38,762
Acquisitions of property and equipment	(95,061)	(125,995)
Acquisitions of intangible assets	(50,454)	(17,116)
Net cash provided by (used in) investing activities	<u>(380,116)</u>	<u>(182,152)</u>
Cash flows from financing activities:		
Increase (decrease) in short-term borrowing	2,845,296	2,445,241
Increase (decrease) in commercial papers payable	4,099,184	-
Payments to acquire treasury shares	(91,539)	(858,314)
Cash dividends paid	(957,785)	(1,235,768)
Issuance of common stock for cash	626,096	-
Net cash provided by (used in) financing activities	<u>6,521,252</u>	<u>351,159</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(263,248)</u>	<u>(47,454)</u>
Increase in cash and cash equivalents	1,680,662	696,917
Cash and cash equivalents, beginning of the year	5,423,415	4,726,498
Cash and cash equivalents, end of the year	<u><u>\$ 7,104,077</u></u>	<u><u>5,423,415</u></u>

See accompanying notes to consolidated financial statements.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(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, Song-Jen Road, Taipei, Taiwan, R.O.C. As of December 31, 2017, the composition of the consolidated financial statements includes the Company and the subsidiaries (the “Group”). As of December 31, 2017, the Company has 53 branches nationwide.

The Company is authorized to conduct the following businesses:

- (a) Underwriting of marketable securities;
- (b) Trading of marketable securities on a proprietary basis on stock exchange;
- (c) Brokerage of marketable securities on stock exchange;
- (d) Trading of marketable securities at the Company's branches;
- (e) Brokerage of marketable securities at the Company's branches;
- (f) Margin loan, short sale and refinancing;
- (g) Securities registration agency services;
- (h) Dealership of foreign marketable securities;
- (i) Short-term bills service;
- (j) Accessory services of futures trading;
- (k) Futures trading on a proprietary basis;
- (l) Securities business money lending;
- (m) Managing the unexpended balance of clients' securities accounts within their authorization;
- (n) Trust business;
- (o) Offshore securities business;
- (p) Other relevant services as approved by the authority in charge.

(2) Approval date and procedures of the consolidated financial statements:

The consolidated financial statements were authorized for issuance by the board of directors on March 26, 2018.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(3) New standards, amendments and interpretations adopted:

- (a) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017:

New, Revised or Amended 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 "Presentation of Financial Statements-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 "Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non Financial Assets"	January 1, 2014
Amendments to IAS 39 "Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016
IFRIC 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.

- (b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 9 "Financial Instruments"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments, impairment and hedge accounting.

1) Classification and measurement Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliable. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on the Group's assessments, the new classification requirements would not have a material impact on its accounting for account receivables, debt instruments investments and investments in equity securities that are managed on a fair value basis. As of December 31, 2017, the Group had equity investments classified as financial assets at fair value through profit or loss of \$6,438 thousand, equity investments classified as financial assets available for sale with a fair value of \$30,996, and financial assets measured at cost of \$754,545 that are held for long-term strategic purposes. At initial

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

application of IFRS 9, the Group designated to classify them as FVOCI. Consequently, all fair value gains and losses would be reported in other comprehensive income, impairment losses would not be recognized in profit or loss, and no gains or losses would be reclassified to profit or loss on disposal. The Group estimated the application of IFRS 9's classification requirements on January 1, 2018 resulting in an increase of \$661,379 and \$27,521 in other equity items and retained earnings, respectively.

2) Impairment-Financial assets and contract assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for account receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for account receivables and contract assets with a significant financing component.

The Group estimated the application of IFRS 9's impairment requirements resulting in an increase and a decrease of \$15,154 in other equity items and retained earnings, on January 1, 2018, respectively.

3) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Group's assessment included an analysis to identify data gaps against current processes and the Group plans to implement the system and controls changes that it believes will be necessary to capture the required data.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

4) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and other equity items as at January 1, 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

(ii) IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts".

The Group has completed an initial assessment that the adoption of IFRS 15 will not impact on its financial statements.

(iii) Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Loss"

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value and the estimation of probable future taxable profits.

The Group estimated that the application of the amendments would not have any material impact on its financial statements.

The actual impacts of adopting the standards may differ depending on the economic conditions and events which may occur in the future.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (c) Newly released or amended standards and interpretations not yet endorsed by the FSC

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019

Those which may be relevant to The Group are set out below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
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"> • 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. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Issuance / Release Dates	Standards or Interpretations	Content of amendment
June 7, 2017	IFRIC 23 "Uncertainty over Income Tax Treatments"	<ul style="list-style-type: none"> • In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations. • If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

The Group is evaluating the impact on its consolidated financial position and consolidated operating performance upon the initial adoption of the above mentioned standards or interpretations. The potential impact will be disclosed when the assessment is completed.

(4) Summary of significant accounting policies:

The significant accounting policies presented in the consolidated financial statements are summarized below. Except for those specifically indicated, the following accounting policies have been applied consistently to all periods presented in the consolidated financial report.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Firms”, and the IFRSs, IAS and interpretations endorsed by the FSC.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Basis of preparation

(i) Basis of measurement

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

- 1) Financial instruments measured at fair value through profit or loss (including derivative instruments);
- 2) Financial assets available for sale that are measured at fair value; and
- 3) 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.

(ii) Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional currency. All financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) 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.

(ii) 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
			December 31, 2017	December 31, 2016	
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. As of December 31, 2017, 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. As of December 31, 2017, the paid-in capitals amounted to US\$45,000 thousands.
"	Capital Futures Corp.	Engaged in domestic and foreign futures business	56.21 %	59.01 %	The corporation established in February, 1997, and increased capital on February, 2017. The ownership portion has decreased from 59.01% to 56.21%. As of December 31, 2017, the paid-in capitals amounted to \$1,603,979.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership		Note
			December 31, 2017	December 31, 2016	
The Company	Taiwan International Futures Corp.	Management consultancy	99.99 %	99.99 %	Liquidation in progress.
"	Taiwan International Securities (B.V.I) Corp.	Holding company for offshore securities units	100.00 %	100.00 %	The corporation established in December, 1996. As of December 31, 2017, the paid-in capitals amounted to US\$9,516 thousands.
"	Taiwan International Securities Investment Consulting Corp.	Investment consultancy	99.92 %	99.92 %	Liquidation in progress.
"	CSC Venture Capital Corp.	Venture Capital and consulting business	100.00 %	100.00 %	The corporation established in January, 2016. As of December 31, 2017, the paid-in capitals amounted to \$1,000,000.
Capital Futures Corp.	CSC Futures (HK) Ltd.	Futures dealing business	97.27 %	97.27 %	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 then acquire additional 2.27% equity on December 12, 2016. As of December 31, 2017, 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, 2017, the paid-in capitals amounted to 50,000.
Capital International Technology Corp.	Capital True Partner Technology Co., Ltd.	Management, consulting and information service business.	51.00 %	51.00 %	The corporation established in August 20, 2008. Acquired 51% of the equity on February 9, 2015 and held controlling interest. As of December 31, 2017, the paid-in capitals amounted to CNY\$1,000 thousands.
"	Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	100.00 %	100.00 %	The corporation established in October, 2016. As of December 31, 2017, the paid-in capitals amounted to CNY\$4,000 thousands.
CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses	100.00 %	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	The corporation established in May, 1994. Acquired 30% of the equity from Capital Securities (Hong Kong) Ltd. in September, 2017.
"	Capital Securities (Hong Kong) Ltd.	Long-term equity investment business	- %	100.00 %	The board of directors of the Company resolved to cease operation on October 30, 2012. The corporation's registration is cancelled on February 3, 2018.
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	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) Limited.	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.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership		Note
			December 31, 2017	December 31, 2016	
TIS Securities (HK) Ltd.	Taiwan International Capital (HK) Ltd.	Direct investment	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.

(iii) Subsidiaries not listed in the consolidated financial statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership		Note
			December 31, 2017	December 31, 2016	
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, 2017 and 2016, the total assets constituted 0.03% and 0.06% of the Group's total assets. For the year ended December 31, 2017 and 2016, the operating revenue were merely 0.79% and 1.74% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.
The Company	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, 2017 and 2016, the total assets constituted 0.07% and 0.13% of the Group's total assets. For the year ended December 31, 2017 and 2016, the operating revenue were merely 2.06% and 3.94% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.

(d) Foreign currencies

(i) Foreign currency transactions

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 financial asset available for sale, 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.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) 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.

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

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

- (i) Assets arising from operating activities that are expected to be realized, or are intend to be sold or consumed within the normal operating cycle;
- (ii) Assets held primarily for the purpose of trading;
- (iii) Assets that are expected to be realized within twelve months from the balance sheet date;
- (iv) 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.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

- (i) Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;
- (ii) Liabilities arising primarily for the purpose of trading;
- (iii) Liabilities that are to be settled within twelve months from the balance sheet date;
- (iv) 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.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(f) 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.

(g) Financial instruments

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

(i) Financial assets

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

1) 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 measured at fair value through profit or loss is measured at fair value, and changes therein 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 cost less impairment loss, and are included in financial assets measured at cost.

2) 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, and dividend income, 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.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

3) 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.

4) 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.

5) 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.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 account 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.

6) 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 Group 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.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Financial liabilities

1) 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.

2) 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.

3) 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.

4) 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.

(iii) 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.

1) 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.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
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2) 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 Group swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counter-parties. The Group 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.

3) 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.

4) 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.

5) 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.

6) 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.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

7) 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.

8) 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.

9) Stock warrants

Issuance of stock warrants by a securities firm 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.

(h) 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.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 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.

(i) Bonds 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”.

(j) Customers’ margin accounts and futures traders’ 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 traders’ equity calculated daily by marking to market, recognized as current liabilities in the balance sheet. Futures traders’ equity cannot be offset unless these accounts pertain to the same customers.

(k) Securities borrowing transactions

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

(l) 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.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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. When changes in an associate's equity are not recognized in profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognizes change in ownership interests in the associate in capital surplus in proportion to its ownership.

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.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate or a joint venture. Any retained investment is measured at fair value at that date. The difference between the fair value of retained investment and proceeds from disposal of the part of interest in the investment, and the carrying amount of the investment at that date was recognized in profit or loss. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amount previously recognized in other comprehensive income in relation to that associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

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.

(m) Property and equipment

(i) 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.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
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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.

(ii) 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.

(iii) 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.

(iv) 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:

- 1) Buildings 3~55 years
- 2) Transportation equipment 5 years
- 3) Office equipment and computer facilities 3~5 years
- 4) Miscellaneous equipment 5~10 years
- 5) Leasehold improvements are depreciated evenly by the shorter of the estimated useful life or the lease period.

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

(n) 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.

(o) Intangible assets

(i) Goodwill

1) Initial recognition

Goodwill resulted in acquisition of subsidiaries includes in intangible assets.

2) 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.

(ii) Other intangible assets

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

(iii) 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:

1) Customer relationships: 5 years

2) 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.

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
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(p) Leases

(i) 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.

(ii) 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.

(q) 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 recoverable amounts of intangible assets with indefinite useful lives shall be evaluated periodically. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(r) Employee benefits

(i) 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.

(ii) 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 on the reporting date of government bonds that have maturity dates approximating the terms of the Group's obligations and 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.

Remeasurement 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). Remeasurement 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.

(iii) 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.

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) 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.

(s) Provisions

A provision is recognized if, as a result of a past event, the Group 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.

(t) Revenue recognition

(i) Brokerage commissions

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

(ii) 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.

(iii) Interest revenue

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

(u) 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.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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:

- (i) 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.
- (ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (iii) 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:

- (i) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
 - 1) levied by the same taxing authority; or
 - 2) 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.

(v) 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.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(w) Earnings per share (EPS)

The Group presents its basic and dilutive earnings per share attributable to the Company's ordinary equity holders. The basic earnings per share of the Group is calculated by dividing profit or loss attributable to the Company's 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 Group include the estimation of employee remuneration.

(x) 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 CEO who allocates resources and assesses segment performance. Each operating segment consists of standalone financial information.

(y) 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 treasury stock is retired, 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 significant accounting assumptions, judgments and estimation uncertainty:

The preparation of the consolidated financial statements in conformity with the Regulations and the IFRSs endorsed by the FSC 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 consolidated 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.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 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) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash	<u>\$ 2,767</u>	<u>2,850</u>
Bank deposits		
Checking accounts	53,094	58,106
Demand deposits	956,250	422,816
Time deposits	2,971,870	2,143,168
Foreign currency deposits	<u>1,875,088</u>	<u>1,978,038</u>
Subtotal	<u>5,856,302</u>	<u>4,602,128</u>
Cash equivalents		
Futures margin - excess margin	1,098,046	818,437
Commercial papers	<u>146,962</u>	<u>-</u>
Subtotal	<u>1,245,008</u>	<u>818,437</u>
Total	<u><u>\$ 7,104,077</u></u>	<u><u>5,423,415</u></u>

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Financial assets

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

	December 31, 2017	December 31, 2016
Open-ended funds and money-market instruments		
Open-ended funds and money-market instruments	\$ 323,962	1,201,307
Valuation adjustment	<u>(1,886)</u>	<u>(21,007)</u>
Subtotal	<u>322,076</u>	<u>1,180,300</u>
Trading securities - proprietary trading		
Listed stocks	1,495,906	626,599
Listed funds	1,122,398	798,932
OTC stocks	742,663	249,061
OTC funds	40,000	-
Emerging market stocks	455,025	259,637
Emerging market funds	9,848	7,964
Convertible corporate bonds	767,352	455,796
Government bonds	6,695,553	4,041,386
Corporate bonds	9,403,722	9,874,420
International bonds	2,838,568	1,926,990
Financial debentures	300,000	1,659,501
Foreign stocks	646,649	269,804
Overseas bonds	59,353	64,320
Other	<u>34,858</u>	<u>32,603</u>
	24,611,895	20,267,013
Valuation adjustment	<u>132,192</u>	<u>42,273</u>
Subtotal	<u>24,744,087</u>	<u>20,309,286</u>

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Trading securities - underwriting:		
Listed stocks	\$ 81,823	43,898
OTC stocks	48,763	11,396
Convertible corporate bonds	<u>129,277</u>	<u>57,200</u>
	259,863	112,494
Valuation adjustment	<u>11,400</u>	<u>2,140</u>
Subtotal	<u>271,263</u>	<u>114,634</u>
Trading securities - hedging		
Listed stocks	4,022,877	1,810,735
OTC stocks	1,191,800	446,088
Convertible corporate bonds	3,456,957	3,437,205
Foreign stocks	<u>999</u>	<u>1,092</u>
	8,672,633	5,695,120
Valuation adjustment	<u>(65,965)</u>	<u>(38,606)</u>
Subtotal	<u>8,606,668</u>	<u>5,656,514</u>
Derivatives		
Call options	132,472	68,562
Interest rate swaps	1,920	4,942
Futures margin - proprietary fund	611,870	352,755
IRS asset swaps	16,479	20,743
Asset swap options - long position	2,572	5,682
Currency derivatives	22,446	3
Structured notes	1,343	3
Currency swaps	<u>4,072</u>	<u>16,584</u>
Subtotal	<u>793,174</u>	<u>469,274</u>
Total	<u><u>\$ 34,737,268</u></u>	<u><u>27,730,008</u></u>

As of December 31, 2017 and 2016, the par value of trading securities and financial assets available for sale - bonds under repurchase agreement of the Group were \$49,006,659 and \$35,926,059, respectively, please refer to Note 6(l) and Note 8 for details.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Financial assets available for sale - current:

	December 31, 2017	December 31, 2016
Listed stocks	\$ 101,209	221,734
OTC stocks	77,668	162,878
Emerging market stocks	24,907	29,482
International bonds	1,532,767	-
Foreign stocks	104,055	-
Overseas bonds	<u>30,797,054</u>	<u>18,904,893</u>
Subtotal	32,637,660	19,318,987
Valuation adjustment	<u>170,119</u>	<u>18,891</u>
Total	<u><u>\$ 32,807,779</u></u>	<u><u>19,337,878</u></u>

(iii) Financial assets at fair value through profit or loss - non-current:

	December 31, 2017	December 31, 2016
Financial assets held for trading:		
Government bonds	\$ 185,953	185,799
Valuation adjustment	<u>62</u>	<u>274</u>
Total	<u><u>\$ 186,015</u></u>	<u><u>186,073</u></u>

As of December 31, 2017 and 2016, the Group took advantage of government bonds as margins of bills, interest rate swaps, structured notes transaction, settlement fund guarantee deposits, and compensation reserve of trust business (please refer to Note 8 for details).

(iv) Financial assets available for sale - non-current:

Name of investee	December 31, 2017	December 31, 2016
CME Group Inc.	\$ -	33,733
Valuation adjustment	<u>-</u>	<u>42,528</u>
Total	<u><u>\$ -</u></u>	<u><u>76,261</u></u>

The purpose for obtaining the stock of CME Group Inc. is to acquire the membership of foreign futures exchange. Due to membership requirements on shareholding being changed to paying the subscription fee by CME Group Inc., the Group disposed of 20,000 shares of stock of CME Group Inc. on April 2017, which generated a gain on disposal of this investment of \$38,920. For the years ended December 31, 2017 and 2016, due to changes in fair value, the Group had recognized \$0 and \$14,922 in other comprehensive income, respectively. The amount reclassified from equity to net losses is \$41,494 and \$0, respectively.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

Non-listed (or non-over-the-counter)	December 31, 2017	
	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 %	32,858
Prudence Venture Investment Corp.	1.50 %	27,397
Chanyee Hotelday Co., Ltd.	7.33 %	33,000
Miho International Co., Ltd.	2.37 %	49,962
LIPS Corp.	18.77 %	149,625
Xianlife Limited	2.36 %	46,140
FlexUP Technologies Corp.	15.31 %	30,000
Han Biomedical Inc.	9.20 %	23,000
Yonggu Group Co., Ltd.	1.66 %	59,726
Total		\$ 754,545

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		\$ 448,460

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016, Top Taiwan III Venture Capital Co., Ltd. refunded the proceeds of capital reduction amounted to \$1,400 and \$36,750 respectively. Prudence Venture Investment Corp. refunded the proceeds of capital reductions amounted to \$7,968 and \$2,012, respectively.

The Group acquired shares of LIPS Corp., Xianlife Limited, FlexUP Technologies Corp. and Han Biomedical Inc. and Yonggu Group Co., Ltd. in March, April, June and December 2017, 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. Due to Jason's Entertainment Co., Ltd. registering to Emerging Stock Board on August, 2016, it is reclassified to financial assets available for sale - current.

The Group disposed of 1,000 shares of stock of Taiwan Futures Exchange Corp. on December 29, 2016, which generated a disposal investment gain \$90.

- (vi) 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. For the years ended December 31, 2017 and 2016 VaR (99%, per 10-day) of equity stocks are as follows:

Type of market risk	December 31, 2017	December 31, 2016	For the years ended December 31,					
			2017			2016		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	1,446,742	641,484	992,682	1,446,742	666,504	692,555	821,890	596,609

(c) Accounts Receivable

	December 31, 2017	December 31, 2016
Receivable on securities purchased by customers	\$ 27,055	22,024
Settlement	1,000,019	-
Interests receivable	627,789	494,248
Receivables on securities sold	5,015,345	3,503,940
Others	<u>57,560</u>	<u>89,525</u>
Subtotal	6,727,768	4,109,737
Less: allowance for doubtful accounts	<u>(1,713)</u>	<u>(3,424)</u>
Total	<u><u>\$ 6,726,055</u></u>	<u><u>4,106,313</u></u>

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) Customers' margin account / Future traders' equity

As of December 31, 2017 and 2016, a reconciliation of the customers' margin account and the futures traders' equity was as follows:

	December 31, 2017	December 31, 2016
Customers' margin account		
Add:		
Cash in banks	\$ 20,131,841	18,011,775
Customers' margin account - futures clearing house	3,485,434	2,126,035
Customers' margin account - other futures commission merchants	3,683,324	3,030,438
Marketable securities	<u>2,113</u>	<u>1,594</u>
Total customers' margin account	<u>27,302,712</u>	<u>23,169,842</u>
Add:		
Commission expense	\$ 1,651	-
Other	33	1
Less:		
Commission revenue	(11,431)	(30,670)
Futures transaction tax	(1,356)	(1,045)
Interest revenues	(2,326)	(1,200)
Temporary receipts	(590)	(134)
Remittance amount of the customers after the market closed	(2,424)	(1,749)
Others	<u>(18,043)</u>	<u>(2,814)</u>
Futures traders' equity	<u>\$ 27,268,226</u>	<u>23,132,231</u>

(e) Investments under equity method

As of December 31, 2017 and 2016, investments under equity method consisted of the following:

	December 31, 2017	December 31, 2016
Subsidiaries		
Capital Insurance Advisory Corp.	\$ 90,506	104,489
Capital Insurance Agency Corp.	<u>41,547</u>	<u>52,200</u>
Subtotal	<u>132,053</u>	<u>156,689</u>
Associates		
True Partner Advisor Hong Kong Ltd.	<u>41,535</u>	<u>41,516</u>
Total	<u>\$ 173,588</u>	<u>198,205</u>

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
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(i) Subsidiaries:

For the year 2017 and 2016, the Group's share of gains or losses of the subsidiaries were as follows:

	For the years ended December 31,	
	2017	2016
Based on the the audited financial statements	\$ 66,816	101,682
	December 31,	December 31,
	2017	2016
Total assets	\$ 151,103	194,974
Total liabilities	\$ 19,050	38,285
	For the years ended December 31,	
	2017	2016
Revenue	\$ 263,492	360,440
Net income	\$ 66,816	101,682

(ii) 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	
			December 31, 2017	December 31, 2016
True Partner Advisor Hong Kong Ltd.	Engaged in asset management. The Subsidiary'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, 2017	December 31, 2016
Total carrying amount of the associates that were not individually material	\$ 41,535	41,516
	For the years ended December 31,	
	2017	2016
Based on the self-prepared financial statements Attributable to the Group:		
Net gains from continuing operations	\$ 1,028	5,035
Other comprehensive loss	(1,009)	(200)
Total comprehensive income (losses)	\$ 19	4,835

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
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(iii) Collateral

As of December 31, 2017 and 2016, none of the investment accounted for under equity method of the Group were pledged for collateral.

(f) Property and equipment

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
Cost or deemed cost					
Balance at January 1, 2017	\$ 3,707,942	1,690,000	587,821	133,832	6,119,595
Additions	-	-	74,113	20,701	94,814
Reclassified to investment property	(55,468)	(57,484)	-	-	(112,952)
Disposals and retirements	-	(119)	(59,001)	(16,028)	(75,148)
Effect of changes in foreign exchange rates	-	(8,743)	(6,814)	(1,074)	(16,631)
Balance at December 31, 2017	<u>\$ 3,652,474</u>	<u>1,623,654</u>	<u>596,119</u>	<u>137,431</u>	<u>6,009,678</u>
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 and retirements	-	(263,557)	(110,580)	(13,811)	(387,948)
Effect of changes in foreign exchange rates	-	(2,019)	(1,917)	(220)	(4,156)
Balance at December 31, 2016	<u>\$ 3,707,942</u>	<u>1,690,000</u>	<u>587,821</u>	<u>133,832</u>	<u>6,119,595</u>
Depreciation and impairment					
Balance at January 1, 2017	\$ -	573,289	360,524	55,959	989,772
Depreciation	-	29,461	104,816	25,528	159,805
Reclassified to investment property	-	(24,054)	-	-	(24,054)
Disposals and retirements	-	(119)	(58,706)	(13,289)	(72,114)
Effect of changes in foreign exchange rates	-	(3,440)	(6,209)	(834)	(10,483)
Balance at December 31, 2017	<u>\$ -</u>	<u>575,137</u>	<u>400,425</u>	<u>67,364</u>	<u>1,042,926</u>
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 and retirements	-	(263,557)	(109,770)	(10,419)	(383,746)
Effect of changes in foreign exchange rates	-	(756)	(1,724)	(181)	(2,661)
Balance at December 31, 2016	<u>\$ -</u>	<u>573,289</u>	<u>360,524</u>	<u>55,959</u>	<u>989,772</u>
Carrying amount:					
December 31, 2017	<u>\$ 3,652,474</u>	<u>1,048,517</u>	<u>195,694</u>	<u>70,067</u>	<u>4,966,752</u>
December 31, 2016	<u>\$ 3,707,942</u>	<u>1,116,711</u>	<u>227,297</u>	<u>77,873</u>	<u>5,129,823</u>

As of December 31, 2017 and 2016, the property and equipment which are provided as collateral or pledge, please refer to Note 8 for details.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
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(g) Investment property

	Land and improvements	Buildings	Total
Cost or deemed cost			
Balance at January 1, 2017	\$ 1,257,200	738,705	1,995,905
Transferred from property and equipment	55,468	57,484	112,952
Disposal and retirements	-	(120)	(120)
Balance at December 31, 2017	<u><u>\$ 1,312,668</u></u>	<u><u>796,069</u></u>	<u><u>2,108,737</u></u>
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 and retirements	-	(125,195)	(125,195)
Balance at December 31, 2016	<u><u>\$ 1,257,200</u></u>	<u><u>738,705</u></u>	<u><u>1,995,905</u></u>
Depreciation and impairment loss			
Balance at January 1, 2017	\$ -	268,581	268,581
Depreciation	-	19,681	19,681
Transferred from property and equipment	-	24,054	24,054
Disposal and retirements	-	(120)	(120)
Balance at December 31, 2017	<u><u>\$ -</u></u>	<u><u>312,196</u></u>	<u><u>312,196</u></u>
Balance at January 1, 2016	\$ -	377,863	377,863
Depreciation	-	15,211	15,211
Transferred from property and equipment	-	702	702
Disposal and retirements	-	(125,195)	(125,195)
Balance at December 31, 2016	<u><u>\$ -</u></u>	<u><u>268,581</u></u>	<u><u>268,581</u></u>
Carrying Amount:			
December 31, 2017	<u><u>\$ 1,312,668</u></u>	<u><u>483,873</u></u>	<u><u>1,796,541</u></u>
December 31, 2016	<u><u>\$ 1,257,200</u></u>	<u><u>470,124</u></u>	<u><u>1,727,324</u></u>
Fair Value:			
December 31, 2017			<u><u>2,809,179</u></u>
December 31, 2016			<u><u>2,740,795</u></u>

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, 2017 and 2016, the investment property was provided as collateral or pledge, please refer to Note 8 for details.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
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(h) Intangible assets

(i) Goodwill

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized as goodwill. As of December 31, 2017 and 2016, the book value was \$3,126,698 for the both year.

Goodwill is allocated to the operating segments as follows:

	December 31, 2017	December 31, 2016
Brokerage segment	\$ 1,304,458	1,304,458
Underwriting segment	265,144	265,144
Proprietary trading segment	<u>1,557,096</u>	<u>1,557,096</u>
Total	<u>\$ 3,126,698</u>	<u>3,126,698</u>

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 2.26% and 4.32% in year 2017 and 2016 respectively. The cash flow projections for periods after five years will be estimated with no growth conservatively.

After impairment test, the recoverable amounts of year 2017 and 2016 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 Technology Co., Ltd in order to expand operations. The Group recognized the differences between investment costs and identifiable assets as goodwill. As of December 31, 2017 and 2016, the book value of goodwill was \$22,088 for the both year.

(ii) Other intangible assets - 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, 2017 and 2016, the book value of the operation franchise was \$389,999 for the both year.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Other intangible assets - Membership of foreign futures Exchanges

The subsidiaries obtained the membership of foreign futures Exchanges - NYMEX, COMEX, CBOT, HKEX and CME for business development. In accordance with IAS 38 “Intangible Assets” endorsed by the FSC, the memberships are regarded as intangible assets with an indefinite useful life. As of December 31, 2017 and 2016, the book values of intangible assets were \$48,102 and \$48,453, respectively.

(iv) Other intangible assets - 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, 2017 and 2016, the amortized book value was \$41,287 and \$25,010, respectively.

(i) Short-term borrowings

Nature of borrowings	December 31, 2017	December 31, 2016
Collateralized loan	\$ 380,000	380,000
Credit loans	6,701,698	3,856,402
Total	<u>\$ 7,081,698</u>	<u>4,236,402</u>
Interest rate range	<u>0.60%~2.56%</u>	<u>0.60%~2.75%</u>

As of December 31, 2017 and 2016, the Group had provided the land, buildings, and certificates of time deposits as collateral; please refer to Note 8 for details.

(j) Commercial paper payable

	December 31, 2017	December 31, 2016
Commercial paper payable	\$ 4,100,000	-
Less: Unamortized discount	(816)	-
Net amount	<u>\$ 4,099,184</u>	<u>-</u>
Interest rate range	<u>0.53%~0.56%</u>	<u>-%</u>

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	December 31, 2017	December 31, 2016
Liabilities on sale of borrowed securities	\$ 1,130,377	1,009,334
Redeem liabilities on sale of borrowed securities	(6,714)	(4,632)
Valuation adjustment	(94,120)	(66,653)
Subtotal	<u>1,029,543</u>	<u>938,049</u>
Settlement coverage bonds payable of short sale	49,983	-
Valuation adjustment	(29)	-
Subtotal	<u>49,954</u>	<u>-</u>
Stock warrants issued	14,405,116	10,892,801
Stock warrants repurchased	(13,098,267)	(10,617,763)
Subtotal	<u>1,306,849</u>	<u>275,038</u>
Put options	131,636	66,693
Equity derivatives	61	-
IRS asset swaps	239	1,974
Asset swap options - short position	364,910	177,405
Structured notes	9,234	7,515
Currency derivatives	2,847	1
Currency swaps	7,920	9,089
Subtotal	<u>516,847</u>	<u>262,677</u>
Total	<u><u>\$ 2,903,193</u></u>	<u><u>1,475,764</u></u>

(l) Bonds sold under repurchase agreements

	December 31, 2017	December 31, 2016
Bonds sold under repurchase agreements	<u><u>\$ 47,056,312</u></u>	<u><u>34,956,642</u></u>
Agreed-upon repurchase amounts	<u><u>47,174,205</u></u>	<u><u>35,002,716</u></u>
Interest rates	<u><u>0.20%~4.30%</u></u>	<u><u>0.30%~9.00%</u></u>
Date of repurchase	<u><u>2018.1.2~2018.12.27</u></u>	<u><u>2017.1.3~2017.3.30</u></u>

(m) Customer equity of separate account ledger in settlement accounting

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, 2017	December 31, 2016
Customer equity of separate account ledger in settlement	<u><u>\$ 13,479</u></u>	<u><u>4,537</u></u>

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Notes to the Consolidated Financial Statements

(n) Accounts payable

	December 31, 2017	December 31, 2016
Payable of securities sold by customers	\$ 44,575	21,890
Settlement	-	49,986
Payable on securities purchased	5,440,461	3,183,985
Others	<u>293,722</u>	<u>222,263</u>
Total	<u>\$ 5,778,758</u>	<u>3,478,124</u>

(o) Operating leases

(i) Lessee

Non-cancellable operating lease payables are as follows:

	December 31, 2017	December 31, 2016
Within 1 year	\$ 97,864	113,003
1-5 years	142,113	185,695
Over 5 years	<u>11,859</u>	<u>-</u>
	<u>\$ 251,836</u>	<u>298,698</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 years ended December 31, 2017 and 2016, the operating lease expenses recognized in profit or loss were \$157,805 and \$172,855 respectively.

(ii) Lessor

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

	December 31, 2017	December 31, 2016
Within 1 year	\$ 34,856	7,663
1-5 years	46,799	63,940
Over 5 years	<u>40,366</u>	<u>-</u>
	<u>\$ 122,021</u>	<u>71,603</u>

The rental revenue from investment property for the year 2017 and 2016 amounted to \$69,409 and \$61,091 respectively.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(p) Employee benefit

(i) Defined benefit plans

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

	December 31, 2017	December 31, 2016
Present value of defined benefit obligations	\$ (1,009,545)	(1,039,300)
Fair value of plan assets	458,883	517,011
Recognized liabilities for defined benefit obligations	<u><u>\$ (550,662)</u></u>	<u><u>(522,289)</u></u>

The Group's employee benefits liabilities are as follows:

	December 31, 2017	December 31, 2016
Compensated absences	<u><u>\$ 49,066</u></u>	<u><u>65,365</u></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.

1) 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.

As of December 31, 2017 and 2016, the balance of the Group's labor pension preparatory special account in Bank of Taiwan amounted to \$276,467 and \$336,643 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.

As of December 31, 2017 and 2016, the balance of employee pension fund management committee was \$185,442 and \$181,283, respectively.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Movements in present value of the defined benefit obligations

The movements in present value of the defined benefit obligations of the Group in 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Defined benefit obligation on January 1	\$ 1,039,300	1,069,335
Current service costs and interest	20,005	23,601
Remeasurement of net defined liabilities		
-Actuarial loss (gain) arising from changes in demographical assumptions	4,203	-
-Actuarial loss (gain) arising from changes in financial assumptions	(1,089)	12,517
-Experience adjustments	25,279	4,653
Benefits paid by the plan	(78,153)	(70,806)
Defined benefit obligation on December 31	<u><u>\$ 1,009,545</u></u>	<u><u>1,039,300</u></u>

3) Movements in fair value of defined benefit plan assets

The movements in fair value of defined benefit plan assets of the Group in 2017 and 2016 were as follows:

	<u>For the years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Fair value of plan assets on January 1	\$ 517,011	566,401
Contributions from the employer	14,854	16,747
Benefits paid from plan assets	(77,945)	(70,803)
Interest revenue	5,311	6,989
Remeasurement of net defined liabilities		
-Return on plan assets (excluding interest)	(348)	(2,323)
Fair value of plan assets on December 31	<u><u>\$ 458,883</u></u>	<u><u>517,011</u></u>

4) Expense recognized in profit or loss

The expenses recognized of the Group in 2017 and 2016 were as follows:

	<u>For the years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Current service cost	\$ 9,324	10,571
Net interest of net defined benefit liabilities (assets)	5,370	6,041
Current pension cost	<u><u>\$ 14,694</u></u>	<u><u>16,612</u></u>

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
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5) Re-measurement of defined benefit plan recognized in other comprehensive income

For the years ended December 31, 2017 and 2016, the re-measurement of defined benefit plan recognized accumulatively in other comprehensive income was as follows:

	For the years ended December 31,	
	2017	2016
Balance at January 1	\$ (96,364)	(76,870)
Recognized amount during the period	(28,741)	(19,494)
Balance at December 31	<u><u>\$ (125,105)</u></u>	<u><u>(96,364)</u></u>

6) Actuarial assumptions

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

	December 31, 2017	December 31, 2016
Discount rate	1.05%	1.03%~1.10%
Future salary growth rate	2.00%~2.50%	2.00%~2.50%

The expected contribution to the defined benefit plan for the within one year is \$16,271. The weighted average duration of the defined benefit obligation is 2~3 years.

7) 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, 2017 and 2016, 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, 2017		
Discount rate	(27,419)	28,649
Future salary growth rate	23,205	(22,495)
December 31, 2016		
Discount rate	(29,435)	30,803
Future salary growth rate	25,150	(24,343)

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.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
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The assumptions and methods adopted for current period sensitivity analysis are identical with the previous period.

(ii) 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 \$82,937 and \$85,018 under defined contribution plan to the Bureau of the Labor Insurance in the year 2017 and 2016, respectively.

(iii) For the years ended December 31, 2017 and 2016, the pension costs contributed by overseas subsidiaries in compliance with local ordinance were \$4,226 and \$4,561, respectively.

(q) Income tax

(i) Income tax expense (benefit)

The amount of income tax expense (benefit) for the year 2017 and 2016 were as follows:

	For the years ended December 31,	
	2017	2016
Current tax expense		
Current year	\$ 250,718	168,692
Adjustment to the prior years' income tax	(36,624)	30,597
	<u>214,094</u>	<u>199,289</u>
Deferred tax expense		
Unrealized gains (losses) on derivative financial instruments	49,461	(12,041)
Unrealized gains (losses) on foreign investments under Equity Method	(1,499)	(6,959)
Amortization of goodwill	-	35,436
Decrease in tax loss carried forward	117,021	-
Adjustments of deferred income tax assets and liabilities	(90,835)	50,011
	<u>74,148</u>	<u>66,447</u>
Income tax expenses	<u>\$ 288,242</u>	<u>265,736</u>

The amount of income tax expense or benefit recognized in other comprehensive income in year 2017 and 2016 were as follows:

	For the years ended December 31,	
	2017	2016
Foreign exchange difference from translating financial statements of foreign operations	<u>\$ (37,769)</u>	<u>(6,951)</u>

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
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Reconciliation of income tax expense (benefit) and income before tax in year 2017 and 2016 were as follows:

	For the years ended December 31,	
	2017	2016
Net income before tax	\$ 3,503,637	1,672,233
Income tax using the Company's domestic tax rate	\$ 667,856	336,719
Effect of tax rates in foreign jurisdiction (not applicable for separate financial statements)	(194)	-
Tax-exempt income	(392,119)	(148,673)
Alternative minimum tax	148,030	-
Unrecognized deferred tax assets for current-year losses	333	146
Unrecognized temporary differences for current years	(7)	721
Additional surtax on undistributed retained earnings	1,076	-
Income tax difference of bonds purchased under resale agreements and income tax separately levied	(40)	(163)
Adjustments to prior years' income tax	(36,624)	30,597
Unrecognized temporary differences for prior years	(90,835)	50,011
Others	(9,234)	(3,622)
Total	<u><u>\$ 288,242</u></u>	<u><u>265,736</u></u>

(ii) Deferred income tax assets and liabilities

1) Recognized deferred income tax assets

	December 31, 2017	December 31, 2016
Tax loss carried forward	\$ 156,117	404,694
Unrealized losses on foreign investments under Equity Method	4,352	2,678
Foreign exchange difference from translating financial statements of foreign operations	13,767	25
Deferred income tax assets	<u><u>\$ 174,236</u></u>	<u><u>407,397</u></u>

The R.O.C. 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, 2017, the information of the Group's tax losses recognized under deferred tax assets were as follows:

Year of loss	Amount	Expiry date
2011(Approved)	<u><u>\$ 760,953</u></u>	2026

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
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2) Unrecognized deferred tax assets

	December 31, 2017	December 31, 2016
Unrealized losses on foreign investments under Equity Method	\$ 419	425
Tax loss carried forward	481	146
Total	<u><u>\$ 900</u></u>	<u><u>571</u></u>

The R.O.C. 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.

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom.

As of December 31, 2017, the Group's estimated tax losses recognized under deferred income tax asset were as follows:

<u>Year of loss</u>	<u>Amount</u>	<u>Expiry date</u>
2016 (Declared)	\$ 874	2026
2017 (Estimated)	1,957	2027
Total	<u><u>\$ 2,831</u></u>	

3) Recognized deferred income tax liabilities

	December 31, 2017	December 31, 2016
Foreign exchange difference from translating financial statements of foreign operations	\$ -	24,027
Unrealized gains on derivative financial instruments	84,093	34,631
Unrealized gains on foreign investments under Equity Method	1,030	-
Losses on intercompany transactions	1,639	1,639
Amortization of operation franchise	36,448	36,448
Amortization of goodwill	308,292	531,539
Land value incremental tax	47,691	47,691
Deferred income tax liabilities	<u><u>\$ 479,193</u></u>	<u><u>675,975</u></u>

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
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4) Unrecognized deferred tax liabilities

As of December 31, 2017 and 2016, the Group's temporary differences are not recognized under deferred tax liabilities are as follows:

	December 31, 2017	December 31, 2016
Aggregate amount of temporary differences related to investments in subsidiaries	\$ <u>18,983</u>	<u>5,783</u>

The dividend policies of the Group's subsidiaries, CSC Futures (HK) Ltd. and Capital Futures Technology (Shanghai) Co., Ltd, were prescribed not to appropriate the retain earning until December 31, 2017. Also, the Group does not plan to dispose of the investees in foreseeable future. Thus, the temporary differences related to investments in subsidiaries for the portion of not to intend to dispose or to appropriate are not recognized under deferred tax liabilities.

(iii) Income tax assessment status

- 1) The Company's income tax returns through 2014 were assessed by the Tax Authority.
- 2) Subsidiary - Capital Investment Management Corp.'s income tax returns through 2016 were assessed by the Tax Authority.
- 3) Subsidiary - Capital Futures Corp.'s income tax returns through 2015 were assessed by the Tax Authority.
- 4) 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.
- 5) Subsidiary - Taiwan International Futures Corp.'s income tax returns for the liquidation date as of September 18, 2008 were assessed by the Tax Authority.
- 6) Subsidiary - Capital International Technology Corp.'s income tax returns through 2015 were assessed by the Tax Authority.
- 7) Subsidiary - CSC Venture Capital Corp.'s income tax returns through 2016 were assessed by the Tax Authority.

(iv) Information related to the ICA is summarized as follows:

	December 31, 2017	December 31, 2016
Unappropriated earnings of 1998 and after	Note	\$ <u>1,188,633</u>
Balance of imputation credit account	Note	\$ <u>2,675,250</u>
	<u>2017 (Actual)</u>	<u>2016 (Actual)</u>
Tax deduction ratio for earnings distribution to ROC residents	Note	<u>24.21 %</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

The above stated information was prepared in accordance with information letter No. 10204562810 issued by the Ministry of Finance of the R.O.C. on October 17, 2013.

Note: According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, effective January 1, 2018, companies will no longer be required to establish, record, calculate, and distribute their ICA due to the abolishment of the imputation tax system.

(v) 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.

(r) Capital and other equity

(i) Capital stock

As of December 31, 2017 and 2016, the Company had authorized capital of \$30,000,000 and issued common stock of \$2,169,073 thousand and \$2,269,073 thousand shares with \$10 dollars face value per share. The disclosure of treasury shares retired and reduction of capital for the years ended December 31, 2017 and 2016, please refer to (iv) "Treasury stocks" for more details.

(ii) 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 "Regulations Governing the Offering and Issuance of Securities by Securities Issuers", 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:

	December 31, 2017	December 31, 2016
Premium from stock issuance	\$ 1,776,413	1,858,310
Treasury stock transactions	437,096	253,940
Paid-in capital from merger	602,665	630,450
Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,338	1,399
Changes in ownership interests in subsidiaries	<u>34,787</u>	<u>6,873</u>
	<u>\$ 2,852,299</u>	<u>2,750,972</u>

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Retained earnings

1) 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.

2) Special reserve

In accordance with Article 41 of the "Securities and Exchange Act", 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.

In accordance with Ruling No. 10500278285 issued by the Financial Supervisory Commission on August 5, 2016, 0.5% to 1.0% of the current year's earnings after tax should be set aside as special reserve for year 2016 to 2018. From year 2017, the aforementioned special reserve can be reversed within an amount equal to the expenditures stemming from employee re-training, re-assignments, or relocations made necessary by the introduction of financial technology.

3) Undistributed earnings

According to the Company's Articles of Incorporation, after-tax earnings should first offset accumulated deficit, and then appropriated 10% as legal reserve, 20% as special reserve and any other as required by law.

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 capital budget of the Company, the payout of stock dividend is for retaining necessary capital and the remainder can be paid as cash dividend. Cash dividend shall not fall below 10% of the total dividend.

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

The Company's 2016 earnings distribution for cash dividends \$802,558 had been resolved by the shareholders' meeting on June 26, 2017.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(iv) Treasury stocks

Pursuant to Article 28-2 of the “Securities and Exchange Act”, the Company repurchased 100,000 thousand shares back to maintain the Company's credit standing and shareholders' equity from January 1, 2016 to December 31, 2017. As of December 31, 2017, all the repurchased shares were retired.

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 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 100,000 thousand shares at this buyback plan. All the repurchased shares were retired and the registration of capital reduction was completed on February 10, 2017.

(s) Earnings per share

The basic earnings per share and dilutive earnings per share for the years ended December 31, 2017 and 2016 were calculated as follows:

	For the years ended December 31,	
	2017	2016
Net income attributable to ordinary shareholders of the Company	\$ 2,893,600	1,196,756
Weighted-average number of common stock shares outstanding (thousands of shares)	2,169,193	2,265,158
Basic earnings per share (dollar)	\$ 1.33	0.53
Effect of potentially dilutive common stock		
- Employee remuneration (thousands of shares) (Note)	2,877	1,248
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	2,172,070	2,266,406
Dilutive earnings per share (dollar)	1.33	0.53

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

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(t) Items of the comprehensive income statement

(i) Brokerage commissions

	For the years ended December 31,	
	2017	2016
Brokerage commission from TSE market	\$ 1,620,114	1,133,422
Brokerage commission from OTC market	656,041	474,588
Handling fee from security financing	30,903	32,595
Futures commission income - brokerage	1,490,999	1,463,945
Overseas subsidiaries	62,782	70,438
Others	72,007	51,463
	\$ 3,932,846	3,226,451

(ii) Underwriting commissions

	For the years ended December 31,	
	2017	2016
Revenue from underwriting securities on a firm commitment basis	\$ 63,450	49,824
Handling fee revenues from underwriting securities on best efforts basis	1,440	895
Processing fee revenues from underwriting operations	25,023	17,346
Revenue from underwriting consultation	5,180	7,975
Others	26,424	17,423
	\$ 121,517	93,463

(iii) Net gains (losses) on sale of trading securities

	For the years ended December 31,	
	2017	2016
Revenue from securities sold - proprietary trading	\$ 207,304,254	203,630,026
Cost of securities sold - proprietary trading	(206,174,139)	(203,461,507)
Subtotal	1,130,115	168,519
Revenue from securities sold - underwriting	201,997	2,568,524
Cost of securities sold - underwriting	(194,190)	(2,560,057)
Subtotal	7,807	8,467
Revenue from securities sold - hedging	34,882,103	23,463,311
Cost of securities sold - hedging	(34,427,986)	(23,552,918)
Subtotal	454,117	(89,607)
Total	\$ 1,592,039	87,379

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Interest revenue

	For the years ended December 31,	
	2017	2016
Interest revenue - margin loans	\$ 771,449	737,656
Interest revenue - bonds	1,167,972	657,211
Overseas subsidiaries	43,518	35,326
Others	46,982	33,752
	\$ 2,029,921	1,463,945

(v) Net gains or losses on measurement of trading securities at fair value through profit or loss

	For the years ended December 31,	
	2017	2016
Trading securities - proprietary	\$ 91,025	(20,955)
Trading securities - underwriting	9,259	918
Trading securities - hedging	(27,358)	66,573
Settlement coverage bonds payable of short sale	29	(1,146)
	\$ 72,955	45,390

(vi) Net gains or losses on stock warrants issued

	For the years ended December 31,	
	2017	2016
Gains on changes in fair value of stock warrants	\$ 14,246,241	30,713,780
Gains on exercise of stock warrants before maturity	27,191,658	7,721,981
Losses on changes in fair value of stock warrants repurchased	(40,578,100)	(37,563,166)
Gains on expiration of stock warrants	19,515	23,683
Stock warrants issuance expenses	(188,153)	(149,169)
	\$ 691,161	747,109

(vii) Futures commission income

	For the years ended December 31,	
	2017	2016
Futures commission income - CSC Futures(HK) Ltd.	\$ 770,614	564,369

Future commission income is the commission revenue from future trading by CSC Futures (HK) Ltd, the second level subsidiary, which is reflected under "brokerage commission income". The Group recognized the commission from CSC Futures (HK) Ltd as "Futures commission income" in the consolidated financial statements.

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(viii) Commission expenses - future

	For the years ended December 31,	
	2017	2016
Future trading - reconsignment	\$ 87,106	51,301
Future trading - introducing brokers	152,941	158,440
Commission expenses - CSC Futures (HK) Ltd.	<u>406,352</u>	<u>201,954</u>
	<u>\$ 646,399</u>	<u>411,695</u>

(ix) Employee benefits, depreciation, and amortization expenses

	For the years ended December 31,	
	2017	2016
Employee benefit expenses		
Salary expense	\$ 2,361,609	2,092,387
Health and labor insurance expense	157,994	157,870
Pension expense	101,857	106,191
Others	61,522	61,612
Depreciation expense	179,486	180,741
Amortization expense	<u>36,489</u>	<u>37,239</u>
	<u>\$ 2,898,957</u>	<u>2,636,040</u>

(x) Other operating expenses

	For the years ended December 31,	
	2017	2016
Rental expense	\$ 157,805	172,855
Taxes	371,401	298,817
Information technology expense	194,003	191,755
Postage expense	136,181	135,745
Professional service fee	87,467	96,802
Other expenses	<u>640,031</u>	<u>448,867</u>
	<u>\$ 1,586,888</u>	<u>1,344,841</u>

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(xi) Other gains and losses

	For the years ended December 31,	
	2017	2016
Financial revenue	\$ 259,171	202,282
Currency exchange gains (losses)	(11,725)	(15,947)
Net gains (losses) on disposal of investment	72,760	86
Net gains (losses) on measurement of non-operating instruments at fair value through profit or loss	23,198	(31,837)
Revenue from bank's allocation fee	139,255	142,111
Net gains (losses) on disposal of property and equipment	(3,034)	(4,202)
Rental income	69,409	61,091
Gains on reversal of prior year's liabilities	25,875	34,584
Dividend revenue	30,781	32,136
Others	78,562	34,644
	\$ 684,252	454,948

(xii) Remuneration to employees, directors and supervisors

According to the Company's Articles of Incorporation, the Company shall appropriate 0.6% to 2.0% 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.

For the years ended December 31, 2017 and 2016, the estimated amounts of remuneration to employee were \$33,369 and \$12,090, and to directors and supervisors by the Company were \$61,971 and \$20,149, 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 years ended December 31, 2017 and 2016. 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.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

The estimated amounts of remuneration to employee by the Company for 2016 and 2015 were \$12,090 and \$17,241, and to directors and supervisors were \$20,149 and \$28,734, respectively. The difference between actual employee remuneration of \$9,120 and \$14,994 and actual remuneration to directors and supervisors of \$17,410 and \$26,527 were \$5,709 and \$4,454 in total. The difference was accounted for as changes in accounting estimates and would be reflected in the statement of income in 2017 and 2016. The information about the appropriations is available at the Market Observation Post System website.

For the years ended December 31, 2017 and 2016, the estimated amounts of remuneration to employee were \$11,027 and \$7,547 and to directors and supervisors were \$11,238 and \$7,642 by the domestic subsidiaries of the Group, respectively.

(u) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of December 31, 2017 and 2016, the maximum credit exposure amounted to \$111,108,809 and \$85,908,093, respectively.

The regional distribution of financial assets' credit risk exposure amount which owned by the Group is as the list below. The region of exposure is mostly in Taiwan (61.66%); secondly, is in Asia (18.48%, exclusion of Taiwan); then, is in America (11.13%). 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, 2017	December 31, 2016
Taiwan	\$ 68,514,346	57,799,502
Asia (Taiwan is excluded)	20,531,390	12,039,498
Europe	8,375,096	8,732,426
America	12,370,332	4,247,626
Other	<u>1,317,645</u>	<u>3,089,041</u>
Total	<u>\$ 111,108,809</u>	<u>85,908,093</u>

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Impairment loss

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

	December 31, 2017		December 31, 2016	
	Total amount	Impairment	Total amount	Impairment
Not past due	\$ 23,216,757	1,551	16,277,081	1,389
Past due 0~30 days	2,115	2,115	1,062	1,062
Past due 31~120 days	31	31	280	280
Past due 121~360 days	85,694	85,694	-	-
Past due more than one year	135,899	128,771	141,333	114,604
	<u>\$ 23,440,496</u>	<u>218,162</u>	<u>16,419,756</u>	<u>117,335</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, 2017 and 2016, the impairment losses of accrued receivables were recognized \$218,162 and \$117,335, respectively.

(ii) 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
December 31, 2017							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 1,029,543	1,029,543	1,029,543	-	-	-	-
Settlement coverage bonds payable of short sale	49,954	49,954	49,954	-	-	-	-
Stock warrants issued	1,306,849	1,306,849	1,265,875	40,974	-	-	-
Put options - futures	131,636	131,636	131,636	-	-	-	-
Equity derivatives	61	61	61	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	8,159	8,159	7,770	155	234	-	-
Put options	364,910	364,910	44,131	51,385	106,359	163,035	-
Short-term borrowings	7,081,698	7,081,698	7,081,698	-	-	-	-
Commercial paper payable	4,099,184	4,100,000	4,100,000	-	-	-	-
Bonds sold under repurchase agreements	47,056,312	47,174,205	47,174,205	-	-	-	-
Guarantee deposited for short sales	2,226,264	2,226,264	2,226,264	-	-	-	-
Proceeds payable from short sales	2,500,853	2,500,853	2,500,853	-	-	-	-
Securities lending refundable deposits	1,190,277	1,190,277	1,190,277	-	-	-	-
Futures traders' equity	27,268,226	27,268,226	27,268,226	-	-	-	-
Notes payable and accounts payable	296,967	296,967	296,967	-	-	-	-
Other payables	995,443	995,443	994,660	783	-	-	-
Receipts under custody	346,023	346,023	346,023	-	-	-	-
Structured notes	4,785,254	4,785,254	4,380,929	138,288	151,580	114,457	-
Currency derivatives	2,847	2,847	2,847	-	-	-	-
	<u>\$ 100,740,460</u>	<u>100,859,169</u>	<u>100,091,919</u>	<u>231,585</u>	<u>258,173</u>	<u>277,492</u>	<u>-</u>

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
December 31, 2016							
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	-	-	-	-
Guarantee deposited for short sales	1,722,840	1,722,840	1,722,840	-	-	-	-
Proceeds payable from short sales	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	<u>1</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><u>\$ 72,244,673</u></u>	<u><u>72,290,747</u></u>	<u><u>71,740,604</u></u>	<u><u>205,596</u></u>	<u><u>254,774</u></u>	<u><u>89,773</u></u>	<u><u>-</u></u>

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Currency risk

1) Currency risk exposure

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

		December 31, 2017		
		Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial assets</u>				
<u>Monetary Item</u>				
USD	\$	502,643	29.7600	14,958,656
HKD		96,636	3.8070	367,893
EUR		7,470	35.5700	265,708
JPY		1,031,092	0.2642	272,415
GBP		1,764	40.1100	70,754
AUD		6,898	23.1850	159,930
SGD		751	22.2600	16,717
CNY		85,660	4.5650	391,038
KRW		226,616	0.0281	6,368
THB		121	0.9176	111
CHF		18	30.4550	548
CAD		13	23.7100	308
NZD		234	21.1400	4,947
IDR		4,402	0.0022	10
ZAR		8	2.4100	19
<u>Non-Monetary Item</u>				
USD		919,907	29.7600	27,376,432
AUD		351,673	23.1850	8,153,539
GBP		4	40.1100	160
JPY		4,392	0.2642	1,160
HKD		46,999	3.8070	178,925
CNY		163,599	4.5650	746,829
NZD		1	21.1400	21
<u>Investments under equity method</u>				
HKD		10,910	3.8070	41,535

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
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		December 31, 2017		
		Foreign Currency	Exchange Rate	Amount
		(thousands)		
<u>Financial liabilities</u>				
<u>Monetary Item</u>				
USD	\$	1,381,491	29.7600	41,113,172
AUD		349,769	23.1850	8,109,394
JPY		959,895	0.2642	253,604
CAD		20	23.7100	474
HKD		163,657	3.8070	623,042
EUR		6,981	35.5700	248,314
GBP		1,686	40.1100	67,625
SGD		744	22.2600	16,561
KRW		28,139	0.0281	791
CNY		148,453	4.5650	677,688
CHF		18	30.4550	548
<u>Non-Monetary Item</u>				
USD		49	29.7600	1,458
JPY		3,635	0.2642	960
CAD		18	23.7100	427

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
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December 31, 2016			
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial assets</u>			
<u>Monetary Item</u>			
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
<u>Non-Monetary Item</u>			
USD	492,316	32.2500	15,877,191
AUD	217,379	23.2850	5,061,670
JPY	37,720	0.2756	10,396
HKD	29,720	4.1580	123,576
CNY	133,526	4.6170	616,490
<u>Investments under equity method</u>			
HKD	9,985	4.1580	41,516
<u>Financial liabilities</u>			
<u>Monetary Item</u>			
USD	820,687	32.2500	26,467,156
HKD	122,451	4.1580	509,151
EUR	19,473	33.9000	660,135
JPY	926,157	0.2756	255,249
GBP	400	39.6100	15,844
AUD	217,296	23.2850	5,059,737
SGD	167	22.2900	3,722
KRW	2,970,692	0.0270	80,238
THB	817	0.9050	739
CNY	112,949	4.6170	521,486
CHF	48	31.5250	1,513

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Because there are a variety of functional currencies, the Group discloses a summary of its information on currency exchange gain or loss. The realized and unrealized currency exchange gains amounted to \$31,396 and \$74,687 for year ended December 31, 2017 and 2016, respectively.

2) 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, customers' margin account, futures traders' equity and securities lending refundable deposits, which are denominated in foreign currencies. Currency exchange gains or losses occur when translating the foreign currency assets to NTD assets. For the year ended December 31, 2017 and 2016, given other factors remain the same, if NTD appreciates or depreciates 5% against other currencies, the net income will increase or decrease by \$1,277,950, \$718,311, and other comprehensive income will increase or decrease by \$1,355,076 and \$786,878, respectively.

(iv) 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, 2017	December 31, 2016	For the years ended December 31,					
			2017			2016		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Interest risk	2,165,047	1,492,731	1,996,174	2,165,047	1,746,721	1,331,427	1,492,731	1,119,156

(v) Fair value information and hierarchy

1) Fair value information

a) 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.

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b) Definition of fair value hierarchy

i) 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 are considered Level 1.

ii) 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 are considered Level 2.

iii) Level 3

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

2) Not based on fair value measurement

As of December 31, 2017 and 2016, the fair value information of the financial assets and financial liabilities of the Group was as follows:

a) Fair value information

	December 31, 2017		December 31, 2016	
	Book value	Fair value	Book value	Fair value
Financial assets :				
Cash and cash equivalents	\$ 7,104,077	7,104,077	5,423,415	5,423,415
Accrued receivable	25,194,975	25,194,975	18,088,832	18,088,832
Customers' margin account	27,302,712	27,302,712	23,169,842	23,169,842
Leverage contract trading - customers' margin account	151,540	151,540	72	72
Restricted assets - current	554,215	554,215	637,002	637,002
Financial assets measured at cost - non-current	754,545	754,545	448,460	448,460
Other non-current assets	1,565,354	1,565,354	1,717,561	1,717,516

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	December 31, 2017		December 31, 2016	
	Book value	Fair value	Book value	Fair value
Financial liabilities :				
Short-term borrowings	\$ 7,081,698	7,081,698	4,236,402	4,236,402
Commercial paper payable	4,099,184	4,099,184	-	-
Bonds sold under repurchase agreements	47,056,312	47,056,312	34,956,642	34,956,642
Accrued payable	13,280,377	13,280,377	9,069,391	9,069,391
Futures traders' equity	27,268,226	27,268,226	23,132,231	23,132,231
Leverage contract trading -customers' equity	152,840	152,840	70	70
Other financial liabilities - current	4,509,983	4,509,983	2,427,461	2,427,461
Other financial liabilities - non-current	266,037	266,037	239,634	239,634
Other non-current liabilities	249,277	249,277	362,077	362,077

b) Hierarchy information of fair value

	Level 1	Level 2	Level 3	Total
Investment property				
December 31, 2017	<u>\$ -</u>	<u>-</u>	<u>2,809,179</u>	<u>2,809,179</u>
December 31, 2016	<u>\$ -</u>	<u>-</u>	<u>2,740,795</u>	<u>2,740,795</u>

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

- i) 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, customers' margin account, leverage contract trading - customers' margin account, other current assets, other non-current assets, short term borrowings, commercial paper payable, bonds sold under repurchase agreements, accrued payable, futures traders' equity, leverage contract trading - customers' equity, other financial liabilities - current, other financial liabilities - non-current, and other non-current liabilities.
- ii) 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.
- iii) The investment properties were evaluated and estimated using Market Method based on the market evidence of transaction price of similar properties.

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3) Based on fair value measurement

a) 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, 2017 and 2016 were as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2017				
Financial assets at fair value through profit or loss	\$ 20,578,355	13,551,754	-	34,130,109
Financial assets available for sale	27,670,817	5,136,962	-	32,807,779
Derivative financial assets	<u>744,342</u>	<u>48,832</u>	<u>-</u>	<u>793,174</u>
	<u>\$ 48,993,514</u>	<u>18,737,548</u>	<u>-</u>	<u>67,731,062</u>
Financial liabilities at fair value through profit or loss	\$ 2,386,346	-	-	2,386,346
Derivative financial liabilities	<u>131,636</u>	<u>385,211</u>	<u>-</u>	<u>516,847</u>
	<u>\$ 2,517,982</u>	<u>385,211</u>	<u>-</u>	<u>2,903,193</u>
December 31, 2016				
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	<u>421,317</u>	<u>47,957</u>	<u>-</u>	<u>469,274</u>
	<u>\$ 10,826,497</u>	<u>36,503,723</u>	<u>-</u>	<u>47,330,220</u>
Financial liabilities at fair value through profit or loss	\$ 1,213,087	-	-	1,213,087
Derivative financial liabilities	<u>66,693</u>	<u>195,984</u>	<u>-</u>	<u>262,677</u>
	<u>\$ 1,279,780</u>	<u>195,984</u>	<u>-</u>	<u>1,475,764</u>

b) Valuation techniques

i) 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.

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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).

ii) 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.

4) Transfer between Level 1 and Level 2

There is no transfer between Level 1 and Level 2 for the years ended December 31, 2017 and 2016.

5) 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.

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(vi) Transfer of financial assets

The transferred financial assets of the Group those 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, 2017					
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	\$ 47,104,528	47,056,312	-	-	-

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	-	-	-

Note: The counterparties in repurchase agreements hold the right of recourse not merely on the transferred assets against the Group; hence according to IFRS7p42D(d), disclosure of the fair values of transferred assets and their relevant liabilities and fair value net position is not mandatory.

(vii) Offsetting financial assets and financial liabilities

The Group did not hold any financial instruments contracts which meet Section 42 of IAS 32 endorsed by the FSC, 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, 2017					
Financial assets under offsetting or general agreement of net amount settlement or similar norms					
Gross amount of recognized financial assets (a)	Gross amount of recognized financial liabilities offsetting in the balance sheet (b)	Net amount of financial assets presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
			Financial instruments (Note)	Cash received as collaterals	
Derivative financial assets	\$ 48,832	-	48,832	-	48,832

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December 31, 2017					
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms					
	Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets offsetting in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)	
				Financial instruments (Note)	Net amount (e)=(c)-(d)
				Cash received as collaterals	
Derivative financial liabilities	\$ 385,211	-	385,211	-	385,211
Under repurchase agreements	47,056,312	-	47,056,312	47,056,312	-
Total	<u>\$ 47,441,523</u>	<u>-</u>	<u>47,441,523</u>	<u>47,056,312</u>	<u>385,211</u>

December 31, 2016					
Financial assets under offsetting or general agreement of net amount settlement or similar norms					
	Gross amount of recognized financial assets (a)	Gross amount of recognized financial liabilities offsetting in the balance sheet (b)	Net amount of financial assets presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)	
				Financial instruments (Note)	Net amount (e)=(c)-(d)
				Cash received as collaterals	
Derivative financial assets	\$ 47,957	-	47,957	-	47,957

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

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

(v) Financial risk management

(i) Overview

The Group exposed to the following risks from its financial instruments:

- 1) credit risk
- 2) liquidity risk
- 3) 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.

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(ii) Structure of risk management

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.

(iii) 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.

(iv) Liquidity risk

Liquidity risk refers to the risk that the Group 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 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.

(v) 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:

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

Each business departments 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.

(vi) 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

1) 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.

2) 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.

3) 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.

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4) 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.

5) 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.

(vii) Financial risk information of derivative financial instruments

As of December 31, 2017 and 2016, the related financial risk and the presentation of the Group's financial derivatives were as follows:

Stock warrants

(i) Notional principal (nominal amount) and credit risk

Financial Instruments	December 31, 2017		December 31, 2016	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Stock warrants issued	\$ 73,019,951	-	7,931,022	-

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

(ii) 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.

(iii) 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.

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(iv) 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.

(v) 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:

1) For the years ended December 31, 2017 and 2016:

a) Gains (losses) on valuation

	For the years ended December 31,		
	2017	2016	Account
Stock warrants issued	\$ 13,281,013	8,811,311	Gains (losses) on stock warrants issued
Stock warrants repurchased	(12,653,445)	(8,606,442)	Gains (losses) on stock warrants issued

b) Gains (losses) on sale

	For the years ended December 31,		
	2017	2016	Account
Security borrowing	\$ (4,673)	7,011	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	254,048	(122,647)	Gains (losses) on sale of trading securities
Futures transaction	(258,393)	(221,525)	Gains (losses) on derivative instruments - futures

c) Gains (losses) on maturity

	For the years ended December 31,		
	2017	2016	Account
Stock warrants issued	\$ 28,176,401	29,648,133	Gains (losses) on stock warrants issued
Stock warrants repurchased	(27,924,655)	(28,956,724)	Gains (losses) on stock warrants issued

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Futures

(i) Notional principal (nominal amount) and credit risk:

Financial Instruments	December 31, 2017		December 31, 2016	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Taiex Futures	\$ 4,733,190	-	1,246,867	-
Mini Taiex Futures	59,538	-	-	-
Electronic Sector Index Futures	126,534	-	1,477	-
Finance Sector Index Futures	2,374	-	46,101	-
Non-Finance Non-Electronics Sub-Index Futures	29,054	-	4,547	-
Stock Futures	276,599	-	140,814	-
USD/CNY FX Futures	77,173	-	86,582	-
Nifty 50 Index Futures	52,266	-	248,013	-
Mini-USD/CNY FX Futures	52,641	-	-	-
USD/JPY FX Futures	98,231	-	326,514	-
EUR/USD FX Futures	229,760	-	550,668	-
Euro dollar Futures	40,182	-	270,616	-
H stocks Index Futures	11,037	-	1,921	-
HSI Futures	-	-	13,448	-
Mini-Dow Futures	29,547	-	-	-
FTSE China A50 Index Futures	40,582	-	124,946	-
SGX Nifty 50 Index Futures	52,124	-	7,925	-
Dow Futures	93,802	-	-	-
S&P 500 Futures	35,382	-	-	-
Mini-S&P 500 Futures	151,459	-	36,100	-
JPY dollar Futures	9,942	-	13,867	-
MSCI Taiwan Index Futures	163,256	-	351,842	-
Sugar Futures	41,196	-	-	-
Soy Meal Futures	3,557	-	-	-
VIX Future	13,313	-	46,924	-
U.S. 5-Year T-Note Futures	328,692	-	169,495	-
U.S. 10-Year T-Note Futures	982,781	-	40,005	-
NT Dollar Gold Futures	1,399	-	5,437	-
Taiex Options	211,079	-	86,416	-
Stock Options	19,796	-	8,219	-
Taiex Weekly Options	22,418	-	23,600	-
Electronic Sector Index Options	7,281	-	2,006	-
Finance Sector Index Options	2,902	-	4,482	-
Mini-S&P 500 Options	653	-	18,722	-
S&P 500 Options	1,075	-	-	-
Gold Options	171	-	223	-
Sugar Options	5,023	-	-	-
Soybean Meal Options	1,014	-	-	-
Mini-USD/CNY FX Options	1,443	-	14,141	-
USD/CNY FX Options	1,618	-	6,238	-

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Financial Instruments	December 31, 2017		December 31, 2016	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For non-trading purpose:				
Taiax Futures	\$ 474,601	-	239,765	-
Stock Futures	1,613,239	-	501,055	-
Electronic Sector Index Futures	79,631	-	7,357	-
Finance Sector Index Futures	18,999	-	-	-
HSI Futures	-	-	4,569	-
Gold Futures	53,446	-	11,151	-
Mini-HSI Futures	-	-	17,930	-
Crude Oil Futures	121,435	-	-	-
FTSE China A50 Index Futures	595,089	-	66,764	-
SGX Nikkei 225 Index Futures	6,025	-	10,209	-
Nikkei 225 Futures	11,799	-	-	-
JPY dollar Futures	6,698	-	-	-
Real Estate Index Futures	4,836	-	-	-
Stock Options	3,451	-	-	-
Crude Oil Options	1	-	-	-
Gold Options	4	-	-	-

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.

(ii) 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.

(iii) 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.

Futures trading are considered as 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 trading, 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.

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Presentation of financial derivatives:

For the years ended December 31, 2017 and 2016, losses on futures and options transactions amounted to \$421,005 and \$254,211, respectively, and were reflected as losses on derivative instruments - futures. As of December 31, 2017 and 2016, futures margin - proprietary fund amounted to \$611,870 and \$352,755, 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 \$1,098,046 and \$818,437, respectively.

As of December 31, 2017 and 2016, the balance of call options which recognized as financial assets at fair value through profit or loss - current amounted to \$132,472 and \$68,562, respectively, put options which recognized as financial liabilities at fair value through profit or loss - current amounted to \$131,636 and \$66,693, respectively.

Derivative financial instruments - OTC

(i) Interest rate financial derivatives

1) Notional principal (nominal amount) and credit risk:

Financial Instruments	December 31, 2017		December 31, 2016	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
NT dollar interest swaps	\$ 43,100,000	-	46,500,000	-

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.

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

(ii) Structured notes

1) Notional principal (nominal amount) and credit risk:

Financial Instruments	December 31, 2017		December 31, 2016	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Equity-linked notes	\$ 40,461	-	3,000	-
Principal guaranteed notes	3,949,038	-	2,173,544	-
Credit-linked notes	490,600	-	488,700	-
Principle guaranteed notes	USD9,962 thousands	-	USD100 thousands	-

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.

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Convertible bond asset-backed swaps

1) Notional principal (nominal amount) and credit risk:

Financial Instruments	December 31, 2017		December 31, 2016	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Convertible bond asset-backed swaps	\$ 943,700	-	1,230,100	-
Convertible bond options	2,437,300	-	2,528,400	-

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.

(iv) Options

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.

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Presentation of derivative financial instruments - OTC

As of December 31, 2017 and 2016, 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:

	December 31, 2017	December 31, 2016
Financial assets at fair value through profit or loss - current		
IRS asset swaps	\$ 16,479	20,743
Interest rate swaps	1,920	4,942
Currency swaps	4,072	16,584
Asset swap options - long position	2,572	5,682
Structured notes	1,343	3
Currency derivatives	<u>22,446</u>	<u>3</u>
Total	<u><u>\$ 48,832</u></u>	<u><u>47,957</u></u>
Financial liabilities at fair value through profit or loss - current		
IRS asset swaps	\$ 239	1,974
Currency swaps	7,920	9,089
Asset swap options - short position	364,910	177,405
Equity derivatives	61	-
Structured notes	9,234	7,515
Currency derivatives	<u>2,847</u>	<u>1</u>
Total	<u><u>\$ 385,211</u></u>	<u><u>195,984</u></u>
Other financial liabilities - current		
Structured notes principal value	<u><u>\$ 4,509,983</u></u>	<u><u>2,427,461</u></u>
Other financial liabilities - non-current		
Structured notes principal value	<u><u>\$ 266,037</u></u>	<u><u>239,634</u></u>

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016, 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:

	For the year ended December 31, 2017		For the year ended December 31, 2016	
	Gains (losses) on derivative financial instruments - OTC	Unrealized Gains (losses)	Gains (losses) on derivative financial instruments - OTC	Unrealized Gains (losses)
Interest rate swaps	\$ (8,832)	1,920	3,893	4,942
Equity derivatives	(3,969)	(41)	92	-
Structured notes	(38,864)	(7,924)	(32,536)	(6,146)
IRS asset swaps	301	16,240	533	18,769
Asset swap options	(281,311)	(98,208)	(43,107)	66,482
Currency swaps	(64,026)	(3,848)	(167,857)	7,495
Currency swaps	72,881	19,598	4	4
Total	<u>\$ (323,820)</u>	<u>(72,263)</u>	<u>(238,978)</u>	<u>91,546</u>

(w) 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, 2017, the Company maintains no change of its capital management. The Company's capital adequacy ratio on December 31, 2017 was 315%.

(7) Related party transactions:

(a) Parent company and ultimate controlling party

The Company is the parent company and the ultimate controlling party of the consolidated company.

(b) Names of related parties and relationships

The followings are entities that have had transactions with related party during the periods covered in the consolidated financial statements.

Names of related parties	Relationships
Capital Insurance Advisory Corp.	Subsidiary
Capital Insurance Agency Corp	Subsidiary
San Ho Enterprise Co., Ltd.	Juristic-person director
Kwang Hsing Industrial Co., Ltd.	Juristic-person director
Others	Key management personnel

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Key management personnel transactions

(i) Key management personnel compensation:

	For the years ended December 31,	
	2017	2016
Short-term employee benefits	\$ 224,585	166,365
Post-employment benefits	2,282	2,147
Share-based Payment	5,960	-
Total	<u><u>\$ 232,827</u></u>	<u><u>168,512</u></u>

(ii) Bond transactions - bonds sold under repurchase agreements

The balance of bonds sold under repurchase agreements with key management personnel as of December 31, 2017 and 2016 were as follows:

	December 31, 2017		December 31, 2016	
	Par value	Purchase price	Par value	Purchase price
Key management personnel	<u><u>\$ 43,600</u></u>	<u><u>43,941</u></u>	<u><u>43,600</u></u>	<u><u>43,749</u></u>

	For the years ended December 31,	
	2017	2016
Total financial expenses		
Key management personnel	<u><u>\$ 209</u></u>	<u><u>230</u></u>

(iii) Structured notes transactions

As of December 31, 2017 and 2016, the balances of structured notes transactions with key management personnel were \$45,971 and \$20,700, respectively.

(d) Significant transactions with related parties

(i) Bond transactions - bonds sold under repurchase agreements

The balances of bonds sold under repurchase agreements with related parties as of December 31, 2017 and 2016 were as follows:

	December 31, 2017		December 31, 2016	
	Par value	Purchase price	Par value	Purchase price
Subsidiaries	\$ -	-	10,000	10,580
Juristic-person directors	10,700	10,700	14,900	15,000
Total	<u><u>\$ 10,700</u></u>	<u><u>10,700</u></u>	<u><u>24,900</u></u>	<u><u>25,580</u></u>

	For the years ended December 31,	
	2017	2016
Total financial expenses		
Subsidiaries	\$ 42	67
Juristic-person directors	78	77
Total	<u><u>\$ 120</u></u>	<u><u>144</u></u>

Transaction terms are the same as those with general clients.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Structured notes transaction

As of December 31, 2017 the balances of structured notes transactions with juristic-person directors of the Group were \$4,995.

(iii) Lease agreements

1) Lease revenue

	For the years ended December 31,	
	2017	2016
Subsidiaries	\$ <u>1,036</u>	<u>1,036</u>

2) Guarantee deposits received

	December 31, 2017	December 31, 2016
	\$ <u>200</u>	<u>200</u>
Subsidiaries		

(iv) Insurance commission revenues

The Group assists subsidiaries in recruiting insurance contracts and charging commission revenues. The details were as follows:

1) Commission revenues

	For the years ended December 31,	
	2017	2016
Subsidiaries	\$ <u>13,626</u>	<u>18,315</u>

2) Accounts receivable

	December 31, 2017	December 31, 2016
	\$ <u>1,169</u>	<u>2,452</u>
Subsidiaries		

(v) Brokerage commissions

The brokerage commission received from the Juristic-person directors and other related parties of the Group engaging in securities and futures trading were \$13,549 and \$7,659 in years 2017 and 2016, respectively.

(vi) The Company provided the Letter of Comfort to the banks which loaned to subsidiaries CSC International Holdings Ltd. and CSC Securities (HK) Ltd.

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(8) Pledged assets:

The following assets were pledged as collateral or restricted in use as of December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016	The collateral use
Restricted assets - current	\$ 554,215	637,002	Bank borrowings, commercial paper, accounts settled, repurchase agreement, money trust (Annotation 1), guaranty deposited for business operations (Annotation 2) and the amount of provisional seizure (Note 9(j))
Restricted assets - non-current	94,875	170,167	Trust to an impartial third party (Note 12)
Trading securities and bonds purchased under resale agreements (par value)	49,006,659	35,926,059	Repurchase agreement and bond purchased under resale agreements - short sales
Property and equipment	3,938,041	4,049,331	Bank borrowings
Financial assets at fair value through profit or loss - non-current	186,015	186,073	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business investment
Investment property	955,695	881,143	Bank borrowings
Total	<u>\$ 54,735,500</u>	<u>41,849,775</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 its own working capital temporarily for protecting creditors.

(9) Significant contingent liability and unrecognized contract commitment:

- (a) Information of handling margin purchase and short sale lending operations in securities trading are as follows:

	December 31, 2017		December 31, 2016	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities procured through margin purchase	715,087	\$ 7,150,870	663,916	6,639,160
Collateral for margin purchase	4,429	44,290	12,555	125,550
Collateral for short sales	5,063	50,630	4,427	44,270
Lending securities to customers through short sales	48,278	482,780	37,135	371,350

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (b) Information of the collateral provided or the securities borrowed of refinancing margin from securities finance companies are as follows:

	December 31, 2017		December 31, 2016	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities borrowed from securities finance companies	1,005	\$ 10,050	1,346	13,460
Collateral for refinancing margin	15	150	144	1,440

- (c) Information of issuing promissory notes in connection with guaranty for segregated error accounts, debt, and issuance of commercial paper are as follows:

	December 31, 2017	December 31, 2016
Promissory notes	\$ 24,890,000	24,160,000
Promissory notes	USD80,000 thousand	85,000 thousand

- (d) As of December 31, 2017 and 2016, the market value of collaterals which received from customers on conducting borrowing and lending business with unrestricted purposes were \$1,990,743 and \$311,755 respectively.
- (e) 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.
- (f) 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 again. According to the final judgment made by the Supreme Court in October, 2017, the Company shall not be held liable to the damages.
- (g) The client, Mr. Wu, declared that a resigned employee of Da-Sing branch conducted transactions with Mr. Chen without his consent. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation for damages of \$2,192. The case is currently under the trial of Taiwan Taipei District Court. According to the opinion of the Company, the case is a dispute between the employee and the client. Therefore, the company shall not be held liable to the damages. The obligation is not recognized in the financial statement.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (h) 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. Some investors instituted proceedings towards TISC and claimed damages amounting to US\$7,956,873 dollars (including claim amount US\$130,000 dollars towards Taiwan International Securities Investment Consulting Corp.). As of December 31, 2017, the damages claimed for amounted to US\$6,355,536, which was in favor of the Company, or the investors reached compromises to waive off the appeal rights. As of December 31, 2017, there is still one case that currently under the review of the Taiwan High Court. 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, 2017, the balance of other liabilities was \$48,034.
- (i) The Company provided the Letter of Comfort to the banks which loaned to its subsidiary CSC International Holdings Ltd. and CSC securities (HK) Ltd.
- (j) 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 lawsuits were classified by actual situations and relevant matters, thereon adopted different solutions. As of December 31, 2017, seventeen lawsuits 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). The left one that Taiwan Taipei District Court dismissed the plaintiff's claim in September, 2017, and the forgoing lawsuit has been concluded in December, 2017. As of December 31, 2017, TIFC has paid \$275,898 for compensation and recognized the loss reserves \$141,204 in other non-current liabilities - other.

As of December 31, 2017, the objects of provisional seizure are as follows:

	<u>Provisional Seizure Amount</u>
Bank deposit	\$ 88,821
Clearing and Settlement fund	15,121
Accounts receivable and Other accounts receivable	<u>13</u>
	<u>\$ 103,955</u>

The Financial Supervisory Commission 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.

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (k) The subsidiary, Capital Futures Corp., acquired hardware and software system for the development of future operation, which cost \$6,760 for contract price. As of December 31, 2017, the remaining balance was \$2,072.
- (l) 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:
- (i) Balance sheet of trust accounts

Balance Sheet of Trust Accounts

December 31, 2017 and 2016

Trust Assets	December 31, 2017	December 31, 2016	Trust Liabilities	December 31, 2017	December 31, 2016
Bank deposits	\$ 951,429	971,862	Accounts payable	\$ 328	380
Short-term investment			Trust capital	12,050,890	8,902,241
Funds	10,576,044	6,893,668	Accumulated earnings or deficit	42,146	(176,994)
Stocks	283,224	529,461			
Securities lent	181,899	195,508			
Bond Investment under agreements to repurchase	-	48,788			
Bonds	10,143	1,386			
Structured notes	10,027	31,109			
Accounts receivable	80,598	53,845			
Total Assets	\$ 12,093,364	8,725,627	Total Liabilities	\$ 12,093,364	8,725,627

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Income statement of trust accounts

Income Statement of Trust Accounts		
For the years ended December 31, 2017 and 2016		
	<u>2017</u>	<u>2016</u>
Revenue		
Interest revenue	\$ 4,988	10,289
Cash dividends revenue	-	134,857
Rental revenue	8,201	7,733
Realized investment gains	324,642	179,128
Unrealized investment gains	250,376	138,573
Unrealized currency exchange gains	18,453	121,607
Currency exchange gains	<u>483,754</u>	<u>55,880</u>
Subtotal	<u>1,090,414</u>	<u>648,067</u>
Expense		
Administrative fee	1,075	1,304
Commission expenses	83,923	54,264
Realized investment losses	84,223	183,197
Unrealized investment losses	321,081	467,130
Unrealized currency exchange losses	772,661	71,042
Postage expense	-	1
Supplementary insurance premium	-	256
Currency exchange losses	<u>98,547</u>	<u>40,244</u>
Subtotal	<u>1,361,510</u>	<u>817,438</u>
Net income (losses) before tax	(271,096)	(169,371)
Income tax expense	<u>(271)</u>	<u>(1,015)</u>
Net income (losses) after income tax	<u><u>\$ (271,367)</u></u>	<u><u>(170,386)</u></u>

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) List of trust properties

List of Trust Properties

December 31, 2017 and 2016

Investment items	December 31, 2017	December 31, 2016
Bank deposits	\$ 951,429	971,862
Short-term investment		
Stocks	283,224	529,461
Securities lent	181,899	195,508
Bond investments under agreement to repurchase	-	48,788
Structured Notes	10,027	31,109
Bonds	10,143	1,386
Funds	10,576,044	6,893,668
Total	<u><u>\$ 12,012,766</u></u>	<u><u>8,671,782</u></u>

(10) Significant Catastrophic Loss:None

(11) Significant Subsequent Events:

The Company obtained Board's approval at December 15, 2017 for an investment proposal to acquire the stake in Capital Investment Trust Corp. held by Commerzbank. The total investment amounts were \$1,272,505 and the stock delivery procedure is settled on February 9, 2018.

(12) Other:

(a) As of December 31, 2017 and 2016, the open positions of futures and option contracts were as follows:

(iv) December 31, 2017

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	166	\$ 341,696	351,721	
	Taiax Futures	Short	2,305	(4,866,095)	(4,899,355)	
	Mini Taiax Futures	Short	113	(59,538)	(59,835)	
	Electronic Sector Index Futures	Short	118	(206,165)	(208,247)	
	Finance Sector Index Futures	Long	17	20,196	20,190	
	Finance Sector Index Futures	Short	1	(1,177)	(1,189)	
	Non-Finance Non-Electronics Sub-Index Futures	Long	24	29,054	29,801	
	Stock Futures	Long	2,755	365,398	367,120	
	Stock Futures	Short	8,226	(1,524,440)	(1,517,181)	
	H Stocks Index Futures	Long	5	11,037	11,076	

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CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/ Short	Number of contracts			
	SGX Nifty 50 Index Futures	Long	83	\$ 52,124	52,161	
	Dow Futures	Long	92	45,670	45,711	
	Dow Futures	Short	97	(48,132)	(48,174)	
	Mini-Dow Futures	Long	6	22,185	22,083	
	Mini-Dow Futures	Short	2	(7,362)	(7,366)	
	Sugar Futures	Long	43	41,196	40,977	
	Soybean Meal Futures	Long	32	3,557	3,534	
	Gold Futures	Long	1	3,866	3,896	
	Gold Futures	Short	13	(49,580)	(50,654)	
	MSCI Taiwan Index Futures	Long	140	163,256	163,740	
	FTSE China A50 Index Futures	Long	570	227,493	224,470	
	FTSE China A50 Index Futures	Short	1,030	(408,178)	(405,920)	
	Real Estate Index Futures	Short	5	(4,836)	(4,782)	
	VIX Futures	Long	40	13,313	13,550	
	S&P 500 Futures	Long	63	33,766	33,875	
	S&P 500 Futures	Short	3	(1,616)	(1,614)	
	Mini-S&P 500 Futures	Long	11	43,562	43,479	
	Mini-S&P 500 Futures	Short	27	(107,897)	(107,538)	
	Nikkei 225 Index Futures	Short	2	(11,799)	(12,021)	
	SGX Nikkei 225 Index Futures	Short	2	(6,025)	(6,012)	
	U.S. 5-Year T-Note Futures	Short	95	(328,692)	(328,419)	
	U.S. 10-Year T-Note Futures	Short	267	(982,781)	(985,667)	
	Crude Oil Futures	Long	2	3,446	3,595	
	Crude Oil Futures	Short	69	(117,989)	(124,070)	
	USD/CNY FX Futures	Long	7	22,476	20,937	
	USD/CNY FX Futures	Short	17	(54,697)	(51,083)	
	Mini-USD/CNY FX Futures	Long	81	52,641	48,696	
	Nifty 50 Index Futures	Short	99	(52,266)	(52,272)	
	USD/JPY FX Futures	Long	76	45,094	45,066	
	USD/JPY FX Futures	Short	90	(53,137)	(53,082)	
	EUR/USD FX Futures	Long	134	95,766	96,370	
	EUR/USD FX Futures	Short	188	(133,994)	(134,423)	
	JPY dollar Futures	Long	2	6,698	6,632	
	JPY dollar Futures	Short	3	(9,942)	(9,948)	
	NT dollar Gold Futures	Long	3	1,399	1,399	
	Euro dollar Futures	Long	9	40,182	40,428	
	Subtotal			(7,351,267)		

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Options contract :						
	Taixex Options (Call)	Long	22,356	40,998	61,369	
	Taixex Options (Put)	Long	26,265	59,047	33,040	
	Taixex Options (Call)	Short	4,712	(30,079)	(40,087)	
	Taixex Options (Put)	Short	27,994	(80,955)	(50,405)	
	Stock Options (Call)	Long	1,724	6,916	4,070	
	Stock Options (Put)	Long	2,277	8,629	9,133	
	Stock Options (Call)	Short	1,181	(4,230)	(4,026)	
	Stock Options (Put)	Short	940	(3,472)	(2,621)	
	Taixex Weekly Options (Call)	Long	3,328	2,811	3,250	
	Taixex Weekly Options (Put)	Long	22,035	2,720	1,137	
	Taixex Weekly Options (Call)	Short	3,236	(10,161)	(24,567)	
	Taixex Weekly Options (Put)	Short	4,941	(6,726)	(4,168)	
	Electronic Sector Index Options (Call)	Long	2,221	4,656	4,830	
	Electronic Sector Index Options (Put)	Long	473	2,066	1,116	
	Electronic Sector Index Options (Call)	Short	40	-	-	
	Electronic Sector Index Options (Put)	Short	130	(559)	(275)	
	Finance Sector Index Options (Call)	Long	826	1,025	853	
	Finance Sector Index Options (Put)	Long	598	1,537	847	
	Finance Sector Index Options (Call)	Short	39	(330)	(294)	
	Finance Sector Index Options (Put)	Short	42	(10)	-	
	Crude Oil Options (Put)	Short	1	(1)	-	
	S&P 500 Options (Call)	Long	145	926	640	
	S&P 500 Options (Put)	Long	5	111	87	
	S&P 500 Options (Put)	Short	4	(38)	(48)	
	Mini-S&P 500 Options (Call)	Short	55	(653)	(134)	
	Sugar Option (Call)	Long	473	1,352	671	
	Sugar Option (Put)	Long	1,068	2,993	4,588	
	Sugar Option (Call)	Short	6	-	-	
	Sugar Option (Put)	Short	150	(678)	(724)	
	Soybean Meal Options (Call)	Short	381	(617)	(447)	
	Soybean Meal Options (Put)	Short	84	(397)	(418)	
	Gold Option (Call)	Long	1	1	1	
	Gold Option (Put)	Long	33	143	128	
	Gold Option (Call)	Short	5	(26)	(26)	
	Gold Option (Put)	Short	4	(5)	(3)	
	Mini-USD/CNY FX Options (Call)	Long	2	12	-	
	Mini-USD/CNY FX Options (Put)	Long	78	1,424	3,734	
	Mini-USD/CNY FX Options (Call)	Short	1	(7)	-	
	USD/CNY FX Options (Put)	Long	12	1,155	2,978	
	USD/CNY FX Options (Put)	Short	22	(463)	(3,393)	
	Subtotal			(885)		
Total				<u>\$ (7,352,152)</u>		

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) 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 :						
	Taixex Futures	Long	18	\$ 32,699	33,253	
	Taixex 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)	
	EUR 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)	
	SGX Nifty 50 Index 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 500 Futures	Long	10	36,100	35,791	
	SGX Nikkei 225 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)		

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/ Short	Number of contracts			
Options contract :						
	Taichex Options (Call)	Long	17,162	\$ 32,562	27,543	
	Taichex Options (Put)	Long	9,632	13,323	7,145	
	Taichex Options (Call)	Short	4,730	(26,028)	(27,259)	
	Taichex 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)	
	Taichex Weekly Options (Call)	Long	16,137	3,295	3,533	
	Taichex Weekly Options (Put)	Long	14,685	2,411	1,081	
	Taichex Weekly Options (Call)	Short	3,990	(6,739)	(10,733)	
	Taichex Weekly Options (Put)	Short	4,755	(11,155)	(6,233)	
	Gold Option (Call)	Long	7	26	27	
	Gold Option (Put)	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 500 Options (Call)	Long	93	1,866	1,021	
	Mini-S&P 500 Options (Put)	Long	72	1,900	2,685	
	Mini-S&P 500 Options (Call)	Short	120	(6,083)	(3,562)	
	Mini-S&P 500 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)		

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (b) Restrictions and enforcement of the Group'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)	4,637,732 607,202	7.64	3,167,389 272,752	11.61	≥ 1	Satisfactory to requirement
17	Current Assets Current Liabilities	30,719,057 27,485,827	1.12	24,406,882 22,699,891	1.08	≥ 1	"
22	Stockholders' equity Minimum paid-in capital	4,637,732 1,115,000	415.94 %	3,167,389 1,115,000	284.07 %	≥ 60% ≥ 40%	"
22	Post-adjustment net capital Total customers' margin deposits required for open positions of customers	3,183,040 5,524,491	57.62 %	1,873,933 3,607,236	51.95 %	≥ 20% ≥ 15%	"

- (c) 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.

- (d) 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, 2017, the accumulated amount of compensation of TIFC was \$275,897. 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, 2017, the trust amount of the impartial third party is \$94,875 and the compensation expense in 2017 is \$87,125.

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Firms” for the Group:

(i) Loans to others:

(In Thousands Dollars)

Number	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 19,322 thousand	US 19,322 thousand	US 19,322 thousand	- %	2	-	Operations	-		-	US 53,632 thousand	US 53,632 thousand
2	Taiwan International Securities (B.V.I) Corp. Limited	TIS Securities (HK) Limited	Other receivables - Related party	Yes	US 3,380 thousand	US 3,402 thousand	US 3,380 thousand	- %	2	-	Operations & repayment of financing	-		-	US 3,402 thousand	US 3,402 thousand
3	TIS Securities (HK) Limited	Taiwan International Capital (HK) Ltd.	Other receivables	Yes	HK 1,463 thousand	HK 1,463 thousand	HK 1,463 thousand	- %	2	-	Repayment of financing	-		-	HK 1,463 thousand	HK 1,463 thousand
4	CSC Futures (HK) Ltd.	Pinnacle Corp. Pte.	Account receivables - Customer	No	30,547	82,656	-	4 %	2	-	Tradings	-		-	94,945	379,779
5	CSC Futures (HK) Ltd.	Klaw Trading Limited	Account receivables - Customer	No	26,568	41,328	-	5 %	2	-	Tradings	-		-	94,945	379,779
6	CSC Futures (HK) Ltd.	Three Arrows Capital Ltd.	Account receivables - Customer	No	47,206	82,656	-	5 %	2	-	Tradings	-		-	94,945	379,779
7	CSC Futures (HK) Ltd.	Future Leading Investment Pte. Ltd.	Account receivables - Customer	No	41,328	41,328	-	3.5 %	2	-	Tradings	-		-	94,945	379,779
8	CSC Futures (HK) Ltd.	Tetron Capital Limited	Account receivables - Customer	No	6,515	6,810	-	- %	2	-	Tradings	-		-	94,945	379,779

Note: Type of Loans

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

- (ii) Guarantees and endorsements for other parties: None
- (iii) Acquisition of individual real estate with amount over \$300 million or 20% of paid-in capital: None
- (iv) Disposal of individual real estate over \$300 million or 20% of paid-in capital: None
- (v) Service charge discounts on transactions with related parties over NT\$5 million: None
- (vi) Receivables from related parties over \$100 million or 20% of paid-in capital: None

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(vii) Business relationships and significant intercompany transactions for the year ended December 31, 2017:

(In Thousands Dollars)

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Intercompany transaction details			
				General ledger account	Amount	Trading terms	Percentage of total consolidated revenue or total assets
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts payable	524		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts receivable	14,688		0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other receivables	200		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Bonds sold under repurchase agreements	11,501		0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other payables	367		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Guarantee deposits received	3,508		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Futures commission revenue	149,776	General transaction	1.62 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Lease revenue	15,813	General transaction	0.17 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Revenue from securities management, distribution, and management fees	404	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Financial costs	405	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other operating revenue	29	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Securities commission expense	5,147	General transaction	0.06 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Interest revenue	156	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Miscellaneous expenses	21,371	General transaction	0.23 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Non-operating revenues	27,591	General transaction	0.30 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Brokerage commissions	82	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Security lending revenues	2		- %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Other receivables	175		- %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Professional service fees	82,000	General transaction	0.89 %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Lease revenue	1,200	General transaction	0.01 %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting 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	Non-operating revenues	120	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Revenue from securities management, distribution, and management fee	24	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	997	General transaction	0.01 %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Financial costs	1	General transaction	- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Non-operating revenues	150	General transaction	- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Revenue from securities management, distribution, and management fee	50		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other receivables	35		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Non-operating expense	6,120	General transaction	0.07 %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Guarantee deposits received	160		- %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Other receivables	88		- %

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Intercompany transaction details			
				General ledger account	Amount	Trading terms	Percentage of total consolidated revenue or total assets
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Lease revenue	962	General transaction	0.01 %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Financial costs	2	General transaction	- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Other non-operating revenue	121	General transaction	- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Guarantee deposits received	36		- %
1	Capital Futures Corp.	Capital Securities Corp.	2	Customers' margin account	718,153		0.51 %
1	Capital Futures Corp.	Capital Securities Corp.	2	Futures traders' equity	718,153		0.51 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Customers' margin account	433,834		0.31 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures traders' equity	2,212,699		1.56 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Other payables	1,494		- %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures commission expense	8,849	General transaction	0.10 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Brokerage commissions revenue	55,092	General transaction	0.60 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Financial costs	888	General transaction	0.01 %
1	Capital Futures Corp.	Capital International Technology Corp.	3	Lease revenue	85	General transaction	- %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Customers' margin account	2,090,067		1.48 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Futures traders' equity	311,201		0.22 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Information technology expense	1,527	General transaction	0.02 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Accumulated depreciation	966		- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Depreciation expense	400	General transaction	- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Professional service fees	6,399	General transaction	0.07 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Membership fee	465	General transaction	- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other receivables	HK 15 thousand		- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other operating revenue	HK 4,020 thousand	General transaction	0.17 %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Brokerage handling fee expense	HK 738 thousand	General transaction	0.03 %
3	CSC Securities (HK) Ltd.	CSC International Holdings Ltd.	3	Other payables	HK 150,000 thousand		0.41 %
4	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	3	Other receivables	HK 26,405 thousand		0.07 %
4	Taiwan International Securities (B.V.I) Corp.	CSC International Holdings Ltd.	3	Other receivables	41		- %

Note 1: The numbers in the Ref No. 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.

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Information on reinvestment business:

(In Thousands of New Taiwan Dollars)

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		Highest Percentage of ownership during the period	Ending balance			Operating income or loss of investee company during the period	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, 2017	Balance on December 31, 2016		Shares	Ratio	Book value (note 3)					
0	Capital Investment Management Corp.	Taipei, Taiwan, R.O.C.	February 16, 1990		Engaged in providing research, analysis and recommendations pertaining to securities investment, organize seminars and publish materials on securities investments.	72,515	72,515	100.00 %	7,000,000	100.00 %	107,158	82,000	12,258	12,258	10,430	The transaction has been written off in the consolidated financial statements
0	Capital Futures Corp.	Taipei, Taiwan, R.O.C.	February 26, 1997	No. FSC-1050044467 dated November 15, 2016	Engaged in domestic and foreign futures business.	1,212,359	649,610	59.01 %	90,166,223	56.21 %	2,606,869	1,904,683	731,015	411,651	199,267	"
0	CSC International Holdings Ltd.	British Virgin Island	March 4, 1996	No. FSC-65350 dated January 12, 1996	Long-term equity investment.	1,339,555	1,339,555	100.00 %	45,000,000	100.00 %	1,593,416	(21,815)	(10,120)	(10,120)	-	"
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 %	500,000	100.00 %	90,506	190,227	64,667	64,667	78,650	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 %	740,000	100.00 %	41,547	73,265	2,149	2,149	12,802	"
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	99.99 %	-	-	-	-	-	The transaction has been written off in the consolidated financial statements
0	Taiwan International Securities (B.V.I) Corp.	British Virgin Island	December 10, 1996	No. FSC-53981	Long-term equity investment business.	1,394,817	1,394,817	100.00 %	300	100.00 %	881	304	272	272	-	"
0	Taiwan International Securities Investment Consulting Corp. (Note 5)	Taipei, Taiwan, R.O.C.	March 3, 1994		Liquidation in progress.	9,992	9,992	99.92 %	999,200	99.92 %	13,031	-	(267)	(267)	-	"
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	1,000,000	100.00 %	100,000,000	100.00 %	997,913	1,281	(3,757)	(3,757)	-	"
1	Capital Securities (Hong Kong) Ltd. (Note 7)	Hong Kong	June 29, 1993	No. FSC-17433 dated April 7, 1993	Completion of liquidation	HK -	HK 48,644 thousand	100.00 %	-	- %	HK -	HK -	HK -	-	-	"
1	CSC Securities (HK) Ltd. (Note 7)	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 128,000 thousand	HK 89,600 thousand	100.00 %	128,000,000	100.00 %	HK 158,052 thousand	HK 28,434 thousand	HK (5,478) thousand	-	-	"

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

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		Highest Percentage of ownership during the period	Ending balance			Operating income or loss of investee company during the period	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, 2017	Balance on December 31, 2016		Shares	Ratio	Book value (note 3)					
2	CSC Securities (HK) Ltd. (Note 7)	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 -	HK 38,400 thousand	30.00 %	-	-	HK -	HK 28,434 thousand	HK (5,478) thousand	-	-	The transaction has been written off in the consolidated financial statements
3	TIS Securities (HK) Limited. (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 %	265,000,000	100.00 %	HK (26,355) thousand	HK -	HK 76 thousand	-	-	"
4	Taiwan International Capital (HK) Ltd. (Note 6)	Hong Kong	July 16, 1997	No. FSC-110159	Liquidation in progress.	HK 2	HK 2	100.00 %	2	100.00 %	HK (66,100) thousand	HK -	HK (16,885) thousand	-	-	"
5	CSC Futures (HK) Ltd.	Hong Kong	December 9, 1998	No. FSC-1010027412 dated August 24, 2012	Futures brokerage and other businesses permitted by local law of Hong Kong.	862,631	862,631	97.27 %	214,000,000	97.27 %	923,527	825,594	79,824	-	-	"
5	Capital International Technology Co., Ltd.	Taipei ,Taiwan, R.O.C.	December 29, 2014	No. FSC-1030038387 dated November 18, 2014	Management and consulting business. Information technology software	50,000	50,000	100.00 %	5,000,000	100.00 %	46,088	1,806	898	-	-	"
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 %	245,000	49.00 %	41,535	70,678	2,097	-	-	Associates
6	Capital Securities Nominee Ltd.	Hong Kong	April 7, 1995		Agency services.	HK 2	HK 2	100.00 %	2	100.00 %	HK -	HK -	HK -	-	-	The transaction has been written off in the consolidated financial statements

Note 1: (0) Capital Securities Corp. (1) CSC International Holdings Ltd.(2) Capital Securities (Hong Kong) Ltd.(3) Taiwan International Securities (B.V.I) Corp. (4)TIS Securities (HK) Limited (5) Capital Futures Corp. (6) CSC Securities (HK) Ltd.

Note 2: Includes the Group'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.

Note 6: The board of directors of the Company resolved to dissolve the investee company on December 30, 2011. The representative office of China dissolved in 2014 as well. According to the laws of Hong Kong, it can't be liquidated voluntarily because the total assets of TIS Securities (HK) Limited and Taiwan International Capital (HK) Ltd. can't cover the liabilities. The company has briefed it to the accountant in Hong Kong to plan the solutions.

Note 7: Capital Securities (Hong Kong) Ltd. transferred 30% of the equity to CSC International Holdings Ltd. and the distribution of residual property was completed on September 12, 2017. The company's registration is cancelled on February 3, 2018.

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(c) Information on branch units or representative offices overseas:

(In Thousands of New Taiwan Dollars)

Name	Region	Date of establishment	Approval date and number of FSC	Primary business operation	Operating Revenues	Net Income	Assignment of working capital				Transactions with parent company	Note
							Beginning amount	Add	Less	Ending amount		
CSC International Holdings Ltd. Shanghai Representative Office	Shanghai	November 27, 1997	Ruling No. 16322 by FSC on Feb.22, 1997	Investigation of business, research of industrial technology and related information collection	-	-	-	-	-	-	-	

(d) Information on investments in China:

(i) Investment in Mainland China and related information:

(In Thousands of New Taiwan Dollars)

Name of investee in Mainland China	Major Operations	Issued capital	Method of investment (Note 1)	Accumulated remittance as of January 1, 2017	Remittance of recoverable investment this period		Accumulated remittance as of December 31, 2017	Net gains (losses) of the investee	Direct or indirect Share holdings (%) by the Company	Highest Percentage of ownership	Investment gains (losses) recognized during this period (Note 2)	Ending Balance of Investment	Investment income remitted back as of December 31, 2017
					Remittance amount	Recoverable amount							
Capital True Partner Technology Co., Ltd.	Management, consulting and information service business	5,013	(C)	24,372	-	-	24,372	83	28.67%	30.10 %	138 B(2)	12,167	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	18,863	(C)	-	18,863	-	18,863	2,553	56.21%	59.01 %	1,435 B(2)	11,626	-

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: Above information is expressed in New Taiwan Dollars.

(ii) Limitation on investment in Mainland China:

Company Name	Accumulated remittance from Taiwan to Mainland China	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment in Mainland China regulated by MOEA
Capital International Technology Corp.	43,235	43,235	80,000

Note: The Company invests through subsidiaries, 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.

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (e) 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, 2017 are as follows:

- (i) Balance sheet and income statement:

- 1) Balance sheet

Unit: US \$ thousands

Company		
	CSC International Holdings Ltd.	Taiwan International Securities (B.V.I) Corp.
Nature	December 31, 2017	December 31, 2017
Current assets	11,999	68
Long-term investments	20,222	-
Property and premises	2,165	-
Other assets	19,395	3,380
Total assets	53,781	3,448
Current liabilities	63	46
Other liabilities	86	3,372
Total liabilities	149	3,418
Common stock	45,000	9,516
Retained earnings (Accumulated deficit)	8,827	(9,430)
Cumulative translation adjustments	(195)	(56)
Total stockholders' equity	53,632	30
Total liabilities and stockholders' equity	53,781	3,448

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Income statement

Unit: US \$ thousands

Company	CSC International Holdings Ltd.	Taiwan International Securities (B.V.I) Corp.
Nature	2017	2017
Operating revenue	(704)	10
Operating expense	(877)	(1)
Non-operating revenue	1,255	-
Non-operating expense	-	-
Income (loss) before tax	(326)	9
Net income (loss)	(326)	9

(ii) Marketable securities held as of December 31, 2017

Unit: shares / US\$ thousands

Name of holding company	Securities types and name	Account classification	December 31, 2017	
			Shares	Book value
CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Long-term investments	128,000,000	\$ <u><u>20,222</u></u>
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Other liabilities	265,000,000	\$ <u><u>(3,372)</u></u>

(iii) Transactions of financial derivatives: None.

(iv) Revenue on advisory and consulting service and related lawsuit: None.

(14) Segment information:

(a) 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.

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Sources of income from products and services rendered by each segment are as follows:

- (i) Brokerage segment: Engaged in brokerage trading, margin trading, and securities lending business.
- (ii) 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.
- (iii) Dealing segment: Engaged in trading securities and related listed stock instruments on a proprietary basis.
- (iv) Derivative instrument segment: Engaged in the investment, consultancy and issuance of derivative instruments.
- (v) Capital Futures Corporation: Engaged in the business of domestic futures brokerage services, trading on a proprietary basis, futures consultancy and managed futures enterprises.

(b) 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".

(c) Information about segments' gains or losses, assets and liabilities

For the year ended December 31, 2017								
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$ 3,584,085	307,546	2,085,337	644,265	231,401	2,676,371	(284,108)	9,244,897
Income	\$ 1,412,636	139,995	1,439,568	445,399	(344,877)	829,527	(418,611)	3,503,637

For the year ended December 31, 2016								
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$ 2,742,954	271,028	698,202	529,354	217,159	2,251,362	(272,414)	6,437,645
Income	\$ 777,159	97,508	340,595	371,872	(242,738)	603,707	(275,870)	1,672,233

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.

(d) 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.

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(e) Information about geographical areas

The Group received revenue from any single foreign customer is insignificant and there is no need to disclose the information.

(f) 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.



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Independent Auditors' Report

The Board of Directors
Capital Securities Corporation:

Opinion

We have audited the financial statements of Capital Securities Corporation("the Company"), which comprise the statement of financial position as of December 31, 2017 and 2016, the statement of comprehensive income, changes in equity and cash flows for the year ended December 31, 2017 and 2016, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance 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 Certification 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 Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. 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 financial statements of the current period. These matters were addressed in the context of our audit of the 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 financial statements are stated as follows:

1. Valuation of financial instruments

Please refer to Note 4(f) for the related accounting policy regarding the valuation of financial instruments. Refer to Note 6(b) financial assets, Note 6(j) financial liabilities at fair value through profit or loss and Note 6(t)(v) 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 judgments. 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 judgment 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(o) for the related accounting policy regarding the impairment of nonfinancial assets, Note 5 for accounting assumptions and estimation uncertainty of the goodwill impairment, and Note 6(g)(i) 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.

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 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.

Auditor's 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 auditor's 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 auditor's 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 investment in other entities accounted for using the equity method to express an opinion on this financial statements. We are responsible for the direction, supervision and performance of the 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 of the current period 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.

The engagement partners on the audit resulting in this independent auditors' report are LEE, FENG HUI and CHUNG, TAN TAN.

KPMG

Taipei, Taiwan (Republic of China)
March 26, 2018

Notes to Readers

The accompanying financial statements are intended only to present the 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.

(English Translation of Financial Statements and Report Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION

Balance Sheets

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2017		December 31, 2016				December 31, 2017		December 31, 2016	
		Amount	%	Amount	%			Amount	%	Amount	%
110000	Assets					210000	Liabilities and Equity				
111000	Current assets:					211000	Current liabilities:				
111100	Cash and cash equivalents (note 6(a))	\$ 2,113,161	2	1,142,072	1	211100	Short-term borrowings (note 6(h))	\$ 7,081,698	6	4,236,402	5
112000	Financial assets at fair value through profit or loss - current (note 6(b) and 8)	33,660,442	30	27,122,854	33	211200	Commercial paper payable (note 6(i))	4,099,184	4	-	-
113400	Financial assets available for sale - current (note 6(b))	32,776,783	29	19,297,464	23	212000	Financial liabilities at fair value through profit or loss - current (note 6(j))	2,771,741	3	1,410,143	2
114030	Receivable for securities provided as collateral	14,395,393	13	11,563,719	14	214010	Bonds sold under repurchase agreements (note 6(k))	47,067,813	43	35,105,445	42
114040	Refinancing margin	46,095	-	93,353	-	214040	Guarantee deposited for short sales	2,226,264	2	1,722,840	2
114050	Refinancing collateral receivable	38,888	-	79,289	-	214050	Proceeds payable from short sales	2,500,853	2	1,947,104	3
114060	Receivable of securities business money lending	1,532,231	1	144,552	-	214070	Securities lending refundable deposits	1,190,277	1	878,866	1
114090	Collateral for securities borrowed	914,343	1	802,737	1	214090	Customer equity of separate account ledger in settlement account (note 6(l))	13,479	-	4,537	-
114100	Security borrowing margin	931,868	1	775,251	1	214110	Notes payable	879	-	879	-
114110	Notes receivable	21,811	-	16,931	-	214130	Accounts payable (note 6(m))	5,524,759	5	3,343,320	4
114130	Accounts receivable (note 6(c))	6,337,088	6	3,868,956	5	214150	Advance receipts	29,781	-	29,367	-
114150	Prepayments	18,304	-	24,210	-	214160	Receipts under custody	341,174	-	143,630	-
114170	Other receivables	10,511	-	16,721	-	214170	Other payables	791,239	1	500,534	1
114600	Current income tax assets	26,358	-	44,415	-	214200	Other financial liabilities - current (note 6(u))	4,509,983	4	2,427,461	3
119000	Other current assets	776,556	1	624,370	1	214600	Current income tax liabilities	173,823	-	182,874	-
		93,599,832	84	65,616,894	79	215100	Provisions - current (note 6(o))	42,205	-	57,782	-
						219000	Other current liabilities	3,022	-	3	-
120000	Non-current assets:							78,368,174	71	51,991,187	63
122000	Financial assets at fair value through profit or loss - non-current (notes 6(b) and 8)	186,015	-	186,073	-	220000	Non-Current liabilities:				
123100	Financial assets measured at cost - non-current (note 6(b))	332,473	-	341,841	-	224200	Other financial liabilities - non-current (note 6(u))	266,037	-	239,634	-
124100	Investments accounted for under equity method (note 6(d))	5,451,321	5	4,893,518	6	228000	Deferred income tax liabilities (note 6(p))	474,832	-	671,087	1
125000	Property and equipment (notes 6(e) and 8)	4,231,972	4	4,389,956	5	229000	Other non-current liabilities (note 6(o))	612,730	1	584,458	1
126000	Investment property (notes 6(f) and 8)	2,412,176	2	2,347,063	3			1,353,599	1	1,495,179	2
127000	Intangible assets (note 6(g))	3,544,235	4	3,532,620	4		Total liabilities	79,721,773	72	53,486,366	65
128000	Deferred income tax assets (note 6(o))	164,844	-	407,372	1		Equity attributable to owners of parent:				
129000	Other non-current assets	1,220,535	1	1,291,577	2	301000	Common stock (note 6(q))	21,690,730	20	22,690,730	27
		17,543,571	16	17,390,020	21	302000	Capital surplus:				
						302010	Premium from stock issuance	1,776,413	1	1,858,310	2
						302020	Treasury stock transactions	437,096	-	253,940	-
						302070	Paid-in capital from merger	602,665	1	630,450	1
						302095	Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,338	-	1,399	-
						302096	Changes in ownership interests in subsidiaries	34,787	-	6,873	-
						304000	Retained earnings:				
						304010	Legal reserve	1,230,275	1	1,110,600	1
						304020	Special reserve	2,709,623	2	2,464,288	3
						304040	Unappropriated earnings (note 6(q))	2,850,553	3	1,188,633	2
						305120	Exchange differences on translation of foreign operations	(103,566)	-	97,158	-
						305150	Unrealized gains (losses) on financial assets available for sale	191,716	-	53,215	-
						305500	Treasury stocks (note6(q))	-	-	(835,048)	(1)
							Total equity	31,421,630	28	29,520,548	35
	Total assets	<u>\$ 111,143,403</u>	<u>100</u>	<u>83,006,914</u>	<u>100</u>		Total liabilities and equity	<u>\$ 111,143,403</u>	<u>100</u>	<u>83,006,914</u>	<u>100</u>

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

CAPITAL SECURITIES CORPORATION

Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Share Data)

		2017		2016	
		Amount	%	Amount	%
Income:					
401000	Brokerage commissions (note 6(s))	\$ 2,379,147	36	1,692,284	40
402000	Revenues from securities business money lending	620	-	46	-
403000	Revenue from securities lending	112,681	2	71,164	2
404000	Underwriting commissions (note 6(s))	121,517	2	93,463	2
406000	Commissions on wealth management business	103,629	2	64,802	2
410000	Net gains (losses) on sale of trading securities (note 6(s))	1,465,874	22	104,795	2
421100	Securities management, distribution, and management fees	137,851	2	139,924	3
421200	Interest revenue (note 6(s))	1,986,559	30	1,428,802	34
421300	Dividend revenue	221,918	3	175,337	4
421500	Net gains (losses) on measurement of trading securities at fair value through profit or loss (note 6(s))	85,241	1	38,687	1
421600	Net gains (losses) on covering of borrowed securities and bonds with resale agreements	(6,357)	-	11,682	-
421610	Net gains (losses) on measurement of borrowed securities and bonds with resale agreements	27,654	-	35,507	1
422200	Net gains (losses) on stock warrants issued (notes 6(s) and 6(u))	691,161	11	747,109	18
424100	Futures commission revenues	150,998	2	155,588	4
424400	Net gains (losses) on derivative instruments - futures (note 6(u))	(565,770)	(9)	(425,947)	(10)
424500	Net gains (losses) on derivative instruments - OTC (note 6(u))	(396,701)	(6)	(238,982)	(6)
428000	Other operating revenues	105,210	2	147,277	3
		<u>6,621,232</u>	<u>100</u>	<u>4,241,538</u>	<u>100</u>
Expenses:					
501000	Brokerage fees	161,502	2	109,098	3
502000	Brokerage and clearing fees - proprietary trading	11,647	-	8,203	-
503000	Clearing and exchange fees - refinancing	2,192	-	3,309	-
504000	Clearing and exchange fees - underwriting	1,413	-	1,749	-
521200	Financial costs	625,035	10	281,325	7
524200	Securities commission expense	5,147	-	2,936	-
528000	Other operating expenditure	6,693	-	5,787	-
531000	Employee benefits expenses (note 6(s))	2,107,451	32	1,903,220	45
532000	Depreciation and amortization expense (note 6(s))	184,758	3	188,520	5
533000	Other operating expenses (note 6(s))	1,250,760	19	1,034,468	24
		<u>4,356,598</u>	<u>66</u>	<u>3,538,615</u>	<u>84</u>
Other income (expenses):					
601000	Share of profits of associates and joint venture (note 6(d))	476,853	8	369,739	9
602000	Other gains and losses (note 6(s))	341,867	5	295,432	7
		<u>818,720</u>	<u>13</u>	<u>665,171</u>	<u>16</u>
902001	Net income before income tax	3,083,354	47	1,368,094	32
701000	Income tax expense (note 6(p))	(189,754)	(3)	(171,338)	(4)
	Net income	<u>2,893,600</u>	<u>44</u>	<u>1,196,756</u>	<u>28</u>
805000	Other comprehensive income:				
805500	Items that may not be reclassified to profit or loss in subsequent periods				
805510	Gains (losses) on remeasurements of defined benefit plans	(27,965)	-	(17,003)	-
805560	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method	(436)	-	(1,470)	-
805599	Income tax related to components of other comprehensive income	-	-	-	-
	Subtotal of items that may not be subsequently reclassified into profit or loss	<u>(28,401)</u>	<u>-</u>	<u>(18,473)</u>	<u>-</u>
805600	Items that may be reclassified to profit or loss in subsequent periods				
805610	Exchange differences on translation of foreign operations	(183,972)	(3)	(39,853)	(1)
805620	Unrealized gains (losses) on financial assets available for sale, net	168,074	2	40,329	1
805660	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method	(45,107)	-	15,338	-
805699	Income tax benefit related to components of other comprehensive income (note 6(p))	23,513	-	5,424	-
	Subtotal of items that may be subsequently reclassified into profit or loss	<u>(37,492)</u>	<u>(1)</u>	<u>21,238</u>	<u>-</u>
805000	Other comprehensive income for the period, net of income tax	<u>(65,893)</u>	<u>(1)</u>	<u>2,765</u>	<u>-</u>
902006	Total comprehensive income for the year	<u>\$ 2,827,707</u>	<u>43</u>	<u>1,199,521</u>	<u>28</u>
975000	Basic earnings per share (note 6(r))	<u>\$ 1.33</u>		<u>0.53</u>	
985000	Diluted earnings per share (note 6(r))	<u>\$ 1.33</u>		<u>0.53</u>	

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

CAPITAL SECURITIES CORPORATION

Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Stock		Retained earnings			Total other equity interest			
	Common stocks	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	Total equity
Balance at January 1, 2016	\$ 23,190,730	2,742,807	955,667	2,154,422	1,586,994	135,985	(6,850)	(469,155)	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 on ordinary shares	-	-	-	-	(1,111,845)	-	-	-	(1,111,845)
Purchase of treasury shares	-	-	-	-	-	-	-	(858,314)	(858,314)
Retirement of treasury shares	(500,000)	7,579	-	-	-	-	-	492,421	-
Capital surplus changes in ownership interests in subsidiaries	-	586	-	-	-	-	-	-	586
Balance at December 31, 2016	22,690,730	2,750,972	1,110,600	2,464,288	1,188,633	97,158	53,215	(835,048)	29,520,548
Net income for the year ended December 31, 2017	-	-	-	-	2,893,600	-	-	-	2,893,600
Other comprehensive income	-	-	-	-	(28,401)	(200,724)	163,232	-	(65,893)
Total comprehensive income	-	-	-	-	2,865,199	(200,724)	163,232	-	2,827,707
Appropriation and distribution of retained earnings:									
Legal reserve	-	-	119,675	-	(119,675)	-	-	-	-
Special reserve	-	-	-	245,335	(245,335)	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	(802,558)	-	-	-	(802,558)
Purchase of treasury shares	-	-	-	-	-	-	-	(91,539)	(91,539)
Retirement of treasury shares	(1,000,000)	73,413	-	-	-	-	-	926,587	-
Capital surplus changes in ownership interests in subsidiaries	-	27,914	-	-	-	-	(24,731)	-	3,183
Indemnification to stockholders due to merger (Note 12)	-	-	-	-	(35,711)	-	-	-	(35,711)
Balance at December 31, 2017	\$ 21,690,730	2,852,299	1,230,275	2,709,623	2,850,553	(103,566)	191,716	-	31,421,630

Note : For the years ended December 31, 2017 and 2016, the amounts of remuneration to employee were \$33,369 and \$12,090 , and directors and supervisors were \$61,971 and \$20,149, respectively, which were already deducted from the statement of comprehensive income.

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

CAPITAL SECURITIES CORPORATION

Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	<u>2017</u>	<u>2016</u>
Cash flows from (used in) operating activities:		
Net income before tax	\$ 3,083,354	1,368,094
Adjustments:		
Income and expenses items with no effect on cash flows:		
Depreciation expense	154,790	156,460
Amortization expense	29,968	32,060
Provision of bad debt expense	100,827	-
Net losses (gain) on financial assets or liabilities at fair value through profit or loss	(85,241)	(38,687)
Interest expense	625,035	281,325
Net (loss) gain on reclassification of financial assets	(16,606)	9,781
Interest revenue (including financial income)	(1,988,576)	(1,433,077)
Dividend revenue	(240,687)	(194,313)
Cash dividend received from investments under equity method	301,149	255,798
Share of profit of associates and joint ventures	(476,853)	(369,739)
Net losses (gains) on disposal and retirement of property and equipment	<u>3,012</u>	<u>4,107</u>
Net changes of income and expense items with no effect on cash flows	<u>(1,593,182)</u>	<u>(1,296,285)</u>
Changes in assets and liabilities from operating activities:		
Changes in operating assets:		
Decrease (increase) in financial assets at fair value through profit or loss	(6,435,683)	(1,481,417)
Decrease (increase) in financial assets available for sale - current	(13,311,245)	(11,421,680)
Decrease (increase) in receivable for securities provided as collateral	(2,932,501)	2,733,443
Decrease (increase) in refinancing margin	47,258	(84,269)
Decrease (increase) in receivable on refinancing collateral	40,401	(71,739)
Decrease (increase) in receivable of securities business money lending	(1,387,679)	(144,552)
Decrease (increase) in collateral for securities borrowed	(111,606)	271,393
Decrease (increase) in security borrowing margin	(156,617)	608,053
Decrease (increase) in notes receivable	(4,880)	(8,976)
Decrease (increase) in accounts receivable	(2,334,589)	786,979
Decrease (increase) in prepayments	5,906	(7,231)
Decrease (increase) in other receivables	6,210	(5,896)
Decrease (increase) in current income tax assets	18,057	15,097
Decrease (increase) in other current assets	(152,186)	1,050,967
Decrease (increase) in guarantee deposited for business operations	(3,100)	61,700
Decrease (increase) in settlement fund	5,499	13,122
Decrease (increase) in other non-current assets	<u>31,292</u>	<u>44,857</u>
Total changes in assets from operating activities	<u>(26,675,463)</u>	<u>(7,640,149)</u>

(English Translation of Financial Statements and Report Originally Issued in Chinese)

CAPITAL SECURITIES CORPORATION

Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Changes in liabilities from operating activities:		
Increase (decrease) in financial liabilities at fair value through profit or loss	\$ 1,361,598	(904,132)
Increase (decrease) in bonds sold under repurchase agreements	11,962,368	11,090,872
Increase (decrease) in guarantee deposited for short sales	503,424	(302,171)
Increase (decrease) in proceeds payable from short sales	553,749	(295,576)
Increase (decrease) securities lending refundable deposits	311,411	(744,071)
Increase (decrease) in customers' equity of separate account ledger in settlement account	8,942	433
Increase (decrease) in notes payable	-	33
Increase (decrease) in accounts payable	2,181,439	(292,898)
Increase (decrease) in advance receipts	414	12,088
Increase (decrease) in receipts under custody	197,544	(1,200,426)
Increase (decrease) in other payable	267,490	(127,921)
Increase (decrease) in other financial liabilities - current	2,082,522	(1,407,114)
Increase (decrease) in other financial liabilities - non-current	26,403	(2,357)
Increase (decrease) in other current liabilities	3,019	-
Increase (decrease) in provision - current	(15,577)	14,853
Increase (decrease) in other non - current liabilities	464	(285)
Total changes in liabilities from operating activities	<u>19,445,210</u>	<u>5,841,328</u>
Total changes in assets and liabilities from operating activities	<u>(7,230,253)</u>	<u>(1,798,821)</u>
Total cash generated from adjustment items	<u>(8,823,435)</u>	<u>(3,095,106)</u>
Cash generated from operating activities	(5,740,081)	(1,727,012)
Interest received	1,855,035	1,391,574
Dividends received	240,687	195,114
Interest paid	(601,820)	(262,562)
Income taxes paid	<u>(129,019)</u>	<u>(38,984)</u>
Net cash provided by (used in) operating activities	<u>(4,375,198)</u>	<u>(441,870)</u>
Cash flows from (used in) investing activities:		
Proceeds from capital reduction of financial assets measured at cost	9,368	38,762
Decrease (increase) in deferred debits	(693)	(1,980)
Acquisition of investment under equity method	(562,929)	(1,000,000)
Acquisitions of property and equipment	(64,931)	(91,293)
Acquisitions of intangible assets	<u>(39,251)</u>	<u>(8,583)</u>
Net cash provided by (used in) investing activities	<u>(658,436)</u>	<u>(1,063,094)</u>
Cash flows from financing activities:		
Increase (decrease) in short-term borrowing	2,845,296	2,656,685
Increase (decrease) in commercial papers payable	4,099,184	-
Cash dividends paid	(802,558)	(1,111,845)
Payments to acquire treasury shares	<u>(91,539)</u>	<u>(858,314)</u>
Net cash provided by (used in) financing activities	<u>6,050,383</u>	<u>686,526</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(45,660)</u>	<u>(7,946)</u>
Increase in cash and cash equivalents	971,089	(826,384)
Cash and cash equivalents, beginning of the year	<u>1,142,072</u>	<u>1,968,456</u>
Cash and cash equivalents, end of this period	<u><u>\$ 2,113,161</u></u>	<u><u>1,142,072</u></u>

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(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, Song-Jen Road, Taipei, Taiwan, R.O.C. As of December 31, 2017, the Company has 53 branches nationwide.

The Company is authorized to conduct the following businesses:

- (a) Underwriting of marketable securities;
- (b) Trading of marketable securities on a proprietary basis on stock exchange;
- (c) Brokerage of marketable securities on stock exchange;
- (d) Trading of marketable securities at the Company's branches;
- (e) Brokerage of marketable securities at the Company's branches;
- (f) Margin loan, short sale and refinancing;
- (g) Securities registration agency services;
- (h) Dealership of foreign marketable securities;
- (i) Short-term bills service;
- (j) Accessory services of futures trading;
- (k) Futures trading on a proprietary basis;
- (l) Securities business money lending;
- (m) Managing the unexpended balance of clients' securities accounts within their authorization;
- (n) Trust business;
- (o) Offshore securities business;
- (p) Other relevant services as approved by the authority in charge.

(2) Approval date and procedures of the financial statements:

The financial statements were authorized for issuance by the board of directors on March 26, 2018.

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(3) New standards, amendments and interpretations adopted:

- (a) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017:

New, Revised or Amended 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 "Presentation of Financial Statements-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 "Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non Financial Assets"	January 1, 2014
Amendments to IAS 39 "Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

The Company assessed that the initial application of the above IFRSs would not have any material impact on the financial statements.

- (b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 9 "Financial Instruments"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Except for the following items, the Company believes that the adoption of the above IFRSs would not have any material impact on its financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments, impairment and hedge accounting.

1) Classification and measurement - Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliably. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on the Company's assessment, the new classification requirements would not have a material impact on its accounting for account receivables, debt instruments investments and investments in equity securities that are managed on a fair value basis. As of December 31, 2017, the Company had equity investments classified as financial assets at fair value through profit or loss of \$6,438 and financial assets measured at cost of \$332,473 that are held for long-term strategic purposes. At initial application of IFRS 9, the Company has designated to classify them as FVOCI. Consequently, all fair value

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CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

gains and losses would be reported in other comprehensive income, impairment losses would not be recognized in profit or loss, and no gains or losses would be reclassified to profit or loss on disposal. The Company estimated the application of IFRS 9's classification requirements on January 1, 2018 resulting in an increase of \$581,811 and \$27,521 in other equity items and retained earnings, respectively. (Please refer to the consolidated financial statements for the influences to reinvestment business.)

2) Impairment - Financial assets and contract assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for account receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for account receivables and contract assets with a significant financing component.

The Company estimated the application of IFRS 9's impairment requirements on January 1, 2018 resulting in an increase and a decrease of \$15,154 in other equity items and retained earnings, respectively.

3) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Company's assessment included an analysis to identify data gaps against current processes and the Company plans to implement the system and controls changes that it believes will be necessary to capture the required data.

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CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

4) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and other equity items as at January 1, 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

(ii) IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts".

The Company has completed an initial assessment that the adoption of IFRS 15 will not impact on its financial statements.

(iii) Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Loss"

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value and the estimation of probable future taxable profits.

The Company estimated that the application of the amendments would not have any material impact on its financial statements.

The actual impacts of adopting the standards may differ depending on the economic conditions and events which may occur in the future.

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

- (c) Newly released or amended standards and interpretations not yet endorsed by the FSC

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019

Those which may be relevant to The Company are set out below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
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"> • 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. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

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Issuance / Release Dates	Standards or Interpretations	Content of amendment
June 7, 2017	IFRIC 23 "Uncertainty over Income Tax Treatments"	<ul style="list-style-type: none"> • In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations. • If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

The Company is evaluating the impact on its financial position and operating performance upon the initial adoption of the above mentioned standards or interpretations. The potential impact will be disclosed when the assessment is completed.

(4) Summary of significant accounting policies:

The significant accounting policies presented in the financial statements are summarized below. Except for those specifically indicated, the following accounting policies have been applied consistently to all periods presented in the financial report.

(a) Statement of compliance

The separate financial report is prepared in accordance with the “ Regulations Governing the Preparation of Financial Reports by Securities Firms”.

(b) Basis of preparation

(i) Basis of measurement

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

- 1) Financial instruments measured at fair value through profit or loss (including derivative instruments);

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

- 2) Financial assets available for sale that are measured at fair value; and
- 3) 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.

(ii) 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.

(c) Foreign currency

(i) 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 financial asset available for sale, 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.

(ii) 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.

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Notes to the Financial Statements

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

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

- (i) Assets arising from operating activities that are expected to be realized, or are intend to be sold or consumed within the normal operating cycle;
- (ii) Assets held primarily for the purpose of trading;
- (iii) Assets that are expected to be realized within twelve months from the balance sheet date;
- (iv) 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.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

- (i) Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;
- (ii) Liabilities arising primarily for the purpose of trading;
- (iii) Liabilities that are to be settled within twelve months from the balance sheet date;
- (iv) 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.

(e) 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.

(f) Financial instruments

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

(i) 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.

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CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

1) 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 cost less impairment loss, and are included in financial assets measured at cost.

2) 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.

3) 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.

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4) 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.

5) 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 account 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.

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Notes to the Financial Statements

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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.

6) 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 financial assets available for sale 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.

(ii) Financial liabilities

1) 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.

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Notes to the Financial Statements

2) 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.

3) 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.

4) 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.

(iii) 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.

1) 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.

2) 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.

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3) 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.

4) 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.

5) 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.

6) 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.

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7) 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.

8) 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.

9) 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.

(g) 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.

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Notes to the Financial Statements

(h) 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”.

(i) 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.

(j) 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.

(k) Property and equipment

(i) 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.

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(ii) 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.

(iii) 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.

(iv) 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:

(i)	Buildings	3~55 years
(ii)	Transportation equipment	5 years
(iii)	Office equipment and computer facilities	3~5 years
(iv)	Miscellaneous equipment	5~10 years
(v)	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.

(l) 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.

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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.

(m) Intangible assets

(i) Goodwill

1) Initial recognition

Goodwill resulted in acquisition of subsidiaries includes in intangible assets.

2) 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.

(ii) Other intangible assets

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

(iii) 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:

1) Customer relationships: 5 years

2) 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.

(n) Leases

(i) 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.

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(ii) 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.

(o) 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.

(p) Employee benefits

(i) 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.

(ii) 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.

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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 1) actuarial gains and losses; 2) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and 3) 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 earnings.

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

(iii) 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.

(iv) 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.

(q) Revenue recognition

(i) Brokerage commissions

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

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(ii) 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.

(iii) Interest revenue

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

(r) 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.

(s) 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:

- (i) 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.
- (ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (iii) 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.

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

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

- (i) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
 - 1) levied by the same taxing authority; or
 - 2) 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.

(t) 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.

(u) 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.

(v) 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.

(w) 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.

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

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 significant accounting assumptions, judgments and estimation uncertainty:

The preparation of the financial statements in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Firms requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The preparation of the 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) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash	\$ 2,590	2,680
Bank deposits		
Checking accounts	48,546	57,566
Demand deposits	457,923	101,103
Time deposits	606,610	498,393
Foreign currency deposits	623,694	279,839
Subtotal	1,736,773	936,901
Cash equivalents		
Futures margin - excess margin	373,798	202,491
Total	<u>\$ 2,113,161</u>	<u>1,142,072</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(b) Financial assets

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

	December 31, 2017	December 31, 2016
Open-ended funds and money-market instruments		
Open-ended funds and money-market instruments	\$ 162,856	1,115,698
Valuation adjustment	<u>17,894</u>	<u>1,288</u>
Subtotal	<u>180,750</u>	<u>1,116,986</u>
Trading securities - proprietary trading		
Listed stocks	1,406,294	564,294
Listed funds	1,066,981	728,015
OTC stocks	558,763	225,008
OTC funds	40,000	-
Emerging market stocks	455,025	259,637
Emerging market funds	9,848	7,964
Convertible corporate bonds	767,352	455,796
Government bonds	6,695,553	4,041,386
Corporate bonds	9,403,722	9,874,420
International bonds	2,838,568	1,926,990
Financial debenture	300,000	1,659,501
Foreign stocks	454,786	190,879
Overseas bonds	59,353	64,320
Others	<u>34,858</u>	<u>32,603</u>
	24,091,103	20,030,813
Valuation adjustment	<u>138,033</u>	<u>35,928</u>
Subtotal	<u>24,229,136</u>	<u>20,066,741</u>
Trading securities - underwriting:		
Listed stocks	81,823	43,898
OTC stocks	48,763	11,396
Convertible corporate bonds	<u>129,277</u>	<u>57,200</u>
	259,863	112,494
Valuation adjustment	<u>11,400</u>	<u>2,140</u>
Subtotal	<u>271,263</u>	<u>114,634</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

	December 31, 2017	December 31, 2016
Trading securities - hedging		
Listed stocks	\$ 4,022,877	1,810,735
OTC stocks	1,191,800	446,088
Convertible corporate bonds	3,456,957	3,437,205
Foreign stocks	<u>999</u>	<u>1,092</u>
	8,672,633	5,695,120
Valuation adjustment	<u>(65,965)</u>	<u>(38,606)</u>
Subtotal	<u>8,606,668</u>	<u>5,656,514</u>
Derivatives		
Call options	1,884	-
Futures margin - proprietary fund	344,355	120,025
IRS asset swaps	16,479	20,743
Asset swap options - long position	2,572	5,682
Structured notes	1,343	3
Currency swaps	4,072	16,584
Interest rate swap	<u>1,920</u>	<u>4,942</u>
Subtotal	<u>372,625</u>	<u>167,979</u>
Total	<u><u>\$ 33,660,442</u></u>	<u><u>27,122,854</u></u>

As of December 31, 2017 and 2016, the par value of trading securities and financial assets available for sale - bonds under repurchase agreement of the Company were \$49,018,159 and \$36,074,859, respectively, please refer to Note 6(k) and Note 8 for details.

(ii) Financial assets available for sale - current:

	December 31, 2017	December 31, 2016
Listed stocks	\$ 101,209	221,734
OTC stocks	77,668	162,878
International bonds	1,532,767	-
Foreign stocks	104,055	-
Overseas bonds	<u>30,797,054</u>	<u>18,904,893</u>
Subtotal	32,612,753	19,289,505
Valuation adjustment	<u>164,030</u>	<u>7,959</u>
Total	<u><u>\$ 32,776,783</u></u>	<u><u>19,297,464</u></u>

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

(iii) Financial assets at fair value through profit or loss - non-current:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Financial assets held for trading:		
Government bonds	\$ 185,953	185,799
Valuation adjustment	<u>62</u>	<u>274</u>
Total	<u><u>\$ 186,015</u></u>	<u><u>186,073</u></u>

As of December 31, 2017 and 2016, the Company took advantage of government bonds as margins of bills, interest rate swaps, structured notes transaction, settlement fund guarantee deposits, and compensation reserve of trust business (please refer to Note 8 for details).

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

	<u>December 31, 2017</u>	
<u>Non-listed (or non-over-the-counter)</u>	<u>Ownership ratio</u>	<u>Amount</u>
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 %	32,858
Prudence Venture Investment Corp.	1.50 %	<u>27,397</u>
Total		<u><u>\$ 332,473</u></u>

	<u>December 31, 2016</u>	
<u>Non-listed (or non-over-the-counter)</u>	<u>Ownership ratio</u>	<u>Amount</u>
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 %	<u>35,365</u>
Total		<u><u>\$ 341,841</u></u>

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016, Top Taiwan III Venture Capital Co., Ltd. refunded the proceeds of capital reduction amounted to \$1,400 and \$36,750. Prudence Venture Investment Corp. refunded the proceeds of capital reduction amounted to \$7,968 and \$2,012.

- (v) 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. For the year ended December 31, 2017 and 2016 VAR (99%, per 1 day) of equity stocks are as follows:

Type of market risk	December 31, 2017	December 31, 2016	For the years ended December 31,					
			2017			2016		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	1,446,742	641,484	992,682	1,446,742	666,504	692,555	821,890	596,609

(c) Accounts Receivable

	December 31, 2017	December 31, 2016
Receivable on securities purchased by customers	\$ 27,055	22,024
Settlement	1,000,019	-
Interests receivable	627,789	494,248
Receivables on securities sold	4,619,158	3,256,653
Others	64,780	99,455
Subtotal	6,338,801	3,872,380
Less: allowance for doubtful accounts	(1,713)	(3,424)
Total	<u>\$ 6,337,088</u>	<u>3,868,956</u>

(d) Investments under equity method

	December 31, 2017	December 31, 2016
Subsidiaries		
Capital Investment Management Corp.	\$ 107,158	105,330
CSC International Holdings Ltd.	1,593,416	1,742,614
Capital Futures Corp.	2,606,869	1,869,075
Capital Insurance Advisory Corp.	90,506	104,489
Capital Insurance Agency Corp.	41,547	52,200
CSC Venture Capital Corp.	997,913	1,006,512
Taiwan International Securities (B.V.I.) Corp.	881	-
Taiwan International Securities Investment Consulting Corp.	13,031	13,298
Total	<u>\$ 5,451,321</u>	<u>4,893,518</u>

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

	December 31, 2017	December 31, 2016
Subsidiaries		
Taiwan International Securities (B.V.I.) Corp.(Note)	\$ <u>-</u>	<u>(157)</u>

Note: Recognized on other non-current liabilities.

Profit sharing of gain or loss from the subsidiaries for the year 2017 and 2016 are as follows:

	For the years ended December 31, 2017	2016
Based on the audited financial statements	\$ <u>476,853</u>	<u>369,739</u>

Please refer to the consolidated financial statements as of December 31, 2017 for the financial information of the subsidiaries of the Company.

(e) Property and equipment

	Land	Buildings	Equipment	Leasehold improvements	Total
Cost or deemed cost					
Balance at January 1, 2017	\$ 3,266,986	1,368,605	442,023	115,090	5,192,704
Additions	-	-	51,962	12,969	64,931
Reclassified to investment property	(55,468)	(57,484)	-	-	(112,952)
Disposals and retirements	-	(119)	(51,298)	(15,818)	(67,235)
Balance at December 31, 2017	\$ 3,211,518	1,311,002	442,687	112,241	5,077,448
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 and retirements	-	(263,557)	(100,888)	(12,038)	(376,483)
Balance at December 31, 2016	\$ 3,266,986	1,368,605	442,023	115,090	5,192,704
Depreciation and impairment					
Balance at January 1, 2017	\$ -	500,470	257,401	44,877	802,748
Depreciation	-	27,236	85,671	22,202	135,109
Reclassified to investment property	-	(28,158)	-	-	(28,158)
Disposals and retirements	-	(119)	(51,025)	(13,079)	(64,223)
Balance at December 31, 2017	\$ -	499,429	292,047	54,000	845,476
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 and retirements	-	(263,557)	(100,078)	(8,741)	(372,376)
Balance at December 31, 2016	\$ -	500,470	257,401	44,877	802,748
Carrying amount					
December 31, 2017	\$ 3,211,518	811,573	150,640	58,241	4,231,972
December 31, 2016	\$ 3,266,986	868,135	184,622	70,213	4,389,956

As of December 31, 2017 and 2016, the property and equipment which are provided as collateral or pledge, please refer to Note 8 for details.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(f) Investment property

	Land and improvements	Buildings	Total
Cost or deemed cost			
Balance at January 1, 2017	\$ 1,698,156	947,022	2,645,178
Transferred from property and equipment	55,468	57,484	112,952
Disposals and retirements	-	(120)	(120)
Balance at December 31, 2017	\$ 1,753,624	1,004,386	2,758,010
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 and retirements	-	(125,195)	(125,195)
Balance at December 31, 2016	\$ 1,698,156	947,022	2,645,178
Depreciation and impairment loss			
Balance at January 1, 2017	\$ -	298,115	298,115
Depreciation	-	19,681	19,681
Transferred from property and equipment	-	28,158	28,158
Disposals and retirements	-	(120)	(120)
Balance at December 31, 2017	\$ -	345,834	345,834
Balance at January 1, 2016	\$ -	398,271	398,271
Depreciation	-	19,314	19,314
Transferred from property and equipment	-	5,725	5,725
Disposals and retirements	-	(125,195)	(125,195)
Balance at December 31, 2016	\$ -	298,115	298,115
Carrying Amount			
December 31, 2017	\$ 1,753,624	658,552	2,412,176
December 31, 2016	\$ 1,698,156	648,907	2,347,063
Fair Value			
December 31, 2017			3,692,022
December 31, 2016			3,623,639

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, 2017 and 2016, the investment property was provided as collateral or pledge, please refer to Note 8 for details.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(g) Intangible assets

(i) Goodwill

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized goodwill. As of December 31, 2017 and 2016, the book value was \$3,126,698 for the both year.

Goodwill is allocated to the operating segments as follows:

	December 31, 2017	December 31, 2016
Brokerage segment	\$ 1,304,458	1,304,458
Underwriting segment	265,144	265,144
Proprietary trading segment	<u>1,557,096</u>	<u>1,557,096</u>
Total	<u>\$ 3,126,698</u>	<u>3,126,698</u>

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 2.26% and 4.32% in year 2017 and 2016 respectively. The cash flow projections for periods after five years will be estimated with no growth conservatively.

After impairment test, the recoverable amounts of year 2017 and 2016 exceeded the carrying amount, no impairment occurred for both years.

(ii) Other intangible assets - 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, 2017 and 2016, the book value of the operation franchise was \$389,999 for the both year.

(iii) Other intangible assets - 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, 2017 and 2016, the amortized book value was \$27,538 and \$15,923 respectively.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(h) Short-term borrowings

Nature of borrowings	December 31, 2017	December 31, 2016
Collateralized loan	\$ 380,000	380,000
Credit loans	6,701,698	3,856,402
Total	<u>\$ 7,081,698</u>	<u>4,236,402</u>
Interest rate range	<u>0.60%~2.56%</u>	<u>0.60%~2.75%</u>

As of December 31, 2017 and 2016, the Company had provided the land, buildings, and certificates of time deposits as collateral; please refer to Note 8 for details.

(i) Commercial paper payable

	December 31, 2017	December 31, 2016
Commercial paper payable	\$ 4,100,000	-
Less: Unamortized discount	(816)	-
Net amount	<u>\$ 4,099,184</u>	<u>-</u>
Interest rate range	<u>0.53%~0.56%</u>	<u>-%</u>

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

	December 31, 2017	December 31, 2016
Liabilities on sale of borrowed securities	\$ 1,130,377	1,004,515
Redeem liabilities on sale of borrowed securities	(6,714)	-
Valuation adjustment	(94,120)	(66,466)
Subtotal	<u>1,029,543</u>	<u>938,049</u>
Settlement coverage bonds payable of short sale	49,983	-
Valuation adjustment	(29)	-
Subtotal	<u>49,954</u>	<u>-</u>
Stock warrants issued	14,405,116	10,892,801
Stock warrants repurchased	(13,098,267)	(10,617,763)
Subtotal	<u>1,306,849</u>	<u>275,038</u>
Put options	3,031	1,073
IRS asset swaps	239	1,974
Asset swap options - short position	364,910	177,405
Structured notes	9,234	7,515
Currency swaps	7,920	9,089
Equity Derivatives	61	-
Subtotal	<u>385,395</u>	<u>197,056</u>
Total	<u>\$ 2,771,741</u>	<u>1,410,143</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(k) Bonds sold under repurchase agreements

	December 31, 2017	December 31, 2016
Bonds sold under repurchase agreements	\$ 47,067,813	35,105,445
Agreed-upon repurchase amounts	47,185,708	35,151,666
Interest rates	0.20%~4.30%	0.30%~9.00%
Date of repurchase	2018.1.2~2018.12.27	2017.1.3~2017.3.30

(l) Customer equity of separate account ledger in settlement accounting

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, 2017	December 31, 2016
Customer equity of separate account ledger in settlement	\$ 13,479	4,537

(m) Accounts payable

	December 31, 2017	December 31, 2016
Payable of securities sold by customers	\$ 44,575	21,890
Settlement	-	49,986
Payable on securities purchased	5,386,422	3,183,985
Others	93,762	87,459
Total	\$ 5,524,759	3,343,320

(n) Operating leases

(i) Lessee

Non-cancellable operating lease payables are as follows:

	December 31, 2017	December 31, 2016
Within 1 year	\$ 95,177	109,281
1-5 years	133,888	174,783
Over 5 years	11,859	-
Total	\$ 240,924	284,064

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

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 December 31, 2017 and 2016, the operating lease expenses recognized in profit or loss were \$121,070 and \$138,261 respectively.

(ii) Lessor

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

	December 31, 2017	December 31, 2016
Within 1 year	\$ 53,485	16,709
1-5 years	71,880	66,373
Over 5 years	40,366	-
Total	<u><u>\$ 165,731</u></u>	<u><u>83,082</u></u>

The rental revenue from investment property for the year 2017 and 2016 amounted to \$77,855 and \$76,896 respectively.

(o) Employee benefit

(i) Defined benefit plans

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

	December 31, 2017	December 31, 2016
Present value of defined benefit obligations	\$ (979,722)	(1,010,725)
Fair value of plan assets	441,227	500,033
Recognized liabilities for defined benefit obligations	<u><u>\$ (538,495)</u></u>	<u><u>(510,692)</u></u>

The Company's employee benefits liabilities are as follows:

	December 31, 2017	December 31, 2016
Compensated absences	<u><u>\$ 42,205</u></u>	<u><u>57,782</u></u>

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

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.

1) 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 \$255,785 and \$318,750 as of December 31, 2017 and 2016, 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 \$185,442 and \$181,283 as of December 31, 2017 and 2016, respectively.

2) Movements in present value of the defined benefit obligations

The movements in present value of the defined benefit obligations of the Company in 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Defined benefit obligation on January 1	\$ 1,010,725	1,043,855
Current service costs and interest	19,303	22,891
Remeasurement of net defined liability		
- Actuarial loss (gain) arising from changes in demographic assumptions	4,203	-
- Actuarial loss (gain) arising from changes in financial assumptions	(1,171)	12,191
- Experience adjustments	24,607	2,590
Benefits paid by the plan	(77,945)	(70,802)
Defined benefit obligation on December 31	<u>\$ 979,722</u>	<u>1,010,725</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

3) Movements in fair value of defined benefit plan assets

The movements in fair value of defined benefit plan assets of the Company in 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Fair value of plan assets on January 1	\$ 500,033	550,031
Interest revenue	5,122	6,770
Remeasurement of net defined liability		
- Return on plan assets (excluding interest)	(326)	(2,222)
Contributions from the employer	14,343	16,257
Benefits paid from plan assets	<u>(77,945)</u>	<u>(70,803)</u>
Fair value of plan assets on December 31	<u><u>\$ 441,227</u></u>	<u><u>500,033</u></u>

4) Expense recognized in profit or loss

The expenses recognized of the Company in 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Current service cost	\$ 8,930	10,190
Net interest of net defined benefit liability (asset)	<u>5,251</u>	<u>5,931</u>
Current pension cost	<u><u>\$ 14,181</u></u>	<u><u>16,121</u></u>

5) Re-measurement of net defined benefit plan recognized in other comprehensive income

For the years ended December 31, 2017 and 2016, the re-measurement of net defined benefit plan recognized accumulatively in other comprehensive income was as follows:

	<u>2017</u>	<u>2016</u>
Balance at January 1	\$ (86,045)	(69,042)
Recognized amount during the period	<u>(27,965)</u>	<u>(17,003)</u>
Balance at December 31	<u><u>\$ (114,010)</u></u>	<u><u>(86,045)</u></u>

6) Actuarial assumptions

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Discount rate	1.05 %	1.03 %
Future salary growth rate	2.00 %	2.00 %

The expected contribution to the defined benefit plan for the within one year is \$15,758. The weighted average duration of the defined benefit obligation is 2 years.

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CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

7) Sensitivity Analysis

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

For the years ended December 31, 2017 and 2016, the effects of adopting significant actuarial assumptions to defined benefit obligations were as follows:

	Effects to Defined Benefit Obligations	
	<u>Increase 0.5%</u>	<u>Decrease 0.5%</u>
December 31, 2017		
Discount rate	(26,640)	27,836
Future salary growth rate	22,555	(21,864)
December 31, 2016		
Discount rate	(28,642)	29,974
Future salary growth rate	24,477	(23,691)

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.

(ii) 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 \$67,839 and \$71,048 under defined contribution plan to the Bureau of the Labor Insurance for the years ended December 31, 2017 and 2016, respectively.

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(p) Income tax

(i) Income tax expense (benefit)

The amount of income tax expense (benefit) for the years ended December 31, 2017 and 2016 were as follows:

	For the years ended December 31,	
	2017	2016
Current income tax expense		
Current year	\$ 149,061	81,782
Adjustment to the prior years' income tax	(29,094)	23,109
	<u>119,967</u>	<u>104,891</u>
Deferred income tax expense		
Unrealized gains (losses) on derivative financial instruments	46,130	(12,041)
Unrealized gains (losses) on foreign investments under Equity Method	(1,674)	(6,959)
Amortization of goodwill	-	35,436
Decrease in tax loss carried forward	117,021	-
Adjustments of deferred income tax assets and liabilities	(91,690)	50,011
	<u>69,787</u>	<u>66,447</u>
Income tax expenses	<u>\$ 189,754</u>	<u>171,338</u>

The amount of income tax expense or benefit recognized in other comprehensive income in year 2017 and 2016 were as follows:

	For the years ended December 31,	
	2017	2016
Foreign exchange difference from translating financial statements of foreign operations	<u>\$ (23,513)</u>	<u>(5,424)</u>

Reconciliation of income tax expense (benefit) and income before tax in year 2017 and 2016 were as follows:

	For the years ended December 31,	
	2017	2016
Net income before tax	<u>\$ 3,083,354</u>	<u>1,368,094</u>
Income tax using the Company's domestic tax rate	\$ 524,170	232,576
Tax-exempt income	(362,693)	(134,195)
Alternative minimum tax	148,030	-
Additional surtax on undistributed retained earnings	1,071	-
Income tax difference of bonds purchased under resale agreements and income tax separately levied	(40)	(163)
Adjustments to prior years' income tax	(29,094)	23,109
Unrecognized temporary differences for prior years	(91,690)	50,011
Total	<u>\$ 189,754</u>	<u>171,338</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Deferred income tax assets and liabilities

1) Recognized deferred income tax assets

	December 31, 2017	December 31, 2016
Tax loss carried forward	\$ 156,117	404,694
Unrealized losses on foreign investments under Equity Method	4,352	2,678
Foreign exchange difference from translating financial statements of foreign operations	4,375	-
Deferred income tax assets	<u><u>\$ 164,844</u></u>	<u><u>407,372</u></u>

The R.O.C. 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, 2017, the information of the Company's tax losses recognized under deferred tax assets were as follows:

<u>Year of loss</u>	<u>Amount</u>	<u>Expiry date</u>
2011 (Approved)	<u><u>\$ 760,953</u></u>	2021

2) Recognized deferred income tax liabilities

	December 31, 2017	December 31, 2016
Foreign exchange difference resulted from translation of financial statements of foreign operations	\$ -	19,139
Unrealized gains on derivative financial instruments	80,762	34,631
Losses on intercompany transactions	1,639	1,639
Amortization of operation franchise	36,448	36,448
Amortization of goodwill	308,292	531,539
Land value incremental tax	47,691	47,691
Deferred income tax liabilities	<u><u>\$ 474,832</u></u>	<u><u>671,087</u></u>

(iii) Income tax assessment status

The Company's income tax returns through 2014 were assessed by the Tax Authority.

(iv) The information about imputation system is as follows:

	December 31, 2017	December 31, 2016
Unappropriated earnings of 1998 and after	Note	<u><u>\$ 1,188,633</u></u>
Balance of imputation credit account	Note	<u><u>\$ 2,675,250</u></u>
	2017 (Actual)	2016 (Actual)
Tax deduction ratio for earnings distribution to ROC residents	Note	<u><u>24.21 %</u></u>

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

The above stated information was prepared in accordance with information letter No. 10204562810 issued by the Ministry of Finance of the R.O.C. on October 17, 2013.

Note: According to the amendments to the “Income Tax Act” enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, effective January 1, 2018, companies will no longer be required to establish, record, calculate, and distribute their ICA due to the abolishment of the imputation tax system.

(v) 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.

(q) Capital and other equity

(i) Capital stock

As of December 31, 2017 and 2016, the Company had authorized capital of \$30,000,000 and issued common stock of 2,169,073 thousand and 2,269,073 thousand shares with \$10 dollars face value per share. The disclosure of treasury shares retired and reduction of capital for the years ended December 31, 2017 and 2016, please refer to (iv). “Treasury stocks” for more details.

(ii) 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 “Regulations Governing the Offering and Issuance of Securities by Securities Issuers”, 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:

	December 31, 2017	December 31, 2016
Premium from stock issuance	\$ 1,776,413	1,858,310
Treasury stock transactions	437,096	253,940
Paid-in capital from merger	602,665	630,450
Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,338	1,399
Changes in ownership interests in subsidiaries	<u>34,787</u>	<u>6,873</u>
	<u>\$ 2,852,299</u>	<u>2,750,972</u>

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

(iii) Retained earnings

1) 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.

2) Special reserve

In accordance with Article 41 of the "Securities and Exchange Act", 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.

In accordance with Ruling No. 10500278285 issued by the Financial Supervisory Commission on August 5, 2016, 0.5% to 1.0% of the current year's earnings after tax should be set aside as special reserve for year 2016 to 2018. From year 2017, the aforementioned special reserve can be reversed within an amount equal to the expenditures stemming from employee re-training, re-assignments, or relocations made necessary by the introduction of financial technology.

3) Undistributed earnings

According to the Company's Articles of Incorporation, after-tax earnings should first offset accumulated deficit, and then appropriated 10% as legal reserve, 20% as special reserve and any other as required by law.

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 capital budget of the Company, the payout of stock dividend is for retaining necessary capital and the remainder can be paid as cash dividend. Cash dividend shall not fall below 10% of the total dividend.

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

The Company's 2016 earnings distribution for cash dividends \$802,558 had been resolved by the shareholders' meeting on June 26, 2017.

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CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

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

(iv) Treasury stocks

Pursuant to Article 28-2 of the “Securities and Exchange Act”, the Company repurchased treasury shares to maintain the Company's credit standing and shareholders' equity from January 1, 2016 to December 31, 2017. As of December 31, 2017, all the repurchased shares were retired.

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 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 100,000 thousand shares at this buyback plan. All the repurchased shares were retired and the registration of capital reduction was completed on February 10, 2017.

(r) Earnings per share

The basic earnings per share and dilutive earnings per share for the years ended December 31, 2017 and 2016 were calculated as follows:

	For the years ended December 31,	
	2017	2016
Net income attributable to ordinary shareholders of the Company	\$ 2,893,600	1,196,756
Weighted-average number of common stock shares outstanding(thousands of shares)	2,169,193	2,265,158
Basic earnings per share (dollar)	\$ 1.33	0.53
Effect of potentially dilutive common stock		
- Employee remuneration (thousands of shares) (Note)	2,877	1,248
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	2,172,070	2,266,406
Dilutive earnings per share (dollar)	\$ 1.33	0.53

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

(s) Items of the comprehensive income statement

(i) Brokerage commissions

	For the years ended December 31,	
	2017	2016
Brokerage commission from TSE market	\$ 1,620,196	1,133,638
Brokerage commission from OTC market	656,041	474,588
Handling fee from security financing	30,903	32,595
Others	72,007	51,463
	\$ 2,379,147	1,692,284

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Underwriting commissions

	For the years ended December 31,	
	2017	2016
Revenue from underwriting securities on a firm commitment basis	\$ 63,450	49,824
Handling fee revenues from underwriting securities on best efforts basis	1,440	895
Processing fee revenues from underwriting operations	25,023	17,346
Revenue from underwriting consultation	5,180	7,975
Others	26,424	17,423
	\$ 121,517	93,463

(iii) Net gains (losses) on sale of trading securities

	For the years ended December 31,	
	2017	2016
Revenue from securities sold - proprietary trading	\$ 203,145,698	201,084,349
Cost of securities sold - proprietary trading	(202,141,748)	(200,898,414)
Subtotal	1,003,950	185,935
Revenue from securities sold - underwriting	201,997	2,568,524
Cost of securities sold - underwriting	(194,190)	(2,560,057)
Subtotal	7,807	8,467
Revenue from securities sold - hedging	34,882,103	23,463,311
Cost of securities sold - hedging	(34,427,986)	(23,552,918)
Subtotal	454,117	(89,607)
Total	\$ 1,465,874	104,795

(iv) Interest revenue

	For the years ended December 31,	
	2017	2016
Interest revenue - margin loans	\$ 771,449	737,656
Interest revenue - bonds	1,167,972	657,211
Others	47,138	33,935
	\$ 1,986,559	1,428,802

(v) Net gains or losses on measurement of trading securities at fair value through profit or loss

	For the years ended December 31,	
	2017	2016
Trading securities - proprietary	\$ 103,311	(27,658)
Trading securities - underwriting	9,259	918
Trading securities - hedging	(27,358)	66,573
Settlement coverage bonds payable of short sale	29	(1,146)
	\$ 85,241	38,687

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(vi) Net gains or losses on stock warrants issued

	For the years ended December 31,	
	2017	2016
Gains on changes in fair value of stock warrants	\$ 14,246,241	30,713,780
Gains on exercise of stock warrants before maturity	27,191,658	7,721,981
Losses on changes in fair value of stock warrants repurchased	(40,578,100)	(37,563,166)
Gains on expiration of stock warrants	19,515	23,683
Stock warrants issuance expenses	(188,153)	(149,169)
	\$ 691,161	747,109

(vii) Employee benefits, depreciation, and amortization expenses

	For the years ended December 31,	
	2017	2016
Employee benefit expenses		
Salary expense	\$ 1,844,667	1,631,634
Health and labor insurance expense	132,942	135,384
Pension expense	82,020	87,169
Others	47,822	49,033
Depreciation expense	154,790	156,460
Amortization expense	29,968	32,060
	\$ 2,292,209	2,091,740

(viii) Other operating expenses

	For the years ended December 31,	
	2017	2016
Rental expense	\$ 121,070	138,261
Taxes	301,239	235,440
Information technology expense	96,697	99,196
Postage expense	100,886	103,272
Professional service fee	99,001	93,611
Other expenses	531,867	364,688
	\$ 1,250,760	1,034,468

(ix) Other gains and losses

	For the years ended December 31,	
	2017	2016
Financial revenue	\$ 2,017	4,275
Net gains (losses) on disposal of investment	23,190	(3,611)
Net gains (losses) on measurement of non-operating instruments at fair value through profit or loss	16,606	(9,781)
Revenue from bank's allocation fee	139,255	142,111
Lease revenue	77,855	76,896
Revenue from information technology service	27,291	22,127
Net gains (losses) on disposal of property and equipment	(3,012)	(4,107)
Dividend revenue	18,769	18,976
Gains on reversal of prior year's liabilities	25,875	34,584
Others	14,021	13,962
	\$ 341,867	295,432

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CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

(x) 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.

For the years 2017 and 2016, the estimated amounts of remuneration to employee were \$33,369 and \$12,090, and to directors and supervisors by the Company were \$61,971 and \$20,149, 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 years ended December 31, 2017 and 2016. 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 by the Company for 2016 and 2015 were \$12,090 and \$17,241, and to directors and supervisors were \$20,149 and \$28,734, respectively. The difference between actual employee remuneration of \$9,120 and \$14,994 and actual remuneration to directors and supervisors of \$17,410 and \$26,527 were \$5,709 and \$4,454 in total. The difference was accounted for as changes in accounting estimates and would be reflected in the statement of income in 2017 and 2016. The information about the appropriations is available at the Market Observation Post System website.

(t) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of December 31, 2017 and 2016, the maximum credit exposure amounted to \$77,800,088 and \$57,640,422, respectively.

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CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

The regional distribution of financial assets' credit risk exposure amount which owned by the Company is as the list below. The region of exposure is mostly in Taiwan (54.50%); secondly, is in Asia (18.87%, exclusion of Taiwan); then, is in America (15.67%). Compare to the same period of last year, there is no significant change in proportion of region of investments.

Region	December 31, 2017	December 31, 2016
Taiwan	\$ 42,403,693	36,746,213
Asia (Taiwan is excluded)	14,679,191	6,196,567
Europe	8,370,951	8,727,072
America	12,195,122	4,241,397
Other	<u>151,131</u>	<u>1,729,173</u>
Total	<u>\$ 77,800,088</u>	<u>57,640,422</u>

2) Impairment loss

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

	December 31, 2017		December 31, 2016	
	Total amount	Impairment	Total amount	Impairment
Not past due	\$ 22,276,774	1,551	15,595,337	1,389
Past due 0~30 days	2,115	2,115	1,062	1,062
Past due 31~120 days	31	31	280	280
Past due 121~360 days	85,694	85,694	-	-
Past due more than one year	<u>135,899</u>	<u>128,771</u>	<u>141,333</u>	<u>114,604</u>
	<u>\$ 22,500,513</u>	<u>218,162</u>	<u>15,738,012</u>	<u>117,335</u>

Allowance for doubtful debts under receivables and overdue receivables are 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, 2017 and 2016, the impairment losses of accrued receivables were recognized \$218,162 and \$3,652, respectively.

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CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

(ii) 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
December 31, 2017							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 1,029,543	1,029,543	1,029,543	-	-	-	-
Settlement coverage bonds payable of short sale	49,954	49,954	49,954	-	-	-	-
Stock warrants issued	1,306,849	1,306,849	1,265,875	40,974	-	-	-
Put options - futures	3,031	3,031	3,031	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	8,159	8,159	7,770	155	234	-	-
Put options	364,910	364,910	44,131	51,385	106,359	163,035	-
Equity derivatives	61	61	61	-	-	-	-
Short-term borrowings	7,081,698	7,081,698	7,081,698	-	-	-	-
Commercial paper payable	4,099,184	4,100,000	4,100,000	-	-	-	-
Bonds sold under repurchase agreements	47,067,813	47,185,708	47,185,708	-	-	-	-
Guarantee deposited for short sales	2,226,264	2,226,264	2,226,264	-	-	-	-
Proceeds payable from short sales	2,500,853	2,500,853	2,500,853	-	-	-	-
Securities lending refundable deposits	1,190,277	1,190,277	1,190,277	-	-	-	-
Notes payable and accounts payable	97,008	97,008	97,008	-	-	-	-
Receipts under custody	341,174	341,174	341,174	-	-	-	-
Other payables	791,239	791,239	791,239	-	-	-	-
Structured notes	4,785,254	4,785,254	4,380,929	138,288	151,580	114,457	-
	<u>\$ 72,943,271</u>	<u>73,061,982</u>	<u>72,295,515</u>	<u>230,802</u>	<u>258,173</u>	<u>277,492</u>	<u>-</u>
December 31, 2016							
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	-	-	-	-
Guarantee deposited for short sales	1,722,840	1,722,840	1,722,840	-	-	-	-
Proceeds payable from short sales	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>

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(iii) Currency risk

1) Currency risk exposure

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

		December 31, 2017		
		Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial assets</u>				
<u>Monetary Item</u>				
USD	\$	26,981	29.7600	802,955
HKD		30,981	3.8070	117,945
EUR		269	35.5700	9,568
JPY		23,645	0.2642	6,247
CNY		24,265	4.5650	110,770
AUD		5,547	23.1850	128,607
SGD		25	22.2600	557
CAD		23	23.7100	545
ZAR		8	2.4100	19
IDR		4,403	0.0022	10
<u>Non-Monetary Item</u>				
USD	\$	907,431	29.7600	27,005,147
HKD		36,089	3.8070	137,391
JPY		2,052	0.2642	542
CNY		163,599	4.5650	746,829
AUD		351,673	23.1850	8,153,539
<u>Investments under equity method</u>				
USD		53,662	29.7100	1,594,297
<u>Financial liabilities</u>				
<u>Monetary Item</u>				
USD	\$	935,426	29.7600	27,838,278
HKD		77,397	3.8070	294,650
JPY		39	0.2642	10
CNY		89,922	4.5650	410,494
AUD		348,400	23.1850	8,077,654
SGD		16	22.2600	356
CAD		20	23.7100	474
KRW		47	0.0281	1

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

December 31, 2016			
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial assets</u>			
<u>Monetary Item</u>			
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
<u>Non-Monetary Item</u>			
USD	\$ 486,351	32.2500	15,684,820
HKD	19,735	4.1580	82,058
JPY	1,540	0.2756	424
AUD	217,379	23.2850	5,061,670
CNY	133,526	4.6170	616,490
<u>Investments under equity method</u>			
USD	54,118	32.2000	1,742,614
<u>Financial liabilities</u>			
<u>Monetary Item</u>			
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
SGD	1	22.2900	22
CNY	58,128	4.6170	268,377
<u>Non-Monetary Item</u>			
<u>Other non-current liabilities</u>			
USD	5	32.2000	157

Because there are a variety of functional currencies, the Company discloses a summary of its information on currency exchange gain or loss. The realized and unrealized currency exchange gains amounted to \$46,670 and \$94,068 for the year ended December 31, 2017 and 2016, respectively.

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CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

2) 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. Currency exchange gains or losses occur when translating the foreign currency assets to NTD assets. For the year ended December 31, 2017 and 2016, given other factors remain the same, if NTD appreciates or depreciates 5% against other currencies, the net income and other comprehensive income will increase or decrease by \$1,328,502, \$1,353,352, \$1,419,515 and \$785,156, respectively.

(iv) 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, 2017	December 31, 2016	For the years ended December 31,					
			2017			2016		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Interest risk	2,165,047	1,492,731	1,996,174	2,165,047	1,746,721	1,331,427	1,492,731	1,119,156

(v) Fair value information and hierarchy

1) Fair value information

a) 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 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.

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CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

b) Definition of fair value hierarchy

i) 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.

ii) 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.

iii) Level 3

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

2) Not based on fair value measurement

As of December 31, 2017 and 2016, the fair value information of the financial assets and financial liabilities of the Company was as follows:

a) Fair value information

	December 31, 2017		December 31, 2016	
	Book value	Fair value	Book value	Fair value
Financial assets :				
Cash and cash equivalents	\$ 2,113,161	2,113,161	1,142,072	1,142,072
Accrued receivable	24,254,586	24,254,586	17,405,924	17,405,924
Restricted assets - current	442,190	442,190	557,002	557,002
Financial assets measured at cost - non-current	332,473	332,473	341,841	341,841
Other non-current assets	1,204,097	1,204,097	1,260,835	1,260,835
Financial liabilities :				
Short-term borrowings	\$ 7,081,698	7,081,698	4,236,402	4,236,402
Commercial paper payable	4,099,184	4,099,184	-	-
Bonds sold under repurchase agreements	47,067,813	47,067,813	35,105,445	35,105,445
Accrued payable	12,762,747	12,762,747	8,724,584	8,724,584
Other financial liabilities - current	4,509,983	4,509,983	2,427,461	2,427,461
Other financial liabilities - non-current	266,037	266,037	239,634	239,634
Other non-current liabilities	74,235	74,235	73,609	73,609

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

b) Hierarchy information of fair value

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment property				
December 31, 2017	\$ <u>-</u>	<u>-</u>	<u>3,692,022</u>	<u>3,692,022</u>
December 31, 2016	\$ <u>-</u>	<u>-</u>	<u>3,623,639</u>	<u>3,623,639</u>

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

- i) 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.
- ii) 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.
- iii) The investment properties were evaluated and estimated using Market Method based on the market evidence of transaction price of similar properties.

3) Based on fair value measurement

a) 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, 2017 and 2016 were as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2017				
Financial assets at fair value through profit or loss	\$ 16,326,335	17,147,497	-	33,473,832
Financial assets available for sale	269,717	32,507,066	-	32,776,783
Derivative financial assets	<u>346,239</u>	<u>26,386</u>	<u>-</u>	<u>372,625</u>
	<u>\$ 16,942,291</u>	<u>49,680,949</u>	<u>-</u>	<u>66,623,240</u>
Financial liabilities at fair value through profit or loss	\$ 2,386,346	-	-	2,386,346
Derivative financial liabilities	<u>3,031</u>	<u>382,364</u>	<u>-</u>	<u>385,395</u>
	<u>\$ 2,389,377</u>	<u>382,364</u>	<u>-</u>	<u>2,771,741</u>

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2016				
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	<u>120,025</u>	<u>47,954</u>	<u>-</u>	<u>167,979</u>
	<u>\$ 10,102,671</u>	<u>36,503,720</u>	<u>-</u>	<u>46,606,391</u>
Financial liabilities at fair value through profit or loss	\$ 1,213,087	-	-	1,213,087
Derivative financial liabilities	<u>1,073</u>	<u>195,983</u>	<u>-</u>	<u>197,056</u>
	<u>\$ 1,214,160</u>	<u>195,983</u>	<u>-</u>	<u>1,410,143</u>

b) Valuation techniques

i) 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).

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CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

ii) 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.

4) Transfer between Level 1 and Level 2

There is no significant transfer between Level 1 and Level 2 for the years ended December 31, 2017 and 2016.

5) 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.

(vi) 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, 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:

Types of financial assets	December 31, 2017				
	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	\$ 47,116,029	47,067,813	-	-	-

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

Types of financial assets	December 31, 2016				
	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	-	-	-

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.

(vii) Offsetting financial assets and financial liabilities

The Company did not hold any financial instruments contracts which meet Section 42 of IAS 32 endorsed by the FSC 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 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, 2017					
Financial assets under offsetting or general agreement of net amount settlement or similar norms					
	Gross amount of recognized financial assets (a)	Gross amount of recognized financial liabilities offsetting in the balance sheet (b)	Net amount of financial assets presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)	
				Financial instruments (Note)	Cash received as collaterals
Derivative financial assets	\$ 26,386	-	26,386	-	-
					Net amount (e)=(c)-(d)
					26,386

December 31, 2017					
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms					
	Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets offsetting in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)	
				Financial instruments (Note)	Cash received as collaterals
Derivative financial liabilities	\$ 382,364	-	382,364	-	-
Under repurchase agreements	47,067,813	-	47,067,813	47,067,813	-
Total	\$ 47,450,177	-	47,450,177	47,067,813	-
					Net amount (e)=(c)-(d)
					382,364

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CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

December 31, 2016					
Financial assets under offsetting or general agreement of net amount settlement or similar norms					
	Gross amount of recognized financial assets (a)	Gross amount of recognized financial liabilities offsetting in the balance sheet (b)	Net amount of financial assets presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)	Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals
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 (a)	Gross amount of recognized financial assets offsetting in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)	Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals
Derivative financial liabilities	\$ 195,983	-	195,983	-	-
					195,983
Under repurchase agreements	35,105,445	-	35,105,445	35,105,445	-
					-
Total	\$ 35,301,428	-	35,301,428	35,105,445	-
					195,983

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

(u) Financial risk management

(i) Brief

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

- 1) Credit risk
- 2) Liquidity risk
- 3) 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.

(ii) 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.

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CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

(iii) 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.

(iv) 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.

(v) 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:

- 1) Equity securities: calculate by variance-covariance method and to conduct back testing to estimate the VaR of one day at 99% of confidence interval.
- 2) Bond: use the base point (0.01%) value as the controlling base, and estimate the VaR of one day at 99% of confidence interval.

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CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

- 3) Financial derivatives: use the Delta and Gamma value as the controlling base, and estimate the VaR of one day at 99% of confidence interval.
- 4) 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.

(vi) 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.

1) 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.

2) 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.

3) 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.

4) 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.

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5) 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.

(vii) Financial risk information of derivative financial instruments

As of December 31, 2017 and 2016, the related financial risk and the presentation of the Company's financial derivatives were as follows:

Stock warrants

(i) Notional principal (nominal amount) and credit risk

<u>Financial Instruments</u>	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Notional principal</u> <u>/ Nominal amount</u>	<u>Credit</u> <u>Risk</u>	<u>Notional principal</u> <u>/ Nominal amount</u>	<u>Credit</u> <u>Risk</u>
For trading purpose:				
Stock warrants issued	\$ 73,019,951	-	7,931,022	-

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

(ii) 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.

(iii) 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 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.

(iv) Type, purpose, and strategy of financial derivatives held:

The Company'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.

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(v) 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:

1) For the years ended December 31, 2017 and 2016:

a) Gains (losses) on valuation

	For the years ended December 31, 2017	For the years ended December 31, 2016	Account
Stock warrants issued	\$ 13,281,013	8,811,311	Gains (losses) on stock warrants issued
Stock warrants repurchased	(12,653,445)	(8,606,442)	Gains (losses) on stock warrants issued

b) Gains (losses) on sale

	For the years ended December 31, 2017	For the years ended December 31, 2016	Account
Security borrowing	\$ (4,673)	7,011	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	254,048	(122,647)	Gains (losses) on sale of trading securities
Futures transaction	(258,393)	(221,525)	Gains (losses) on derivative instruments - futures

c) Gains (losses) on maturity

	For the years ended December 31, 2017	For the years ended December 31, 2016	Account
Stock warrants issued	\$ 28,176,401	29,648,133	Gains (losses) on stock warrants issued
Stock warrants repurchased	(27,924,655)	(28,956,724)	Gains (losses) on stock warrants issued

Futures

(i) Notional principal (nominal amount) and credit risk:

Financial Instruments	December 31, 2017		December 31, 2016	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Taix Futures	\$ 1,380,298	-	534,198	-
Mini-S&P 500 Futures	71,866	-	-	-
Stock Futures	-	-	12,286	-
Mini Taix Futures	1,581	-	-	-
FTSE China A50 Index Futures	-	-	111,524	-
U.S. 5-Year T-Note Futures	328,692	-	169,495	-
U.S. 10-Year T-Note Futures	982,781	-	40,005	-
Taix Options	3,779	-	-	-

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Financial Instruments	December 31, 2017		December 31, 2016	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
Taixex Weekly Options	\$ 507	-	1,137	-
Mini-S&P 500 Options	653	-	-	-
For non-trading purpose:				
Taixex Futures	474,601	-	239,765	-
Electronic Sector Index Futures	79,631	-	7,357	-
Stock Futures	1,613,239	-	501,055	-
Finance Sector Index Futures	18,999	-	-	-
Gold Futures	53,447	-	11,151	-
Crude Oil Futures	121,435	-	-	-
HSI Futures	-	-	4,569	-
Mini-HSI Futures	-	-	17,930	-
FTSE China A50 Index Futures	595,089	-	66,764	-
Osaka Nikkei 225 Index Futures	11,799	-	-	-
JPY dollar Futures	6,698	-	-	-
Real Estate Index Futures	4,836	-	-	-
Nikkei Index Futures	6,025	-	10,209	-
Gold Options	4	-	-	-
Stock Options	3,451	-	-	-
Crude Oil Options	1	-	-	-

Should counterparties to futures and options default, the associated loss is borne by the futures commission merchants. Hence, the Company is subject to insignificant credit risk.

(ii) 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 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.

(iii) 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.

Futures trading are considered as 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.

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

For options trading, 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.

(iv) Presentation of financial derivatives:

For the years ended December 31, 2017 and 2016, losses on futures and options transactions amounted to \$565,770 and \$425,947, respectively, and were reflected as losses on derivatives instruments. As of December 31, 2017 and 2016, futures margin - proprietary fund amounted to \$344,355 and \$120,025, 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 \$373,798 and \$202,491, respectively.

As of December 31, 2017 and 2016, the balance of call options which recognized as financial assets at fair value through profit or loss - current amounted to \$1,884 and \$0, respectively, put options which recognized as financial liabilities at fair value through profit or loss - current amounted to \$3,031 and \$1,073, respectively.

Derivative financial instruments - OTC

(i) Interest rate financial derivatives

1) Notional principal (nominal amount) and credit risk:

Financial Instruments	December 31, 2017		December 31, 2016	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
NT dollar interest swaps	\$ 43,100,000	-	46,500,000	-

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, 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.

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

- 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 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 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 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 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.

(ii) Structured notes

- 1) Notional principal (nominal amount) and credit risk:

Financial Instruments	December 31, 2017		December 31, 2016	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Equity-linked notes	\$ 40,461	-	3,000	-
Principal guaranteed notes	3,949,038	-	2,173,544	-
Credit-linked notes	490,600	-	488,700	-
Principle guaranteed notes	USD9,962 thousands	-	USD100 thousands	-

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.

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

- 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.

(iii) Convertible bond asset-backed swaps

- 1) Notional principal (nominal amount) and credit risk:

Financial Instruments	December 31, 2017		December 31, 2016	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Convertible bond asset-backed swaps	\$ 943,700	-	1,230,100	-
Convertible bond options	2,437,300	-	2,528,400	-

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 is minimal.

For convertible bond options, the Company 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 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, 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 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.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(iv) Options

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.

(v) Presentation of derivative financial instruments - OTC

As of December 31, 2017 and 2016, 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:

	December 31, 2017	December 31, 2016
Financial assets at fair value through profit or loss - current		
IRS asset swaps	\$ 16,479	20,743
Interest rate swaps	1,920	4,942
Currency swaps	4,072	16,584
Asset swap options - long position	2,572	5,682
Structured notes	<u>1,343</u>	<u>3</u>
Total	<u><u>\$ 26,386</u></u>	<u><u>47,954</u></u>
Financial liabilities at fair value through profit or loss - current		
IRS asset swaps	\$ 239	1,974
Currency swaps	7,920	9,089
Asset swap options - short position	364,910	177,405
Equity derivatives	61	-
Structured notes	<u>9,234</u>	<u>7,515</u>
Total	<u><u>\$ 382,364</u></u>	<u><u>195,983</u></u>
Other financial liabilities - current		
Structured notes principal value	<u><u>\$ 4,509,983</u></u>	<u><u>2,427,461</u></u>
Other financial liabilities - non-current		
Structured notes principal value	<u><u>\$ 266,037</u></u>	<u><u>239,634</u></u>

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016, 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:

	For the years ended December 31, 2017		For the years ended December 31, 2016	
	Gains (losses) on derivative instruments - OTC	Unrealized Gains (losses)	Gains (losses) on derivative instruments - OTC	Unrealized Gains (losses)
Interest rate swaps	\$ (8,832)	1,920	3,893	4,942
Equity derivatives	(3,969)	(41)	92	-
Structured notes	(38,864)	(7,924)	(32,536)	(6,146)
IRS asset swaps	301	16,240	533	18,769
Asset swap options	(281,311)	(98,208)	(43,107)	66,482
Currency swaps	(64,026)	(3,848)	(167,857)	7,495
Total	<u>\$ (396,701)</u>	<u>(91,861)</u>	<u>(238,982)</u>	<u>91,542</u>

(v) 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 Company has sufficient financial resources to cope with the future need of operating fund, capital expenditure and other operating need.

As of December 31, 2017, the Company maintains no change of its capital management. The Company's capital adequacy ratio on December 31, 2017 was 315%.

(7) Related party transactions:

(a) Relationships between parents and subsidiaries

Refer to Note 13(b) for a detailed list of the Company's subsidiaries.

(b) Parent Company and ultimate controlling party

The Company is the parent company and the ultimate controlling party of the consolidated company.

(c) Names of related parties and relationships

Names of related parties	Relationships
Capital Insurance Advisory Corp.	Subsidiary
Capital Insurance Agency Corp.	Subsidiary
Capital Futures Corp.	Subsidiary
Capital Investment Management Corp.	Subsidiary
CSC Venture Capital Corp.	Subsidiary
Taiwan International Securities Investment Consulting Corp.	Subsidiary
Taiwan International Futures Corp.	Subsidiary
CSC Securities (HK) Ltd.	Second-level subsidiary
Capital International Technology Corp.	Second-level subsidiary

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

<u>Names of related parties</u>	<u>Relationships</u>
San Ho Enterprise Co., Ltd.	Juristic-person director
Kwang Hsing Industrial Co., Ltd.	Juristic-person director
Others	Key management personnel

(d) Key management personnel transactions

(i) Key management personnel compensation:

	<u>For the years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Short-term employee benefits	\$ 136,974	91,821
Post-employment benefits	866	946
Total	<u>\$ 137,840</u>	<u>92,767</u>

(ii) Bond transactions - bonds sold under repurchase agreements

The balance of bonds sold under repurchase agreements with key management personnel as of December 31, 2017 and 2016 were as follows:

	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Par value</u>	<u>Purchase price</u>	<u>Par value</u>	<u>Purchase price</u>
Key management personnel	<u>\$ 43,600</u>	<u>43,941</u>	<u>43,600</u>	<u>43,749</u>

	<u>For the years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Total financial expenses		
Key management personnel	<u>209</u>	<u>230</u>

(iii) Structured notes transactions

As of December 31, 2017 and 2016, the balances of structured notes transactions with key management personnel were \$45,971 and \$20,700, respectively.

(e) Significant transactions with related parties

(i) Bond transactions - bonds sold under repurchase agreements

The balances of bonds sold under repurchase agreements with related parties as of December 31, 2017 and 2016 were as follows:

	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Par value</u>	<u>Purchase price</u>	<u>Par value</u>	<u>Purchase price</u>
Subsidiaries	\$ 11,500	11,501	158,800	159,384
Juristic-person directors	10,700	10,700	14,900	15,000
Total	<u>\$ 22,200</u>	<u>22,201</u>	<u>173,700</u>	<u>174,384</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

	For the years ended December 31,	
	2017	2016
Total financial expenses		
Subsidiaries	\$ 411	1,606
Juristic-person directors	78	77
Total	<u>\$ 489</u>	<u>1,683</u>

Transaction terms are the same as those with general clients.

(ii) Structured notes transaction

As of December 31, 2017 and 2016 the balance of structured notes transactions with juristic-person directors of the Company were \$4,995.

(iii) Futures commission revenue

The Company provided futures trading assistance for subsidiary.

	December 31, 2017	December 31, 2016
Commission receivable	<u>\$ 14,688</u>	<u>11,482</u>

	For the years ended December 31, 2017	2016
Futures commission revenue	<u>\$ 150,998</u>	<u>155,588</u>

(iv) Futures trading

The futures margin in subsidiary of the Company is as follows:

	December 31, 2017	December 31, 2016
Futures margin - proprietary fund	<u>\$ 718,153</u>	<u>308,212</u>

	For the years ended December 31, 2017	2016
Interest revenue of futures margin	<u>\$ 156</u>	<u>183</u>
Handling fees charge	<u>\$ 19,526</u>	<u>10,300</u>
Management fees expense	<u>\$ 1,636</u>	<u>-</u>

(v) Lease agreements

1) Lease revenue

	For the years ended December 31, 2017	2016
Subsidiaries	<u>\$ 20,191</u>	<u>19,844</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

2) Guarantee deposits received

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Subsidiaries	<u>\$ 4,106</u>	<u>4,069</u>

(vi) Information technology service

In year 2017 and 2016, the Company provided information technology service to subsidiaries, and the revenue of information technology service amounted to \$27,291 and \$22,127 respectively.

(vii) Stock service income

In year 2017 and 2016, the Company provided stock service to subsidiaries, the stock service income amounted to \$478 and \$427 respectively, and stock service receivable amounted to \$0 and \$30 respectively.

(viii) Securities commission expense - introducing brokers

The Company delegated subsidiaries for introducing brokers. As of December 31, 2017 and 2016, securities commission expense payable amounted to \$522 and \$252 respectively. In year 2017 and 2016, securities commission expenses amounted to \$5,147 and \$2,936 respectively.

(ix) Consulting fee

Subsidiaries agreed to provide investment information, training courses, and services of publishing non-periodicals. In year 2017 and 2016, consulting fee expense amounted to \$86,100 for both years.

(x) Re-consigned handling fee

The Company delegated the second level subsidiaries for introducing brokers on foreign securities transactions. For the year ended December 31, 2017, re-consigned handling fee is \$6,120.

(xi) Insurance commission revenues

The Company assists subsidiaries in recruiting insurance contracts and charging commission revenues. The details were as follows:

1) Commission revenues

	<u>For the years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Subsidiaries	<u>\$ 13,626</u>	<u>18,315</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

2) Accounts receivable

	December 31, 2017	December 31, 2016
Subsidiaries	<u>\$ 1,169</u>	<u>2,452</u>

(xii) Brokerage commissions

The brokerage commission received from the Juristic-person directors and other related parties of the Company engaging in securities and futures trading were \$13,561 and \$7,720 in years 2017 and 2016, respectively.

(xiii) Human resources and legal service income

The Company provided human resources and legal service for subsidiaries, and the human resources and legal service income amounted to \$630 and \$1,080, respectively in years 2017 and 2016.

(xiv) Information technology service expense

Subsidiaries prepay the information technology maintenance fee for the Company. As of December 31, 2017 and 2016, information technology service expense payable amounted to \$195 and \$0, respectively.

(xv) The Company provided the Letter of Comfort to the banks which loaned to subsidiaries CSC International Holdings Ltd. and CSC Securities (HK) Ltd.

(8) Pledged assets:

The following assets were pledged as collateral or restricted in use as of December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016	The collateral use
Restricted assets - current	\$ 442,190	557,002	Bank borrowings, commercial paper, accounts settled and repurchase agreement
Restricted assets - non-current	94,875	130,586	Trust to an impartial third party (Note 12)
Trading securities (par value)	49,018,159	36,074,859	Repurchase agreement
Property and equipment	3,510,390	3,618,890	Bank borrowings
Financial assets at fair value through profit or loss - non-current	186,015	186,073	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business investment
Investment property	<u>1,383,346</u>	<u>1,311,584</u>	Bank borrowings
Total	<u>\$ 54,634,975</u>	<u>41,878,994</u>	

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(9) Significant contingent liability and unrecognized contract commitment:

- (a) Information of handling margin purchase and short sale lending operations in securities trading are as follows:

	December 31, 2017		December 31, 2016	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities procured through margin purchase	715,087	\$ 7,150,870	663,916	6,639,160
Collateral for margin purchase	4,429	44,290	12,555	125,550
Collateral for short sales	5,063	50,630	4,427	44,270
Lending securities to customers through short sales	48,278	482,780	37,135	371,350

- (b) Information of the collateral provided or the securities borrowed of refinancing margin from securities finance companies are as follows:

	December 31, 2017		December 31, 2016	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities borrowed from securities finance companies	1,005	\$ 10,050	1,346	13,460
Collateral for refinancing margin	15	150	144	1,440

- (c) Information of issuing promissory notes in connection with guaranty for segregated error accounts, debt, and issuance of commercial paper are as follows:

	December 31, 2017	December 31, 2016
Promissory notes	<u>\$ 24,890,000</u>	<u>24,160,000</u>
Promissory notes	<u>USD 80,000</u>	<u>85,000</u>

- (d) As of December 31, 2017 and 2016, the market value of collaterals which received from customers on conducting borrowing and lending business with unrestricted purposes were \$1,990,743 and \$311,755, respectively.
- (e) 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.
- (f) 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 again. According to the final judgment made by the Supreme Court in October, 2017, the Company shall not be held liable to the damages.

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CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

- (g) The client, Mr. Wu, declared that a resigned employee of Da-Sing branch conducted transactions with Mr. Chen without his consent. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation for damages of \$2,192. The case is currently under the trial of Taiwan Taipei District Court. According to the opinion of the Company, the case is a dispute between the employee and the client. Therefore, the company shall not be held liable to the damages. The obligation is not recognized in the financial statement.
- (h) 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. Some investors instituted proceedings towards TISC and claimed damages amounting to US\$7,956,873 dollars (including claim amount US\$130,000 dollars towards Taiwan International Securities Investment Consulting Corp.). As of December 31, 2017, the damages claimed for amounted to US\$6,355,536, which was in favor of the Company, or the investors reached compromises to waive off the appeal rights. As of December 31, 2017, there is still one case that currently under the review of the Taiwan High Court. 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, 2017, the balance of other liabilities was \$48,034.
- (i) The Company provided the Letter of Comfort to the banks which loaned to its subsidiary CSC International Holdings Ltd. and CSC securities (HK) Ltd.
- (j) 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 lawsuits were classified by actual situations and relevant matters, thereon adopted different solutions. As of December 31, 2017, seventeen lawsuits 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). The left one that Taiwan Taipei District Court dismissed the plaintiff's claim in September, 2017, and the forgoing lawsuit has been concluded in December, 2017. As of December 31, 2017, TIFC has paid \$275,898 for compensation and recognized the loss reserves \$141,204 in other non-current liabilities - other.

As of December 31, 2017, the objects of provisional seizure are as follows:

	<u>Provisional Seizure Amount</u>
Bank deposit	\$ 88,821
Clearing and Settlement fund	15,121
Accounts receivable and Other accounts receivable	<u>13</u>
	<u>\$ 103,955</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

The Financial Supervisory Commission 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.

- (k) 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:

- (i) Balance sheet of trust accounts

Balance Sheet of Trust Accounts

December 31, 2017 and 2016

Trust Assets	December 31, 2017	December 31, 2016	Trust Liabilities	December 31, 2017	December 31, 2016
Bank deposits	\$ 951,429	971,862	Accounts payable	\$ 328	380
Short-term investment			Trust capital	12,050,890	8,902,241
Funds	10,576,044	6,893,668	Accumulated Earnings or deficit	42,146	(176,994)
Stocks	283,224	529,461			
Securities lent	181,899	195,508			
Bond investment under agreements to repurchase	-	48,788			
Bonds	10,143	1,386			
Structured notes	10,027	31,109			
Accounts receivable	80,598	53,845			
Total Assets	\$ 12,093,364	8,725,627	Total Liabilities	\$ 12,093,364	8,725,627

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Income statement of trust accounts

Income Statement of Trust Accounts		
For the years ended December 31, 2017 and 2016		
	<u>2017</u>	<u>2016</u>
Revenue		
Interest revenue	\$ 4,988	10,289
Cash dividends revenue	-	134,857
Rental revenue	8,201	7,733
Realized investment gains	324,642	179,128
Unrealized investment gains	250,376	138,573
Unrealized currency exchange gains	18,453	121,607
Currency exchange gains	<u>483,754</u>	<u>55,880</u>
Subtotal	<u>1,090,414</u>	<u>648,067</u>
Expense		
Administrative fee	1,075	1,304
Commission expenses	83,923	54,264
Realized investment losses	84,223	183,197
Unrealized investment losses	321,081	467,130
Unrealized currency exchange losses	772,661	71,042
Postage expense	-	1
Supplementary insurance premium	-	256
Currency exchange losses	<u>98,547</u>	<u>40,244</u>
Subtotal	<u>1,361,510</u>	<u>817,438</u>
Net income (losses) before tax	(271,096)	(169,371)
Income tax expense	<u>(271)</u>	<u>(1,015)</u>
Net income (losses) after income tax	<u><u>\$ (271,367)</u></u>	<u><u>(170,386)</u></u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(iii) List of trust properties

List of Trust Properties

December 31, 2017 and 2016

Investment items	December 31, 2017	December 31, 2016
Bank deposits	\$ 951,429	971,862
Short-term investment		
Stocks	283,224	529,461
Securities lent	181,899	195,508
Bond investments under agreement to repurchase	-	48,788
Structured Notes	10,027	31,109
Bonds	10,143	1,386
Funds	<u>10,576,044</u>	<u>6,893,668</u>
Total	<u><u>\$ 12,012,766</u></u>	<u><u>8,671,782</u></u>

(10) Significant Catastrophic Loss: None

(11) Significant Subsequent Events:

The Company obtained Board's approval at December 15, 2017 for an investment proposal to acquire the stake in Capital Investment Trust Corp. held by Commerzbank. The total investment amounts were \$1,272,505 and the stock delivery procedure is settled on February 9, 2018.

(12) Other:

- (a) 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, 2017, the accumulated amount of compensation was \$275,897. 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, 2017, the trust amount of the impartial third party is \$94,875 and the compensation expense in 2017 is \$87,125.

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Firms” for the Company:

(i) Loans to others:

(In Thousands Dollars)

Number	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 19,322 thousand	US 19,322 thousand	US 19,322 thousand	- %	2	-	Operations	-		-	US 53,632 thousand	US 53,632 thousand
2	Taiwan International Securities (B.V.I) Corp. Limited	TIS Securities (HK) Limited	Other receivables - Related party	Yes	US 3,380 thousand	US 3,402 thousand	US 3,380 thousand	- %	2	-	Operations & repayment of financing	-		-	US 3,402 thousand	US 3,402 thousand
3	TIS Securities (HK) Limited	Taiwan International Capital (HK) Ltd.	Other receivables	Yes	HK 1,463 thousand	HK 1,463 thousand	HK 1,463 thousand	- %	2	-	Repayment of financing	-		-	HK 1,463 thousand	HK 1,463 thousand
4	CSC Futures (HK) Ltd.	Pinnacle Corp. Pte Ltd.	Account receivables - Customer	No	30,547	82,656	-	4 %	2	-	Tradings	-		-	94,945	379,779
5	CSC Futures (HK) Ltd.	Klaw Trading Limited	Account receivables - Customer	No	26,568	41,328	-	5 %	2	-	Tradings	-		-	94,945	379,779
6	CSC Futures (HK) Ltd.	Three Arrows Capital Ltd.	Account receivables - Customer	No	47,206	82,656	-	5 %	2	-	Tradings	-		-	94,945	379,779
7	CSC Futures (HK) Ltd.	Future Leading Investment Pte. Ltd.	Account receivables - Customer	No	41,328	41,328	-	3.5 %	2	-	Tradings	-		-	94,945	379,779
8	CSC Futures (HK) Ltd.	Tetron Capital Limited	Account receivables - Customer	No	6,515	6,810	-	- %	2	-	Tradings	-		-	94,945	379,779

Note: Type of Loans

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

- (ii) Guarantees and endorsements for other parties: None
- (iii) Acquisition of individual real estate with amount over \$300 million or 20% of paid-in capital: None
- (iv) Disposal of individual real estate over \$300 million or 20% of paid-in capital: None
- (v) Service charge discounts on transactions with related parties over NT\$5 million: None
- (vi) Receivables from related parties over \$100 million or 20% of paid-in capital: None

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

(b) Information on reinvestment business:

(In Thousands of New Taiwan Dollars)

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			Operating income or loss of investee company during the period	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, 2017	Balance on December 31, 2016	Shares	Ratio	Book value (Note 3)					
0	Capital Investment Management Corp.	Taipei ,Taiwan, R.O.C.	February 16, 1990		Engaged in providing research, analysis and recommendations pertaining to securities investment, organize seminars and publish materials on securities investments.	72,515	72,515	7,000,000	100.00 %	107,158	82,000	12,258	12,258	10,430	Subsidiary
0	Capital Futures Corp.	Taipei ,Taiwan, R.O.C.	February 26, 1997	No. FSC-1050044467 dated November 15, 2016	Engaged in domestic and foreign futures business.	1,212,359	649,610	90,166,223	56.21 %	2,606,869	1,904,683	731,015	411,651	199,267	"
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 %	1,593,416	(21,815)	(10,120)	(10,120)	-	"
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 %	90,506	190,227	64,667	64,667	78,650	"
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 %	41,547	73,265	2,149	2,149	12,802	"
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 %	-	-	-	-	-	"
0	Taiwan International Securities (B.V.I) Corp.	British Virgin Island	December 10, 1996	No. FSC-53981	Long-term equity investment business.	1,394,817	1,394,817	300	100.00 %	881	304	272	272	-	"
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 %	13,031	-	(267)	(267)	-	"
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	1,000,000	100,000,000	100.00 %	997,913	1,281	(3,757)	(3,757)	-	"
1	Capital Securities (Hong Kong) Ltd. (Note 7)	Hong Kong	June 29, 1993	No. FSC-17433 dated April 7, 1993	Completion of liquidation.	HK -	HK 48,644 thousand	-	- %	HK -	HK -	HK -	-	-	Second-level subsidiary
1	CSC Securities (HK) Ltd. (Note 7)	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 128,000 thousand	HK 89,600 thousand	128,000,000	100.00 %	HK 158,052 thousand	HK 28,434 thousand	HK (5,478) thousand	-	-	"
2	CSC Securities (HK) Ltd. (Note 7)	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 -	HK 38,400 thousand	-	- %	HK -	HK 28,434 thousand	HK (5,478) thousand	-	-	Third-level subsidiary
3	TIS Securities (HK) Limited (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 (26,355) thousand	HK -	HK 76 thousand	-	-	Second-level subsidiary
4	Taiwan International Capital (HK) Ltd. (Note 6)	Hong Kong	July 16, 1997	No. FSC-110159	Liquidation in progress.	HK 2	HK 2	2	100.00 %	HK (66,100) thousand	HK -	HK (16,885) thousand	-	-	Third-level subsidiary

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CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

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			Operating income or loss of investee company during the period	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, 2017	Balance on December 31, 2016	Shares	Ratio	Book value (Note 3)					
5	CSC Futures (HK) Ltd.	Hong Kong	December 9, 1998	No. FSC-1010027412 dated August 24, 2012	Futures brokerage and other businesses permitted by local law of Hong Kong.	862,631	862,631	214,000,000	97.27 %	923,527	825,594	79,824	-	-	Second-level subsidiary
5	Capital International Technology Co., Ltd.	Taipei ,Taiwan, R.O.C.	December 29, 2014	No. FSC-1030038387 dated November 18, 2014	Management and consulting business. Information technology software	50,000	50,000	5,000,000	100.00 %	46,088	1,806	898	-	-	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	245,000	49.00 %	41,535	70,678	2,097	-	-	Associates
6	Capital Securities Nominee Ltd.	Hong Kong	April 7, 1995		Agency services.	HK 2	HK 2	2	100.00 %	HK -	HK -	HK -	-	-	Third-level subsidiary

Note 1: (0) Capital Securities Corp. (1) CSC International Holdings Ltd.(2) Capital Securities (Hong Kong) Ltd.(3) Taiwan International Securities (B.V.I) Corp. (4)TIS Securities (HK) Limited (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.

Note 6: The board of directors of the Company resolved to dissolve the investee company on December 30, 2011. The representative office of China dissolved in 2014 as well. According to the laws of Hong Kong, it can't be liquidated voluntarily because the total assets of TIS Securities (HK) Limited and Taiwan International Capital (HK) Ltd. can't cover the liabilities. The company has briefed it to the accountant in Hong Kong to plan the solutions.

Note 7: Capital Securities (Hong Kong) Ltd. transferred 30% of the equity to CSC International Holdings Ltd. and the distribution of residual property was completed on September 12, 2017. The company registration is cancelled on February 3, 2018.

(c) Information on branch units or representative offices overseas:

(In Thousands of New Taiwan Dollars)

Name	Region	Date of establishment	Approval date and number of FSC	Primary business operation	Operating Revenues	Net Income	Assignment of working capital				Transactions with parent company	Note
							Beginning amount	Add	Less	Ending amount		
CSC International Holdings Ltd. Shanghai Representative Office	Shanghai	November 27, 1997	Ruling No. 16322 by FSC on Feb.22, 1997	Investigation of business, research of industrial technology and related information collection	-	-	-	-	-	-	-	

(d) Information on investments in China:

(i) Investment in Mainland China and related information:

(In Thousands of New Taiwan Dollars)

Name of investee in Mainland China	Major Operations	Issued capital	Method of investment (Note 1)	Accumulated remittance as of January 1, 2017	Remittance of recoverable investment this period		Accumulated remittance as of December 31, 2017	Net gains (losses) of the investee	Direct or indirect Share holdings (%) by the Company	Investment gains (losses) recognized during this period (Note 2)	Ending Balance of Investment	Investment income remitted back as of December 31, 2017
					Remittance amount	Recoverable amount						
Capital True Partner Technology Co., Ltd.	Management, consulting and information service business	5,013	(C)	24,372	-	-	24,372	83	28.67%	138 B(2)	12,167	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	18,863	(C)	-	18,863	-	18,863	2,553	56.21%	1,435 B(2)	11,626	-

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

- Directly invest in a company in Mainland China.
- 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).
- Through a subsidiary to invest in a company in Mainland China.

Note 2: Investment gains and losses recognized during the period

- It should be indicated if the investee was still in the incorporation arrangements and had not yet any profit during this period.
- Indicate the basis for investment gains and losses recognition in the number of one of the following three categories:
 - The financial statements that are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.
 - The financial statements that are audited and attested by R.O.C. parent company's CPA.
 - The financial statements that are provided by the investee without audited by CPA.

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

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

(ii) Limitation on investment in Mainland China:

Company Name	Accumulated remittance from Taiwan to Mainland China	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment in Mainland China regulated by MOEA
Capital International Technology Corp.	43,235	43,235	80,000

Note: The Company invests through subsidiaries, 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.

(e) 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, 2017 are as follows:

(i) Balance sheet and income statement:

1) Balance sheet

Unit: US\$ thousands

Nature	Company CSC International Holdings Ltd. December 31, 2017	Taiwan International Securities (B.V.I) Corp. December 31, 2017
Current assets	11,999	68
Long-term investments	20,222	-
Property and premises	2,165	-
Other assets	19,395	3,380
Total assets	53,781	3,448
Current liabilities	63	46
Other liabilities	86	3,372
Total liabilities	149	3,418
Common stock	45,000	9,516
Retained earnings (Accumulated deficit)	8,827	(9,430)
Cumulative translation adjustments	(195)	(56)
Total stockholders' equity	53,632	30
Total liabilities and stockholders' equity	53,781	3,448

2) Income statement

Unit: US\$ thousands

Nature	Company CSC International Holdings Ltd. 2017	Taiwan International Securities (B.V.I) Corp. 2017
Operating revenue	(704)	10
Operating expense	(877)	(1)
Non-operating revenue	1,255	-
Non-operating expense	-	-
Income (Loss) before tax	(326)	9
Net income (loss)	(326)	9

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

(ii) Marketable securities held as of December 31, 2017

Unit: shares / US\$ thousands

Name of holding company	Securities types and name	Account classification	December 31, 2017	
			Shares	Book value
CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Long-term investments	128,000,000	\$ <u><u>20,222</u></u>
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Other liabilities	265,000,000	\$ <u><u>(3,372)</u></u>

(iii) Transactions of financial derivatives: None.

(iv) 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, 2017.

VII. Review of financial position, business performance and risk issues

7.1 Financial position

Unit: NTD thousands

(Consolidated)					
Item	Year	2017	2016	Difference	
				Amount	%
Current assets		128,220,873	94,506,013	33,714,860	35.67
Property, plant, and equipment		4,966,752	5,129,823	(163,071)	(3.18)
Other non-current assets		8,298,693	8,408,377	(109,684)	(1.30)
Total assets		141,486,318	108,044,213	33,442,105	30.95
Current liabilities		106,463,149	75,399,960	31,063,189	41.20
Non-current liabilities		1,545,169	1,799,975	(254,806)	(14.16)
Total liabilities		108,008,318	77,199,935	30,808,383	39.91
Share capital		21,690,730	22,690,730	(1,000,000)	(4.41)
Capital reserves		2,852,299	2,750,972	101,327	3.68
Retained earnings		6,790,451	4,763,521	2,026,930	42.55
Other equity items		88,150	150,373	(62,223)	(41.38)
Treasury stock		0	(835,048)	835,048	(100.00)
Non-controlling interests		2,056,370	1,323,730	732,640	55.35
Total shareholders' equity		33,478,000	30,844,278	2,633,722	8.54

(Standalone)				
Item \ Year	2017	2016	Difference	
			Amount	%
Current assets	93,599,832	65,616,894	27,982,938	42.65
Property, plant, and equipment	4,231,972	4,389,956	(157,984)	(3.60)
Other non-current assets	13,311,599	13,000,064	311,535	2.40
Total assets	111,143,403	83,006,914	28,136,489	33.90
Current liabilities	78,368,174	51,991,187	26,376,987	50.73
Non-current liabilities	1,353,599	1,495,179	(141,580)	(9.47)
Total liabilities	79,721,773	53,486,366	26,235,407	49.05
Share capital	21,690,730	22,690,730	(1,000,000)	(4.41)
Capital reserves	2,852,299	2,750,972	101,327	3.68
Retained earnings	6,790,451	4,763,521	2,026,930	42.55
Other equity items	88,150	150,373	(62,223)	(41.38)
Treasury stock	0	(835,048)	835,048	(100.00)
Total shareholders' equity	31,421,630	29,520,548	1,901,082	6.44

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 assets: The increase of current assets was mainly due to an increase of financial assets.
- B. Current liabilities: The increase of current liabilities was mainly due to an increase of bonds sold under repurchase agreements.
- C. Retained earnings: Due to the active stock market, the brokerage fee income increased significantly, and the propriety trading operation also made a profit, resulting in an increase of retained earnings.
- D. Other equity items: The decrease was mainly due to the exchange differences on translation of foreign operations.
- E. Treasury stock: Treasury stock buybacks were taken in the previous period.

7.2 Financial performance:

Unit: NTD thousands

Unit: RMB thousands

(Consolidated)					
Item	Year	2017	2016	Difference	
				Amount	%
Income		9,244,897	6,437,645	2,807,252	43.61
Operating expenses		6,493,356	5,327,077	1,166,279	21.89
Operating profits		2,751,541	1,110,568	1,640,973	147.76
Other gains and losses		752,096	561,665	190,431	33.90
Pre-tax income		3,503,637	1,672,233	1,831,404	109.52
Income tax		288,242	265,736	22,506	8.47
Net income from continuing operations		3,215,395	1,406,497	1,808,898	128.61

(Standalone)					
Item	Year	2017	2016	Difference	
				Amount	%
Income		6,621,232	4,241,538	2,379,694	56.10
Operating expenses		4,356,598	3,538,615	817,983	23.12
Operating profits		2,264,634	702,923	1,561,711	222.17
Other gains and losses		818,720	665,171	153,549	23.08
Pre-tax income		3,083,354	1,368,094	1,715,260	125.38
Income tax		189,754	171,338	18,416	10.75
Net income from continuing operations		2,893,600	1,196,756	1,696,844	141.79

Explanation to major variations:

- A. Income: The increase of income was mainly due to the bullish stock market, resulting in an increase of net profit on sale of trading securities, brokerage commissions and interest income.
- B. Operating expenses: The increase of operating expenses was mainly due to an increase in the financial costs and employee benefits expenses.
- C. Share of profit of associates and joint ventures recognized by the equity method: The increase was mainly due to an increase of net profit of the subsidiary Capital Futures Corp.
- D. Pre-tax income and net income: The increase in pre-tax income and net income was mainly due to:
 - (1) The increased of brokerage trading volume resulting in an increase of brokerage commissions;
 - (2) The bullish momentum of Taiwan stock market resulting in an increase of gains on sale of trading securities;
 - (3) The increase in bonds position held resulting in an increase of interest revenue.

7.3 Cash flow

7.3.1 Liquidity analysis for 2017

Unit: NTD thousands

Cash and cash equivalents, beginning of the year (1)	Net cash flow from operating activities (2)	Cash outflow for the year (3)	Cash surplus (deficit) (1)+(2)-(3)	Leverage of cash deficits	
				Investment plans	Financing plans
1,142,072	(4,375,198)	(5,346,287)	2,113,161	-	-

7.3.2 Liquidity analysis for the last 2 years

Item	Year	2017	2016	Variation (%)
Current ratio		-	-	-
Cash flow adequacy ratio		91.81	118.20	(22.33)
Cash reinvestment ratio		-	-	-

Explanation to major variations:

The decrease in cash flow adequacy ratio was mainly due to additional bond investments, which resulted in an increase of net cash outflow from operating activities.

7.3.3 Liquidity analysis for the next year

Unit: NTD thousands

Cash and cash equivalents, beginning of the year	Net cash flow from operating activities for the year	Projected annual Cash outflow	Projected cash surplus (deficit)	Leverage of cash deficits	
				Investment plans	Financing plans
2,113,161	2,877,814	3,250,000	1,740,975	-	-

7.4 Impacts of major capital expenditures in the most recent year to financial performance:

The Company obtained 20% equity interest in Capital Investment Trust Corporation and the investment amount was NT\$127.25 million. Through this investment will allow the Company to extend or to broaden current business scope of collaboration with the investee Company, and to enhance the overall financial performance by strengthened operating efficiency and enlarged economies of scales.

7.5 Causes of profit or loss incurred on investments in the most recent 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 become 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. The main reason for the profit or loss of the re-invested investment: no special events affecting the profitability of the reinvested investment
- C. Investment plans for the coming year: None.

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 2017 was between NT\$1,746,721 thousands and NT\$2,165,047 thousands, and averaged NT\$1,996,174 thousands; and exchange rate risk exposure in 2017 was between NT\$102,821 thousands and NT\$141,347 thousands, and averaged NT\$121,441 thousands in risk-equivalent terms.

- 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 most recent 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 stocks or derivatives, 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. The estimated R&D expenditure is about NT\$20 million.

7.6.4 Financial impacts and responsive measures in the event of changes in local and foreign regulations: None.

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 (Unit: NTD/USD)
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 others	The case is being reviewed by Taiwan Shilin District Court.	2006.11.23	2,003,697 (NTD)
Civil	16 customers of Taiwan International Securities Corp. including ○ -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.	Plaintiff: 16 customers including ○ -Hua Lai (currently only 9 remain, including ○ - Rong Huang) Defendant: Capital Securities Corp., Taiwan International Securities Investment Consulting Corp., Ltd.	According the judgement of the first instance and the second instance, the court enter a judgement 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 ○ -Hua Lai. 9 other customers including ○ -Rong Huang raised an appeal. The Supreme Court remands the case to the High Court. The High Court enter a judgement the Company and Taiwan International Securities Investment Consulting Corp., Ltd. shall compensate 8 customers including Er-Rong Huang for a total of US\$507,928. Appeals were raised by the Company Taiwan International Securities Investment Consulting Corp., Ltd. and Ling-Hua Cheng. The Supreme Court remands the case to the High Court again. The case is being reviewed by the High Court.	2010.03.02	703,919 (USD)
Civil	○ -Lan Wu, a customer of Da Hsing Branch, accused ○ -Lan Lu, a departed employee of the Company, of accepting order placed by ○ -Neng Chen, by whom Wu was authorized to buy and sell on her behalf, without consent in 2005, causing damage to Wu, and therefore, held ○ -Lan Lu and ○ -Neng Chen jointly responsible.	Plaintiff: ○ -Lan Wu Defendant: ○ -Lan Lu, ○ -Neng Chen, Capital Securities Corp.	According the judgement of the first instance, the court enter a judgement the Company not liable for compensation. The plaintiff raised an appeal.	2017.07.21	2,192,404 (NTD)

7.6.13 Risk management policy

1. The Company's risk management policies are tailored to its operation focus and goals. The Company intends to pursue optimization of asset allocation and profits via setting loss limits for risk management control based on the following: (a) measurement of risk and return; (b) impact on the BIS ratio.

2. Risk management framework and responsibilities

Department	Responsibilities
(1) Board of Directors	<ol style="list-style-type: none"> 1. The highest decision-making authority with respect to risk management. 2. Responsible for determining risk management policy and strategies. 3. Approves the risk management system.
(2) Risk Management Committee	<ol style="list-style-type: none"> 1. Approves the risk management system and risk management guidelines for various business activities 2. Resolves improvements of existing business practices. 3. Allocates risky assets and evaluates business strategies. 4. Approves new businesses and authorized transaction limits.
(3) President	<ol style="list-style-type: none"> 1. Reports to the board of directors on: risks of current holding position, trade performance, and accomplishment of prescribed goals. 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).
(4) Risk Management Department	<ol style="list-style-type: none"> 1. Assists in the design of risk management system. 2. Assists in setting and assigning risk limits for various departments. 3. Ensures proper execution of approved risk management guidelines. 4. Presents comprehensive risk management reports to the President in a timely manner. 5. Investigates the nature of transactions before they are executed by business units. Monitors holding position after transactions are completed. 6. Adopts advanced risk assessment technology for financial instruments with quantifiable risks. 7. Understand the risk quotas and use of the operating units. 8. Investigates risk limits of various business units and monitors usage. 9. Evaluates the Company's risk exposures and concentration. 10. Examines the difference between actual and expected portfolio gains/losses. 11. Validates the product pricing and valuation models used by business units. 12. Other risk management-related affairs.
(5) Business units (Subsidiaries)	<p>Mid-office risk controllers:</p> <ol style="list-style-type: none"> 1. Makes regular reports on risk exposure of the business unit (subsidiary). 2. Ensures that risk management information is conveyed in a timely and accurate manner. 3. Ensures that risk limits are properly executed by the business unit (subsidiary). 4. Monitors risk exposure and reports limit breach, including actions taken by the business unit (subsidiary) in response to the breach. 5. Ensures that the business unit (subsidiary) adopts consistent assumptions and basis for its risk assessment and valuation models. 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. <p>Head of business unit (subsidiary's person-in-charge):</p> <ol style="list-style-type: none"> 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. 2. Supervises exchange of risk management information.
(6) Auditing Department	<ol style="list-style-type: none"> 1. Investigates, on a regular basis, the adequacy of internal control practices adopted by business units in relation to trading activities. 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. 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. 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.
(7) Finance Department	<ol style="list-style-type: none"> 1. Performs bookkeeping or funding according to approved contracts and trade instructions. 2. Produces memos for off-balance sheet transactions undertaken by the Company. 3. Performs secondary valuation on existing holding positions by obtaining price information from a quotation system that is independent from the trading department. 4. Performs timely bookkeeping and recognizes gains/losses for completed transactions. 5. Makes announcements according to rules of the authority.

Department	Responsibilities
(8) Settlement & Clearing Department	1. Holds custody and files transaction contracts.
	2. Settles and clears traded instruments.
	3. Executes claim against collateral.
	4. Reports transaction contracts to relevant authorities.
	5. Confirms transaction details.
(9) Compliance and Legal Division	1. Consults legal advisors and reviews management policies.
	2. Reviews the rights, obligations, legitimacy and documentation of transaction contracts before they are signed with counterparties.
	3. Supervises legal and compliance affairs.
	4. Supervises business units in assessing impact of new regulations on the Company's businesses.
	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.
(10) Information Tech. Department	Development and maintenance of the risk management information system.

3. Risk, Measurement and Management Process

Major risks that the Company faces include market risk, credit risk, liquidity risk, operational risk and legal risk. The Company's divisions send daily risk management report to the Chairman and President to realize latest risk position for decision execution and evaluation via risk management processes, such as risk recognition, evaluation, measurement and monitoring. Tailored to various risks, the Company's risk measurement methods and hedging strategies are as follows:

(1) Market risk

The Company sets the transaction and risk limits of its businesses to control the BIS ratio and maximum losses. Regarding stock risks, the Company calculates daily VaR (Value at Risk) with a 99% confidence interval in a variance-covariance approach, and runs back-testing to ensure its suitability. For fixed-income securities, the Company adopts bp value and daily VaR with a 99% confidence interval to monitor positions risk. The Company adopts Delta and Gamma risk analyses, and also daily VaR with a 99% confidence interval, to control risks of derivative products. The Company disposes stocks according to the authority's regulations of margin maintenance ratio. The business units may utilize various hedging tools, such as futures, options and swaps that are approved by the authority and Board of Directors, to adjust VaR and enhance the capabilities of risk management.

(2) Credit risk

Based on the authority's credit checking requirements and rating data issued by credit rating agencies, the Company sets credit line limits for issuers and counterparties. The Company sets limits of margin trading according to the authority's regulations. Regarding derivative products, the Company calculates counterparty's daily credit exposure. If counterparty's credit exposure exceeds the limit, the Company will demand for qualified collateral or a decrease in positions. Regarding fixed-income position, the counterparty is required to be at or above a certain credit rating. Additionally, the Company monitors issuer's material information, fundraising activity and operation to determine its credit default probability. If the credit rating of fixed-income position is probably going to be lower than investment regulation, the business units are required to sell the position. If the business units have difficulties selling the position immediately due to liquidity problem, the Company shall recognize bad debt provision based on the defaulting probability.

(3) Liquidity risk

Liquidity risks include capital funding and liquidity of financial market. Regarding capital funding,

the Company has diversified its financial institution counterparties with multiple fundraising channels. Based on demand for operational capital, the Company makes plans in advance and monitor daily capital use. Meanwhile, the Company makes analysis via special event scenario to respond to emergent demand for capital arising from systemic risks. Regarding liquidity risks of positions, the Company has set regulations in terms of issued amount, trading amount, counterparty, etc., and monitors market situation dynamically.

(4) Operational risk

According to the Company's internal control system, which has instituted operating procedures and control points, the Auditing Department conducts periodic audits. The auditing reports then will be delivered to the President and Chairman, and the Auditing Department keeps track of the improvement progress afterwards. Besides, employee dishonesty insurance is mandatory to lower the probability of employee's intended negligence.

(5) Legal risk

The Company's Compliance and Legal Division is in charge of legal risk, ensuring full legal compliance of the authority's regulations.

Additionally, the Compliance and Legal Division conducts assessment of contract legality to protect the Company's rights. According to the current regulatory amendments, the Company also performs various employee trainings irregularly to enhance employee's legal compliance and lower the risk of violation.

7.6.14 Other significant risks and responsive measures: None.

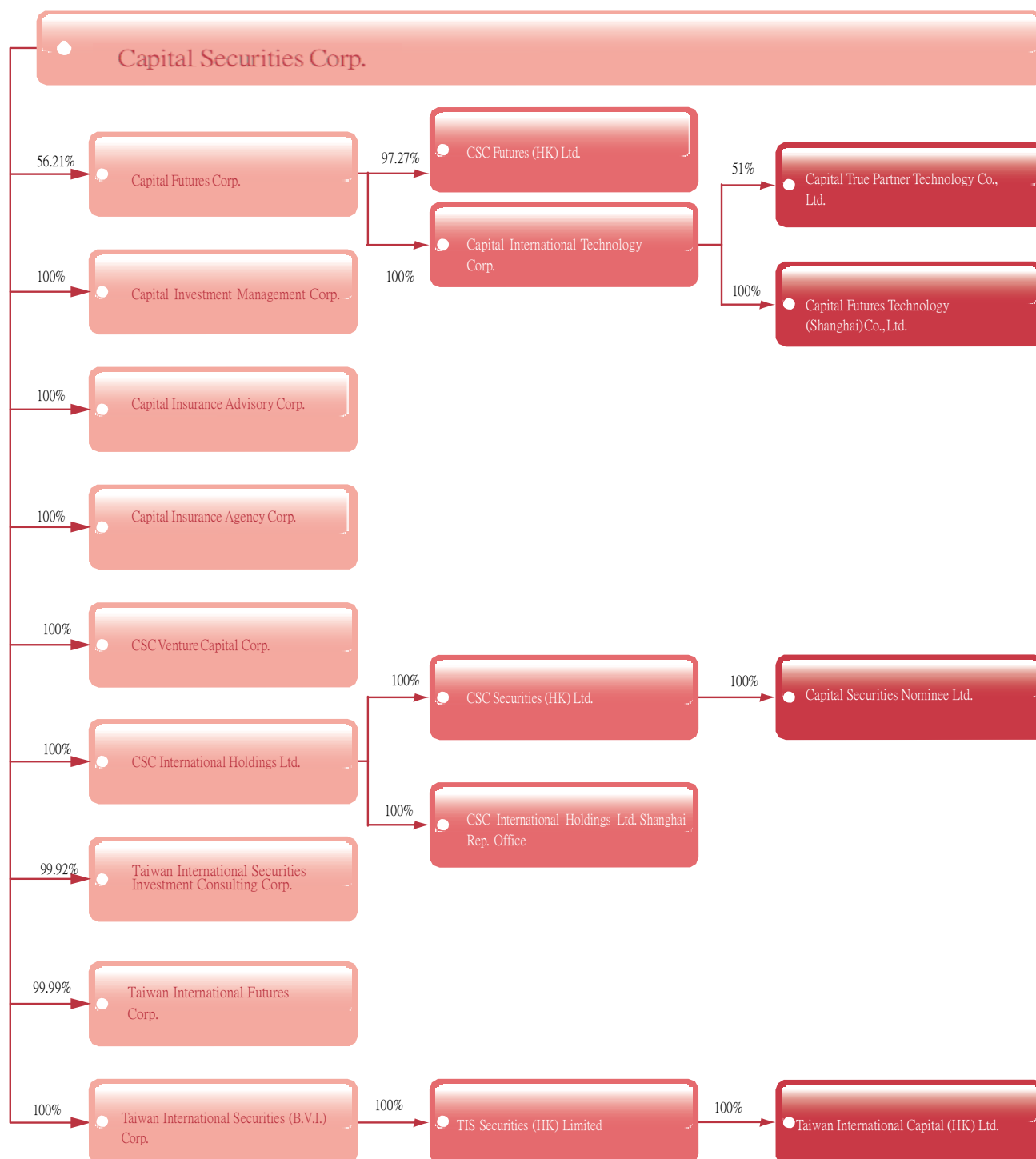
7.7 Other material issues: Not applicable

VIII. Special Remarks

8.1 Information of affiliated companies

Organizational chart of affiliates.

As of March 31, 2018



Note: Taiwan International Securities Investment Consulting Corp., Taiwan international Futures Corp., TIS Securities (HK) Limited, and Taiwan International Capital (HK) Ltd are currently undergoing liquidation.

Table 8.1.1 Profile of Affiliated Companies

Unit: \$

Company name	Date of Establishment	Address	Paid-in 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	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands	USD45,000,000	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
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
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	CNY1,000,000	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	CNY4,000,000	Wholesale, import and export of computer hardware, software and auxiliary equipment, electronic equipment, and parts and accessories to the above. (Excluding state-

Company name	Date of Establishment	Address	Paid-in capital	Main business activities or products
				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.
Taiwan International Securities Investment Consulting Corp.	1994.03.03	13F-1, No. 97, Songren Road, Taipei City	NT\$10,000,000	(Liquidation in progress)
Taiwan International Futures 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)

Table 8.1.2 Information on shareholders presumed to have a controlling and dependent relationship

Unit: NTD thousands; shares; %

Presumed Reason	Name	No. of shares	Shares held Shareholding percentage	Date of Establishment	Address	Paid-up capital	Main business activities or products
			NA				

Table 8.1.3 Directors, Supervisors, and President of Affiliated Companies

Unit: shares; % Date: March 31, 2018

Company name	Title	Name or name of representative	Shares held	
			Shares	Shareholding percentage
Capital Futures Corp.	Corporate entity	Capital Securities Corp.	90,166,223	56.21%
	Corporate entity	Hong Ye Investment Co., Ltd.	1,600	0.001%
	Chairman	Capital Securities Corp. – Representative: SUN, TIAN-SHAN	605,602	0.38%
	Director	Capital Securities Corp. – Representative: LIU, CHING-TSUN	0	0
	Director	Capital Securities Corp. – Representative: WANG, JIUNN-CHIH	0	0
	Vice Chairman	Hong Ye Investment Co., Ltd. – Representative: Chia, Chung-Tao	72,011	0.04%
	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	120,794	0.08%
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-TSAY	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, HSIN-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: CHANG, PEI-WEN	0	0
	Supervisor	Capital Securities Corp. – Representative: TAN, TE-CHENG	0	0
	President	FANG, YA-LONG	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: CHANG, PEI-WEN	0	0
	Supervisor	Capital Securities Corp. – Representative: TAN, TE-CHENG	0	0
	President	HSU, WEN-TUNG	0	0
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: HONG, YEONG-PEI	0	0
	Supervisor	Capital Securities Corp. – Representative: TAN, TE-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
CSC Futures (HK) Ltd.	Corporate entity	CSC International Holdings Ltd.	128,000,000	100.00%
	Director	CSC International Holdings Ltd. – Representative: WANG, JIUNN-CHIH	0	0
	Director	CSC International Holdings Ltd. – Representative: WENG, CHIN-NENG	0	0
	Director	CSC International Holdings Ltd. – Representative: CHANG, TUN-FU	0	0

Company name	Title	Name or name of representative	Shares held	
			Shares	Shareholding Percentage
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: WENG, CHIN-NENG	0	0
	Director	Capital Futures Corp. – Representative: CHANG, TUN-FU	0	0
	Director	Capital Futures Corp. – Representative: SUN, TIEN-SHAN	0	0
	Director	Capital Futures Corp. – Representative: KAO, CHENG-CHUNG	0	0
	Director	Capital Futures Corp. – Representative: LIANG, CHENG-CHUNG	0	0
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: SUN, TIEN-SHAN	0	0
	Director	Capital International Technology Corp. – Representative: CHIA, CHUNG-TAO	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: CHEN, WEN-TSAY	0	0
	Supervisor	True Partner China Holding Limited – Representative: REMCO JANSSEN	0	0
	President	STANLEY, DENG	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, TIEN-SHAN	0	0
	Director	Capital International Technology Corp. – Representative: CHIA, CHUNG-TAO	0	0
	Director	Capital International Technology Corp. – Representative: LEE, WEN-CHU	0	0
	Supervisor	Capital International Technology Corp. – Representative: CHEN, WEN-TSAY	0	0
	President	HUNG, MING-NAN	0	0
Taiwan International Securities Investment Consulting Corp.	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
Taiwan International Futures Corp.	Corporate entity	Capital Securities Corp.	11,999,721	99.99%
	Liquidator	KUO, SHU-KUANG	0	0
	Liquidator	LIU, JAMES C. L	0	0
	Supervisor	Capital Securities Corp. – Representative: HUANG, YEN-HSIANG	0	0
Taiwan International Securities (B.V.I.) Corp.	Corporate entity	TIS Securities (HK) Limited	9,516,300	100.00%
	Director	TIS Securities (HK) Limited – 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

Table 8.1.4 Operational Overview of Affiliated companies

Unit: NTD thousands

Company name	Capital	Total asset	Total liabilities	Net worth	Operating revenues	Operating profit	Current period profit/loss (after-tax)	EPS (\$ (after-tax))
Capital Futures Corp.	1,603,979	32,139,775	27,502,043	4,637,732	1,904,683	454,307	731,015	4.68
Capital International Technology Corp.	50,000	46,960	753	46,207	1,806	(1,900)	898	0.02
Capital Investment Management Corp.	70,000	125,263	18,105	107,158	82,000	13,540	12,258	1.75
Capital Insurance Advisory Corp.	5,000	105,719	15,213	90,506	190,227	76,731	64,667	129.33
Capital Insurance Agency Corp.	7,400	45,385	3,838	41,547	73,265	2,992	2,149	2.90
CSC Venture Capital Corp.	1,000,000	1,000,048	2,135	997,913	1,281	(9,482)	(3,757)	(0.04)
CSC International Holdings Ltd. (Note 1)	1,336,950	1,597,826	4,410	1,593,416	(21,815)	(49,021)	(10,120)	(0.22)
CSC Securities (HK) Ltd. (Note 1)	483,456	1,348,119	751,156	596,963	113,254	(72,020)	(21,820)	(0.17)
Capital Securities Nominee Ltd. (Note 1)	-	-	-	-	-	-	-	-
CSC Futures (HK) Ltd.	862,631	4,595,505	3,646,058	949,447	951,618	65,045	79,824	0.36
Capital True Partner Technology Co., Ltd	5,013	3,264	3,898	(634)	14,907	74	83	NA
Capital Futures Technology (Shanghai) Co., Ltd.	18,863	43,562	19,033	22879	1,712	(3,112)	2,553	NA
Taiwan International Securities Investment Consulting Corp., Ltd. (Note 2)	10,000	13,313	272	13,041	-	(300)	(267)	(0.27)
Taiwan international Futures Corp. (Note 3)	120,000	249,237	177,305	71,932	-	(4,239)	8,589	0.72
Taiwan International Securities (B.V.I.) Corp. (Note 1)	282,729	102,446	101,565	881	304	270	272	906.57
TIS Securities (HK) Limited (Note 1) (Note 4)	1,000,905	1,373	100,917	(99,544)	-	(1,043)	304	0.00
Taiwan International Capital (HK) Ltd. (Note 1) (Note 5)	-	-	249,660	(249,660)	-	(66,753)	(67,251)	(33,625,590.43)

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, 2017:

Assets and liabilities: TWD/USD = 29.71/1; TWD/HKD = 3.777/1; TWD/CNY = 4.54/1.

Profit and loss: TWD/USD = 31.005/1; TWD/HKD = 3.983/1; TWD/CNY = 4.591/1.

Note 2: During the annual general meeting of Taiwan International Securities Investment Consulting Corp., 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 Taiwan international Futures Corp. 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.

8.2 Private placement of securities in the most recent year 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: 315% (December 31, 2017)

322% (March 31, 2018)

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 2017 up till the publication date of this annual report that significantly impacted shareholders' equity or security prices: None.



Contact Information of Head Office, Branches and Affiliates Companies

Capital Securities Corp.

Headquarters: Capital Center, No. 101, Songren Rd., Xinyi Dist., Taipei City 11073, Taiwan, R.O.C.
TEL : 886-2-87898888 FAX : 886-2-87800077

Brokerage Department

Address: 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

Address: 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

Address: 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

Address: 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

Address: 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

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Wealth Management Department

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Brokerage Division

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Zhongxiao Branch

Address: 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

Address: B1F.-2, No.97, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 10601, Taiwan, R.O.C.
TEL : 886-2-27052888 FAX : 886-2-27017236

Nanjing Branch

Address: 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

Address: 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

Address: 5F., No.49, Guanqian Rd., Zhongzheng Dist., Taipei City 10047, Taiwan, R.O.C.
TEL : 886-2- 23615678 FAX : 886-2- 23119140

Guting Branch

Address: 1F., No.85, Sec. 2, Nanchang Rd., Zhongzheng Dist., Taipei City 10084, Taiwan, R.O.C.
TEL : 886-2-23279288 FAX : 886-2-23567201

Zhongshan Branch

Address: 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

Address: 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

Address: 8F.-1, 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

Address: 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

Address: 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

Address: 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

Address: 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

Address: 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

Address: 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

Address: 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

Address: 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

Address: 2F., No.353, Fuhe Rd., Yonghe Dist., New Taipei City 23450, Taiwan, R.O.C.

TEL : 886-2-29207777 FAX : 886-2-29296363

Banqiao Branch

Address: 3F., No.216, Sec. 1, Sanmin Rd., Banqiao Dist., New Taipei City 22067, Taiwan, R.O.C.

TEL : 886-2-89518089 FAX : 886-2-89518076

Tucheng Branch

Address: 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

Address: 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

Xinzhuang Branch

Address: 2F., No.160, Sec. 2, Zhonghua Rd., Xinzhuang Dist., New Taipei City 24246, Taiwan, R.O.C.

TEL : 886-2-89918899 FAX : 886-2-89914587

Danfong Branch

Address: 1F., No.16, Fuguo Rd., Xinzhuang Dist., New Taipei City 24267, Taiwan, R.O.C.

TEL : 886-2-29082388 FAX : 886-2-29082333

Nan sanchong Branch

Address: 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

Address: 3F.-1, No.30-2, Dongmen St., Banqiao Dist., New Taipei City 22055, Taiwan, R.O.C.

TEL : 886-2-29699977 FAX : 886-2-29696300

Keelung Branch

Address: 8F., No.255, Ren 2nd Rd., Ren'ai Dist., Keelung City 20048, Taiwan, R.O.C.

TEL : 886-2-24221212 FAX : 886-2-24262444

Taoyuan Branch

Address: 4F., No.32, Sec. 1, Chenggong Rd., Taoyuan Dist., Taoyuan City 33043, Taiwan, R.O.C.

TEL : 886-3-3377555 FAX : 886-3-3373003

Zhongli Branch

Address: 3F., No.88, Zhongshan Rd., Zhongli Dist., Taoyuan City 32041, Taiwan, R.O.C.

TEL : 886-3-4278699 FAX : 886-3-4278611

Hsinchu Branch

Address: 8F., No.307, Beida Rd., North Dist., Hsinchu City 30044, Taiwan, R.O.C.

TEL : 886-3-5237777 FAX : 886-3-5235555

Jingguo Branch

Address: 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

Address: 5F., No.87, Minzu St., Zhunan Township, Miaoli County 35041, Taiwan, R.O.C.

TEL : 886-37-478345 FAX : 886-37-465010

Taichung Branch

Address: 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

Address: 2F., No.735, Jiancheng Rd., East Dist., Taichung City 40150,
Taiwan, R.O.C.
TEL : 886-4-22830099 FAX : 886-4-22830055

Minquan Branch

Address: 4F., No.91, Minquan Rd., West Dist., Taichung City 40341,
Taiwan, R.O.C.
TEL : 886-4-22208822 FAX : 886-4-22204208

Chongde Branch

Address: B1F-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

Address: 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

Address: 2F., No.295, Jiangong Rd., Dajia Dist., Taichung City 43745,
Taiwan, R.O.C.
TEL : 886-4-26882828 FAX : 886-4-26882882

Tanzi Branch

Address: No.418, Xinghua 1st Rd., Tanzi Dist., Taichung City 42757,
Taiwan R.O.C.
TEL : 886-4-25319898 FAX : 886-4-25315779

Changhua Branch

Address: 6F., No.279, Minsheng Rd., Changhua City, Changhua County
50045, Taiwan, R.O.C.
TEL : 886-4-7250888 FAX : 886-4-7251366

Chiayi Branch

Address: 1F., No.87, Chuiyang Rd., East Dist., Chiayi City 60043,
Taiwan, R.O.C.
TEL : 886-5-2258666 FAX : 886-5-2246978

Tainan Branch

Address: 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

Address: 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

Address: 3F., No.280, Kaiyuan Rd., North Dist., Tainan City 70456,
Taiwan, R.O.C.
TEL : 886-6-2348899 FAX : 886-6-2348800

Kaohsiung Branch

Address: 1F., No.165, Hedong Rd., Qianjin Dist., Kaohsiung City
80144, Taiwan, R.O.C.
TEL : 886-7-2150077 FAX : 886-7-2151414

Sanmin Branch

Address: 1F., No.80, Dachang 2nd Rd., Sanmin Dist., Kaohsiung
City 80780, Taiwan, R.O.C.
TEL : 886-7-3952588 FAX : 886-7-3869191

Gausheng Branch

Address: 1F., No.505, Zhongshan 2nd Rd., Qianjin Dist., Kaohsiung
City 80146, Taiwan, R.O.C.
TEL : 886-7-2615211 FAX : 886-7-2110089

North Kaohsiung Branch

Address: 3F., No.317, Minghua Rd., Gushan Dist., Kaohsiung City
80453, Taiwan R.O.C.
TEL : 886-7-5559933 FAX : 886-7-5597000

Fengshan Branch

Address: 1F., No.8, Yongfeng Rd., Qianzhen Dist., Kaohsiung City
80643, Taiwan R.O.C.
TEL : 886-7-7169788 FAX : 886-7-7168559

Rueifeng Branch

Address: 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

Address: 3F., No.9, Yongfu Rd., Pingtung City, Pingtung County
90075, Taiwan R.O.C.
TEL : 886-8-7339602 FAX : 886-8-7339280

Yilan Branch

Address: 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

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Capital Futures Corp.

Address: B1F., No.97, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 10601, Taiwan, R.O.C.
TEL : 886-2-27002888 FAX : 886-2-27059777

Capital International Technology Corp.

Address: 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.

Address: Room 408-410,4F., No.1, Jinxiu Road, Wuhou District Chengdu, P.R. China
TEL : (8628)6555-2888 FAX : (8628)6555-2999

Capital Futures Technology (Shanghai) Co., Ltd.

Address: 6S New Shanghai International Tower, No. 360 Pudong Road(S), Shanghai, P.R. China
TEL : (8621)6882-5928

Capital Investment Management Corp.

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Capital Insurance Advisory Corp.

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