

**(English Translation of Financial Report Originally
Issued in Chinese)**

**CAPITAL SECURITIES CORPORATION
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

AND

INDEPENDENT ACCOUNTANTS' AUDIT REPORT

Address: 4th Fl. No. 101, Sung-Jen Road, Taipei, Taiwan, R.O.C.

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

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Independent Accountants' Audit 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 June 30, 2017, December 31, 2016 and June 30, 2016, the consolidated statements of comprehensive income for the periods from April 1 to June 30 and January 1 to June 30, 2017 and 2016 as well as the consolidated statements of equity change and cash flows for the six months ended June 30, 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 of June 30, 2017, December 31, 2016 and June 30, 2016 and the results of their operations for the period from April 1 to June 30, and January 1 to June 30, 2017 and 2016 as well as their cash flows for the six months ended June 30, 2017 and 2016 in conformity with the "Regulations Governing the Preparation of Financial Reports by Securities Firms", and IAS 34 "Interim Financial Reporting" endorsed by the Financial Supervisory Commission.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the six months ended June 30, 2017. 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.

1. Valuation of financial instruments

Please refer to Note 4(7) of the consolidated financial statements as of and for the year ended December 31, 2016 for the related accounting policy regarding the valuation of financial instruments; and refer to Note 6(2) financial assets, Note 6(12) financial liabilities at fair value through profit or loss and Note 6(22) E. fair value and fair value hierarchy of financial instruments



in the accompanying consolidated financial statements 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 judgments. Financial instruments on balance sheets mainly belong to first or secondary level in fair value hierarchy, and can being 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 judgments 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. The assessment of litigation and contingent liability

Please refer to Note 4(19) of the consolidated financial statements as of and for the year ended December 31, 2016 for the related accounting policy regarding the assessment of liability provisions; and refer to Note 9 in the accompanying consolidated financial statements for details on the information about the assessment of significant contingent liability and unrecognized contract commitment.

Risk and descriptions of the key audit matter:

Our contingent liabilities may occur because of the progress of ongoing litigations and other legal matters, the amounts may be significant, and when assessing liability provisions by related accounting standards, required the applying of the management's judgments. Therefore, the assessment of litigation and contingent liability is included as our key audit matter.

Procedures performed:

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

Other Matter

The Group has prepared its parent-company-only financial statements as of and for the six months ended June 30, 2017 and 2016, on which we have issued an unmodified opinion.



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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Firms” and the IAS 34 “Interim Financial Reporting” endorsed by the FSC, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Group to cease to continue as a going concern.



5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the investees accounted for using the equity method to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the investee audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the six months ended June 30, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG
Taipei, Taiwan, R.O.C.
August 28, 2017

Notice to Readers

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

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

(English Translation of Financial Report Originally Issued in Chinese
CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed In Thousands of New Taiwan Dollars)

ASSETS	June 30, 2017		December 31, 2016		June 30, 2016		LIABILITIES AND STOCKHOLDERS' EQUITY	June 30, 2017		December 31, 2016		June 30, 2016	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
Current Assets							Current Liabilities						
Cash and cash equivalents (Note 6(1))	\$ 6,356,358	5	5,423,415	5	5,568,374	6	Short-term borrowings (Note 6(10))	\$ 4,998,522	4	4,236,402	4	1,049,442	1
Financial assets at fair value through profit or loss - current (Note 6(2))	33,212,916	25	27,730,008	25	25,971,057	26	Commercial paper payable (Note 6(11))	5,899,081	5	-	-	-	-
Financial assets available for sale - current (Note 6(2))	27,824,015	21	19,337,878	18	12,949,894	13	Financial liabilities at fair value through profit or loss - current (Note 6(12))	1,705,557	1	1,475,764	2	1,573,460	2
Bonds purchased under resale agreements (Notes 6(3) and (8))	100,015	-	-	-	299,786	-	Bonds sold under repurchase agreements (Note 6(13))	44,492,765	34	34,956,642	32	29,874,535	30
Receivable for securities provided as collateral	13,300,850	10	11,924,515	11	12,304,238	12	Guarantee deposited for short sales	1,130,021	1	1,722,840	2	1,292,589	1
Refinancing margin	20,729	-	93,353	-	5,132	-	Proceeds payable from short sales	1,369,550	1	1,947,104	2	1,488,482	1
Refinancing collateral receivable	17,821	-	79,289	-	4,276	-	Securities lending refundable deposits	488,132	-	878,866	1	1,064,658	1
Receivable of securities business money lending	1,064,333	1	144,552	-	236	-	Futures traders' equity (Note 6(5))	27,367,025	21	23,132,231	21	22,174,377	22
Customers' margin account (Note 6(5))	27,411,780	21	23,169,842	21	22,198,719	22	Customer equity of separate account ledger in settlement account (Note 6(14))	12,924	-	4,537	-	23,550	-
Receivable - futures margin	11	-	894	-	894	-	Leverage contract trading - customers' equity	147,847	-	70	-	-	-
Collateral for securities borrowed	522,246	-	802,737	1	682,779	1	Notes payable	90	-	879	-	90	-
Security borrowing margin	512,478	-	775,251	1	653,395	-	Accounts payable (Note 6(15))	6,732,785	5	3,478,124	3	5,032,816	5
Notes receivable	19,075	-	16,931	-	14,366	-	Advance receipts	53,749	-	33,569	-	25,102	-
Accounts receivable (Note 6(4))	7,375,115	6	4,106,313	4	5,640,626	6	Receipts under custody	121,564	-	147,328	-	102,115	-
Prepayments	39,413	-	50,564	-	40,772	-	Other payables	1,674,373	1	663,830	1	1,886,726	2
Other receivables	224,634	-	100,312	-	247,271	-	Other financial liabilities - current (Note 6(23))	2,469,655	2	2,427,461	2	2,149,496	2
Leverage contract trading - customers' margin account	158,651	-	72	-	-	-	Current income tax liabilities	293,392	-	225,883	-	177,510	-
Current income tax assets	44,802	-	44,685	-	72,168	-	Provisions - current (Note 6(17))	62,865	-	65,365	-	47,546	-
Other current assets	622,605	1	705,402	1	715,553	1	Other current liabilities	10,773	-	3,065	-	7,329	-
	118,827,847	90	94,506,013	87	87,369,536	87		99,030,670	75	75,399,960	70	67,969,823	67
Non-current Assets							Non-current Liabilities						
Financial assets at fair value through profit or loss - non-current (Notes 6(2) and (8))	186,217	-	186,073	-	190,390	-	Other financial liabilities -non-current (Note 6(23))	334,426	-	239,634	-	335,185	-
Financial assets measured at cost - non-current (Note 6(2))	695,825	1	448,460	-	460,699	-	Deferred income tax liabilities	617,317	-	675,975	1	736,998	1
Financial assets available for sale - non-current (Note 6(2))	1,905	-	76,261	-	64,443	-	Other non-current liabilities	770,808	1	884,366	1	865,194	1
Investments accounted for under equity method (Note 6(6))	148,651	-	198,205	-	150,345	-		1,722,551	1	1,799,975	2	1,937,377	2
Property and equipment (Notes 6(7) and (8))	5,086,142	4	5,129,823	5	5,147,414	5	Total Liabilities	100,753,221	76	77,199,935	72	69,907,200	69
Investment property (Notes 6(8) and (8))	1,720,053	1	1,727,324	2	1,734,925	2	Equity Attributable to Shareholders of the Parent						
Intangible assets (Note 6(9))	3,623,140	3	3,612,248	3	3,619,898	4	Common stock (Note 6(19))	21,690,730	16	22,690,730	21	22,690,730	23
Deferred income tax assets	416,481	-	407,397	1	470,316	-	Capital surplus						
Other non-current assets	1,684,592	1	1,752,409	2	1,843,010	2	Premium from stock issuance	1,776,413	1	1,858,310	2	1,858,310	2
	13,563,006	10	13,538,200	13	13,681,440	13	Treasury stock transactions	437,096	-	253,940	-	253,940	-
							Paid-in capital from merger	602,665	1	630,450	1	630,450	1
							Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,338	-	1,399	-	1,399	-
							Changes in ownership interests in subsidiaries	34,787	-	6,873	-	6,287	-
							Retained earnings						
							Legal reserve	1,230,275	1	1,110,600	1	1,110,600	1
							Special reserve	2,709,623	2	2,464,288	2	2,464,288	3
							Unappropriated earnings (Note 6(18))	1,086,630	1	1,188,633	1	573,541	-
							Exchange differences on translation of foreign operations	(40,413)	-	97,158	-	102,114	-
							Unrealized gains (losses) on financial assets available for sale	229,809	-	53,215	-	231,156	-
							Treasury stocks (Note 6(19))	-	-	(835,048)	(1)	-	-
							Total equity attributed to the parent company	29,758,953	22	29,520,548	27	29,922,815	30
							Non-controlling interests	1,878,679	2	1,323,730	1	1,220,961	1
							Total Equity	31,637,632	24	30,844,278	28	31,143,776	31
TOTAL ASSETS	\$ 132,390,853	100	108,044,213	100	101,050,976	100	TOTAL LIABILITIES AND EQUITY	\$ 132,390,853	100	108,044,213	100	101,050,976	100

The accompanying notes are an integral part of the consolidated financial statements

(English Translation of Financial Report Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed In Thousands of New Taiwan Dollars, Except Earnings Per Share Data)

	For the three months ended June 30,				For the six months ended June 30,			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
Income:								
Brokerage commissions (Note 6(21))	\$ 875,132	41	786,284	46	1,690,204	43	1,648,966	52
Revenues from securities business money lending	282	-	15	-	436	-	28	-
Revenue from securities lendings	25,881	1	14,061	1	50,682	1	28,393	1
Underwriting commissions (Note 6(21))	24,076	1	35,221	2	72,599	2	51,457	2
Commissions on wealth management business	22,877	1	15,605	1	44,656	1	28,054	1
Net gains (losses) on sale of trading securities (Note 6(2))	358,850	17	12,988	1	732,348	18	(133,024)	(4)
Securities management, distribution, and management fees	33,962	2	33,960	2	66,825	2	69,527	2
Interest revenue (Note 6(21))	488,804	23	362,809	21	930,065	24	704,286	22
Dividend revenue	22,869	1	17,249	1	23,504	1	18,078	1
Net gains (losses) on measurement of trading securities at fair value through profit or loss (Note 6(21))	236,258	11	100,127	6	371,820	9	248,063	8
Net gains (losses) on covering of borrowed securities and bonds with resale agreements	3,758	-	(63,468)	(4)	13,516	-	10,157	-
Net gains (losses) on measurement of borrowed securities and bonds with resale agreements	(9,193)	-	12,319	1	(60,131)	(2)	(52,296)	(2)
Net gains (losses) on stock warrants issued (Notes 6(21) and 6(23))	(39,403)	(2)	169,175	10	1,399	-	385,219	12
Futures commission revenues (Note 6(21))	189,304	9	172,238	10	301,197	8	267,571	8
Net gains (losses) on derivative instruments - futures (Note 6(2))	(143,529)	(7)	59,741	3	(225,815)	(6)	(57,636)	(2)
Net gains (losses) on derivative instruments - OTC (Note 6(2))	(19,850)	(1)	(61,960)	(4)	(160,467)	(4)	(170,513)	(5)
Management fee revenue	9	-	36	-	18	-	86	-
Consultancy fee revenue	4,165	-	3,644	-	7,757	-	6,509	-
Other operating revenues	51,169	3	43,163	3	103,166	3	126,979	4
	<u>2,125,421</u>	<u>100</u>	<u>1,713,207</u>	<u>100</u>	<u>3,963,779</u>	<u>100</u>	<u>3,179,904</u>	<u>100</u>
Expenses:								
Brokerage fees	120,825	6	130,161	8	224,558	6	241,387	8
Brokerage and clearing fees - proprietary trading	4,104	-	3,773	-	8,688	-	8,038	-
Clearing and exchange fees - refinancing	576	-	584	-	903	-	1,419	-
Clearing and exchange fees -underwriting	177	-	528	-	992	-	862	-
Financial costs	144,934	7	65,266	4	269,782	7	121,365	4
Commission expense - futures (Note 6(21))	173,158	8	113,891	7	280,581	7	193,888	6
Clearing and settlement expenses	34,673	2	36,655	2	67,164	2	73,743	3
Other operating expenditure	3,222	-	1,157	-	3,248	-	3,986	-
Employee benefits expenses (Note 6(21))	647,669	30	613,470	36	1,281,510	32	1,212,118	38
Depreciation and amortization expenses (Note 6(21))	54,646	3	53,719	3	108,910	3	108,067	3
Other operating expenses (Note 6(21))	423,344	20	327,487	19	759,173	19	693,854	22
	<u>1,607,328</u>	<u>76</u>	<u>1,346,691</u>	<u>79</u>	<u>3,005,509</u>	<u>76</u>	<u>2,658,727</u>	<u>84</u>
Other income and expenses :								
Share of profits of associates and joint venture (Note 6(6))	13,737	1	35,665	2	42,636	1	58,847	2
Other gains and losses (Note 6(21))	200,959	9	123,401	7	341,118	9	231,496	7
	<u>214,696</u>	<u>10</u>	<u>159,066</u>	<u>9</u>	<u>383,754</u>	<u>10</u>	<u>290,343</u>	<u>9</u>
Net income before income tax	<u>732,789</u>	<u>34</u>	<u>525,582</u>	<u>30</u>	<u>1,342,024</u>	<u>34</u>	<u>811,520</u>	<u>25</u>
Income tax expense (Note 6(18))	<u>(87,041)</u>	<u>(4)</u>	<u>(73,173)</u>	<u>(4)</u>	<u>(141,612)</u>	<u>(4)</u>	<u>(138,190)</u>	<u>(4)</u>
Net income	<u>645,748</u>	<u>30</u>	<u>452,409</u>	<u>26</u>	<u>1,200,412</u>	<u>30</u>	<u>673,330</u>	<u>21</u>
Other comprehensive income								
Items that may be reclassified to profit or loss in subsequent periods								
Exchange differences on translation of foreign operations	3,271	-	4,424	-	(189,030)	(5)	(45,224)	(1)
Unrealized gains (losses) on financial assets available for sale, net	7,859	1	88,022	5	159,831	4	239,397	7
Income tax benefit related to components of other comprehensive income (Note 6(20))	(95)	-	(869)	-	27,837	1	7,639	-
Subtotal of items that may be subsequently reclassified into profit or loss	<u>11,035</u>	<u>1</u>	<u>91,577</u>	<u>5</u>	<u>(1,362)</u>	<u>-</u>	<u>201,812</u>	<u>6</u>
Other comprehensive income for the period, net of income tax	<u>11,035</u>	<u>1</u>	<u>91,577</u>	<u>5</u>	<u>(1,362)</u>	<u>-</u>	<u>201,812</u>	<u>6</u>
Total comprehensive income for the period	<u>\$ 656,783</u>	<u>31</u>	<u>543,986</u>	<u>31</u>	<u>1,199,050</u>	<u>30</u>	<u>875,142</u>	<u>27</u>
Net income attributable to:								
Shareholders of the parent	\$ 552,280	26	401,384	23	1,065,565	27	563,191	18
Non-controlling interests	93,468	4	51,025	3	134,847	3	110,139	3
	<u>\$ 645,748</u>	<u>30</u>	<u>452,409</u>	<u>26</u>	<u>1,200,412</u>	<u>30</u>	<u>673,330</u>	<u>21</u>
Total comprehensive income attributable to:								
Shareholders of the parent	\$ 604,580	28	492,474	28	1,129,319	28	767,326	24
Non-controlling interests	52,203	3	51,512	3	69,731	2	107,816	3
	<u>\$ 656,783</u>	<u>31</u>	<u>543,986</u>	<u>31</u>	<u>1,199,050</u>	<u>30</u>	<u>875,142</u>	<u>27</u>
Basic earnings per share (Note 6(20))	<u>\$ 0.25</u>		<u>0.18</u>		<u>0.49</u>		<u>0.25</u>	
Dilutive earnings per share (Note 6(20))	<u>\$ 0.25</u>		<u>0.18</u>		<u>0.49</u>		<u>0.25</u>	

The accompanying notes are an integral part of the consolidated financial statements.

(English Translation of Financial Report Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(Expressed In Thousands of New Taiwan Dollars)

	Equity attributable to shareholders of the parent										Total
	Retained earnings					Others		Equity attributable			
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences on translation of foreign operations	Unrealized gains (losses) on financial assets available for sale	Treasury stocks	to shareholders of the parent	Non-controlling interests	
Beginning balance, 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 six months ended June 30, 2016	-	-	-	-	563,191	-	-	-	563,191	110,139	673,330
Other comprehensive income for the six months ended June 30, 2016	-	-	-	-	-	(33,871)	238,006	-	204,135	(2,323)	201,812
Total comprehensive income for the six months ended June 30, 2016	-	-	-	-	563,191	(33,871)	238,006	-	767,326	107,816	875,142
Appropriation and distribution of retained earnings:											
Legal reserve	-	-	154,933	-	(154,933)	-	-	-	-	-	-
Special reserve	-	-	-	309,866	(309,866)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(1,111,845)	-	-	-	(1,111,845)	-	(1,111,845)
Purchase of treasury stocks	-	-	-	-	-	-	-	(23,266)	(23,266)	-	(23,266)
Retirement of treasury stocks	(500,000)	7,579	-	-	-	-	-	492,421	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(123,922)	(123,922)
Ending balance, June 30, 2016	\$ 22,690,730	2,750,386	1,110,600	2,464,288	573,541	102,114	231,156	-	29,922,815	1,220,961	31,143,776
Beginning balance, January 1, 2017	\$ 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 six months ended June 30, 2017	-	-	-	-	1,065,565	-	-	-	1,065,565	134,847	1,200,412
Other comprehensive income for the six months ended June 30, 2017	-	-	-	-	-	(137,571)	201,325	-	63,754	(65,116)	(1,362)
Total comprehensive income for the six months ended June 30, 2017	-	-	-	-	1,065,565	(137,571)	201,325	-	1,129,319	69,731	1,199,050
Appropriation and distribution of retained earnings:											
Legal reserve	-	-	119,675	-	(119,675)	-	-	-	-	-	-
Special reserve	-	-	-	245,335	(245,335)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(802,558)	-	-	-	(802,558)	-	(802,558)
Purchase of treasury stocks	-	-	-	-	-	-	-	(91,539)	(91,539)	-	(91,539)
Retirement of treasury stocks	(1,000,000)	73,413	-	-	-	-	-	926,587	-	-	-
Capital surplus changes in ownership interests in subsidiaries	-	27,914	-	-	-	-	(24,731)	-	3,183	-	3,183
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	485,218	485,218
Ending balance, June 30, 2017	\$ 21,690,730	2,852,299	1,230,275	2,709,623	1,086,630	(40,413)	229,809	-	29,758,953	1,878,679	31,637,632

The accompanying notes are an integral part of the consolidated financial statements.

(English Translation of Financial Report Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(Expressed In Thousands of New Taiwan Dollars)

	For the six months ended June 30,	
	2017	2016
Cash flows from operating activities:		
Income before income tax for the period	\$ 1,342,024	811,520
Adjustments for:		
Income and expenses items with no effect on cash flows:		
Depreciation expense	91,973	88,331
Amortization expense	16,937	19,736
Bad debts expense	76,014	-
Net losses (gains) on financial assets or liabilities at fair value through profit or loss	(374,130)	(248,063)
Interest expense	269,782	121,365
Interest revenue (including financial income)	(1,046,561)	(800,954)
Dividend revenue	(36,648)	(23,781)
Share-based payment compensation cost	17,530	-
Share of profit of associates and joint ventures	(42,636)	(58,847)
Net losses (gains) on disposal and retirement of property and equipment	-	3,198
Gains on disposal of investment	(38,920)	-
Net losses (gains) on non-operating financial instruments at fair value through profit or loss	(19,749)	11,243
Net changes of income and expense items with no effect on cash flows	(1,086,408)	(887,772)
Changes in assets and liabilities from operating activities:		
Net changes of assets from operating activities:		
Decrease (increase) in financial assets at fair value through profit or loss	(5,091,480)	251,057
Decrease (increase) in financial assets available for sale - current	(8,284,811)	(4,878,435)
Decrease (increase) in bonds purchased under resale agreements	(100,015)	(299,786)
Decrease (increase) in receivable for securities provided as collateral	(1,438,022)	2,850,982
Decrease (increase) in refinancing margin	72,624	3,952
Decrease (increase) in receivable on refinancing collateral	61,468	3,274
Decrease (increase) in receivable of securities business money lending	(919,781)	(236)
Decrease (increase) in customers' margin account	(4,241,938)	(5,893,963)
Decrease (increase) in margin receivable of futures trading	883	6
Decrease (increase) in collateral for securities borrowed	280,491	391,351
Decrease (increase) in security borrowing margin	262,773	807,154
Decrease (increase) in notes receivable	(2,144)	(6,411)
Decrease (increase) in accounts receivable	(3,180,730)	(645,240)
Decrease (increase) in prepayments	11,151	(4,469)
Decrease (increase) in other receivables	177,988	(286,646)
Decrease (increase) in current income tax assets	-	(12,399)
Decrease (increase) in other current assets	18,926	1,113,500
Decrease (increase) in guarantee deposited for business operations	(10,408)	13,371
Decrease (increase) in settlement fund	5,553	23,309
Decrease (increase) in refundable deposits	23,731	(20,946)
Decrease (increase) in leverage contract trading - customers' margin account	(158,579)	-
Decrease (increase) in other non-current assets	95,141	20,221
Total net changes in assets from operating activities:	(22,417,179)	(6,570,354)
Net changes in liabilities from operating activities:		
Increase (decrease) in financial liabilities at fair value through profit or loss	232,103	(835,496)
Increase (decrease) in bonds sold under repurchase agreements	9,536,123	6,298,292
Increase (decrease) securities financing refundable deposits	(592,819)	(732,422)
Increase (decrease) deposits payable for securities financing	(577,554)	(754,198)
Increase (decrease) securities lending refundable deposits	(390,734)	(558,279)
Increase (decrease) in futures traders' equity	4,234,794	5,887,065
Increase (decrease) customers' equity of separate account ledger in settlement accounting	8,387	19,446
Increase (decrease) in leverage contract trading - customers' equity	147,777	-
Increase (decrease) in notes payable	(789)	(756)
Increase (decrease) in accounts payable	3,254,661	1,185,052
Increase (decrease) in advance receipts	20,180	5,167
Increase (decrease) in receipts under custody	(25,764)	(1,245,044)
Increase (decrease) in other payables	(147,674)	95,122
Increase (decrease) in other current liabilities	7,161	1,185
Increase (decrease) in other financial liabilities	42,194	(1,685,079)
Increase (decrease) in provisions - current	(2,500)	-
Increase (decrease) in other financial liabilities - non-current	94,792	93,194
Increase (decrease) in other non-current liabilities	(113,558)	(386)
Total net changes in liabilities from operating activities	15,726,780	7,772,863
Total net changes in assets and liabilities from operating activities	(6,690,399)	1,202,509
Total Cash generated from adjustment items	(7,776,807)	314,737

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(Expressed In Thousands of New Taiwan Dollars)

	For the six months ended June 30,	
	2017	2016
Cash generated by operating activities	\$ (6,434,783)	1,126,257
Interest received	960,119	785,814
Dividends received	19,738	12,630
Interest paid	(279,392)	(121,943)
Income tax paid	(114,008)	(50,137)
Net cash provided by (used in) operating activities	(5,848,326)	1,752,621
Cash flows from investing activities:		
Proceeds from disposal of financial assets available-for-sale	71,827	-
Proceeds from capital reduction of financial assets measured at cost	1,400	26,512
Acquisitions of financial assets measured at cost	(248,765)	(75,980)
Decrease (increase) of deferred debits	(83)	(390)
Acquisitions of property and equipment	(28,575)	(41,635)
Acquisitions of intangible assets	(26,894)	(10,842)
Net cash provided by (used in) investing activities	(231,090)	(102,335)
Cash flows from financing activities:		
Increase (decrease) in short-term borrowing	762,120	(741,719)
Increase (decrease) in commercial paper payable	5,899,081	-
Acquisition of treasury stocks	(91,539)	(23,266)
Issuance of common stock for cash	626,096	-
Net cash provided by (used in) financing activities	7,195,758	(764,985)
Effect of exchange rate changes on cash and cash equivalents	(183,399)	(43,425)
Increase (decrease) in cash and cash equivalents	932,943	841,876
Cash and cash equivalents, beginning of the year	5,423,415	4,726,498
Cash and cash equivalents, end of this period	\$ 6,356,358	5,568,374

The accompanying notes are an integral part of the consolidated financial statements.

(English Translation of Financial Report Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

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

1. OVERVIEW

Capital Securities Corporation (the “Company”) was registered under the Ministry of Economic Affairs, R.O.C. on June 21, 1988. The address of the Company’s registered office is 4th Fl. No. 101, Song-Jen Road, Taipei, Taiwan, R.O.C. As of June 30, 2017, the composition of the consolidated financial statements includes the Company and the subsidiaries (the “Group”). As of June 30, 2017, the Company has 56 branches nationwide.

The Company is authorized to conduct the following businesses:

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

2. APPROVAL DATE AND PROCEDURES OF THE FINANCIAL REPORT

The consolidated financial statements were authorized for issuance by the board of directors on August 28, 2017.

3. NEW STANDARDS AND INTERPRETATIONS

- (1) 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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendments to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendments to IAS 36 “Recoverable Amount Disclosures for Non-Financial Assets”	January 1, 2014
Amendments to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
Annual Improvements to IFRSs 2010 - 2012 and 2011 - 2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012 - 2014 Cycle	January 1, 2016
Interpretations to IFRS 21 “Levies”	January 1, 2014

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

- (2) The impact of IFRS issued by IASB as endorsed by the FSC but not yet adopted by the Group

According to Ruling No. 1060025773 issued on July 14, 2017, by the FSC, public entities are required to conform to the IFRSs that have been endorsed by the FSC with effective date from 2018 in preparing their financial statements. The new related standards, interpretations, and amendments are as follows:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 2 “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
IFRS 9 “Financial Instruments”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IAS 7 “Statement of Cash Flows -Disclosure Initiative”	January 1, 2017
Amendments 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 IFRSs 2014 - 2016 Cycle:	
Amendments to IFRS 12 “Disclosure of Interests in Other Entities”	January 1, 2017
Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” and IAS 28 “Investments in Associates and Joint Ventures”	January 1, 2018
Interpretations to IFRS 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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:

A. 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. The actual impact of adopting IFRS 9 on the Group’s consolidated financial statements for year 2018 can only be determined and reliably estimated depending on the

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

financial instruments that the Group holds and economic conditions at that time, as well as the accounting elections and judgments that it will make in the future. The Group is currently revamping its accounting procedures and internal control over financial reporting in accordance with the requirement of this Standard, and also, is assessing the potential impact to the Group as a result of the initial adoption of IFRS 9. The Group has performed a preliminary assessment of the potential impact of the adoption of IFRS 9 based on its positions at June 30, 2017 and hedging relationships designated under IAS 39.

a. Classification and measurement - Financial assets

IFRS 9 contains a new classification and measurement approach on the business model and on the cash flows associated with each financial asset.

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 financial assets, loans and receivables and financial assets 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 eliminates this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on the Group's preliminary assessment, the new classification requirements if applied at June 30, 2017, 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 June 30, 2017, the Group had equity investments classified as financial assets available for sale with a fair value and financial assets measured at cost that are held for long-term strategic purposes. If these investments continue to be held for the same purpose at initial application of IFRS 9, the Group may elect then to classify them as FVOCI or FVTPL. The Group has not yet made a decision in this regard. In the former case, all fair value gains and losses would be reported in other comprehensive income and no gains or losses would be reclassified to profit or loss on disposal. In the latter case, all fair value gains and losses would be recognized in profit or loss as they arise in the Group's profits.

b. 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, FVOCI except for investments in equity instruments, and contract assets.

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

- 12-months 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-months 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.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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 believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. However, the Group has not yet finalized the impairment methodologies that it will apply under IFRS 9.

c. Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses. The Group's preliminary 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.

d. Transition

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

- 1) The Group plans to 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 reserves as at January 1, 2018.
- 2) New hedge accounting requirements should generally be applied prospectively. However the Group may elect to apply the expected change in accounting for forward points retrospectively. The Group has not made a decision in relation to this election.
- 3) 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.

B. 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 is assessing the potential impact on its consolidated financial statements resulting from the amendments and will disclose the relevant impact when the assessment is completed.

(3) 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:

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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"	Undecided
IFRS 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
Interpretations to IFRS 23 "Uncertainty over Income Tax Treatments"	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.
June 7, 2017	Interpretations to IFRS 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.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The Group 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 complete.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

(1) 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 IAS 34 “Interim Financial Reporting” endorsed by the FSC and do not include all of the information required for full annual consolidated financial statements prepared in accordance with the IFRSs, IAS and interpretations endorsed by the FSC.

Except as described below, the significant accounting policies adopted in the accompanying consolidated financial statements are the same as the consolidated financial statements as of and for the year ended December 31, 2016. Please refer to Note 4 of the consolidated financial statements as of and for the year ended December 31, 2016 for the detail disclosures of significant accounting policies.

(2) Basis of preparation

The principle of preparing consolidated financial statements are the same as the consolidated financial statements as of and for the year ended December 31, 2016. Please refer to Note 4(3) of the consolidated financial statements as of and for the year ended December 31, 2016.

A. Subsidiaries listed in the consolidated financial statement were as follows:

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			June 30, 2017	December 31, 2016	June 30, 2016	
The Company	Capital Investment Management Corp.	Engaged in providing advice on securities investment and securities investment consultancy	100.00%	100.00%	100.00%	The corporation established in February, 1990. As of June 30, 2017, the paid-in capitals amounted to \$70,000.
"	CSC International Holdings Ltd.	Long-term equity investment business	100.00%	100.00%	100.00%	The corporation established in March, 1996. As of June 30, 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%	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 June 30, 2017, the paid-in capitals amounted to \$1,603,979.
"	Taiwan International Futures Corp.	Management consultancy	99.99%	99.99%	99.99%	Liquidation in progress.
"	Taiwan International Securities (B.V.I) Corp.	Holding company for offshore securities units	100.00%	100.00%	100.00%	The corporation established in December, 1996. As of June 30, 2017, the paid-in capitals amounted to US\$9,516 thousands.
"	Taiwan International Securities Investment Consulting Corp.	Investment consultancy	99.92%	99.92%	99.92%	Liquidation in progress.
"	CSC Venture Capital Corp.	Venture Capital and consulting business	100.00%	100.00%	100.00%	The corporation established in January, 2016. As of June 30, 2017, the paid-in capitals amounted to \$1,000,000.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			June 30, 2017	December 31, 2016	June 30, 2016	
Capital Futures Corp.	CSC Futures (HK) Ltd.	Futures dealing business	97.27%	97.27%	95.00%	The corporation established in December, 1998. Acquired 100% of the equity on November 1, 2012, disposed 5% on April 30, 2015 and increased capital HK\$100,000 thousands to acquire additional 2.27% equity on December 12, 2016. As of June 30, the paid-in capitals amounted to HK\$220,000 thousands.
"	Capital International Technology Corp.	Management, consulting and information service business	100.00%	100.00%	100.00%	The corporation established in December, 2014. As of June 30, 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%	51.00%	The corporation established in August 20, 2008. Acquired 51% of the equity on February 9, 2015 and held controlling interest. As of June 30, 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 June 30, 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	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	The corporation established in May, 1994.
"	Capital Securities (Hong Kong) Ltd.	Long-term equity investment business	100.00%	100.00%	100.00%	The board of directors of the Company resolved to cease operation on October 30, 2012. The corporation established in May, 1994.
Capital Securities (Hong Kong) Ltd.	CSC Securities (HK) Ltd.	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	
CSC Securities (HK) Ltd.	Capital Securities Nominees Ltd.	Agency service	100.00%	100.00%	100.00%	The corporation established in April, 1995. Acquired equity from Capital Securities (Hong Kong) Ltd. on January 17, 2013.
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Ltd.	Long-term equity investment business.	100.00%	100.00%	100.00%	Not complied with the requirement of Financial Resources Rules (the "FRR") of the Hong Kong Securities and Futures Commission, the operations remain stagnant currently.
TIS Securities (HK) Ltd.	Taiwan International Capital (HK) Ltd.	Direct investment	100.00%	100.00%	100.00%	"

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

B. Subsidiaries not listed in the consolidated financial statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			June 30, 2017	December 31, 2016	June 30, 2016	
The Company	Capital Insurance Agency Corp.	Manages personal insurance agent business.	100.00%	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 June 30, 2017, December 31, 2016 and June 30, 2016, the total assets constituted 0.04%, 0.06% and 0.06% of the Group's total assets. For the six months end June 30, 2017 and 2016, the operation revenue were merely 1.11% and 1.67% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.
"	Capital Insurance Advisory Corp.	Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business.	100.00%	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 June 30, 2017, December 31, 2016 and June 30, 2016, the total assets constituted 0.13%, 0.13% and 0.15% of the Group's total assets. For the six months end June 30, 2017 and 2016, the operation revenue were merely 2.90% and 4.39% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.

(3) Income tax

The Group estimated and disclosed interim income tax under IAS 34 "Interim Financial Reporting" Appendix B12.

Income tax expense is best estimated by multiplying pretax income for the interim reporting period with the effective annual tax rate as forecasted by the management, and is recognized as current tax expense.

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the tax rates that have been enacted or substantively enacted at the time of the asset or liability is recovered or settled and recognized directly in equity or other comprehensive income as tax expense.

(4) Employee benefits

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior fiscal year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

(5) 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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

at cost, which includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

The investment of subsidiaries or joint venture which is possessed directly or indirectly by venture capital organization is exempted from equity method, it can choose to compliance to IAS 39 “Financial Instruments: Recognition and Measurement” to evaluate the investment through profit and loss at fair value.

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 or equals its share of interest in associates, the recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligation or 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 an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not re-measure the retained interest.

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.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

5. MAJOR SOURCES OF ACCOUNTING ASSUMPTIONS, JUDGEMENTS AND ESTIMATION UNCERTAINTY

The preparation of the consolidated financial statements in conformity with Regulations Governing the Preparation of Financial Reports by Securities Firms and IAS 34 "Interim Financial Reporting" 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.

In these consolidated financial statements, judgments and key sources of estimation uncertainty used by management in the application of critical accounting policies are expected to be consistent with those of Note 6 of the consolidated financial statements as of and for the year ended December 31, 2016.

6. SUMMARY OF MAJOR ACCOUNTS

Except as described below, the description of significant accounts in the accompanying consolidated financial statements is not materially different from the consolidated financial statements as of and for the year ended December 31, 2016. Please refer to Note 6 of the consolidated financial statements as of and for the year ended December 31, 2016 for the detailed disclosures of these significant accounts.

(1) Cash and cash equivalents

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Cash	\$ 2,912	2,850	2,960
Bank deposits			
Checking accounts	44,412	58,106	34,004
Demand deposits	655,602	422,816	890,177
Time deposits	2,784,280	2,143,168	2,452,758
Foreign currency deposits	1,907,633	1,978,038	1,602,573
Subtotal	<u>5,391,927</u>	<u>4,602,128</u>	<u>4,979,512</u>
Cash equivalents			
Futures margin-excess margin	961,519	818,437	585,902
Total	<u>\$ 6,356,358</u>	<u>5,423,415</u>	<u>5,568,374</u>

(2) Financial assets

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

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Open-ended funds and money-market instruments			
Open-ended funds and money-market instruments	\$ 647,197	1,201,307	628,779
Valuation adjustment	(2,252)	(21,007)	36
Subtotal	<u>644,945</u>	<u>1,180,300</u>	<u>628,815</u>
Investment in securities			
Investment in securities	116,465	-	33,336
Valuation adjustment	1,455	-	(706)
Subtotal	<u>117,920</u>	<u>-</u>	<u>32,630</u>

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Trading securities - proprietary trading			
Listed stocks	\$ 1,113,137	626,599	1,275,631
Listed funds	620,284	798,932	78,716
OTC stocks	329,968	249,061	90,211
Emerging market stocks	236,076	259,637	196,877
Emerging market funds	9,601	7,964	7,350
Convertible corporate bonds	767,569	455,796	313,705
Government bonds	6,543,151	4,041,386	4,522,734
Corporate bonds	12,305,187	11,801,410	9,007,036
Financial debentures	1,810,246	1,659,501	3,270,952
Foreign stocks	771,421	269,804	192,701
Overseas bonds	60,670	64,320	161,543
Other	32,619	32,603	32,603
	<u>24,599,929</u>	<u>20,267,013</u>	<u>19,150,059</u>
Valuation adjustment	111,963	42,273	156,316
Subtotal	<u>24,711,892</u>	<u>20,309,286</u>	<u>19,306,375</u>
Trading securities - underwriting:			
Listed stocks	18,267	43,898	100,811
OTC stocks	60,032	11,396	8,420
Convertible corporate bonds	121,560	57,200	97,000
	<u>199,859</u>	<u>112,494</u>	<u>206,231</u>
Valuation adjustment	3,015	2,140	11,188
Subtotal	<u>202,874</u>	<u>114,634</u>	<u>217,419</u>
Trading securities - hedging			
Listed stocks	3,246,704	1,810,735	1,257,710
OTC stocks	563,637	446,088	227,643
Convertible corporate bonds	2,678,425	3,437,205	3,793,394
Foreign stocks	1,023	1,092	1,092
	<u>6,489,789</u>	<u>5,695,120</u>	<u>5,279,839</u>
Valuation adjustment	262,249	(38,606)	39,766
Subtotal	<u>6,752,038</u>	<u>5,656,514</u>	<u>5,319,605</u>
Derivatives			
Call options	104,412	68,562	90,780
Interest rate swaps	656	4,942	-
Futures margin - proprietary fund	616,331	352,755	339,724
IRS asset swaps	8,607	20,743	27,272
Asset swap options - long position	2,566	5,682	6,264
Currency derivatives	34,275	3	-
Structured notes	719	3	38
Currency swaps	15,681	16,584	2,135
Subtotal	<u>783,247</u>	<u>469,274</u>	<u>466,213</u>
Total	<u><u>\$ 33,212,916</u></u>	<u><u>27,730,008</u></u>	<u><u>25,971,057</u></u>

As of June 30, 2017, December 31, 2016 and June 30, 2016, the par value of trading securities - bonds under repurchase agreement of the Group were \$45,712,004, \$35,926,059 and \$30,340,717, respectively, please refer to Notes 6(13) and 8 for details.

B. Financial assets available for sale - current:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Listed stocks	\$ 202,441	221,734	323,199
OTC stocks	88,565	162,878	120,684
Emerging market stocks	29,327	29,482	-
International bonds	1,152,592	-	-
Foreign stocks	101,109	-	-
Overseas bonds	26,036,718	18,904,893	12,296,484
Subtotal	<u>27,610,752</u>	<u>19,318,987</u>	<u>12,740,367</u>
Valuation adjustment	213,263	18,891	209,527
Total	<u><u>\$ 27,824,015</u></u>	<u><u>19,337,878</u></u>	<u><u>12,949,894</u></u>

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Financial assets held for trading:			
Government bonds	\$ 185,799	185,799	188,819
Valuation adjustment	418	274	1,571
Total	<u>\$ 186,217</u>	<u>186,073</u>	<u>190,390</u>

As of June 30, 2017, December 31, 2016 and June 30, 2016, the Group took advantage of government bonds as margins of bills, interest rate swaps and structured notes transaction, settlement fund guarantee deposits, and compensation reserve of trust business (please refer to Note 8 for details).

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

<u>Name of investee</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
CME Group Inc.	\$ 826	33,733	33,733
Valuation adjustment	1,079	42,528	30,710
Total	<u>\$ 1,905</u>	<u>76,261</u>	<u>64,443</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. during April 2017, which generated a gain on disposal investment of \$38,920. For the six months ended June 30, 2017 and 2016, due to changes in fair value, the Group had recognized \$0 and \$3,393 in other comprehensive income, respectively. The amount reclassified from equity to net losses is \$41,494 and \$0, respectively.

E. Financial assets measured at cost - non-current

<u>Non-listed (or non-over-the-counter)</u>	<u>June 30, 2017</u>	
	<u>Ownership ratio</u>	<u>Amount</u>
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%	35,365
Chanyee Hotelday Co., Ltd.	7.41%	30,000
Miho International Co., Ltd.	1.83%	46,000
LIPS Corp.	23.95%	149,625
Xianlife Limited	3.26%	46,140
FlexUP Technologies Corp.	15.31%	30,000
Han Biomedical Inc.	9.20%	23,000
Total		<u>\$ 695,825</u>

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

Non- listed (or non-over-the-counter)	June 30, 2016	
	Ownership ratio	Amount
Taiwan Depository & Clearing Corp.	1.29%	\$ 18,661
Taiwan Futures Exchange Corp.	2.86%	58,126
Taiwan Stock Exchange Corporation	0.06%	12,242
Global Securities Finance Corporation	6.05%	202,681
Chou Chin Industrial Co., Ltd.	0.05%	-
Jong-Yih Industrial Development Co., Ltd.	0.68%	1,369
Reliance Securities Investment Trust Co., Ltd	3.02%	9,767
Top Taiwan III Venture Capital Co., Ltd.	7.00%	46,508
Prudence Venture Investment Corp.	1.50%	35,365
Miho International Co., Ltd.	1.83%	45,980
Jason's Entertainment Co., Ltd.	3.97%	30,000
Total		\$ 460,699

The Group acquired shares of LIPS Corp., Xianlife Limited, FlexUP Technologies Corp. and Han Biomedical Inc. in March, April and June 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.

For the six months ended June 30, 2017 and 2016, Top Taiwan III Venture Capital Co., Ltd. refunded the proceeds of capital reduction amounted to \$1,400 and \$24,500. Prudence Venture Investment Corp. refunded the proceeds of capital reduction amounted to \$0 and \$2,012.

- F. The Group uses Value at Risk (VAR) to monitor and measure the market risk of its investment in equity stocks. VAR refers to the unexpected loss of financial instruments derived from the changes in market risk factors within certain time periods and confidence level. The table below discloses the VAR, which is the estimation of potential loss in ten days and is covered by 99% of the adverse changes in market prices. In the table below by using this assumption, 2.5 out of 250 days VAR will exceed the disclosed amounts due to the changes in market price. For the six months ended June 30, 2017 and 2016 VAR (99%, per 10-day) of equity stocks are as follows:

			For the six months ended June 30,					
			2017			2016		
Type of market risk	June 30, 2017	June 30, 2016	Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	865.916	811.441	772.766	865.916	666.504	680.590	811.441	596.609

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(3) Bonds purchased under resale agreements

	June 30, 2017	December 31, 2016	June 30, 2016
Bonds purchased under resell agreements	\$ 100,015	-	299,786
Resell price under the agreements	\$ 100,016	-	299,817
Interest rate	0.28%	-	0.30%

As of June 30, 2017 and 2016, the Group's appropriated bonds purchased under resale agreements were \$100,015 (Par value \$100,000) and \$299,786 (Par value \$300,000) for repurchase agreement transactions purpose and for resale agreement - short sales transactions purpose (please refers to Note 8 for details).

(4) Accounts Receivable

	June 30, 2017	December 31, 2016	June 30, 2016
Receivable on securities purchased by customers	\$ 28,537	22,024	35,751
Settlement	947,927	-	1,023,090
Interests receivable	579,737	494,248	468,660
Receivables of settlements	5,735,155	3,503,940	4,059,962
Others	87,183	89,525	57,286
Subtotal	7,378,539	4,109,737	5,644,749
Less: allowance for doubtful accounts	(3,424)	(3,424)	(4,123)
Total	<u>\$ 7,375,115</u>	<u>4,106,313</u>	<u>5,640,626</u>

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

As of June 30, 2017, December 31, 2016 and June 30, 2016, a reconciliation of the customers' margin account and the futures traders' equity was as follows:

	June 30, 2017	December 31, 2016	June 30, 2016
Customers' margin account			
Add:			
Cash in banks	\$ 20,369,662	18,011,775	17,148,065
Customers' margin account - futures clearing house	2,664,523	2,126,035	1,732,562
Customers' margin account - other futures commission merchants	4,375,581	3,030,438	3,316,660
Marketable securities	2,014	1,594	1,432
Total customers' margin account	<u>27,411,780</u>	<u>23,169,842</u>	<u>22,198,719</u>
Adjustment:			
Add:			
Others	12	1	-
Suspense payment	288	-	-
Less:			
Commission revenue	(29,324)	(30,670)	(15,007)
Futures transaction tax	(1,244)	(1,045)	(1,070)
Interest revenues	(1,212)	(1,200)	(642)
Temporary receipts	(629)	(134)	(167)
Remittance amount of the customers after the market closed	(5,966)	(1,749)	(6,313)
Others	(6,680)	(2,814)	(1,143)
Futures traders' equity	<u>\$ 27,367,025</u>	<u>23,132,231</u>	<u>22,174,377</u>

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(6) Investments under equity method

As of June 30, 2017, December 31, 2016 and June 30, 2016, investments under equity method consisted of the following:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Subsidiaries			
Capital Insurance Advisory Corp.	\$ 65,784	104,489	64,899
Capital Insurance Agency Corp.	41,411	52,200	44,430
Subtotal	<u>107,195</u>	<u>156,689</u>	<u>109,329</u>
Associates			
True Partner Advisor Hong Kong Ltd.	41,456	41,516	41,016
Total	<u>\$ 148,651</u>	<u>198,205</u>	<u>150,345</u>

A. Subsidiaries:

For the six months ended June 30, 2017 and 2016, the Group's share of gains or losses of the subsidiaries were as follows:

	<u>For the six months ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
Based on the self-prepared financial statements	<u>\$ 41,958</u>	<u>54,322</u>

Under the equity accounting method, the financial information of the investments in subsidiaries which are individually immaterial is summarized as following:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Total assests	<u>\$ 224,730</u>	<u>194,974</u>	<u>218,980</u>
Total liabilities	<u>\$ 117,535</u>	<u>38,285</u>	<u>109,651</u>

	<u>For the six months ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
Revenue	<u>\$ 157,197</u>	<u>187,328</u>
Net income	<u>\$ 41,958</u>	<u>54,322</u>

B. Associates

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

Name of associate	Nature between the Company	Primary business area and registered country	% of Ownership and Voting Rights		
			June 30, 2017	December 31, 2016	June 30, 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%	49.00%

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Total carrying amount of the associates that were not individually material	<u>\$ 41,456</u>	<u>41,516</u>	<u>41,016</u>
	<u>For the three months ended June 30,</u>	<u>For the six months ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>
Based on the self-prepared financial statements			
Attributable to the Group:			
Net gains from continuing operations	\$ 348	4,286	678
Other comprehensive loss	(34)	(56)	(738)
Total comprehensive income (losses)	<u>\$ 314</u>	<u>4,230</u>	<u>(60)</u>

C. Collateral

As of June 30, 2017, December 31, 2016 and June 30, 2016, none of the investment accounted for under equity method of the Group were pledged for collateral.

(7) Property and equipment

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
Carrying amount:					
January 1, 2017	\$ 3,707,942	1,116,711	227,297	77,873	5,129,823
June 30, 2017	\$ 3,707,653	1,095,757	212,505	70,227	5,086,142
June 30, 2016	\$ 3,707,942	1,133,786	229,168	76,518	5,147,414

As of June 30, 2017, December 31, 2016 and June 30, 2016, the property and equipment which are provided as collateral or pledge, please refer to Note 8 for details.

There was no significant acquisition, disposal and impairment loss or reversal of impairment losses of property and equipment of the Group in the periods from January 1 to June 30 in 2017 and 2016. For the six months ended June 30, 2017 and 2016, \$331 and \$2,327 of land and buildings were reclassified as investment property. Please refer to Note 6(21) for details of the depreciation expense occurring in this period and Note 6(6) of the consolidated financial statements as of and for the year ended December 31, 2016 for other relevant information.

(8) Investment property

	<u>Land and improvements</u>	<u>Buildings</u>	<u>Total</u>
<u>Carrying Amount:</u>			
January 1, 2017	\$ 1,257,200	470,124	1,727,324
June 30, 2017	\$ 1,257,488	462,565	1,720,053
June 30, 2016	\$ 1,257,200	477,725	1,734,925
<u>Fair Value:</u>			
January 1, 2017			2,740,795
June 30, 2017			2,744,595
June 30, 2016			2,740,795

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.

There was no significant acquisition, disposal and impairment loss or reversal of impairment losses of investment properties of the Group in the periods from January 1 to June 30 in 2017 and 2016. For the six months ended June 30, 2017 and 2016, \$331 and \$2,327 of land and buildings were transferred from property and equipment. Please refer to Note 6(21) for details of the depreciation expense occurring in this period and Note 6(7) of the consolidated financial

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

statements as of and for the year ended December 31, 2016 for other relevant information.

(9) Intangible assets

A. Goodwill

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized goodwill. As of June 30, 2017, December 31, 2016 and June 30, 2016, the book value was \$3,126,698.

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 June 30, 2017, December 31, 2016 and June 30, 2016, the book value of goodwill was all \$ 22,088.

B. 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 June 30, 2017, December 31, 2016 and June 30, 2016, the book value of the operation franchise was all \$389,999.

C. Other intangible assets - The 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 June 30, 2017, December 31, 2016 and June 30, 2016, the book values of intangible assets were \$48,192, \$48,453 and \$48,454, respectively.

D. 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 June 30, 2017, December 31, 2016 and June 30, 2016, the amortized book value was \$36,163, \$25,010 and \$32,659 respectively.

(10) Short-term loans

Nature of borrowings	June 30, 2017	December 31, 2016	June 30, 2016
Collateralized loan	\$ 447,118	380,000	208,000
Credit loans	4,551,404	3,856,402	841,442
Total	<u>\$ 4,998,522</u>	<u>4,236,402</u>	<u>1,049,442</u>
Interest rate range	<u>0.60%~2.90%</u>	<u>0.60%~2.75%</u>	<u>0.75%~2.78%</u>

As of June 30, 2017, December 31, 2016 and June 30, 2016, the Group had provided the land, buildings, and certificates of time deposits as collateral; please refer to Note 8 for details.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(11) Commercial paper payable

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Commercial paper payable	\$ 5,900,000	-	-
Less: Unamortized discount	(919)	-	-
Net amount	<u>\$ 5,899,081</u>	<u>-</u>	<u>-</u>
Interest rate range	<u>0.52%~0.59%</u>	<u>- %</u>	<u>- %</u>

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

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Bond purchased under resale agreements - short sales	\$ 100,138	-	-
Valuation adjustment on bonds purchased under resale agreements - short sales	(115)	-	-
Subtotal	<u>100,023</u>	<u>-</u>	<u>-</u>
Liabilities on sale of borrowed securities	544,185	1,009,334	821,457
Redeem liabilities on sale of borrowed securities	(16,762)	(4,632)	-
Valuation adjustment	(6,221)	(66,653)	21,835
Subtotal	<u>521,202</u>	<u>938,049</u>	<u>843,292</u>
Settlement coverage bonds payable of short sale	100,182	-	-
Valuation adjustment	(113)	-	-
Subtotal	<u>100,069</u>	<u>-</u>	<u>-</u>
Stock warrants issued	12,070,250	10,892,801	12,593,365
Stock warrants repurchased	(11,406,753)	(10,617,763)	(12,169,224)
Subtotal	<u>663,497</u>	<u>275,038</u>	<u>424,141</u>
Put options	111,125	66,693	68,851
IRS asset swaps	431	1,974	2,937
Asset swap options - short position	194,727	177,405	219,748
Structured notes	7,320	7,515	7,439
Currency derivatives	5,157	1	-
Currency swaps	2,006	9,089	3,509
Interest rate swaps	-	-	3,543
Subtotal	<u>320,766</u>	<u>262,677</u>	<u>306,027</u>
Total	<u>\$ 1,705,557</u>	<u>1,475,764</u>	<u>1,573,460</u>

(13) Bonds sold under repurchase agreements

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Bonds sold under repurchase agreements	\$ 44,492,765	34,956,642	29,874,535
Agreed-upon repurchase amounts	<u>44,570,935</u>	<u>35,002,716</u>	<u>29,896,931</u>
Interest rates	<u>0.31%~4.60%</u>	<u>0.30%~9.00%</u>	<u>0.25%~3.60%</u>
Date of repurchase	<u>2017.7.3~2017.10.11</u>	<u>2017.1.3~2017.3.30</u>	<u>2016.7.1~2016.11.1</u>

(14) 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.

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Customer equity of separate account ledger in settlement	<u>\$ 12,924</u>	<u>4,537</u>	<u>23,550</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(15) Accounts payable

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Payable of securities sold by customers	\$ 29,022	21,890	52,221
Settlement price	-	49,986	-
Payable of settlements	6,100,751	3,183,985	4,648,559
Others	603,012	222,263	332,036
Total	<u>\$ 6,732,785</u>	<u>3,478,124</u>	<u>5,032,816</u>

(16) Operating leases

The Group has no material incremental operating leases contracts for the six months ended June 30, 2017 and 2016. Please refer to Note 6(14) of the consolidated financial statements as of and for the year ended December 31, 2016 for other relevant information.

(17) Employee benefit

A. Defined benefit plans

Subsequent to December 31, 2016, there is apparently no evidence of any material market volatility, material curtailment, reimbursement and settlement or other material one-time events. Therefore, pension cost in the consolidated financial statements is measured and disclosed according to the respective actuarial report as of December 31, 2016 and 2015.

For the three and six months ended June 30, 2017 and 2016, the Group's pension expenses recognized in profit or loss were \$542, \$4,181, \$7,392 and \$8,352, respectively.

B. Defined contribution plan

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

The Group contributed \$22,266, \$20,864, \$39,960 and \$42,134 under defined contribution plan to the Bureau of the Labor Insurance for the three and six months ended June 30, 2017 and 2016, respectively.

C. For the three months and six months ended June 30, 2017 and 2016, the pension costs contributed by overseas subsidiaries in compliance with local ordinance were \$1,667, \$1,095, \$2,173 and \$2,241, respectively.

D. Provision for employee benefits liabilities

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Compensated absences	<u>\$ 62,865</u>	<u>65,365</u>	<u>47,546</u>

(18) Income tax

Income tax expense for the interim reporting period is best estimated by multiplying pretax income for the period by the effective annual tax rate as forecasted by the management.

A. The detail of income tax expense for the three and six months ended June 30, 2017 and 2016 were as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Current income tax expense (benefit)	\$ 117,755	54,673	181,517	72,949
Deferred income tax expense				
Unrealized gains (losses) on derivative financial instruments	(28,935)	8,180	(35,457)	(287)
Unrealized gains (losses) on foreign investments under equity method	(1,779)	(1,786)	(4,448)	(2,115)
Amortization of goodwill	-	26,577	-	53,154
Decrease (increase) in tax loss carried forward	-	(16,736)	-	12,224
Adjustments of the prior year's deferred income tax assets and liabilities	-	2,265	-	2,265
Deferred income tax expense (benefit)	(30,714)	18,500	(39,905)	65,241
Income tax expenses	<u>\$ 87,041</u>	<u>73,173</u>	<u>141,612</u>	<u>138,190</u>

- B. The amount of income tax expense or benefit recognized in other comprehensive income for the three and six months ended June 30, 2017 and 2016 were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Foreign exchange difference from translating financial	<u>\$ 95</u>	<u>869</u>	<u>(27,837)</u>	<u>(7,639)</u>

- C. As of June 30, 2017, the Group's estimated tax losses recognized under deferred income tax asset were as follows:

Loss Year	Amount	Expiration Year
2016(Declared)	<u>\$ 874</u>	2026

- D. Income tax assessment status

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

- E. The information about imputation system is as follows:

	June 30, 2017	December 31, 2016	June 30, 2016
Undistributed earnings after 1998	<u>\$ 1,086,630</u>	<u>1,188,633</u>	<u>573,541</u>
Imputation credit account	<u>2,896,011</u>	<u>2,675,250</u>	<u>3,048,765</u>
	<u>2017 (Estimated)</u>	<u>2016 (Actual)</u>	
Deductible ratio for earnings distributed to ROC residents	<u>24.21%</u>	<u>23.80%</u>	

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

F. Income tax administrative relief

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

(19) Capital and other equity

A. Capital stock

As of June 30, 2017, December 31, 2016 and June 30, 2016, the Company had authorized capital of \$30,000,000 and issued common stock of \$2,169,073 thousand, \$2,269,073 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 six months ended June 30, 2017 and 2016, please refer to D. Treasury stocks for more details.

B. Capital surplus

In accordance with the ROC Company Act amended in January 2012, realized capital surplus can only be used to cover accumulated deficit or to issue new shares or cash to shareholders in proportion to their share ownership, provided that the company has no accumulated deficit. The aforementioned capital surplus includes share premiums and donation gains. In accordance with the "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:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Premium from stock issuance	\$ 1,776,413	1,858,310	1,858,310
Treasury stock transactions	437,096	253,940	253,940
Paid-in capital from merger	602,665	630,450	630,450
Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,338	1,399	1,399
Changes in ownership interests in subsidiaries	34,787	6,873	6,287
	<u><u>\$ 2,852,299</u></u>	<u><u>2,750,972</u></u>	<u><u>2,750,386</u></u>

C. Retained earnings

a. Legal reserve

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

b. Special reserve

In accordance with Article 41 of the Securities and Exchange 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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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% 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.

c. 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.

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

D. Treasury stocks

Pursuant to Article 28-2 of the Securities and Exchange Act, the Company repurchased 200,000 thousand shares as treasury shares to maintain the Company's credit standing and shareholders' equity from January 1, 2015 to June 30, 2017. As of June 30, 2017, a total 200,000 thousand 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, 2015, the Company's board meeting resolved a share buyback plan, which was based on the latest reviewed financial report on September 30, 2015. The cap of the repurchase was 236,907 thousand shares which were amounted to \$6,791,127. The company repurchased 50,000 thousand shares at this buyback plan. All the repurchased shares were retired and the registration of capital reduction was completed on February 15, 2016.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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.

(20) Earnings per share

The basic earnings per share and dilutive earnings per share for the three and six months ended June 30, 2017 and 2016 were calculated as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Net income attributable to ordinary shareholders of the Company	\$ 552,280	401,384	1,065,565	563,191
Weighted-average number of common stock shares outstanding(thousands of shares)	2,169,073	2,269,073	2,169,316	2,269,158
Basic earnings per share (dollar)	\$ 0.25	0.18	0.49	0.25
Effect of potentially dilutive common stock				
- Employee remuneration (thousands of shares) (Note)	1,146	869	2,153	1,206
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	2,170,219	2,269,942	2,171,469	2,270,364
Dilutive earnings per share (dollar)	\$ 0.25	0.18	0.49	0.25

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

(21) Items of the comprehensive income statement

A. Brokerage commissions

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Brokerage commission from TSE market	\$ 343,421	259,100	665,922	573,227
Brokerage commission from OTC market	133,611	119,511	264,276	257,503
Handling fee from security financing	7,161	9,279	13,297	18,208
Futures commission income - brokerage	361,773	367,615	686,635	741,958
Overseas subsidiaries	13,325	17,842	27,549	34,933
Others	15,841	12,937	32,525	23,137
	\$ 875,132	786,284	1,690,204	1,648,966

B. Underwriting commissions

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Revenue from underwriting securities on a firm commitment basis	\$ 18,823	27,670	32,029	30,502
Handling fee revenues from underwriting securities on best-efforts basis	178	190	1,039	394
Processing fee revenues from underwriting operations	1,911	2,801	21,007	6,749
Revenue from underwriting consultation	1,070	2,760	2,460	4,885
Others	2,094	1,800	16,064	8,927
	\$ 24,076	35,221	72,599	51,457

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C. Net gains (losses) on sale of trading securities

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Revenue from securities sold - proprietary trading	\$ 60,343,518	51,914,158	106,874,595	115,696,840
Cost of securities sold - proprietary trading	(60,082,667)	(51,849,922)	(106,352,364)	(115,740,961)
Subtotal	260,851	64,236	522,231	(44,121)
Revenue from securities sold - underwriting	31,494	2,443,588	122,926	2,454,952
Cost of securities sold - underwriting	(31,682)	(2,442,887)	(113,972)	(2,453,687)
Subtotal	(188)	701	8,954	1,265
Revenue from securities sold - hedging	7,119,435	4,150,189	12,692,303	10,765,122
Cost of securities sold - hedging	(7,021,248)	(4,202,138)	(12,491,140)	(10,855,290)
Subtotal	98,187	(51,949)	201,163	(90,168)
Total	<u>\$ 358,850</u>	<u>12,988</u>	<u>732,348</u>	<u>(133,024)</u>

D. Interest revenue

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Interest revenue - margin loans	\$ 184,332	185,959	361,983	379,696
Interest revenue - bonds	283,395	159,376	528,390	285,485
Overseas subsidiaries	8,420	8,410	16,923	20,352
Others	12,657	9,064	22,769	18,753
	<u>\$ 488,804</u>	<u>362,809</u>	<u>930,065</u>	<u>704,286</u>

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

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Trading securities - Proprietary	\$ 45,346	8,243	69,976	94,298
Trading securities - Underwriting	6,140	6,110	874	9,965
Trading securities - Hedging	184,658	85,774	300,856	144,946
Settlement coverage bonds payable of short sale	114	-	114	(1,146)
	<u>\$ 236,258</u>	<u>100,127</u>	<u>371,820</u>	<u>248,063</u>

F. Net gains or losses on stock warrants issued

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Gains on changes in fair value of stock warrants	\$ 3,305,223	8,007,151	6,710,574	16,100,110
Gains on exercise of stock warrants before maturity	7,832,918	572,332	12,215,943	1,771,493
Losses on changes in fair value of stock warrants repurchased	(11,122,602)	(8,381,286)	(18,832,728)	(17,434,108)
Gains on expiration of stock warrants	3,774	5,293	6,198	13,717
Stock warrants issuance expenses	(58,716)	(34,315)	(98,588)	(65,993)
	<u>\$ (39,403)</u>	<u>169,175</u>	<u>1,399</u>	<u>385,219</u>

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G. Futures commission revenues

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Futures commission revenues - CSC Futures(HK) Ltd.	\$ 189,304	172,238	301,197	267,571

Future commission revenue 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 revenues” in the consolidated financial statements.

H. Commission expenses – future

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Future trading - Reconsignment	\$ 62,910	52,624	115,391	105,141
Future trading - introducing brokers	2,415	271	1,923	654
Commission expenses - CSC Futures (HK) Ltd.	107,833	60,996	163,267	88,093
	\$ 173,158	113,891	280,581	193,888

I. Employee benefits, depreciation, and amortization expenses

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Employee benefit expenses				
Salary expense	\$ 570,664	533,316	1,121,994	1,047,160
Health and labor insurance expense	37,924	38,739	80,870	81,829
Pension expense	24,475	26,140	49,525	52,727
Others	14,606	15,275	29,121	30,402
Depreciation expense	45,916	44,059	91,973	88,331
Amortization expense	8,730	9,660	16,937	19,736
	\$ 702,315	667,189	1,390,420	1,320,185

J. Other operating expenses

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Rental expense	\$ 39,466	42,715	78,626	90,617
Taxes	84,329	67,130	158,438	146,663
Information technology expense	49,789	46,185	97,140	94,089
Postage expense	33,003	34,508	65,964	67,453
Professional service fee	22,943	18,881	39,050	49,665
Other expenses	193,814	118,068	319,955	245,367
	\$ 423,344	327,487	759,173	693,854

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

K. Other gains and losses

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Financial revenue	\$ 59,526	50,223	116,496	96,668
Currency exchange gains (losses)	6,335	(6,008)	(7,841)	(7,017)
Net gains (losses) on disposal of investment	44,953	(1,206)	45,061	(2,916)
Net gains (losses) on measurement of non-operating instruments at fair value through profit or loss	6,917	4,714	19,749	(11,243)
Revenue from bank's allocation fee	34,096	35,084	68,660	70,400
Net gains (losses) on disposal of property and equipment	-	-	-	(3,198)
Gains on reversal of prior year's liabilities	5,759	17,827	15,566	33,859
Dividend revenue	11,427	3,344	13,144	5,703
Others	31,946	19,423	70,283	49,240
	<u>\$ 200,959</u>	<u>123,401</u>	<u>341,118</u>	<u>231,496</u>

L. 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 six months ended June 30, 2017 and 2016, the estimated amounts of remuneration to employee were \$21,506 and \$9,912, and to directors and supervisors by the Company were \$39,941 and \$16,520, 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 six months ended June 30, 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 and director and supervisors 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

For the six months ended June 30, 2017 and 2016, the estimated amounts of remuneration to employee were \$4,730 and \$4,272 and to directors and supervisors were \$4,839 and \$4,272 by the domestic subsidiaries of the Group, respectively.

(22) Financial instruments

A. Credit risk

a. Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of June 30, 2017, December 31, 2016 and June 30, 2016, the maximum credit exposure amounted to \$105,493,564, \$86,612,218 and \$78,897,114, 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 (64.59%); secondly, is in Asia (15.58%, exclusion of Taiwan); then, is in America (9.86%). 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	June 30, 2017	December 31, 2016	June 30, 2016
Taiwan	\$ 67,629,253	57,799,502	57,188,158
Asia (Taiwan is excluded)	16,312,134	12,039,498	9,758,657
Europe	7,375,647	8,732,426	6,499,819
America	10,322,799	4,247,626	1,912,845
Other	3,063,238	3,089,041	2,826,627
Total	\$ 104,703,071	85,908,093	78,186,106

b. Impairment loss

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

	June 30, 2017		December 31, 2016		June 30, 2016	
	Total amount	Impairment	Total amount	Impairment	Total amount	Impairment
Not past due	\$ 22,025,236	60,304	16,277,081	1,389	18,194,211	2,076
Past due 0~30 days	286	286	363	363	229	229
Past due 31~120 days	209	209	188	188	553	553
Past due 121~360 days	1	1	-	-	2,086	2,086
Past due more than one year	1,712	1,712	1,712	1,712	-	-
	\$ 22,027,444	62,512	16,279,344	3,652	18,197,079	4,944

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 June 30, 2017, December 31, 2016 and June 30, 2016, the impairment losses of accrued receivables were recognized \$62,512, \$3,652 and \$4,944, respectively.

B. Liquidity risk

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
June 30, 2017							
Financial liabilities at fair value through profit or loss - current							
Bond purchased under resale agreements - short sales	\$ 100,023	100,023	100,023	-	-	-	-
Liabilities on sale of borrowed securities	521,202	521,202	521,202	-	-	-	-
Settlement coverage bonds payable of short sale	100,069	100,069	100,069	-	-	-	-
Stock warrants issued	663,497	663,497	600,719	62,770	8	-	-
Put options - futures	111,125	111,125	111,125	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	2,437	2,437	1,876	37	261	263	-
Put options	194,727	194,727	12,092	63,265	63,064	56,306	-
Short-term borrowings	4,998,522	4,998,522	4,998,522	-	-	-	-
Commercial paper payable	5,899,081	5,900,000	5,900,000	-	-	-	-
Bonds sold under repurchase agreements	44,492,765	44,570,935	44,570,935	-	-	-	-
Securities financing refundable deposits	1,130,021	1,130,021	1,130,021	-	-	-	-
Deposits payable for securities financing	1,369,550	1,369,550	1,369,550	-	-	-	-
Securities lending refundable deposits	488,132	488,132	488,132	-	-	-	-
Leverage contract equity	147,847	147,847	147,847	-	-	-	-
Futures traders' equity	27,367,025	27,367,025	27,367,025	-	-	-	-
Notes payable and accounts payable	674,675	674,675	674,675	-	-	-	-
Other payables	1,674,373	1,674,373	1,671,930	2,443	-	-	-
Receipts under custody	121,564	121,564	121,564	-	-	-	-
Structured notes	2,811,401	2,811,401	2,181,739	295,236	151,382	183,044	-
Currency derivatives	5,157	5,157	5,157	-	-	-	-
	\$ 92,873,193	92,952,282	92,074,203	423,751	214,715	239,613	-
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	-	-	-	-
Securities financing refundable deposits	1,722,840	1,722,840	1,722,840	-	-	-	-
Deposits payable for securities financing	1,947,104	1,947,104	1,947,104	-	-	-	-
Securities lending refundable deposits	878,866	878,866	878,866	-	-	-	-
Leverage contract equity	70	70	70	-	-	-	-
Futures traders' equity	23,132,231	23,132,231	23,132,231	-	-	-	-
Notes payable and accounts payable	416,571	416,571	416,571	-	-	-	-
Receipts under custody	147,328	147,328	147,328	-	-	-	-
Other payables	663,830	663,830	661,223	2,607	-	-	-
Structured notes	2,674,610	2,674,610	2,293,958	141,018	184,695	54,939	-
Currency derivatives	1	1	1	-	-	-	-
	\$ 72,244,743	72,290,817	71,740,674	205,596	254,774	89,773	-
June 30, 2016							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 843,292	843,292	843,292	-	-	-	-
Stock warrants issued	424,141	424,141	389,472	34,669	-	-	-
Put options - futures	68,851	68,851	68,851	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	9,989	9,989	2,381	845	13,936	(7,173)	-
Put options	219,748	219,748	30,161	37,688	101,528	50,371	-
Short-term borrowings	1,049,442	1,049,442	1,049,442	-	-	-	-
Bonds sold under repurchase agreements	29,874,535	29,896,931	29,896,931	-	-	-	-
Guarantee deposited for short sales	1,292,589	1,292,589	1,292,589	-	-	-	-
Proceeds payable from short sales	1,488,482	1,488,482	1,488,482	-	-	-	-
Securities lending refundable deposits	1,064,658	1,064,658	1,064,658	-	-	-	-
Futures traders' equity	22,174,377	22,174,377	22,174,377	-	-	-	-
Notes payable and accounts payable	345,573	345,573	345,573	-	-	-	-
Receipts under custody	102,115	102,115	102,115	-	-	-	-
Other payables	1,886,726	1,886,726	1,884,141	2,585	-	-	-
Structured notes	2,492,120	2,492,120	2,079,818	77,117	199,234	135,951	-
	\$ 63,336,638	63,359,034	62,712,283	152,904	314,698	179,149	-

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C. Currency risk

a. Currency risk exposure

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

June 30, 2017			
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial assets</u>			
<u>Monetary Item</u>			
USD	\$ 484,263	30.4200	14,731,280
HKD	79,910	3.8970	311,409
EUR	6,276	34.7200	217,903
JPY	1,383,259	0.2716	375,693
GBP	559	39.6000	22,136
AUD	6,632	23.3450	154,824
SGD	190	22.1000	4,199
CNY	69,265	4.4860	310,723
KRW	4,065,233	0.0268	108,948
THB	289	0.9002	260
NZD	3	22.2900	67
CHF	3	31.7350	95
ZAR	3	2.3200	7
CAD	136	23.4200	3,185
IDR	10,073	0.0023	23
<u>Non-Monetary Item</u>			
USD	756,301	30.4200	23,006,676
AUD	276,157	23.3450	6,446,885
EUR	46	34.7200	1,597
JPY	385	0.2716	105
HKD	95,585	3.8970	372,495
CNY	156,155	4.4860	700,511
<u>Investments at equity</u>			
HKD	10,638	3.8970	41,456
<u>Financial liabilities</u>			
<u>Monetary Item</u>			
USD	1,174,326	30.4200	35,722,997
AUD	277,809	23.3450	6,485,451
JPY	1,403,466	0.2716	381,181
CAD	1	23.4200	23
HKD	165,638	3.8970	645,491
EUR	6,036	34.7200	209,570
GBP	513	39.6000	20,315
THB	(765)	0.9002	(689)
SGD	203	22.1000	4,486
KRW	3,880,148	0.0268	103,988
CNY	111,890	4.4860	501,939
CHF	3	31.7350	95

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

December 31, 2016				
	Foreign Currency		Exchange Rate	Amount
	(thousands)			
<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
HKD	29,720		4.1580	123,576
JPY	37,720		0.2756	10,396
AUD	217,379		23.2850	5,061,670
CNY	133,526		4.6170	616,490
<u>Investments at equity</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
CNY	112,949		4.6170	521,486
CHF	48		31.5250	1,513
JPY	926,157		0.2756	255,249
GBP	400		39.6100	15,844
AUD	217,296		23.2850	5,059,737
EUR	19,473		33.9000	660,135
SGD	167		22.2900	3,722
THB	817		0.9050	739
KRW	2,970,692		0.0270	80,238

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

June 30, 2016				
	Foreign Currency		Exchange Rate	Amount
	(thousands)			
<u>Financial assets</u>				
<u>Monetary Item</u>				
USD	\$ 354,271		32.2750	11,434,097
HKD	25,730		4.1590	107,011
EUR	19,340		35.8900	694,113
JPY	1,531,784		0.3143	481,440
GBP	1,279		43.4600	55,585
AUD	1,688		23.9750	40,470
SGD	134		23.9100	3,204
CNY	151,902		4.8450	735,965
KRW	2,738,355		0.02818	77,167
THB	3,717		0.9226	3,429
MYR	77		7.6665	590
CHF	53		32.9450	1,746
<u>Non-Monetary Item</u>				
USD	349,198		32.2750	11,270,365
AUD	134,253		23.9750	3,218,716
EUR	162		35.8900	5,814
JPY	38,986		0.3143	12,253
HKD	18,546		4.1590	77,133
CNY	152,202		4.8450	737,419
<u>Investments at equity</u>				
HKD	9,862		4.1590	41,016
<u>Financial liabilities</u>				
<u>Monetary Item</u>				
USD	691,836		32.2750	22,329,007
HKD	92,682		4.1590	385,464
EUR	19,011		35.8900	682,305
JPY	1,528,420		0.3143	480,382
GBP	1,267		43.4600	55,064
AUD	135,376		23.9750	3,245,640
SGD	132		23.9100	3,156
KRW	2,639,709		0.02818	74,387
THB	3,190		0.9226	2,943
CNY	136,551		4.8450	661,590
CHF	53		32.9450	1,746

Because there are a variety of functional currencies, the Group discloses a summary of its information on exchange gain or loss. The realized and unrealized currency exchange gains amounted to \$37,498 and \$81,956 for the six months ended June 30, 2017 and 2016, respectively.

b. Sensitivity analysis

The currency risk of the Group arises mainly from cash and cash equivalents, other receivables, security borrowing margin, financial assets measured at fair value through

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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 three and six months ended June 30, 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 \$1,029,643, \$475,608, \$1,143,169 and \$520,245, respectively.

D. Sensitivity analysis of interest rate risk

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

Market risk type	June 30, 2017	June 30, 2016	For the six months ended June 30,					
			2017			2016		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Interest risk	1,885,801	1,350,166	1,860,276	1,922,102	1,746,721	1,259,625	1,368,726	1,119,156

E. Fair value information and hierarchy

a. Fair value information

(1) General description

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

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

(2) Definition of fair value hierarchy

(A) Level 1

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

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(B) Level 2

The input of Level 2 refers to observable price except public quote in an active market, including direct observable input parameters (such as price) or indirect observable input parameters (derivation from price). The bond instruments without public quotes in an active market and most of the derivative financial instruments of the Group belong to Level 2.

(C) Level 3

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

b. Not based on fair value measurement

As of June 30, 2017, December 31, 2016 and June 30, 2016, the fair value information of the financial assets and financial liabilities of the Group was as follows:

(1) Fair value information

	June 30, 2017		December 31, 2016		June 30, 2016	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets :						
Cash and cash equivalents	\$ 6,356,358	6,356,358	5,423,415	5,423,415	5,568,374	5,568,374
Bonds purchased under resale agreements	100,015	100,015	-	-	299,786	299,786
Accrued receivable	23,102,094	23,102,094	18,088,832	18,088,832	19,625,381	19,625,381
Customers' margin account	27,411,780	27,411,780	23,169,842	23,169,842	22,198,719	22,198,719
Leverage contract trading - customers' margin account	158,651	158,651	72	72	-	-
Restricted assets - current	511,084	511,084	637,002	637,002	566,177	566,177
Financial assets measured at cost-non-current	695,825	695,825	448,460	448,460	460,699	460,699
Other non-current assets	1,658,819	1,658,819	1,717,516	1,717,516	1,808,426	1,808,426
Financial liabilities :						
Short-term borrowings	4,998,522	4,998,522	4,236,402	4,236,402	1,049,442	1,049,442
Commercial paper payable	5,899,081	5,899,081	-	-	-	-
Bonds sold under repurchase agreements	44,492,765	44,492,765	34,956,642	34,956,642	29,874,535	29,874,535
Accrued payable	11,822,831	11,822,831	9,069,391	9,069,391	11,068,536	11,068,536
Futures traders' equity	27,367,025	27,367,025	23,132,231	23,132,231	22,174,377	22,174,377
Leverage contract equity	147,847	147,847	70	70	-	-
Other financial liabilities - current	2,469,655	2,469,655	2,427,461	2,427,461	2,149,496	2,149,496
Other financial liabilities - non-current	334,426	334,426	239,634	239,634	335,185	335,185
Other non-current liabilities	248,782	248,782	362,077	362,077	362,438	362,438

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

	Level 1	Level 2	Level 3	Total
Investment property				
June 30, 2017	\$ -	-	2,744,595	2,744,595
December 31, 2016	\$ -	-	2,740,795	2,740,795
June 30, 2016	\$ -	-	2,740,795	2,740,795

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

(A) For short term financial instruments, the fair values are determined based on their book value because of their short maturities. The method is applied to cash and cash equivalents, bonds purchased under resale agreements, accrued receivable, 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.

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(B) Financial assets measured at cost and equity investments in unlisted stocks do not have the quoted market prices in an active market and the variability in the range of reasonable fair values is significant or the probabilities of the various estimates within the range cannot be reasonably assessed, so the fair value is unable to be reliably measured. Therefore, the Group considers the book value as a reasonable approximation of fair value.

(C) The investment properties were evaluated and estimated using Market Method based on the market evidence of transaction price of similar properties.

c. Based on fair value measurement

(1) Hierarchy information of fair value

The Group's financial instruments measured at fair value are evaluated on a recurring basis. The financial assets and liabilities measured at fair value as of June 30, 2017, December 31, 2016 and June 30, 2016 were as follows:

	Level 1	Level 2	Level 3	Total
June 30, 2017				
Financial assets at fair value through profit or loss	\$ 14,786,336	17,829,550	-	32,615,886
Financial assets available for sale	428,928	27,396,992	-	27,825,920
Derivative financial assets	720,743	62,504	-	783,247
	\$ 15,936,007	45,289,046	-	61,225,053
Financial liabilities at fair value through profit or loss	\$ 1,384,791	-	-	1,384,791
Derivative financial liabilities	111,125	209,641	-	320,766
	\$ 1,495,916	209,641	-	1,705,557
	Level 1	Level 2	Level 3	Total
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	421,317	47,957	-	469,274
	\$ 10,826,497	36,503,723	-	47,330,220
Financial liabilities at fair value through profit or loss	\$ 1,213,087	-	-	1,213,087
Derivative financial liabilities	66,693	195,984	-	262,677
	\$ 1,279,780	195,984	-	1,475,764
	Level 1	Level 2	Level 3	Total
June 30, 2016				
Financial assets at fair value through profit or loss	\$ 8,932,601	16,762,633	-	25,695,234
Financial assets available for sale	519,194	12,495,143	-	13,014,337
Derivative financial assets	430,504	35,709	-	466,213
	\$ 9,882,299	29,293,485	-	39,175,784
Financial liabilities at fair value through profit or loss	\$ 1,267,433	-	-	1,267,433
Derivative financial liabilities	68,851	237,176	-	306,027
	\$ 1,336,284	237,176	-	1,573,460

(2) Valuation techniques

(A) Non-derivative financial instruments

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

When quotes of financial instruments are obtained from the Stock Exchange,

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

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

(B) Derivative financial instruments

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

d. Transfer between Level 1 and Level 2

There is no significant transfer between Level 1 and Level 2 for the six months end June 30, 2017 and 2016.

e. Fair value adjustments

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

F. Transfer of financial assets

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

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derecognized. Financial assets that do not meet criteria for de-recognition and related financial liabilities are as below:

June 30, 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	\$ 44,966,273	44,492,765	-	-	-
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	-	-	-
June 30, 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	\$ 29,682,412	29,874,535	-	-	-

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

G. Offsetting financial assets and financial liabilities

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

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

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

June 30, 2017					
Financial assets under offsetting or general agreement of net amount settlement or similar norms					
Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offsetting in the balance sheet	Net amount of financial assets presented in the balance sheets	Related amount not offset in the balance sheet (d)		
			Financial instruments	Cash received as collaterals	Net amount
(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)
Derivative financial assets	\$ 62,504	-	62,504	-	-
					62,504

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June 30, 2017					
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms					
Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offsetting in the balance sheet	Net amount of financial liabilities presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
			Financial instruments	Cash received as collaterals	
(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)
Derivative financial liabilities	\$ 209,641	-	209,641	-	209,641
Under repurchase agreements	44,492,765	-	44,492,765	-	-
Total	<u>\$ 44,702,406</u>	<u>-</u>	<u>44,702,406</u>	<u>-</u>	<u>209,641</u>

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

June 30, 2016					
Financial assets under offsetting or general agreement of net amount settlement or similar norms					
Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offsetting in the balance sheet	Net amount of financial assets presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
			Financial instruments	Cash received as collaterals	
(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)
Derivative financial assets	\$ 35,709	-	35,709	-	35,709

June 30, 2016					
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms					
Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offsetting in the balance sheet	Net amount of financial liabilities presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
			Financial instruments	Cash received as collaterals	
(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)
Derivative financial liabilities	\$ 237,176	-	237,176	-	237,176
Under repurchase agreements	29,874,535	-	29,874,535	-	-
Total	<u>\$ 30,111,711</u>	<u>-</u>	<u>29,874,535</u>	<u>-</u>	<u>237,176</u>

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

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(23) Financial risk management

There is no material change in object and policy of financial risk management which was disclosed in Note 6(21) of the consolidated financial statements as of and for the year ended December 31, 2016.

As of June 30, 2017, December 31, 2016 and June 30, 2016, the related financial risk and the presentation of the Group's financial derivatives were as follows:

Stock warrants

A. Notional principal (nominal amount) and credit risk

Financial Instruments	June 30, 2017		December 31, 2016		June 30, 2016	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Stock warrants issued	\$ 14,208,029	-	7,931,022	-	12,575,285	-

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

B. Market risk:

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

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

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

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

D. Type, purpose, and strategy of financial derivatives held:

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

E. Presentation of financial derivatives

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

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a. For the three and six months ended June 30, 2017 :

(1) Gains (losses) on valuation

	For the three months ended June 30, 2017	For the six months ended June 30, 2017	Account
Stock warrants issued	\$ 4,733,094	9,134,254	Gains (losses) on stock warrants issued
Stock warrants repurchased	(4,816,898)	(9,161,598)	Gains (losses) on stock warrants issued

(2) Gains (losses) on sale

	For the three months ended June 30, 2017	For the six months ended June 30, 2017	Account
Security borrowing	\$ 2,213	11,541	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	61,801	112,700	Gains (losses) on sale of trading securities
Futures transaction	(100,539)	(142,587)	Gains (losses) on derivative instruments - futures

(3) Gains (losses) on maturity

	For the three months ended June 30, 2017	For the six months ended June 30, 2017	Account
Stock warrants issued	\$ 6,408,821	9,798,461	Gains (losses) on stock warrants issued
Stock warrants repurchased	(6,305,704)	(9,671,130)	Gains (losses) on stock warrants issued

b. For the three and six months ended June 30, 2016 :

(1) Gains (losses) on valuation

	For the three months ended June 30, 2016	For the six months ended June 30, 2016	Account
Stock warrants issued	\$ 3,297,737	8,028,981	Gains (losses) on stock warrants issued
Stock warrants repurchased	(3,185,480)	(7,827,245)	Gains (losses) on stock warrants issued

(2) Gains (losses) on sale

	For the three months ended June 30, 2016	For the six months ended June 30, 2016	Account
Security borrowing	\$ (64,960)	5,673	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	(54,867)	(100,738)	Gains (losses) on sale of trading securities
Futures transaction	20,907	(22,591)	Gains (losses) on derivative instruments - futures

(3) Gains (losses) on maturity

	For the three months ended June 30, 2016	For the six months ended June 30, 2016	Account
Stock warrants issued	\$ 5,287,039	9,856,339	Gains (losses) on stock warrants issued
Stock warrants repurchased	(5,195,806)	(9,606,863)	Gains (losses) on stock warrants issued

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Futures

A. Notional principal (nominal amount) and credit risk:

Financial Instruments	June 30, 2017		December 31, 2016		June 30, 2016	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
<i>For trading purpose:</i>						
Taiax Futures	\$ 1,950,227	-	1,246,867	-	1,035,784	-
Euro 10 years bond	114,290	-	-	-	-	-
Mini Taiax Futures	150,147	-	-	-	-	-
Electronic Sector Index Futures	36,073	-	1,477	-	17,471	-
Finance Sector Index Futures	16,892	-	46,101	-	16,675	-
Non-Finance Non-Electronics Sub-Index Futures	7,041	-	4,547	-	14,611	-
Stock Futures	265,666	-	140,814	-	175,264	-
USD/CNY FX Futures	147,744	-	86,582	-	-	-
Nifty 50 Index Futures	5,224	-	248,013	-	-	-
Mini-USD/CNY FX Futures	70,501	-	-	-	-	-
USD/JPY FX Futures	31,443	-	326,514	-	-	-
EUR/USD FX Futures	168,071	-	550,668	-	-	-
Euro dollar Futures	267,824	-	270,616	-	-	-
H stocks Index Futures	-	-	1,921	-	81,628	-
HSI Futures	124,466	-	13,448	-	89,498	-
Mini-DOW Futures	55,091	-	-	-	-	-
FTSE China A50 Index Futures	70,691	-	124,946	-	32,008	-
SGX Nifty 50 Index Futures	3,471	-	7,925	-	31,614	-
Dow Futures	42,162	-	-	-	-	-
S&P 500 Futures	36,499	-	-	-	530,887	-
Mini-S&P 500 Futures	527,664	-	36,100	-	-	-
Nikkei Index Futures	-	-	-	-	88,204	-
JPY dollar Futures	30,709	-	13,867	-	-	-
GBP dollar Futures	61,699	-	-	-	8,070	-
MSCI Taiwan Index Futures	330,395	-	351,842	-	-	-
Sugar Futures	1,703	-	-	-	-	-
Soybean Meal Futures	10,909	-	-	-	-	-
Crude Oil Futures	80,365	-	-	-	-	-
VIX Futures	1,407	-	46,924	-	-	-
U.S. 5-Year T-Note Futures	316,710	-	169,495	-	-	-
U.S. 10-Year T-Note Futures	707,959	-	40,005	-	-	-
NT Dollar Gold Futures	922	-	5,437	-	-	-
Taiax Options	145,148	-	86,416	-	74,870	-
Stock Options	7,368	-	8,219	-	24,728	-
Taiax Weekly Options	24,609	-	23,600	-	10,254	-
U.S. 10-year Bond Option	2,101	-	-	-	-	-
Electronic Sector Index Options	4,244	-	2,006	-	5,688	-
Finance Sector Index Options	1,472	-	4,482	-	1,728	-
Mini-S&P 500 Options	673	-	18,722	-	-	-
S&P 500 Options	16,317	-	-	-	31,384	-
NVDA Option	48	-	-	-	-	-
Gold Options	165	-	223	-	639	-
Sugar Call Option	26	-	-	-	-	-
Sugar Put Option	33	-	-	-	-	-
Soybean Meal Call Option	476	-	-	-	-	-
Soybean Meal Put Options	269	-	-	-	-	-
Mini-USD/CNY FX Options	3,773	-	14,141	-	-	-
USD/CNY FX Options	2,440	-	6,238	-	-	-
<i>For non-trading purpose:</i>						
Taiax Futures	390,530	-	239,765	-	820,840	-
Stock Futures	1,475,354	-	501,055	-	544,402	-
Electronic Sector Index Futures	-	-	7,357	-	-	-
Finance Sector Index Futures	2,172	-	-	-	4,636	-
HSI Futures	15,050	-	4,569	-	-	-
MSCI Taiwan Index Futures	47,249	-	-	-	-	-
Mini-HSI Futures	-	-	17,930	-	-	-
Gold Futures	-	-	11,151	-	41,545	-
Micro Gold Future	-	-	-	-	428	-
Crude oil Futures	139,295	-	-	-	1,628	-
FTSE China A50 Index Futures	97,249	-	66,764	-	292	-
Nikkei Index Futures	2,692	-	10,209	-	-	-
Taiax Options	1,843	-	-	-	-	-
Stock Options	358	-	-	-	25,258	-

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Should counterparties to futures and options default, the associated loss is borne by the futures commission merchants. Hence, the Group is subject to insignificant credit risk.

B. Market risk:

Market risk resulted from the purchase and sale of futures and options. Since the fair values of futures and options are available, and stop-loss points are established in order to manage risk, the Group can confine losses to a predictable range. Therefore, there is no significant market risk.

For non-trading futures or options contracts, gain or loss from the fluctuations of index tends to offset gain and loss of the hedged items. Hence, there is no significant market risk.

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

The open positions of futures and options held by the Group can be settled on the market at reasonable prices, and as such there is no liquidity risk.

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.

D. Presentation of financial derivatives:

For the six months ended June 30, 2017 and 2016, losses on futures and options transactions amounted to \$225,815 and \$57,636, respectively, and were reflected as gains or losses on derivatives - futures. As of June 30, 2017, December 31, 2016 and June 30, 2016, futures margin - proprietary fund amounted to \$616,331, \$352,755 and \$339,724, 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 \$961,519, \$818,437 and \$585,902, respectively.

As of June 30, 2017, December 31, 2016 and June 30, 2016, the balance of call options which recognized as financial assets at fair value through profit or loss - current amounted to \$104,412, \$68,562 and \$90,780, respectively, put options which recognized as financial liabilities at fair value through profit or loss - current amounted to \$111,125, \$66,693 and \$68,851, respectively.

Derivative financial instruments - OTC

A. Interest rate financial derivatives

a. Notional principal (nominal amount) and credit risk:

Financial Instruments	June 30, 2017		December 31, 2016		June 30, 2016	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
NT dollar interest swaps	\$ 43,200,000	-	46,500,000	-	49,300,000	-

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

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stabilized, no default is expected and credit risk is accordingly remote.

b. 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.

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

The Group's non-trading NT dollar interest rate swaps are used to hedge against interest rate fluctuations of claims and obligations. On the settlement date, interest receivables or payables are derived from multiplying the notional principals by interest rate differences, and the amount is insignificant. Given that there is no physical transfer of principals on maturity, there is no liquidity risk, cash flow risk, or significant cash demand.

For trading NT dollar interest rate swaps, the interest receivables or payables are derived through multiplying of its notional principals by interest rate differences on the settlement dates; and the amount is insignificant. Given that there is no physical transfer of principals on maturity, there is no liquidity risk, cash flow risk, or significant cash demand associated.

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

The Group entered into non-trading NT dollar interest rate swaps with banks to hedge against interest rate fluctuations of claims and obligations. The Group's strategy is to avoid most of the market risk. Financial derivatives exhibiting highly negative correlation with the fair value of hedged items are used as hedging instruments and evaluated periodically.

The Group engages in trading NT dollar interest rate swaps to gain from the differences in interest rates upon evaluation of the trending of interest rates.

B. Structured notes

a. Notional principal (nominal amount) and credit risk:

Financial Instruments	June 30, 2017		December 31, 2016		June 30, 2016	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Equity-linked notes	\$ 30,802	-	3,000	-	6,000	-
Principal guaranteed notes	2,230,548	-	2,173,544	-	2,025,642	-
Credit-linked notes	489,500	-	488,700	-	454,200	-
Principle guaranteed notes	USD \$1,812 thousands	-	USD \$100 thousands	-	USD -	-

The Group collects premium from investors prior to conducting structured note transactions, and therefore, does not assume any credit risk.

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b. 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.

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

The Group collects premium from investors prior to transacting in structured notes, therefore there is no significant liquidity risk.

C. Convertible bond asset-backed swaps

a. Notional principal (nominal amount) and credit risk:

Financial Instruments	June 30, 2017		December 31, 2016		June 30, 2016	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Convertible bond asset-backed swaps	\$ 766,600	-	1,230,100	-	1,224,800	-
Convertible bond options	2,097,400	-	2,528,400	-	2,851,900	-

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.

b. 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.

c. 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.

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D. 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.

E. Presentation of derivative financial instruments - OTC

As of June 30, 2017, December 31, 2016 and June 30, 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:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Financial assets at fair value through profit or loss - current			
IRS asset swaps	\$ 8,607	20,743	27,272
Interest rate swaps	656	4,942	-
Currency swaps	15,681	16,584	2,135
Asset swap options - long position	2,566	5,682	6,264
Structured notes	719	3	38
Currency derivatives	34,275	3	-
Total	<u>\$ 62,504</u>	<u>47,957</u>	<u>35,709</u>
Financial liabilities at fair value through profit or loss - current			
IRS asset swaps	\$ 431	1,974	2,937
Interest rate swaps	-	-	3,543
Currency swaps	2,006	9,089	3,509
Asset swap options - short position	194,727	177,405	219,748
Structured notes	7,320	7,515	7,439
Currency derivative	5,157	1	-
Total	<u>\$ 209,641</u>	<u>195,984</u>	<u>237,176</u>
Other financial liabilities - current			
Structured notes principal value	<u>\$ 2,469,655</u>	<u>2,427,461</u>	<u>2,149,496</u>
Other financial liabilities - non-current			
Structured notes principal value	<u>\$ 334,426</u>	<u>239,634</u>	<u>335,185</u>

For the three and six months ended June 30, 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:

	<u>For the three months ended June 30, 2017</u>		<u>For the six months ended June 30, 2017</u>	
	<u>Gains (losses) on derivative financial instruments - OTC</u>	<u>Unrealized Gains (losses)</u>	<u>Gains (losses) on derivative financial instruments - OTC</u>	<u>Unrealized Gains (losses)</u>
Interest rate swaps	\$ (1,588)	(381)	(6,740)	656
Equity derivatives	(20)	-	(20)	-
Structured notes	(8,511)	(1,684)	(16,448)	(5,007)
IRS asset swaps	65	(2,763)	168	8,176
Asset swap options	(23,960)	(18,375)	(93,235)	19,514
Currency swaps	(16,442)	(2,633)	(81,454)	13,675
Currency derivatives	30,606	14,697	37,262	29,117
Total	<u>\$ (19,850)</u>	<u>(11,139)</u>	<u>(160,467)</u>	<u>66,131</u>

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	<u>For the three months ended June 30, 2016</u>		<u>For the six months ended June 30, 2016</u>	
	<u>Gains (losses) on</u>	<u>Unrealized</u>	<u>Gains (losses) on</u>	<u>Unrealized</u>
	<u>derivative financial</u>	<u>Gains (losses)</u>	<u>derivative financial</u>	<u>Gains (losses)</u>
	<u>instrumnets - OTC</u>		<u>instrumnets - OTC</u>	
Interest rate swaps	\$ (2,832)	(1,200)	(3,115)	(2,015)
Equity derivatives	-	-	92	-
Structured notes	(7,063)	4,975	(16,187)	1,702
IRS asset swaps	130	(27,398)	258	(6,855)
Asset swap options	(7,177)	(176,252)	(28,451)	(46,556)
Currency swaps	(45,018)	5,951	(123,110)	(6,379)
Total	<u>\$ (61,960)</u>	<u>(193,924)</u>	<u>(170,513)</u>	<u>(60,103)</u>

(24) 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 June 30, 2017, the Company maintains no change of its capital management.

The Company's capital adequacy ratio on June 30, 2017 was 320%.

7. Related Party Transactions

(1) Parent company and ultimate controlling party

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

(2) Names of related parties and relationships

<u>Names of related parties</u>	<u>Relationships</u>
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

(3) Key management personnel transactions

A. Key management personnel compensation:

	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Short-term employee benefits	\$ 45,865	32,840	129,134	94,944
Post-employment benefits	568	528	1,145	1,021
Share-based Payment	5,960	-	5,960	-
Total	<u>\$ 52,393</u>	<u>33,368</u>	<u>136,239</u>	<u>95,965</u>

B. Bond transactions- bonds sold under repurchase agreements

Bonds sold under repurchase agreements with key management personnel as of June 30, 2017, December 31, 2016 and June 30, 2016 were as follows:

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	June 30, 2017		December 31, 2016		June 30, 2016	
	Par value	Purchase price	Par value	Purchase price	Par value	Purchase price
Key management personnel	\$ 43,600	43,847	43,600	43,749	23,600	23,678

	For the three months ended June 30,		For the six months ended June 30,	
Total financial expenses	2017	2016	2017	2016
Key management personnel	\$ 51	42	106	124

C. Structured notes transactions

As of June 30, 2017, December 31, 2016 and June 30, 2016, the balances of structured notes transactions with key management personnel were \$32,680, \$20,700 and \$19,700, respectively.

(4) Significant transactions with related parties

A. Bond transactions- bonds sold under repurchase agreements

The balances of bonds sold under repurchase agreements with subsidiaries and other related parties as of June 30, 2017, December 31, 2016 and June 30, 2016 were as follows:

	June 30, 2017		December 31, 2016		June 30, 2016	
	Par value	Purchase price	Par value	Purchase price	Par value	Purchase price
Subsidiaries	\$ 10,000	10,603	10,000	10,580	13,500	13,562
Juristic-person directors	14,300	14,300	14,900	15,000	10,200	10,200
Total	\$ 24,300	24,903	24,900	25,580	23,700	23,762

	For the three months ended June 30,		For the six months ended June 30,	
Total financial expense	2017	2016	2017	2016
Subsidiaries	\$ 12	15	22	30
Juristic-person directors	23	18	43	40
Total	\$ 35	33	65	70

Transaction terms are the same as those with general clients.

B. Structured notes transaction

As of June 30, 2017 the balances of structured notes transactions with juristic-person directors of the Group were \$4,995.

C. Lease agreements

a. Lease revenue

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Subsidiaries	\$ 259	259	519	518

b. Guarantee deposits received

	June 30, 2017	December 31, 2016	June 30, 2016
Subsidiaries	\$ 200	200	200

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

D. Insurance commission revenues

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

a. Commission revenues

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Subsidiaries	\$ 2,447	6,538	9,347	10,483

b. Accounts receivable

	June 30, 2017	December 31, 2016	June 30, 2016
Subsidiaries	\$ 1,640	2,452	4,965

E. 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 \$2,772, \$2,089, \$5,119 and \$3,835 for the three and six months ended June 30, 2017 and 2016, respectively.

F. 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 June 30, 2017, December 31, 2016 and June 30, 2016:

	June 30, 2017	December 31, 2016	June 30, 2016	The collateral use
Restricted assets - current	\$ 511,084	637,002	566,177	Bank borrowings, commercial paper, accounts settled, money trust (Annotation 1), guaranty deposited for business operations (Annotation 2) and the amount of provisional seizure (Note 9(9))
Restricted assets - non - current	130,586	170,167	179,288	Trust to a impartial third party (Note 12(4))
Trading securities and bonds purchased under resale agreements (par value)	45,812,004	35,926,059	30,640,717	Repurchase agreement and bond purchased under resale agreements - short sales
Property and equipment	4,034,557	4,049,331	4,252,047	Bank borrowings
Financial assets at fair value through profit or loss - non-current	186,217	186,073	190,390	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business investment
Investment property	876,538	881,143	695,793	Bank borrowings
Total	\$ 51,550,986	41,849,775	36,524,412	

Annotation 1 : Money trust received from the client by the subsidiary TIS Securities (HK) Ltd.

Annotation 2 : According to the request of Financial Supervisory Commission No. 09600744341, the guaranty deposit for business operations which Taiwan International Futures Corp. deposited can't be transferred to the its own working capital temporarily for protecting creditors.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

9. SIGNIFICANT CONTINGENT LIABILITY AND UNRECOGNIZED CONTRACT COMMITMENT

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

	June 30, 2017		December 31, 2016		June 30, 2016	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities procured through margin purchase	664,100	\$ 6,641,000	663,916	6,639,160	684,007	6,840,070
Collateral for margin purchase	9,179	91,790	12,555	125,550	21,616	216,160
Collateral for short sales	8,873	88,730	4,427	44,270	3,954	39,540
Lending securities to customers through short sales	25,143	251,430	37,135	371,350	23,981	239,810

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

	June 30, 2017		December 31, 2016		June 30, 2016	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities borrowed from securities finance companies	166	\$ 1,660	1,346	13,460	184	1,840
Collateral for refinancing margin	8	80	144	1,440	-	-

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

	June 30, 2017	December 31, 2016	June 30, 2016
Promissory notes	\$ 24,160,000	24,160,000	27,160,000
Promissory notes	USD 70,000	85,000	85,000

- (4) As of June 30, 2017 and December 31, 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.
- (5) Securities and Futures Investors Protection Center claims against the Company for compensation of \$2,004; due to the fact that the Company, being the underwriter of client's year 2002 cash capital increase case had provided false information on the contents disclosed in the prospectus. The case is under the trial of Taiwan Shilin District Court. According to the opinion from the attorney of the Company, the case had no impact to the Company.
- (6) The client, Mr. Wu, declared that a resigned employee of Tung-Hu branch stole and sold off his stocks and withdrew his deposit illegally. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation for damages of \$36,000 with additional interests. Based on Year 2008 Chung Su No.684 verdict, the Taiwan Taipei District Court ruled in favor of the Company. Mr. Wu was unwilling accept the result and appealed again. This case is currently under the review of the Supreme Court. According to the opinion from the attorney of the Company, the case is a personal financial dispute between customer and the former employee and had no impact to the Company.
- (7) According to the documentation No. 0990030563 verdict of Financial Supervisory Commission (dated June 14, 2010), Taiwan International Securities Corporation (hereinafter known as "TISC") is suspected to violate the Regulations Governing Securities Firms due to some employees selling private placed products of Genesis Growth Income Preferred Shares B1 issued by GVEC (Genesis Voyager Equity Corporation, Danny Pang as related party) privately.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

According to the understanding and inspection of TISC, some employees may have been selling the aforementioned product and the suspected sales amount is US\$15 million. However, relevant evidence is still under inspection and the legal responsibilities are pending clarification. Some investors instituted proceedings towards TISC and claimed damages amounting to US\$7,956,873 dollars (including claim amount US\$130,000 dollars towards Taiwan International Securities Investment Consulting Corp.). As of June 30, 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 June 30, 2017, there is still one case that currently under the review of the Supreme 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 June 30, 2017, the balance of other liabilities was \$48,034.

- (8) The Company provided the Letter of Comfort to the banks which loaned to its subsidiary CSC International Holdings Ltd. and CSC securities (HK) Ltd.
- (9) 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 June 30, 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). There is one lawsuit remaining that currently under the review of Taiwan Taipei District Court. As of June 30, 2017, TIFC has paid \$287,929 for compensation and recognize the loss reserves \$141,204 in other non-current liabilities - other.

As of June 30, 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	13
	<u><u>\$ 103,955</u></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.

- (10) 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 June 30, 2017, the remaining balance was \$2,072.
- (11) Due to having preparation for foreign currency margin as a leverage transaction merchant, the subsidiary, Capital Futures Corp., purchased the transaction system for US\$100 thousand (approximate \$3,225) for contract price. As of June 30, 2017, the remaining balance was US\$6 thousand (approximate \$190).
- (12) Due to the business development of Taichung branch, the subsidiary, Capital Futures Corp., planned to move and redecorate, which cost \$4,360 for contract price. As of June 30, 2017, the remaining balance was \$570.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (13) According to the Article 17 of Enforcement Rules of the Trust Enterprise Act, the balance sheet, income statement and list of trust properties of trust accounts were declared as follows:

a. Balance sheet of trust accounts

Balance Sheet of Trust Accounts								
June 30, 2017, December 31, 2016 and June 30, 2016								
Trust Assets	June 30, 2017	December 31, 2016	June 30, 2016	Trust Liabilities	June 30, 2017	December 31, 2016	June 30, 2016	
Bank deposits	\$ 1,014,135	971,862	900,472	Accounts payable	\$ 293	380	501	
Short-term investment				Trust capital	10,122,324	8,902,241	8,570,377	
				earnings or deficit	10,706	(176,994)	(378,441)	
Bonds	3,812	1,386	713					
Funds	8,386,429	6,893,668	6,186,662					
Stocks	476,301	529,461	514,638					
Securities lent	182,024	195,508	218,642					
Bond Investment under agreements to	-	48,788	281,741					
Structured notes	10,000	31,109	20,066					
Accounts receivable	60,622	53,845	69,503					
Total Assets	\$ 10,133,323	8,725,627	8,192,437	Total Liabilities	\$ 10,133,323	8,725,627	8,192,437	

b. Income statement of trust accounts

Income Statement of Trust Accounts		
For the Six Months Ended June 30, 2017 and 2016		
	For the six months ended June 30,	
	2017	2016
Revenue		
Interest revenue	\$ 2,419	7,741
Cash dividends revenue	116,012	61,306
Rental revenue	4,699	4,321
Realized investment gains	143,619	51,983
Unrealized investment gains	285,212	100,164
Unrealized currency exchange gains	25,777	130,023
Currency exchange gains	4,486	38,802
Other revenue	-	133
Subtotal	582,224	394,473
Expense		
Administrative fee	625	742
Commission expenses	36,639	21,851
Realized investment losses	49,259	98,298
Unrealized investment losses	301,486	617,711
Unrealized currency exchange losses	190,847	74,289
Currency exchange losses	53,019	13,606
Subtotal	631,875	826,497
Net income (losses) before tax	(49,651)	(432,024)
Income tax expense	(128)	(666)
Net income (losses) after income tax	\$ (49,779)	(432,690)

c. List of trust properties

List of Trust Properties			
June 30, 2017, December 31, 2016 and June 30, 2016			
Investment items	June 30, 2017	December 31, 2016	June 30, 2016
Bank deposits	\$ 1,014,135	971,862	900,472
Short-term investment			
Bonds	3,812	1,386	713
Stocks	476,301	529,461	514,638
Securities lent	182,024	195,508	218,642
Bond investments under agreement to repurchase	-	48,788	281,741
Structured Notes	10,000	31,109	20,066
Funds	8,386,429	6,893,668	6,186,662
Total	\$ 10,072,701	8,671,782	8,122,934

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

10. SIGNIFICANT CATASTROPHIC LOSS : NONE

11. SIGNIFICANT SUBSEQUENT EVENTS : NONE

12. OTHERS

- (1) As of June 30, 2017, December 31, 2016 and June 30, 2016, the open positions of futures and option contracts were as follows:

A. June 30, 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	16	\$ 32,546	32,448	
	Taiax Futures	Short	1,135	(2,308,211)	(2,324,853)	
	Mini Taiax Futures	Long	272	139,719	139,361	
	Mini Taiax Futures	Short	21	(10,428)	(10,630)	
	Electronic Sector Index Futures	Short	21	(36,073)	(36,208)	
	Non-Finance Non-Electronics Sub-Index Futures	Long	6	7,041	7,008	
	Stock Futures	Long	1,944	148,875	149,308	
	Stock Futures	Short	12,953	(1,592,145)	(1,635,339)	
	Finance Sector Index Futures	Long	17	19,064	19,133	
	SGX Nifty 50 Futures	Long	6	3,471	3,475	
	HSI Futures	Long	25	124,466	123,671	
	HSI Futures	Short	3	(15,050)	(14,956)	
	Dow Futures	Long	53	22,532	22,545	
	Dow Futures	Short	46	(19,630)	(19,528)	
	Mini-Dow Futures	Short	17	(55,091)	(55,069)	
	Sugar Futures	Long	6	1,703	1,715	
	Soybean Meal Futures	Long	51	6,180	5,828	
	Soybean Meal Futures	Short	40	(4,729)	(4,520)	
	MSCI Taiwan Index Futures	Short	322	(377,644)	(377,410)	
	VIX Futures	Short	4	(1,407)	(1,488)	
	GBP dollar Futures	Long	25	61,699	62,005	
	Euro dollar Futures	Long	62	267,824	270,341	
	JPY dollar Futures	Short	9	(30,709)	(30,492)	
	Nikkei Index Futures	Short	1	(2,692)	(2,716)	
	NT Dollar Gold Futures	Short	2	(922)	(919)	
	USD/CNY FX Futures	Long	21	65,952	64,504	
	USD/CNY FX Futures	Short	26	(81,792)	(80,376)	
	Nifty 50 Futures	Long	2	951	952	
	Nifty 50 Futures	Short	9	(4,273)	(4,286)	
	Mini-USD/CNY FX Futures	Long	86	54,836	53,493	
	Mini-USD/CNY FX Futures	Short	25	(15,665)	(15,340)	
	USD/JPY FX Futures	Short	52	(31,443)	(31,530)	
	EUR/USD FX Futures	Short	242	(168,071)	(169,286)	
	Euro 10 years Bond	Short	20	(114,290)	(112,403)	
	Crude Oil Futures	Long	36	49,335	50,696	
	Crude Oil Futures	Short	128	(170,325)	(179,269)	
	S&P 500 Futures	Long	75	36,499	36,296	
	Mini-S&P 500 Futures	Short	143	(527,664)	(524,166)	
	FTSE China A50 Index Futures	Long	17	744	747	
	FTSE China A50 Index Futures	Short	484	(167,196)	(167,294)	
	U.S. 5-Year T-Note Futures	Short	88	(316,710)	(315,442)	
	U.S. 10-Year T-Note Futures	Short	185	(707,959)	(706,452)	
	Subtotal			(5,716,682)		

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/ Short	Number of contracts			
Options contract :						
	Taiax Options (Call)	Long	12,784	\$ 32,487	56,683	
	Taiax Options (Put)	Long	28,252	32,851	29,891	
	Taiax Options (Call)	Short	12,956	(54,060)	(49,271)	
	Taiax Options (Put)	Short	11,052	(27,593)	(24,156)	
	Stock Options (Call)	Long	672	1,981	2,205	
	Stock Options (Put)	Long	1,133	3,069	2,257	
	Stock Options (Call)	Short	585	(1,364)	(1,689)	
	Stock Options (Put)	Short	463	(1,312)	(1,115)	
	Taiax Weekly Options (Call)	Long	15,681	1,263	843	
	Taiax Weekly Options (Put)	Long	25,431	3,736	3,802	
	Taiax Weekly Options (Call)	Short	1,648	(4,655)	(5,153)	
	Taiax Weekly Options (Put)	Short	5,065	(14,955)	(15,897)	
	Gold Option (Call)	Long	69	126	64	
	Gold Option (Put)	Long	14	27	12	
	Gold Option (Put)	Short	3	(12)	(12)	
	Electronic Sector Index Options (Call)	Long	126	241	284	
	Electronic Sector Index Options (Put)	Long	198	324	150	
	Electronic Sector Index Options (Call)	Short	377	(1,807)	(2,423)	
	Electronic Sector Index Options (Put)	Short	505	(1,872)	(2,439)	
	Finance Sector Index Options (Call)	Long	141	337	1,057	
	Finance Sector Index Options (Put)	Long	958	204	118	
	Finance Sector Index Options (Call)	Short	150	(827)	(1,109)	
	Finance Sector Index Options (Put)	Short	42	(104)	(99)	
	S&P 500 Options (Call)	Long	1,088	7,845	1,323	
	S&P 500 Options (Put)	Long	12	427	431	
	S&P 500 Options (Call)	Short	22	(975)	(515)	
	S&P 500 Options (Put)	Short	307	(7,070)	(4,580)	
	Mini-S&P 500 Options (Call)	Short	50	(673)	(169)	
	Sugar Option (Call)	Long	11	26	4	
	Sugar Option (Put)	Long	10	33	61	
	Soybean Meal Options (Call)	Long	11	39	38	
	Soybean Meal Options (Put)	Long	20	12	28	
	Soybean Meal Options (Call)	Short	300	(437)	(308)	
	Soybean Meal Options (Put)	Short	87	(257)	(317)	
	Mini-USD/CNY FX Options (Call)	Long	38	1,375	328	
	Mini-USD/CNY FX Options (Put)	Long	29	1,307	1,521	
	Mini-USD/CNY FX Options (Call)	Short	21	(411)	(65)	
	Mini-USD/CNY FX Options (Put)	Short	41	(680)	(1,590)	
	USD/CNY FX Options (Call)	Long	2	12	5	
	USD/CNY FX Options (Put)	Long	128	1,512	1,729	
	USD/CNY FX Options (Call)	Short	130	(916)	(218)	
	NVDA Options (Call)	Long	4	48	43	
	U.S. 10-year Bond Option (Call)	Long	170	2,101	1,535	
	Subtotal			(28,597)		
Total				\$ (5,745,279)		

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

B. 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 :	Taiax Futures	Long	18	\$ 32,699	33,253	
	Taiax 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 Futures	Long	19	7,800	7,754	
	Nifty 50 Futures	Short	357	(240,213)	(241,492)	
	EUR/USD FX Futures	Long	201	139,916	136,750	
	EUR/USD FX Futures	Short	603	(410,752)	(410,249)	
	Euro dollar Futures	Long	64	270,616	272,809	
	H stocks Index Futures	Short	1	(1,921)	(1,938)	
	HSI Futures	Long	4	18,017	18,165	
	Mini-HSI Futures	Short	20	(17,930)	(18,264)	
	SGX Nifty 50 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	
	Nikkei Index Futures	Long	4	10,209	10,511	
	U.S. 5-Year T-Note Futures	Short	45	(169,495)	(170,760)	
	U.S. 10-Year T-Note Futures	Long	10	40,005	40,081	
	Subtotal			(2,200,135)		
Options contract :	Taiax Options (Call)	Long	17,162	\$ 32,562	27,543	
	Taiax Options (Put)	Long	9,632	13,323	7,145	
	Taiax Options (Call)	Short	4,730	(26,028)	(27,259)	
	Taiax 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)	
	Taiax Weekly Options (Call)	Long	16,137	3,295	3,533	
	Taiax Weekly Options (Put)	Long	14,685	2,411	1,081	
	Taiax Weekly Options (Call)	Short	3,990	(6,739)	(10,733)	
	Taiax Weekly Options (Put)	Short	4,755	(11,155)	(6,233)	
	Gold Option (Call)	Long	7	26	27	
	Gold Option (Putl)	Long	13	68	67	
	Gold Option (Call)	Short	54	(125)	(190)	
	Gold Option (Put)	Short	5	(4)	(2)	
	Electronic Sector Index Options (Call)	Long	256	721	855	
	Electronic Sector Index Options (Put)	Long	85	271	164	
	Electronic Sector Index Options (Call)	Short	1	(5)	(7)	
	Electronic Sector Index Options (Put)	Short	263	(1,009)	(722)	
	Finance Sector Index Options (Call)	Long	825	2,591	2,854	
	Finance Sector Index Options (Put)	Long	813	1,693	1,078	
	Finance Sector Index Options (Put)	Short	95	(198)	(118)	
	Mini-S&P 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)		

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

C. June 30, 2016

Item	Trading category	Open positions		Contract size or paid	Fair value	Note
		Long/ Short	Number of contracts	for (received from) premium		
Futures contract :						
	Taix Futures	Long	15	24,534	25,026	
	Taix Futures	Short	1,090	(1,832,090)	(1,855,614)	
	Electronic Sector Index Futures	Short	13	(17,471)	(17,997)	
	Non-Finance Non-Electronics Sub-Index Futures	Long	14	14,611	14,574	
	Stock Futures	Long	1,413	86,463	88,268	
	Stock Futures	Short	3,917	(633,203)	(650,218)	
	Finance Sector Index Futures	Short	18	16,675	16,715	
	Finance Sector Index Futures	Short	5	(4,636)	4,643	
	H stocks Index Futures	Long	46	(81,628)	(82,859)	
	SGX Nifty 50 Futures	Short	60	(31,614)	(32,283)	
	HSI Futures	Long	21	(89,498)	(90,815)	
	Gold Futures	Long	6	25,813	25,573	
	Gold Futures	Short	4	(15,732)	(17,049)	
	Micro Gold Futures	Short	1	(428)	(426)	
	GBP dollar Futures	Short	3	(8,070)	(8,017)	
	Nikkei Index Futures	Short	34	(88,204)	(83,085)	
	Crude Oil Futures	Long	1	1,628	1,634	
	S&P 500 Futures	Short	162	530,887	542,426	
	FTSE China A50 Index Futures	Long	1	292	298	
	FTSE China A50 Index Futures	Short	110	(32,008)	(32,546)	
	Subtotal			(2,133,679)		
Options contract :						
	Taix Options (Call)	Long	8,953	\$ 24,837	43,797	
	Taix Options (Put)	Long	19,480	55,559	24,922	
	Taix Options (Call)	Short	3,502	(8,311)	(8,811)	
	Taix Options (Put)	Short	4,174	(11,421)	(6,586)	
	Stock Options (Call)	Long	1,191	4,731	5,861	
	Stock Options (Put)	Long	1,286	8,735	5,474	
	Stock Options (Call)	Short	962	(3,886)	(3,582)	
	Stock Options (Put)	Short	936	(7,376)	(3,387)	
	Taix Weekly Options (Call)	Long	3,167	978	1,008	
	Taix Weekly Options (Put)	Long	3,211	1,410	1,108	
	Taix Weekly Options (Call)	Short	1,278	(4,066)	(4,426)	
	Taix Weekly Options (Put)	Short	1,607	(3,800)	(3,069)	
	Gold option (Call)	Long	92	275	315	
	Gold option (Put)	Long	73	272	295	
	Gold option (Call)	Short	8	(64)	(57)	
	Gold option (Put)	Short	16	(28)	(28)	
	Electronic Sector Index Options (Call)	Long	405	2,401	4,138	
	Electronic Sector Index Options (Put)	Long	456	1,753	519	
	Electronic Sector Index Options (Call)	Short	139	(592)	(2,063)	
	Electronic Sector Index Options (Put)	Short	71	(942)	(197)	
	Finance Sector Index Options (Call)	Long	485	563	425	
	Finance Sector Index Options (Put)	Long	490	1,064	532	
	Finance Sector Index Options (Call)	Short	42	(89)	(61)	
	Finance Sector Index Options (Put)	Short	15	(12)	(3)	
	S&P 500 Options (Call)	Long	52	453	1,051	
	S&P 500 Options (Put)	Long	77	2,796	1,334	
	S&P 500 Options (Call)	Short	278	(14,412)	(32,041)	
	S&P 500 Options (Put)	Short	262	(13,723)	(4,540)	
	Mini-USD/CNY FX Options (Put)	Long	1	-	1	
	Subtotal			37,105		
Total				\$ (2,096,574)		

(2) 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:

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Art.	Calculation formula	Current Period		Last Period		Standard	Enforcement
		Calculation	Ratio	Calculation	Ratio		
17	Stockholders' equity	4,233,306	4.74	2,914,553	5.16	≥ 1	Satisfactory to requirement
	(Total liabilities – futures traders' equity)	893,034		565,242			
17	Current Assets	30,343,707	1.10	24,009,868	1.09	≥ 1	"
	Current Liabilities	27,495,784		22,102,104			
22	Stockholders' equity	4,233,306	379.67%	2,914,553	261.39%	≥ 60%	"
	Minimum paid-in capital	1,115,000		1,115,000		≥ 40%	
22	Post-adjustment net capital	2,802,611	55.19%	2,049,236	52.11%	≥ 20%	"
	Total customers' margin deposits required for open positions of customers	5,077,688		3,932,853		≥ 15%	

(3) Unique risks to specific futures commission merchant services

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

(4) Taiwan International Securities Corp. (hereinafter known as "TISC"), the Company's merged entity, entrusted \$182,000 to an impartial third party on the merging date with First Securities Co., Ltd. and Far East Securities Co., Ltd. In relations to the agreement of indemnification to the stockholders with aforementioned companies arising from the fraud matter of Taiwan International Futures Corporation (hereinafter known as "TIFC"). Such deposit shall be allocated by the trustee to the stockholders who are merged in proportion of their shareholdings in TISC, after being decided by the court or accommodated by the investors of TIFC.

As of June 30, 2017, TIFC had reached partial consensus with its investors, and the accumulated amount of compensation was \$162,812. According to the indemnification to the former stockholders of First Securities Co., Ltd. and Far Eastern Securities Co., Ltd, the Company needs to pay all of the compensation to the company participating in the merger. As of June 30, 2017, the trust amount of the impartial third party is \$130,586 and the accumulated compensation expense is \$51,414.

13. DISCLOSURES REQUIRED

(1) Information on significant transaction:

The followings are the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Group:

- A. Loans to others: Exhibit 1.
- B. Endorsements and guarantee for others: None.
- C. Acquisition of real estate over \$300 millions or 20% of paid-in capital: None.
- D. Disposal of real estate over \$300 millions or 20% of paid-in capital: None.
- E. Discount on commissions of transactions with related parties over \$5 millions: None.
- F. Receivables from related parties over \$100 millions or 20% of paid-in capital: None.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

G. Details of material transactions between parent company and subsidiaries: Exhibit 2.

(2) Information on reinvestment business: Exhibit 3.

(3) Information on branch units or representative offices overseas

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	Nov. 27, 1997	Ruling No. 16322 by FSC on Feb. 22, 1997	Investigation of business, research of industrial technology and related information collection	-	-	-	-	-	-	-	

(4) Information on investments in China:

A. Investment in Mainland China and related information:

Unit: NT\$ thousands

Name of the investee in Mainland China	Major operations	Issued capital	Method of investment (Note 1)	Accumulated remittance as of January 1, 2017	Remittance or recoverable investment this period		Accumulated remittance as of June 30, 2017	Net gains or losses of investee	Direct or indirect shareholdings (%) by the company	Investment gains and losses recognized during this period (Note 2)	Ending balance of investment	Investment income remitted back as of June 30, 2017
					Remittance amount	Recoverable amount						
Capital True Partner Technology Co., Ltd.	Management, consulting and information service business	5,013	C	24,372	-	-	24,372	(192)	28.67%	² B (2)	12,036	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	18,863	C	-	18,863	-	18,863	(196)	56.21%	(110) B (2)	9,922	-

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.

B. Limitation of investment in China:

Unit: NT\$ thousands

Company Name	Accumulative remittance from Taiwan to Mainland China	Amount of investment approved by Investment Commission, Ministry of Economic Affairs (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.

(5) Disclosures required for securities firm investing in countries or regions without securities authority:

According to article 4, no. 5 of the letter no. 10400414001 issued by Financial Supervisory Commission on November 19, 2015, the required supplementary disclosures of the Company's information on reinvestment in overseas businesses for the six months ended June 30, 2017 are as follows:

A. Balance sheet and income statement:

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

a. Balance sheet

Unit: US\$ thousands

Company	CSC International Holdings Ltd.	Taiwan International Securities (B.V.I) Corp.
Nature	June 30, 2017	June 30, 2017
Current assets	11,361	23
Long-term investments	20,785	-
Property and premises	2,207	-
Other assets	19,394	3,380
Total assets	53,747	3,403
Current liabilities	477	-
Other liabilities	86	3,419
Total liabilities	563	3,419
Common stock	45,000	9,516
Retained earnings (Accumulated deficit)	8,352	(9,471)
Cumulative translation adjustments	(168)	(61)
Total stockholders' equity	53,184	(16)
Total liabilities and stockholders' equity	53,747	3,403

b. Income statement

Unit: US\$ thousands

Company	CSC International Holdings Ltd.	Taiwan International Securities (B.V.I) Corp.
Nature	For the six months ended June 30, 2017	For the six months ended June 30, 2017
Operating revenue	(599)	(33)
Operating expense	(455)	-
Non-operating revenue	252	-
Non-operating expense	-	-
Income (loss) before tax	(802)	(33)
Net income (loss)	(802)	(33)

B. Marketable securities held as of June 30, 2017

Unit: shares / US\$ thousands

Name of holding company	Securities types and name	Account classification	June 30, 2017	
			Shares	Book value
CSC International Holdings Ltd.	Capital Securities (Hong Kong) Ltd.	Long-term investments	4,864,400	\$ 6,717
	CSC Securities (HK) Ltd.	Long-term investments	89,600,000	14,068
	Total			\$ 20,785
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Ltd.	Other	265,000,000	\$ (3,419)

C. Transactions of financial derivatives: None.

D. Revenue on advisory and consulting service and related lawsuit: None

14. SEGMENT INFORMATION:

(1) Operating segment information

The operating segments are consistent with the internal reports provided to the chief operating decision-maker. The Group's operating segments are classified into brokerage, underwriting, dealing, derivative instrument and reinvestment according to the sources of revenue. The

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

remaining operating results which have not reached the threshold requirements are consolidated in 'other operating segments. Sources of income from products and services rendered by each segment are as follows:

- A. Brokerage segment: Engaged in brokerage trading, margin trading, and securities lending business.
- B. Underwriting segment: Engaged in providing advisory on initial public offering or to register on the emerging or listed market, securities underwriting and sales, corporate finance, mergers and acquisitions.
- C. Dealing segment: Engaged in trading securities and related listed stock instruments on a proprietary basis.
- D. Derivative instrument segment: Engaged in the investment, consultancy and issuance of derivative instruments.
- E. Capital Futures Corporation: Engaged in the business of domestic futures brokerage services, trading on a proprietary basis, futures consultancy and managed futures enterprises.

(2) Measurement of segmental information

All of the Group's operating segments' accounting policies are no material difference from the ones described in Note 4 "significant accounting policies". The Group evaluates segment performance based on the net profit before tax of various operating segments. Income and expense attributable to each operating segment are directly attributed to the profits and losses of the corresponding operating segment. Indirect expenses and expenses from logistic support segment that cannot be directly attributed are listed under "other segments".

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

For the three months ended June 30, 2017								
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$ 782,826	74,448	499,117	103,700	52,252	681,693	(68,615)	2,125,421
Income	\$ 216,414	32,378	320,627	62,492	(34,235)	246,037	(110,924)	732,789
For the three months ended June 30, 2016								
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$ 667,338	86,424	268,592	126,017	54,270	576,476	(65,910)	1,713,207
Income	\$ 174,493	42,196	186,786	92,238	(54,241)	149,174	(65,064)	525,582
For the six months ended June 30, 2017								
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$ 1,527,227	160,954	937,119	181,684	104,460	1,186,478	(134,143)	3,963,779
Income	\$ 477,219	73,302	620,704	108,731	(145,273)	357,971	(150,630)	1,342,024
For the six months ended June 30, 2016								
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$ 1,406,164	144,552	243,430	266,916	110,970	1,141,455	(133,583)	3,179,904
Income	\$ 396,876	56,892	84,588	193,068	(82,041)	312,311	(150,174)	811,520

Note 1: Internal segment revenues are eliminated on consolidation.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Note 2: The Group's segment assets and liabilities are not provided to the chief operating decision maker, so such items are not required to be disclosed.

(4) Information about products and services

The Group identified the reportable segments based on the type of products and service provided and the general information is already to be disclosed. Thus, no additional disclosure is required.

(5) Information about geographical areas

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

(6) Information about major customers

The Group does not receive revenue from any single customer which exceeds 10% or more of operating income and there is no need to disclose the information.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
(Amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

Exhibit 1: Loans to others

No.	Name of the company providing Loans to Others	Party to Transactions	Account Classification	Related Party	Maximum Balance of the Period	Ending Balance	Capital Employed	Range of interest Rate	Type of Loans (Note)	Amount of Transactions	Purposes of the Borrowers	Allowance of Doubtful Accounts	Collateral		Limit on loans to a single business	Limit on the Amount of Loans
													Name	Value		
1	CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Account receivables - Related party	Yes	US 19,322	US 19,322	US 19,322	-	2	-	Operations	-		-	US 53,184	US 53,184
2	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Ltd.	Other receivables - Related party	Yes	US 3,380	US 3,403	US 3,380	-	2	-	Operations & repayment of financing	-		-	US 3,403	US 3,403
3	TIS Securities (HK) Ltd.	Taiwan International Capital (HK) Ltd.	Other receivables	Yes	HK 1,463	HK 1,463	HK 1,463	-	2	-	Repayment of financing	-		-	HK 1,463	HK 1,463
4	CSC Futures (HK) Ltd.	Pinnacle Corp. Pte. Ltd.	Account receivables - Customer	No	15,089	84,517	-	4%	2	-	Tradings	-		-	93,597	374,388
5	CSC Futures (HK) Ltd.	Klaw Trading Limited	Account receivables - Customer	No	27,166	42,258	3,018	5%	2	-	Tradings	-		-	93,597	374,388
6	CSC Futures (HK) Ltd.	Three Arrows Capital Ltd.	Account receivables - Customer	No	48,269	84,517	11,863	5%	2	-	Tradings	-		-	93,597	374,388
7	CSC Futures (HK) Ltd.	Future Leading Investment Pte. Ltd.	Account receivables - Customer	No	42,258	42,258	-	3.5%	2	-	Tradings	-		-	93,597	374,388
8	CSC Futures (HK) Ltd.	Tetron Capital Limited	Account receivables - Customer	No	4,449	6,692	2,367	-	2	-	Tradings	-		-	93,597	374,388

Note: Type of Loans

1. Business transactions

2. Necessaries of short-term financing

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
(Amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

Exhibit 2: Significant transactions between parent company and subsidiaries for the six months ended June 30, 2017

(In thousands dollars)

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Transaction details			Percentage(%) of total consolidated revenue or total assets
				General ledger account	Amount	Trading terms	
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts payable	446		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts receivable	25,701		0.02%
0	Capital Securities Corp.	Capital Futures Corp.	1	Other receivables	91		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Bonds sold under repurchase agreement	1,501		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other payables	165		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Guarantee deposits received	3,508		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Futures commission revenue	69,340	General transaction	1.75%
0	Capital Securities Corp.	Capital Futures Corp.	1	Lease revenue	7,937	General transaction	0.20%
0	Capital Securities Corp.	Capital Futures Corp.	1	Revenue from securities management, distribution, and management fee	210	General transaction	0.01%
0	Capital Securities Corp.	Capital Futures Corp.	1	Financial costs	303	General transaction	0.01%
0	Capital Securities Corp.	Capital Futures Corp.	1	Other operating revenue	24	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Securities commission expense	1,710	General transaction	0.04%
0	Capital Securities Corp.	Capital Futures Corp.	1	Interest revenue	55	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Miscellaneous expenses	9,368	General transaction	0.24%
0	Capital Securities Corp.	Capital Futures Corp.	1	Non-operating revenues	11,214	General transaction	0.28%
0	Capital Securities Corp.	Capital Futures Corp.	1	Brokerage commissions	82	General transaction	- %
0	Capital Securities Corp.	Capital Investment Management Corp	1	Other receivables	94		- %
0	Capital Securities Corp.	Capital Investment Management Corp	1	Professional service fees	41,000	General transaction	1.03%
0	Capital Securities Corp.	Capital Investment Management Corp	1	Lease revenue	600	General transaction	0.02%
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	60	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp	1	Non-operating revenues	60	General transaction	- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Lease revenue	406	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.	CSC Securities (HK) Ltd.	1	Other receivables	34		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Receipts under custody	68		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other operating expenditure	3,166	General transaction	0.08%
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Guarantee deposits received	160		- %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Other receivables	27		- %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Lease revenue	481	General transaction	0.01%
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Financial costs	1	General transaction	- %
0	Capital Securities Corp.	Capital International Technology Corp	1	Other non-operating revenue	30	General transaction	- %
1	Capital Futures Corp.	Capital Securities Corp.	2	Customers' margin account	643,871		0.49%
1	Capital Futures Corp.	Capital Securities Corp.	2	Futures traders' equity	643,871		0.49%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Customers' margin account	312,429		0.24%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures traders' equity	1,534,693		1.16%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Other payables	1,118		- %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Commission expense - futures	3,984	General transaction	0.10%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Brokerage commissions	21,215	General transaction	0.54%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Financial costs	495	General transaction	0.01%
1	Capital Futures Corp.	Capital International Technology Corp	3	Lease revenue	73	General transaction	- %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Customers' margin account	1,421,204		1.07%
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Futures traders' equity	198,940		0.15%
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd	3	Information technology expense	1,129	General transaction	0.03%
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd	3	Accumulated depreciation	766		- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd	3	Depreciation expense	200	General transaction	0.01%
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd	3	Prepayments	452		- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd	3	Professional service fees	951	General transaction	0.02%
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other receivables	HK 14		- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other operating revenue	HK 1,860	General transaction	0.19%
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Brokerage fees	HK 421	General transaction	0.04%
3	CSC Securities (HK) Ltd.	CSC International Holdings Ltd	3	Other payables	HK 150,000		0.44%
4	Capital Securities (Hong Kong) Ltd	CSC International Holdings Ltd	3	Other receivables	HK 3,370		0.01%
5	Taiwan International Securities (B.V.I) Corp	TIS Securities (HK) Ltd.	3	Other receivables	HK 26,264		0.08%

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.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
(Amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

Exhibit 3: Disclosure required of investee companies

Ref No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and number of FSC	Primary business operation	Original investment amount		Equity Ownership by Company (Note 3)			Operating income of investee company	Net income or loss of investee company during the period	Investment gain or loss recognized during the period	Cash dividend	Note
						Balance on June 30, 2017	Balance on December 31, 2016	Shares	Ratio	Book value					
0	Capital Investment Management Corp.	Taipei ,Taiwan, R.O.C.	February 16, 1990		Engaged in providing advice on securities investment and related matters , or securities investment consultancy analyzing the published materials on securities investments	72,515	72,515	7,000,000	100.00%	101,310	41,000	6,410	6,410	10,430	The transaction has been writtenoff 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	90,166,223	56.21%	2,379,541	863,344	306,916	173,265	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%	1,615,188	(18,781)	(25,135)	(25,135)	-	"
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%	65,784	115,114	39,945	39,945	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	740,000	100.00%	41,411	44,083	2,013	2,013	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%	-	-	-	-	-	The transaction has been writtenoff in the consolidated financial statements
0	Taiwan International Securities (B.V.I) Corp.	British Virgin Island	December 10, 1996	No. FSC-53981	Holding company for international securities business	1,394,817	1,394,817	300	100.00%	(494)	(1,028)	(1,027)	(1,027)	-	"
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%	13,153	-	(145)	(145)	-	"
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%	995,071	73	(2,174)	(2,174)	-	"
1	Capital Securities (Hong Kong) Ltd. (Note 7)	Hong Kong	June 29, 1993	No. FSC-17433 dated April 7, 1993	Liquidation in progress	HK48,644 thousand	HK48,644 thousand	4,864,400	100.00%	HK52,429 thousand	HK-	HK-	-	-	"
1	CSC Securities (HK) Ltd.	Hong Kong	May 3, 1994	No. FSC-90931 dated January 5, 1998	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong	HK89,600 thousand	HK89,600 thousand	89,600,000	70.00%	HK109,808 thousand	HK 11,833 thousand	HK(4,664) thousand	-	-	"
2	CSC Securities (HK) Ltd.	Hong Kong	May 3, 1994	No. FSC-90931 dated January 5, 1998	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong	HK38,400 thousand	HK38,400 thousand	38,400,000	30.00%	HK49,059 thousand	HK 11,833 thousand	HK(4,664) thousand	-	-	"
3	TIS Securities (HK) Ltd. (Note 6)	Hong Kong	August 17, 1993	No. FSC-40912 dated November 4, 1993	Liquidation in progress	HK265,000 thousand	HK265,000 thousand	265,000,000	100.00%	HK(26,687) thousand	HK-	HK(255) thousand	-	-	"
4	Taiwan International Capital (HK) Ltd. (Note 6)	Hong Kong	July 16, 1997	No. FSC-110159	Liquidation in progress	HK2	HK2	2	100.00%	HK(49,212) thousand	HK-	HK3 thousand	-	-	"
5	CSC Futures (HK) Ltd.	Hong Kong	December 9, 1998	No. FSC-1010027412 dated August 24, 2012	Futures dealing business	862,631	862,631	214,000,000	97.27%	910,419	340,528	43,123	-	-	"
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%	45,083	1,806	74	-	-	"
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%	41,456	36,994	1,383	-	-	Associates
6	Capital Securities Nominees Ltd.	Hong Kong	April 7, 1995		Agency services	HK2	HK2	2	100.00%	HK-	HK-	HK-	-	-	The transaction has been writtenoff 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) Ltd. (5) Capital Futures Corp. (6) CSC Securities (HK) Ltd.

Note 2: Includes the Company's investment in overseas business and its reinvestments in other businesses, etc.

Note 3: Book value is the investment balance according to equity method, including investment income (loss), cash dividends, and cumulative translation adjustment, etc.

Note 4: The stockholders' special meeting of Taiwan International Securities Corp. resolved to dissolve the investee company on September 18, 2008 and the liquidation procedure is ongoing.

Note 5: The stockholders' special meeting resolved to dissolve on June 27, 2012.

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) Ltd. 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: The board of directors of Company resolved to cease operation on October 30, 2012. The declaration of liquidation income tax had been assessed by HK Inland Revenue Department (IRD) on April 27, 2017. The residual property allocation is in progress that estimated to be finished before the end of 2017.