

Capital Securities Corporation  
Stock Code: 6005  
Printed on Friday, April 26, 2019  
Taiwan Stock Exchange Market Observation Post  
System: <http://mops.twse.com.tw>  
Capital Securities Corporation Annual Report is  
available at: <http://www.capital.com.tw>



ANNUAL REPORT  
2018 Annual Report  
Capital Securities Corporation

**Notice to readers**

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

# ANNUAL REPORT

## ■ Spokesperson

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Title: Executive Vice President  
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## ■ Deputy Spokesperson

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## ■ Headquarters & Branches

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TEL: (02) 8789-8888  
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## ■ Stock Transfer Agent

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Address: B2, No.97, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 10601, Taiwan, R.O.C.  
TEL: (02) 2703-5000  
Website: <http://www.capital.com.tw/agency/>

## ■ Auditors in the most recent year

KPMG  
Auditors: Lee, Feng Hui; Chung, Tan Tan  
Address: 68F, TAIPEI 101 TOWER, No. 7, Sec. 5, Xinyi Road, Taipei, 11049, Taiwan, R.O.C.  
TEL: (02) 8101-6666  
Website: <http://www.kpmg.com.tw>

## ■ Corporate Website

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

## ■ Overseas Securities Exchange

N/A

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# I. Letter to Shareholders



Chairman Alex Jiunn-Chih Wang

## Dear Shareholders:

In 2018, the global environment appeared robust initially but weakened afterwards due to the tax cuts in the US, the Fed's rate hikes and balance sheet reduction, and the intensification of China-US trade war. The global stock market's performance was divergent: the benefit of tax cut policy drove economic growth. The US Dow Jones Industrial Index hit a new high in late January, 2018 and early October, 2018. However, in the fourth quarter, the technology stocks declined and the market saw the biggest decline in the past 10 years. The stock and FX markets showed weakness in the emerging markets in the first two quarters due to the strengthening of the US dollar and the outflow of funds. Only in the fourth quarter did the market rebound. As the China-US trade war intensified, couple with China's policies of de-leveraging, China's and Hong Kong's stock markets were weak for the whole year, and the effect of MSCI inclusion of Chinese stocks did not emerge as expected.

Taiwan's stock market showed different results in first and second half of 2018. In the first half of the year, driven by the strength of US technology stocks, TAIEX repeatedly challenged new highs, the market's investment confidence was strong, and TAIEX once reached 11,270 points at the highest, nearing the historical high of 12,682 points in 1990. In the second half, there were several reversals. The OTC Index had been falling since July with significantly lower trading momentum. TAIEX once held firm because of TSMC, but it fell within a month with the underwhelming performance of the US stock market due to the following: a) market saturation in terms of Taiwan's major exports (handsets, computers, etc.); b) relying solely on Apple was insufficient; c) oil prices plummeted starting from October. The index plunged more than 1,500 points from the peak in a month. It also fell below the threshold of 10,000 pts, ending the index's longest rally above 10,000 pts in the history since July 2017.

Since the fourth quarter of 2018, Taiwan stocks have been affected by the international stock market, showing a downtrend in both volume and price. However, the Company's management team still adheres to its strict standards on steady operations and maintains outstanding performances and earnings despite of risks. In 2018, the overall net profit before tax were NT\$1,838,445 thousand, and the net profit after tax was NT\$1,408,865 thousand, ranking fifth among domestic brokerage firms.

The business breakdown of operations by department in 2018 are described as follows:

1. **Brokerage:** Our market shares in TAIEX and OTC markets were 4.16% and 5.26%, respectively. The overall market share was 4.39%; the business scale was ranked the fifth among all securities brokerage firms and the first among independent securities brokerage firms.
2. **Investment Banking:** We acted as underwriter for Century Iron & Steel (CB2), Century Iron & Steel (CB3), and SPOs for the capital increase of Nyquest, Taisol, Century Iron & Steel, and Ching Feng at the secondary market in 2018. Our underwriting team is experienced and has been commissioned to complete domestic and foreign cases of different scales and types.
3. **Derivatives Products:** Call (Put) warrants, in 2018, the amount of the Company's issuance of warrants totaled to NT\$52.050 billion, and the number of warrants issued was 4,690; the issuance amount and the number of issuances ranked the second in the market. The Company's annual issuance amount of structured products was NT\$23.728 billion.



4. **Fixed Income:** In the year, the Company participated in the bidding for issuance of nine domestic ordinary corporate bonds, accounting for 16.36% of the market share and ranking the second among all securities brokerage firms. The Company's cumulative amount of public bidding for domestic ordinary corporate bonds reached NT\$22.71 billion, accounting for 9.30% of the market share and ranking the second among all securities brokerage firms. The Company also served as an underwriter of corporate bonds for well-known issuers like Taiwan Power, China Steel, Dragon Steel, Uni-President, Cheng Shin Rubber and Hotai Finance Corporation.

The vision of Capital Securities is "providing high value-added services that exceed customer expectations and becoming our clients' partner for long-term growth". Indebted to all employees' efforts in 2018, the Company won several awards:

1. The 3rd place in futures trading volume among securities brokerage firms at Taiwan Futures Exchange's "4th Futures Diamond Award".
2. The "Best Warrant Award" of Non-Financial Holdings of Excellence Magazine's "2018 Excellent Financial Securities Service Review".
3. The "Best Information Technology Service Award" and the "Most Trusted Security Award" of Business Today's "2018 Wealth Management Bank and Securities Firm Review".
4. The "Best Sales Team Award" and "Best Philanthropy Award" of the Wealth Management Award in 2018.
5. Selected as the constituents for FTSE4Good TIP Taiwan ESG Index.
6. First place for "Warrant Sales and Purchase Volume Awards" and third place for "Warrant Turnover Award" awarded by OTC in 2018.
7. The "Excellent Warrants Value Award", "Warrants Number Breakthrough Award" and "Warrants Number Circulation Award" awarded by TWSE in 2018.

The Company's brand value is "Capital Care". It has long assumed the role of a corporate citizen and continued organizing blood drives, "Offer Love and Convey Happiness", and "Stationery Donation Shoe Box" to send love to children in disadvantaged aboriginal families living in cities. The Company collaborates with the New Taipei City Welfare Association for the Blind to provide the employees with massage services every week. The Company also promotes the "Capital loves to Read" to support education in rural areas. In their free time, our staff volunteers spend time reading story books with elementary students. At the end of the year, they went to Gien Shih Elementary School in Hsinchu County to hold a Christmas sponsorship ceremony. In 2018, we donated money to a total of 9 elementary schools.

Due to China-US trade war, the International Monetary Fund (IMF) revised down the estimate of global economic growth in October, 2018 and January, 2019. The latest global economic growth rate is estimated to be 3.50%, the lowest of the last three years. As the terminal market for technology products nears saturation, Taiwan's economic growth momentum is weak. The Directorate General of Budget, Accounting and Statistics, revised down the GDP growth rate estimate for 2019 from 2.41% to 2.27% on February 13, 2019, which is lower than the growth rate of 2.63% in 2018, showing a downward trend for two consecutive years.

In the industrial aspect, pre-5G base station construction, server installment and upgrade of large data center, whether Microsoft or Sony is releasing a new generation of video game consoles, traditional car manufacturers' venture into the production of electric vehicles, and the business opportunities related to the Taiwanese government's renewable energy policy for offshore wind power are all optimistic investment directions in 2019. Furthermore, in view of the relatively low price base of China's stock market due to two consecutive years of decline, and the inclusion of Chinese A-shares in the index component by international index publishing companies including MSCI and FTSE, international capital has flowed into China's market. This is a huge opportunity for the sub-brokerage business. In addition, the China-US trade war and the sharp increase in production costs in China have driven Taiwanese businesses to return to Taiwan to set up factories or to invest in destinations designated by New Southbound Policy. It is also worth noting that business opportunities related to companies listed on TSE or OTC seeking to raise funds for production expansion or Taiwanese businessmen based overseas, also known as Taishang, returning to Taiwan for listing.

In the market aspect, whether the US inflation heats up is key to the number of the Fed rate raises. If the Fed stops raising rate, it will be more favorable for emerging markets including Taiwan stocks. Taiwan's economic growth has slowed with low inflationary pressures; thus, the Central bank is unlikely to raise rate. Therefore, fixed income securities with higher yields are still quite attractive to investors, and they are also the direction for the development of wealth management business. In the past, Taishang have kept their overseas earnings abroad due to ample investment opportunities and tax mitigation. However, affected by the CRS and the China-US trade war, it is expected to attract capital inflow back to Taiwan and increase wealth management business opportunities. In addition, the applications of Fintech and AI in investment have become the prevailing trends in the world. Taiwan's stock market is set to develop and establish an integrated software/hardware system for a trade-by-trade price matching mechanism in 2020, which will be the key to the future competition of securities brokerage companies.

In 2019, the Company's operational planning and business development strategies are as following:

1. Increase income from product selling and decrease the effect of income or loss from the positions held on the volatility of the profit, in order to maintain stable profitability.
2. Continue to develop professional investor clients and increase number of high net worth individuals. Implement social media marketing and promote to regular customers through digital platforms. Set 2019 to be "the first year of digital marketing", and provide customized services and conduct precision marketing according to customer attributes to improve the scale of customer asset management steadily.
3. Launch "Capital Single Access Account", combining securities, sub-brokerage, trust, derivatives and bond products to facilitate the delivery to customers, and promote efficiency of the use of funds and investment.

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4. Actively develop the existing Hong Kong platform and sub-brokerage business, and customize services to clients' demand in trading Hong Kong stocks, Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect, US stocks and other overseas securities markets, to increase revenue of the sub-brokerage business and in Hong Kong.
  5. Issue ETN and provide the customers with diversified products, in response to the policy of the Financial Supervisory Commission.
  6. With innovative thinking, and in a safe financial technology experiment environment, propose innovative financial products or services, and apply to enter the financial regulatory sandbox.
  7. Conduct "continuous trading" platform tests in accordance to TWSE's policy, and improve the preparation work.
  8. Centralize clearing operations, optimize operational processes, and enhance operational risk management.
  9. Implement policies of anti-money laundering, countering the financing of terrorism and information security, and provide customers with safe and reliable trading environments.
  10. Strengthen business cooperation with the Company's futures, securities investment management, venture capital and securities investment consulting to exert their synergy.

The market outlook in 2019 is expected to be a choppy year with opportunities and challenges ahead. Capital Securities will continue to uphold its business philosophy and care for the society, establish long-term partnership with customers, provide high value-added financial services that exceed customer expectations, and maintain high operation performance to generate high returns to shareholders.

**Alex Jiunn- Chih Wang**  
Chairman  
Capital Securities Corporation

## II. Company Profile

1. **Establishment and registration date: June 21, 1988**
2. **Paid-in capital: NT\$23.209 billion**
3. **Company history:**

In view of the key importance of the capital market to raising capital and promoting industrial upgrade in the domestic market, the founder of the Company invited well-known individuals of domestic enterprises to jointly establish the Company in 1988. The Company started as a professional brokerage firm with initial paid-in capital of NTD300mn. It has since developed into an integrated international securities brokerage firm with its businesses covering brokerage, proprietary trading, underwriting, registrar agency, bonds, credit transactions, derivatives, etc. The Company outperforms in the primary market and the secondary market. In order to provide a full range of financial management services to domestic and foreign corporations as well as the general investing public, the Company successively established affiliates such as Capital Futures, Capital Investment Management, Capital Insurance Agency, Capital Insurance Advisory, CSC Securities (HK) and CSC International Holdings, etc. In 2016, the Company also set up CSC Venture Capital and extended the reach of its services to pre-listing companies. In addition to its affiliates and branches in all major cities in Taiwan, the Company also established operating locations in financial centers such as Hong Kong and Shanghai. With the full support of all shareholders as well as its directors, the Company has been able to expand its business and advance toward the goal of being a professional and international investment bank.



**President  
Chia, Chung-Tao**

The Company continues to prosper, indebted to all employees and shareholders. In 1989, the Company's paid-in capital increased to NT\$1.6 billion. In the same year, the Company obtained its underwriting and proprietary trading licenses and was upgraded to a comprehensive securities brokerage firm. The Company started the OTC trading business at the end of the same year. In 1991, the Company increased its paid-in capital to NT\$2 billion, and expanded its business scope to provide margin trading and short selling business. In 1993, the Company merged with Hontai Securities Co., Ltd. and increased its paid-in capital to NT\$3.28 billion. In 1995, it increased the paid-in capital to NT\$4.08 billion. In the same year, the Company's shares were formally listed on the Taipei Exchange. From 1996 to 2002, the Company increased its paid-in capital to NT\$13.643 billion from retained earnings, capital reserve and employee bonuses. In 2005, the Company's shares were formally listed on the Taiwan Stock Exchange. Since 2006, the Company has expanded its scale and increased its capital. In 2008, the paid-in capital increased to NT\$16.268 billion. In 2009, the Company cancelled NT\$160 million of treasury stocks and decreased the paid-in capital to NT\$16.108 billion. In 2010, the Company completed the merger with Antay Securities Finance, acquired the shares of Taiwan International Securities, and increased the paid-in capital to NT\$23.057 billion. In 2011, the Company merged with Taiwan International Securities and increased its paid-in capital to NTD23.691bn from retained earnings. In 2015 and 2016, the Company repurchased treasury stocks of NTD500mn and reduced paid-in capital to NTD22.691bn, respectively. In 2017, the Company repurchased treasury stocks of NTD1.0bn and reduced its paid-in capital to NTD21.691bn. In 2018, the Company increased its paid-in capital to NTD23.209bn from retained earnings.

The Company's service quality has been well-received by investors. It has won several awards from competent authorities and organizations.

The Company's General Manager Chao YUNG-FEI won the "Outstanding Corporate Leadership Talent Award" of the 13th Golden Goblet Award in 2015. The Company won the "Best Non-Financial Holding Securities Firm Award" in Excellence Magazine's "2015 Excellent Financial Securities Service Review". The Company's Shanghai Representative Office won the first place in StarMine's "Best Media Industry Profit Forecast" in the Asia Pacific region in 2015.

In 2016, Chairman Wang Jiunn-Chih was awarded the "Excellent Businessman of 2016" by the Ministry of Economic Affairs. The Company won the "Best Non-Financial Holding Brand Image Award" in Excellence Magazine's "2016 Excellent Financial Securities Service Review", and the "Best Wealth Management Securities Excellence Award" in Business Today's "2016 Wealth Management Bank and Securities Firm Review". The Company's Shanghai Representative Office was awarded the first place by Thomson Reuters StarMine in "Media Industry Stock Selection Capability" in the Asia Pacific region in 2016. Capital Investment Management was awarded the 3rd place by Thomson Reuters StarMine in "Auto Industry Stock Selection Capability" in the Asia Pacific region in 2016.

In 2017, the Company won the "Best Non-Financial Holding Brand Image Award" in Excellence Magazine's "2017 Excellent Financial Securities Service Review", the "Best Wealth Management Team Award" of the Wealth Magazine's management award, the "Best Brokerage Image Quality Award" of the "2017 Wealth Magazine's Financial Award", as well as the "Best Wealth Management Securities Excellence Award" and the "Best Wealth Growth Award" of Business Today's "2017 Wealth Management Bank and Securities Firm Review".

In 2018, the Company won Excellence Magazine's "Best Warrant Award" of Non-Financial Holdings, "Best Information Technology Service Award" and "Most Trusted Security Award" in Business Today's "2018 Wealth Management Bank and Securities Firm Review", as well as the "Best Sales Team Award" and "Best Philanthropy Award" of the Wealth Magazine's Wealth Management Awards.

Capital Securities Corp. is committed to the development of smart finance and more optimized financial services. The Company's "MinText AR+ Smart Industrial Spectrometer" won Information Month's "Top 100 Innovative Product Award" in 2017, making it the only award-winning financial institution in the Financial Technology Group. Capital Securities is also

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the only financial institution that won the "Top 100 Innovative Product Award" two years in a row, following its award-winning "GOODi Smart Money Management Robot" in 2016.

Looking forward to 2019, the Company will embody the concept of technology finance to optimize its service quality and operating performance in every business locations. The Company aims to fully meet the needs of the investing public and become an all-around securities brokerage firm that integrate humanity and digital services. The Company will adhere to its belief that priority should be given to the interests of the people and continue providing financial services with high added-values that exceed clients' expectations.



# III. Corporate Governance Report

## 3.1. Organization chart

### Capital Securities Corporation



## 3.2. Background information of directors, supervisors, president, executive vice presidents, senior vice presidents, and heads of various departments and branches

### 3.2.1 Background of directors and supervisors (1)

March 31, 2019

Title	Nationality or place of registration	Name	Gender	Elected / appointed date	Service term	First elected/ appointed date (Note 1)	Shareholding at time of election		Current shareholding		Shares held by spouse and underage children		Shares held by proxy		Major career (academic) achievements	Concurrent duties in the Company and in other companies	Spouse or relatives of second degree or closer acting as Directors, Supervisors, or department heads		
							Shares	Shareholding percentage	Shares	Shareholding percentage	Shares	Shareholding percentage	Shares	Shareholding percentage			Title	Name	Relationship
Chairman	Republic of China	Yin Feng Enterprise Co., Ltd. Representative: WANG,JIUNN-CHIH	Male	6.27.2016	3 years	6.25.2013 9.3.2012	7,514,033 0	0.33% 0.00%	8,040,015 55,750	0.35% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	Ph.D. in Technology Management, Chung Hua University  Central Trust of China - General Manager EnTie Commercial Bank Co., Ltd. - President Bankers Association of the Republic of China - Secretary General Hua Nan Commercial Bank Ltd. - President	Capital Futures Corp. – Director CSC International Holdings Ltd. – Director CSC Securities (HK) Ltd.-Director CSC Futures (HK) Ltd. – Director CSC Venture Capital Corporation - Chairman	N/A	N/A	N/A
Director	Republic of China	Yin Feng Enterprise Co., Ltd. Representative: LIU,CHING-TSUN	Male	6.27.2016	3 years	6.25.2013 1.1.1994	7,514,033 0	0.33% 0.00%	8,040,015 0	0.35% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	M.P.A., University of San Francisco, USA  Capital Securities Corporation - Vice Chairman Capital Securities Corporation - Chairman	Capital Futures Corp. – Director	N/A	N/A	N/A
Director	Republic of China	Tai Chun Enterprise Co., Ltd. Representative: CHANG,CHIH-MING	Male	6.27.2016	3 years	6.27.2016 10.27.2011	7,967,750 0	0.35% 0.00%	8,525,492 0	0.37% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	Vocational High School  Fu Tai Construction Corporation - Chairman	Yu Chun Enterprise Co., Ltd. - Chairman Fu Tai Construction corporation - Chairman Tai Min Constuction Co., Ltd. - Chairman Chuan Yi Investment Co., Ltd. - Chairman Cheng Da Investment Co., Ltd. - Chairman Financial Information Corporation - Chairman Tsai Chiang Corporation - Chairman Hong Tai Construction Co., Ltd. - Chairman Lian Mao Investment Co., Ltd. - Director Chen Chen Co., Ltd. - Supervisor Chao Long Investment Co., Ltd. - Supervisor Yu Bao Enterprise Co., Ltd. - Supervisor Run Hsiang Enterprise Co., Ltd. – Supervisor Hong Sheng Construction Co., Ltd - Supervisor Tai Fa Investment Co., Ltd. - Supervisor Collins Co., Ltd. - Supervisor	N/A	N/A	N/A

Title	Nationality or place of registration	Name	Gender	Elected / appointed date	Service term	First elected/ appointed date (Note 1)	Shareholding at time of election		Current shareholding		Shares held by spouse and underage children		Shares held by proxy		Major career (academic) achievements	Concurrent duties in the Company and in other companies	Spouse or relatives of second degree or closer acting as Directors, Supervisors, or department heads		
							Shares	Shareholding percentage	Shares	Shareholding percentage	Shares	Shareholding percentage	Shares	Shareholding percentage			Title	Name	Relationship
Vice Chairman	Republic of China	Tai Chun Enterprise Co., Ltd. Representative: CHAO,YUNG-FEI (Note 2)	Male	6.27.2016	3 years	6.27.2016 10.11.2018	7,967,750 0	0.35% 0.00%	8,525,492 0	0.37% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	Department of Accounting, Chihlee Institute of Technology  Jih Sun Securities Co., Ltd. - President Jih Sun Securities Co., Ltd. - Chairman Jih Sun Financial Holding Co., Ltd. - President Capital Securities Corporation - President	CSC Venture Capital Corporation - Director and President	N/A	N/A	N/A
Director	Republic of China	Tai Chun Enterprise Co., Ltd. Representative: TSAI,I-CHING	Male	6.27.2016	3 years	6.27.2016 3.5.2012	7,967,750 0	0.35% 0.00%	8,525,492 9	0.37% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	LL.M., Soochow University  The Chinese Commercial and Industrial Coordination Society - Deputy Secretary – General The Chinese Commercial & Industrial Service Co., Ltd.- Supervisor	Taiwan Federation of Commerce – Deputy Secretary-General	N/A	N/A	N/A
Director	Republic of China	Kwang Hsing Industrial Co., Ltd. Representative: TING,HSUEH-WEN (Note 3)	Male	6.27.2016	3 years	4.3.2001 3.8.2018	9,261,919 0	0.41% 0.00%	9,910,253 0	0.43% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	Master of Finance and economics, Cornell University  KYMCO Private Equity Management Co., Ltd.- Managing Director/Partner	KYMCO Private Equity Management Co., Ltd.- Managing Director/Partner	N/A	N/A	N/A
Director	Republic of China	San He Industrial Co., Ltd. Representative: CHU,HAI-YING	Female	6.27.2016	3 years	6.15.2007 11.1.2017	3,561,900 0	0.16% 0.00%	3,811,233 0	0.16% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	National Open University  Chia Shih Construction Co., Ltd. - Specialist	N/A	N/A	N/A	N/A
Director	Republic of China	Hung Lung Enterprise Co., Ltd. Representative: KUO,YUH-CHYI	Male	6.27.2016	3 years	6.27.2016 6.15.2010	47,543,260 252,020	2.10% 0.01%	50,871,288 204,391	2.19% 0.01%	0 3,531	0.00% 0.00%	0 0	0.00% 0.00%	B.A. in Cooperative Economics, National Taipei University  Taiwan Cooperative Bank - Director and Deputy General Manager Agricultural Credit Guarantee Fund - General Manager EnTiei Securities Finance Company - Chairman Bankers Association of the Republic of China – Secretary general Capital Securities Corporation - Supervisor	N/A	N/A	N/A	N/A

Title	Nationality or place of registration	Name	Gender	Elected / appointed date	Service term	First elected/ appointed date (Note 1)	Shareholding at time of election		Current shareholding		Shares held by spouse and underage children		Shares held by proxy		Major career (academic) achievements	Concurrent duties in the Company and in other companies	Spouse or relatives of second degree or closer acting as Directors, Supervisors, or department heads		
							Shares	Shareholding percentage	Shares	Shareholding percentage	Shares	Shareholding percentage	Shares	Shareholding percentage			Title	Name	Relationship
Independent Director	Republic of China	SHEA,JIA-DONG	Male	6.27.2016	3 years	6.27.2016	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Ph.D. in Economics, Stanford University, USA  Director, Institute of Economics, Academia Sinica Professor of Economics, National Taiwan University Central Bank of the Republic of China – Deputy Governor Ministry of Finance - Minister Taiwan External Trade Development Council - Chairman Central Trust of China - Chairman Taiwan Academy of Banking and Finance - Chairman	Capital Futures Corp. – Independent Director	N/A	N/A	N/A
Independent Director	Republic of China	LIN,HSIN-HUI	Male	6.27.2016	3 years	6.15.2007	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Ph.D. in Industrial Engineering, Iowa State University, USA  National Sun Yat-sen University - Dean and Professor of Information Management National Sun Yat-sen University - Head of Academic Affairs, Secretary - General National Sun Yat-sen University - Deputy Dean, College of Management	N/A	N/A	N/A	N/A
Independent Director	Republic of China	HWANG,JYH-DEAN	Male	6.27.2016	3 years	6.10.2009	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Ph.D. in Economics, University of Wisconsin–Madison, USA  National Taiwan University - Associate Professor of International Business	Hiyes International Co., Ltd. – Independent Director	N/A	N/A	N/A

Note 1: Date first onboard as the Company's director or independent director.

Note 2: On October 11, 2018, Tai Chun Enterprise Co., Ltd. reassigned the original representative KUO GUAN-CHYUN to CHAO,YUNG-FEI.

Note 3: On March 8, 2018, Kwang Hsing Industrial Co., Ltd. reassigned the original representative YANG,CHE-HUNG to TING,HSUEH-WEN.

**Table 1: Major shareholders of corporate shareholders**

March 31, 2019

Name of corporate shareholder (Note 1)	Major shareholders of the corporate shareholder (Note 2)	
Yin Feng Enterprise Co., Ltd.	Chuan Yi Investment Co., Ltd.	17.49%
	Hong Ye Investment Co., Ltd.	15.79%
	Feng Yang Investment Co., Ltd.	11.63%
	Wei Wang Investment Co., Ltd.	9.22%
	Tai Jian Investment Co., Ltd.	7.58%
	Tai Lian Investment Co., Ltd.	7.44%
	Chen Huei Enterprise Co., Ltd.	6.38%
	Bao Qing Investment Co., Ltd.	5.06%
	Fu Ding Investment Co., Ltd.	3.67%
	Bao Sheng Investment Co., Ltd.	3.66%
Tai Chun Enterprise Co., Ltd.	Chuan Yi Investment Co., Ltd.	15.44%
	Bao Qing Investment Co., Ltd.	15.06%
	Bao Zuo Investment Co., Ltd.	12.64%
	Hong Ye Investment Co., Ltd.	11.70%
	Cheng Da Investment Co., Ltd.	11.44%
	Tai Lian Investment Co., Ltd.	10.01%
	Bao Sheng Investment Co., Ltd.	4.66%
	Fu Ding Investment Co., Ltd.	3.70%
	Tai Jian Investment Co., Ltd.	3.43%
	Tai Sheng Investment Co., Ltd.	3.42%
Kwang Hsing Industrial Co., Ltd.	Kwang Yang Motor Co., Ltd.	100%
San He Industrial Co., Ltd.	CHEN, TYAN-WEN	41%
	CHEN, TYAN-HSING	20%
	Chung Lun Development Co., Ltd.	26%
	Yi Hsing Development Co., Ltd.	13%
Hung Lung Enterprise Co., Ltd.	Chuan Yi Construction Co., Ltd.	14.64%
	Financial Information Corporation	14.24%
	Hong Yuan Construction Co., Ltd.	12.84%
	Yu Bao Enterprise Co., Ltd.	12.71%
	Lian Mao Investment Co., Ltd.	11.92%
	Fu Tai Construction Corporation	11.70%
	Chen Huei Enterprise Co., Ltd.	9.23%
	Run Hsiang Enterprise Co., Ltd.	7.19%
	De Ye Apartment Building Management and Maintenance Co., Ltd.	3.18%
	Han Bao Enterprise Co., Ltd.	2.34%

Note 1: Where director serves as a representative of corporate shareholder.

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



### III. Corporate Governance Report

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

March 31, 2019

Name of corporate shareholder (Note 1)	Major shareholders of the corporate shareholder (Note 2)	
Chuan Yi Investment Co., Ltd.	Chao Lung Investment Co., Ltd.	28.62%
	Tai Hsiang Investment Co., Ltd.	21.74%
	Tai He Investment Co., Ltd.	11.59%
	Wang Hsing Enterprise Co., Ltd.	6.33%
	Hong Sheng Enterprise Co., Ltd.	6.33%
	Chuan Yi Construction Co., Ltd.	5.98%
	Tai Fa Investment Co., Ltd.	5.44%
	Yu Chun Enterprise Co., Ltd.	4.57%
	Chen Huei Enterprise Co., Ltd.	3.44%
	Hung Lung Enterprise Co., Ltd.	3.35%
Hong Ye Investment Co., Ltd.	Chao Lung Investment Co., Ltd.	41.25%
	Tai Fa Investment Co., Ltd.	18.58%
	Tai Hsiang Investment Co., Ltd.	18.54%
	Tai He Investment Co., Ltd.	9.73%
	Hong Chia Investment Co., Ltd.	3.28%
	Tai He Construction Management Co., Ltd.	1.74%
	Tai Lian Investment Co., Ltd.	1.72%
	Bao Zuo Investment Co., Ltd.	1.52%
	Fu Ding Investment Co., Ltd.	1.52%
	Tai Chun Investment Co., Ltd.	0.93%
Feng Yang Investment Co., Ltd.	Tai Fa Investment Co., Ltd.	38.73%
	Tai Hsiang Investment Co., Ltd.	18.23%
	Chao Lung Investment Co., Ltd.	18.23%
	Tai He Investment Co., Ltd.	6.84%
	Hong Tai Construction Co., Ltd.	2.44%
	Hong Sheng Enterprise Co., Ltd.	2.36%
	Bao Zuo Investment Co., Ltd.	2.28%
	Tai Sheng Investment Co., Ltd.	2.28%
	Fu Tai Construction Corporation	2.22%
	Tai Chun Enterprise Co., Ltd.	2.19%

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

### III. Corporate Governance Report

Name of corporate shareholder (Note 1)	Major shareholders of the corporate shareholder (Note 2)	
Bao Qing Investment Co., Ltd.	Tai Fa Investment Co., Ltd.	19.72%
	Tai Hsiang Investment Co., Ltd.	19.43%
	Chao Lung Investment Co., Ltd.	19.43%
	Chuan Yi Construction Co., Ltd.	6.93%
	Fu Tai Construction Corporation	6.93%
	Hung Lung Enterprise Co., Ltd.	5.51%
	Run Hsiang Enterprise Co., Ltd.	5.51%
	Tai He Investment Co., Ltd.	4.93%
	Bao Zuo Investment Co., Ltd.	4.35%
	Tai Sheng Investment Co., Ltd.	4.35%
Fu Ding Investment Co., Ltd.	Chao Lung Investment Co., Ltd.	24.73%
	Tai Fa Investment Co., Ltd.	13.02%
	Tai Hsiang Investment Co., Ltd.	9.76%
	Bao Qing Investment Co., Ltd.	6.51%
	Hong Chia Investment Co., Ltd.	6.51%
	Yu Chun Enterprise Co., Ltd.	6.03%
	Fu Tai Construction Corporation	5.80%
	Tai He Investment Co., Ltd.	5.21%
	Tai Chun Enterprise Co., Ltd.	4.28%
	Run Hsiang Enterprise Co., Ltd.	4.27%
Bao Sheng Investment Co., Ltd.	Tai He Investment Co., Ltd.	56.09%
	Tai Fa Investment Co., Ltd.	9.25%
	Tai Hsiang Investment Co., Ltd.	9.25%
	Chao Lung Investment Co., Ltd.	9.25%
	Tai Chun Enterprise Co., Ltd.	2.73%
	Hong Sheng Enterprise Co., Ltd.	2.24%
	Kai Da Enterprise Co., Ltd.	2.15%
	Chen Huei Enterprise Co., Ltd.	1.99%
	Yu Bao Enterprise Co., Ltd.	1.91%
	Yin Feng Enterprise Co., Ltd.	1.82%
Bao Zuo Investment Co., Ltd.	Chao Lung Investment Co., Ltd.	21.83%
	Chen Huei Enterprise Co., Ltd.	18.43%
	Tai Hsiang Investment Co., Ltd.	12.16%
	Kai Da Enterprise Co., Ltd.	10.55%
	Hong Sheng Enterprise Co., Ltd.	10.55%
	Hung Lung Enterprise Co., Ltd.	9.91%
	Tai Fa Investment Co., Ltd.	7.74%
	Tai Sheng Investment Co., Ltd.	3.17%
	Tai Jian Investment Co., Ltd.	1.93%
	Tai He Investment Co., Ltd.	1.38%

Name of corporate shareholder (Note 1)	Major shareholders of the corporate shareholder (Note 2)	
Cheng Da Investment Co., Ltd.	Tai Fa Investment Co., Ltd.	39.58%
	Tai Hsiang Investment Co., Ltd.	32.56%
	Chao Lung Investment Co., Ltd.	18.60%
	Tai He Investment Co., Ltd.	4.65%
	Tai Jian Investment Co., Ltd.	1.81%
	Hung Lung Enterprise Co., Ltd.	0.92%
	Rui Cheng Construction Co., Ltd.	0.49%
	Hong Sheng Enterprise Co., Ltd.	0.46%
	Bao Sheng Investment Co., Ltd.	0.46%
	Feng Yang Investment Co., Ltd.	0.46%
Tai Sheng Investment Co., Ltd.	Tai He Investment Co., Ltd.	23.93%
	Chao Lung Investment Co., Ltd.	19.86%
	Tai Fa Investment Co., Ltd.	11.01%
	Tai Hsiang Investment Co., Ltd.	10.29%
	Yu Bao Enterprise Co., Ltd.	5.98%
	Han Bao Enterprise Co., Ltd.	5.27%
	Chen Huei Enterprise Co., Ltd.	4.42%
	Yu Chun Enterprise Co., Ltd.	4.40%
	Fu Tai Construction Corporation	3.77%
	Chuan Yi Construction Co., Ltd.	3.54%
Kwang Yang Motor Co., Ltd.	Hsin Sheng Investment Co., Ltd.	11.31%
	Hong Kuang Investment Co., Ltd.	7.99%
	Kuang Chou Investment Co., Ltd.	6.66%
	Da Ming Investment Co., Ltd.	6.54%
	Kwang Hsing Industrial Co., Ltd.	5.39%
	KO, HUNG-MING	1.03%
	KO, WANG-SHU-YUAN	1.03%
	KO, CHIA-CHENG	1.02%
	KO, HSING-LANG	1.01%
	Hung Sheng Investment Co., Ltd.	0.95%
Chung Lun Development Co., Ltd.	CHEN, TYAN-WEN	84%
Yi Hsing Development Co., Ltd.	CHEN, TYAN-HSING	96%
Chuan Yi Construction Co., Ltd.	Tai Chun Investment Co., Ltd.	12.57%
	Lian Mao Investment Co., Ltd.	12.00%
	Wei Wang Investment Co., Ltd.	12.00%
	Tai Sheng Investment Co., Ltd.	11.92%
	Yu Chun Enterprise Co., Ltd.	9.66%
	Hong Ye Investment Co., Ltd.	9.35%
	Cheng Da Investment Co., Ltd.	9.35%
	Tai Lian Investment Co., Ltd.	8.04%
	Tai Jian Investment Co., Ltd.	3.97%
	Bao Zuo Investment Co., Ltd.	3.31%

### III. Corporate Governance Report

Name of corporate shareholder (Note 1)	Major shareholders of the corporate shareholder (Note 2)	
Financial Information Corporation	Rui Cheng Construction Co., Ltd.	18.14%
	Chuan Shun Construction and Development Co., Ltd.	18.14%
	Hong Yong Construction Co., Ltd.	17.05%
	Sheng Hsiang Enterprise Co., Ltd.	13.67%
	Hong Tai Construction Co., Ltd.	13.61%
	Han Bao Enterprise Co., Ltd.	11.17%
	Bao Zuo Investment Co., Ltd.	8.07%
Hong Yuan Construction Co., Ltd.	Tai Chun Investment Co., Ltd.	13.16%
	Chuan Yi Investment Co., Ltd.	13.16%
	Hong Ye Investment Co., Ltd.	13.16%
	Bao Qing Investment Co., Ltd.	12.00%
	Feng Yang Investment Co., Ltd.	11.47%
	Tai Lian Investment Co., Ltd.	10.53%
	Cheng Da Investment Co., Ltd.	7.89%
	Bao Sheng Investment Co., Ltd.	5.53%
	Tai Jian Investment Co., Ltd.	5.26%
	Tai Ye Enterprise Co., Ltd.	2.95%
Yu Bao Enterprise Co., Ltd.	Tai Chun Investment Co., Ltd.	13.25%
	Lian Mao Investment Co., Ltd.	12.29%
	Wei Wang Investment Co., Ltd.	12.29%
	Chuan Yi Investment Co., Ltd.	10.46%
	Chuan Yi Construction Co., Ltd.	10.31%
	Cheng Da Investment Co., Ltd.	8.38%
	Hong Ye Investment Co., Ltd.	6.99%
	Feng Yang Investment Co., Ltd.	5.44%
	Fu Ding Investment Co., Ltd.	4.20%
	Tai Chun Enterprise Co., Ltd.	3.44%
Lian Mao Investment Co., Ltd.	Tai He Investment Co., Ltd.	45.16%
	Chao Lung Investment Co., Ltd.	23.23%
	Tai Fa Investment Co., Ltd.	9.03%
	Tai Hsiang Investment Co., Ltd.	8.39%
	Tai Lian Investment Co., Ltd.	3.55%
	Hong Wei Construction Co., Ltd.	2.15%
	Tai Sheng Investment Co., Ltd.	1.84%
	Tai Jian Investment Co., Ltd.	1.45%
	Feng Yang Investment Co., Ltd.	1.45%
	Tai Chun Enterprise Co., Ltd.	1.35%



Name of corporate shareholder (Note 1)	Major shareholders of the corporate shareholder (Note 2)	
Fu Tai Construction Corporation	Bao Zuo Investment Co., Ltd.	16.88%
	Lian Mao Investment Co., Ltd.	16.50%
	Wei Wang Investment Co., Ltd.	16.50%
	Tseng Mao Investment Co., Ltd.	14.96%
	Chuan Yi Investment Co., Ltd.	10.33%
	Hong Chia Investment Co., Ltd.	4.67%
	Tai Chun Enterprise Co., Ltd.	4.48%
	Bao Sheng Investment Co., Ltd.	4.32%
	Tai Ye Enterprise Co., Ltd.	2.66%
	Tai Jian Investment Co., Ltd.	2.66%
Run Hsiang Enterprise Co., Ltd.	Chuan Yi Investment Co., Ltd.	15.90%
	Hong Ye Investment Co., Ltd.	13.82%
	Cheng Da Investment Co., Ltd.	13.82%
	Yu Chun Enterprise Co., Ltd.	11.72%
	Tai Lian Investment Co., Ltd.	9.94%
	Feng Yang Investment Co., Ltd.	8.95%
	Lian Mao Investment Co., Ltd.	5.20%
	Tai Sheng Investment Co., Ltd.	5.07%
	Bao Zuo Investment Co., Ltd.	4.97%
	Wei Wang Investment Co., Ltd.	4.70%
De Ye Apartment Building Management and Maintenance Co., Ltd.	Wei Wang Investment Co., Ltd.	19.17%
	Hong Ye Investment Co., Ltd.	17.67%
	Lian Mao Investment Co., Ltd.	18.33%
	Hong Chia Investment Co., Ltd.	10.83%
	Chuan Yi Investment Co., Ltd.	10.83%
	Cheng Da Investment Co., Ltd.	10.17%
	Bao Zuo Investment Co., Ltd.	8.75%
	Chuan Yi Construction Co., Ltd.	4.08%
Han Bao Enterprise Co., Ltd.	Tai Jian Investment Co., Ltd.	16.21%
	Cheng Da Investment Co., Ltd.	14.60%
	Bao Zuo Investment Co., Ltd.	14.59%
	Lian Mao Investment Co., Ltd.	8.73%
	Feng Yang Investment Co., Ltd.	8.33%
	Tai Chun Investment Co., Ltd.	8.29%
	Hong Ye Investment Co., Ltd.	7.90%
	Bao Sheng Investment Co., Ltd.	5.85%
	Run Hsiang Enterprise Co., Ltd.	4.95%
	Tai Lian Investment Co., Ltd.	3.41%

Note 1: Used if major shareholders listed in Table 1 are corporate entities.

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

# III. Corporate Governance Report

## 3.2.1 Background of directors and supervisors (2)

March 31, 2019

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

Note 1: Adjust the number of columns as needed.

Note 2: A "✓" is placed in the box if the director or supervisor met the following conditions at any time during active duty and two years prior to the date elected.

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

### 3.2.2 President, executive vice presidents, senior vice presidents, department heads & branch heads

March 31, 2019

Title	Nationality	Name	Gender	Date elected / appointed	Current shareholding		Shares held by spouse and underage children		Shares held by proxy		Major career (academic) achievements	Concurrent positions in other companies	Spouse or relatives of second degree or closer acting as managers		
					Shares Held	Shareholding percentage	Shares Held	Shareholding percentage	Shares Held	Shareholding percentage			Title	Name	Relationship
President	Republic of China	CHIA, CHUNG-TAO	Male	10.17.2018	80,000	0.00%	0	0.00%	0	0.00%	EMBA, National Chengchi University		N/A	N/A	N/A
Senior Vice President	Republic of China	LIN, JING-HUA	Female	1.1.2007	262,798	0.01%	0	0.00%	0	0.00%	Master of Commerce, University of Washington	CSC International Holdings Ltd. Shanghai Representative Office - Representative	N/A	N/A	N/A
Vice President	Republic of China	LAI, AI-WEN	Female	1.1.2015	21	0.00%	0	0.00%	0	0.00%	Department of Law, Soochow University		N/A	N/A	N/A
Senior Vice President	Republic of China	CHANG, TUN-FU	Male	5.2.2011	147,197	0.01%	0	0.00%	0	0.00%	Department of Economics, National Taiwan University	CSC Securities (HK) - Director Capital Securities Nominee - Director	N/A	N/A	N/A
Executive Vice President	Republic of China	CHEN, MING-SHING	Male	10.1.2018	0	0.00%	0	0.00%	0	0.00%	Department of Law, National Taiwan University	Capital Insurance Advisory - Director Capital Insurance Agency - Director CSC International Holdings - Director CSC Securities (HK) - Director Capital Securities Nominee - Director CSC Futures (HK) - Director Taiwan International Securities (B.V.I.) - Director Taiwan International Capital (HK) - Director TIS Securities (HK) Limited - Director	N/A	N/A	N/A
Senior Vice President	Republic of China	XIE, XIU-YING	Female	5.2.2013	0	0.00%	0	0.00%	0	0.00%	Department of Statistics, National Chung Hsing University		N/A	N/A	N/A
Executive Vice President	Republic of China	HUANG, CHI-MING	Male	6.1.2012	321,139	0.01%	0	0.00%	0	0.00%	EMBA, National Chengchi University		N/A	N/A	N/A
Senior Vice President	Republic of China	LIN, SHU-CHUAN	Female	9.1.2013	7,361	0.00%	0	0.00%	0	0.00%	EMBA, National Chengchi University		N/A	N/A	N/A

# III. Corporate Governance Report

Title	Nationality	Name	Gender	Date elected / appointed	Current shareholding		Shares held by spouse and underage children		Shares held by proxy		Major career (academic) achievements	Concurrent positions in other companies	Spouse or relatives of second degree or closer acting as managers		
					Shares Held	Shareholding percentage	Shares Held	Shareholding percentage	Shares Held	Shareholding percentage			Title	Name	Relationship
Executive Vice President	Republic of China	FANG, CHIH-HUNG	Male	4.1.2018	0	0.00%	0	0.00%	0	0.00%	MBA, The City University of New York	CSC Futures (HK) - Director	N/A	N/A	N/A
Executive Vice President	Republic of China	ZHANG, PEI-WEN	Female	9.1.2013	0	0.00%	0	0.00%	0	0.00%	Department of Banking and Insurance, Ming Chuan University	Capital Insurance Advisory - Director Capital Insurance Agency - Director	N/A	N/A	N/A
Senior Vice President	Republic of China	WANG, YA-FANG	Female	4.1.2010	0	0.00%	0	0.00%	0	0.00%	Department of Business Administration, Tamkang University		N/A	N/A	N/A
Senior Vice President	Republic of China	LIN, BO-WEI	Male	4.1.2014	0	0.00%	0	0.00%	0	0.00%	Master of Industrial Management, National Taiwan University of Science and Technology		N/A	N/A	N/A
Senior Vice President	Republic of China	CHANG, LI-FEN	Female	4.1.2017	0	0.00%	0	0.00%	0	0.00%	Graduate Institute of Society, National Chengchi University		N/A	N/A	N/A
Senior Vice President	Republic of China	WU, YUN-WEN	Male	4.1.2014	0	0.00%	1487	0.00%	0	0.00%	Department of Industrial Engineering, Feng Chia University		N/A	N/A	N/A
Senior Vice President	Republic of China	QIU, JIAN-HUA	Male	12.1.2004	75,329	0.00%	0	0.00%	0	0.00%	Department of Statistics, National Chung Hsing University		N/A	N/A	N/A
Senior Vice President	Republic of China	LIU, SHU-RU	Female	5.10.2013	22,470	0.00%	0	0.00%	0	0.00%	Department of Information Management, National Central University		N/A	N/A	N/A
Executive Vice President	Republic of China	TAN, TE-CHENG	Male	11.1.2008	22,484	0.00%	0	0.00%	0	0.00%	Master of Accounting, Drexel University	Capital Insurance Advisory – Supervisor Capital Insurance Agency – Supervisor CSC Venture Capital Supervisor	N/A	N/A	N/A
Senior Vice President	Republic of China	HOU, LE-PING	Female	7.1.2000	588,524	0.03%	0	0.00%	0	0.00%	MBA, Armstrong University		N/A	N/A	N/A
Vice President	Republic of China	XIE, HUI-YA	Female	8.1.2018	5,435	0.00%	0	0.00%	0	0.00%	Master of Finance, Syracuse University		N/A	N/A	N/A
Senior Vice President	Republic of China	XIE, YU-LIN	Female	7.1.2000	908,933	0.04%	0	0.00%	0	0.00%	Department of Accounting, Soochow University		N/A	N/A	N/A
Senior Vice President	Republic of China	YAO, MING-QING	Male	4.1.2015	0	0.00%	0	0.00%	0	0.00%	Master of Accounting, National Chung Cheng University		N/A	N/A	N/A

Title	Nationality	Name	Gender	Date elected / appointed	Current shareholding		Shares held by spouse and underage children		Shares held by proxy		Major career (academic) achievements	Concurrent positions in other companies	Spouse or relatives of second degree or closer acting as managers		
					Shares Held	Shareholding percentage	Shares Held	Shareholding percentage	Shares Held	Shareholding percentage			Title	Name	Relationship
Senior Vice President	Republic of China	CHEN, DING-YUAN	Male	3.4.2019	0	0.00%	0	0.00%	0	0.00%	EMBA, National Taiwan University of Science and Technology		N/A	N/A	N/A
Senior Executive Vice President	Republic of China	YANG, JIE-BIN	Male	11.1.2002	609	0.00%	0	0.00%	0	0.00%	Master of Finance, University of London		N/A	N/A	N/A
Senior Vice President	Republic of China	XU, TSUI-YUN	Female	4.1.2016	3,323	0.00%	0	0.00%	0	0.00%	Master of Finance, Chaoyang University of Technology		N/A	N/A	N/A
Executive Vice President	Republic of China	ZHANG, JIA-WEN	Female	4.1.2018	353	0.00%	0	0.00%	0	0.00%	MBA, Tarleton State University		N/A	N/A	N/A
Senior Vice President	Republic of China	CHIU, TSAN-HSI	Male	4.1.2017	0	0.00%	0	0.00%	0	0.00%	The City University of N.Y. Baruch College, MS in Finance		N/A	N/A	N/A
Senior Vice President	Republic of China	CHEN, YI-REN	Male	4.1.2015	700	0.00%	0	0.00%	0	0.00%	MBA, Bernard M. Baruch College of the City University of New York		N/A	N/A	N/A
Senior Vice President	Republic of China	YE, YI-LING	Female	4.1.2015	605	0.00%	0	0.00%	0	0.00%	Department of Finance, National Taiwan University		N/A	N/A	N/A
Executive Vice President	Republic of China	LAI, JUN-FU	Male	4.1.2018	26,138	0.00%	0	0.00%	0	0.00%	Department of Electronic Engineering, Tunghai University		N/A	N/A	N/A
Executive Vice President	Republic of China	LIN, YAN-FEN	Male	4.1.2014	0	0.00%	0	0.00%	0	0.00%	MBA, Drexel University		N/A	N/A	N/A
Senior Vice President	Republic of China	CHEN, PEI-QI	Female	4.8.2008	1,541	0.00%	0	0.00%	0	0.00%	Master of International Business Administration, University of St. Thomas - Minnesota		N/A	N/A	N/A
Senior Vice President	Republic of China	ZHANG, JING-YAO	Male	4.1.2017	0	0.00%	0	0.00%	0	0.00%	Master of Finance, TamKang University		N/A	N/A	N/A
Senior Vice President	Republic of China	WANG, JUAN-HUI	Female	8.12.2004	8,235	0.00%	0	0.00%	0	0.00%	EMBA, Postgraduate Institute of International Commerce, TamKang University		N/A	N/A	N/A
Senior Vice President	Republic of China	YE, YU-ZHEN	Female	4.1.2018	692	0.00%	0	0.00%	0	0.00%	Department of Law, Soochow University		N/A	N/A	N/A
Senior Vice President	Republic of China	ZHENG, SHU-FEN	Female	8.25.2000	258,855	0.01%	0	0.00%	0	0.00%	Department of Economics, Tunghai University		N/A	N/A	N/A
Executive Vice President	Republic of China	MA, JIA-HUAN	Male	9.1.2009	200,000	0.01%	0	0.00%	0	0.00%	EMBA, National Chengchi University		N/A	N/A	N/A
Executive Vice President	Republic of China	WENG, CHIN-NENG	Male	6.19.2003	22,144	0.00%	0	0.00%	0	0.00%	Department of Insurance, TamKang University		N/A	N/A	N/A



# III. Corporate Governance Report

Title	Nationality	Name	Gender	Date elected / appointed	Current shareholding		Shares held by spouse and underage children		Shares held by proxy		Major career (academic) achievements	Concurrent positions in other companies	Spouse or relatives of second degree or closer acting as managers		
					Shares Held	Shareholding percentage	Shares Held	Shareholding percentage	Shares Held	Shareholding percentage			Title	Name	Relationship
Senior Vice President	Republic of China	HUANG, ZHI-HUA	Female	4.1.2014	291,876	0.01%	0	0.00%	0	0.00%	Department of International Trade, National Tamkang University		N/A	N/A	N/A
Senior Vice President	Republic of China	WENG, HE-MING	Male	4.24.2002	469	0.00%	0	0.00%	0	0.00%	EMBA, National Chengchi University		N/A	N/A	N/A
Senior Vice President	Republic of China	ZHENG, YU-LING	Female	6.19.2003	447,038	0.02%	0	0.00%	0	0.00%	EMBA, National Tsing Hua University		N/A	N/A	N/A
Senior Vice President	Republic of China	CHEN, YI-RU	Female	4.1.2014	269,158	0.01%	0	0.00%	0	0.00%	Department of Hospitality Management, Chung Hwa University of Medical Technology		N/A	N/A	N/A
Senior Vice President	Republic of China	LI, MU-XIAN	Male	5.2.2011	0	0.00%	0	0.00%	0	0.00%	Department of Law, Fu Jen Catholic University		N/A	N/A	N/A
Senior Vice President	Republic of China	ZHAO, FENG-RONG	Male	5.2.2011	0	0.00%	0	0.00%	0	0.00%	Master of Economics, University Of California		N/A	N/A	N/A
Vice President	Republic of China	WU, HONG-ZHI	Male	5.1.2003	0	0.00%	0	0.00%	0	0.00%	Department of Mechanical Engineering, Nanya Institute of Technology		N/A	N/A	N/A
Vice President	Republic of China	ZHANG, TIAN-MU	Male	7.28.2003	526	0.00%	0	0.00%	0	0.00%	Department of Tourism Management, Chinese Culture University		N/A	N/A	N/A
Assistant Vice President	Republic of China	WU, CHEN-MING	Male	10.1.2016	0	0.00%	0	0.00%	0	0.00%	Master of Finance, National Yunlin University of Science and Technology		N/A	N/A	N/A
Assistant Vice President	Republic of China	YEN, HSIOU-RONG	Female	4.1.2016	0	0.00%	0	0.00%	0	0.00%	Master of Applied Economics, National Taiwan Ocean University		N/A	N/A	N/A
Vice President	Republic of China	ZHU, DE-REN	Male	6.1.2004	5,105	0.00%	0	0.00%	0	0.00%	Master of Business Administration, Tamkang University		N/A	N/A	N/A
Vice President	Republic of China	YANG, ZHI-KAI	Male	7.1.2011	0	0.00%	0	0.00%	0	0.00%	Department of Electrical Engineering, Cheng Shiu University		N/A	N/A	N/A
Vice President	Republic of China	WEI, YU-MEI	Female	6.1.2015	0	0.00%	0	0.00%	0	0.00%	Department of Land Economics, National Chengchi University		N/A	N/A	N/A
Assistant Vice President	Republic of China	WU, QING-YAN	Male	4.1.2018	0	0.00%	0	0.00%	0	0.00%	Master of Information Management, Shu-Te University		N/A	N/A	N/A
Vice President	Republic of China	HUANG, XIU-YU	Female	8.10.2001	42,599	0.00%	0	0.00%	0	0.00%	Department of Economics, Fu Jen Catholic University		N/A	N/A	N/A

Title	Nationality	Name	Gender	Date elected / appointed	Current shareholding		Shares held by spouse and underage children		Shares held by proxy		Major career (academic) achievements	Concurrent positions in other companies	Spouse or relatives of second degree or closer acting as managers		
					Shares Held	Shareholding percentage	Shares Held	Shareholding percentage	Shares Held	Shareholding percentage			Title	Name	Relationship
Vice President	Republic of China	LIN, JIANG-HE	Male	9.1.2013	11,573	0.00%	599	0.00%	0	0.00%	Department of Statistics, National Tamkang University		N/A	N/A	N/A
Vice President	Republic of China	LI, XIANG-JUN	Male	4.20.2004	0	0.00%	0	0.00%	0	0.00%	Department of Finance, Tamkang University		N/A	N/A	N/A
Vice President	Republic of China	MA, SHAO-HONG	Female	4.1.2015	0	0.00%	0	0.00%	0	0.00%	MBA, Chung Yuan Christian University		N/A	N/A	N/A
Vice President	Republic of China	CHEN, LI-ZHUN	Female	7.11.2002	334,456	0.01%	1,015	0.00%	0	0.00%	EMBA, Fu Jen Catholic University		N/A	N/A	N/A
Vice President	Republic of China	WANG, WAN-QI	Female	2.5.2014	0	0.00%	0	0.00%	0	0.00%	Department of Finance, Southern Taiwan University of Science and Technology		N/A	N/A	N/A
Vice President	Republic of China	YU, XIAO-MEI	Female	10.7.2002	0	0.00%	0	0.00%	0	0.00%	Department of Tourism Management, Chinese Culture University		N/A	N/A	N/A
Vice President	Republic of China	XU, HONG-BO	Male	7.1.2011	20,212	0.00%	0	0.00%	0	0.00%	Department of Economics, Kansai University		N/A	N/A	N/A
Vice President	Republic of China	PENG, GUI-CONG	Male	1.24.2000	0	0.00%	0	0.00%	0	0.00%	Department of Business Administration, Tatung Institute of Technology		N/A	N/A	N/A
Assistant Vice President	Republic of China	WU, ZHENG-HAN	Male	8.1.2015	0	0.00%	0	0.00%	0	0.00%	Department of Finance, Hsuan Chuang University		N/A	N/A	N/A
Vice President	Republic of China	KAI, SHI-HUA	Male	5.2.2011	0	0.00%	0	0.00%	0	0.00%	Department of Statistics, Tunghai University		N/A	N/A	N/A
Assistant Vice President	Republic of China	ZHANG, ZHE-MING	Male	10.1.2017	0	0.00%	0	0.00%	0	0.00%	Department of Information Engineering, University of Sydney		N/A	N/A	N/A
Vice President	Republic of China	ZHANG, MING-YI	Male	4.1.2015	0	0.00%	0	0.00%	0	0.00%	Master of Business Administration, National Chung Hsing University		N/A	N/A	N/A
Vice President	Republic of China	HUANG, QING-YAN	Male	5.2.2011	0	0.00%	0	0.00%	0	0.00%	Department of Chemical Engineering, Vanung		N/A	N/A	N/A
Vice President	Republic of China	LIN, HUI-JING	Female	11.25.2000	36,631	0.00%	0	0.00%	0	0.00%	Department of Textile Engineering, National Taipei Institute of Technology		N/A	N/A	N/A
Vice President	Republic of China	CHEN, XUAN-ZHI	Male	5.17.2008	0	0.00%	0	0.00%	0	0.00%	EMBA, Yu Da University of Science and Technology		N/A	N/A	N/A
Vice President	Republic of China	ZHANG, XUE-HE	Male	7.20.2006	11,225	0.00%	0	0.00%	0	0.00%	Department of Political Study, Fu Hsing Kang College		N/A	N/A	N/A

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Title	Nationality	Name	Gender	Date elected / appointed	Current shareholding		Shares held by spouse and underage children		Shares held by proxy		Major career (academic) achievements	Concurrent positions in other companies	Spouse or relatives of second degree or closer acting as managers		
					Shares Held	Shareholding percentage	Shares Held	Shareholding percentage	Shares Held	Shareholding percentage			Title	Name	Relationship
Vice President	Republic of China	ZHAO, ZHI-MING	Male	7.28.2003	6,861	0.00%	0	0.00%	0	0.00%	Department of Mechanical Engineering, Tatung University		N/A	N/A	N/A
Assistant Vice President	Republic of China	YANG, KUN-LONG	Male	2.1.2015	0	0.00%	0	0.00%	0	0.00%	Department of Psychology, Chung Yuan Christian University		N/A	N/A	N/A
Vice President	Republic of China	CAO, HOU-SHENG	Male	8.2.2004	0	0.00%	0	0.00%	0	0.00%	Master of Labour Research, National Chengchi University		N/A	N/A	N/A
Vice President	Republic of China	ZHENG, YU-CHANG	Male	6.23.2003	1,082	0.00%	0	0.00%	0	0.00%	Department of Applied Mathematics, Chung Yuan Christian University		N/A	N/A	N/A
Vice President	Republic of China	XU, LI-FEN	Female	3.31.2003	502	0.00%	0	0.00%	0	0.00%	Department of Business Administration, Chihlee Institute of Technology		N/A	N/A	N/A
Vice President	Republic of China	TIAN, DA-ZHONG	Male	10.1.2004	0	0.00%	0	0.00%	0	0.00%	Department of Broadcast Media, World College of Journalism		N/A	N/A	N/A
Vice President	Republic of China	SU, RUI-YI	Female	9.1.2011	239	0.00%	0	0.00%	0	0.00%	Department of English, Tamkang University		N/A	N/A	N/A
Vice President	Republic of China	WEI, WEN-JIN	Male	2.16.2004	454	0.00%	0	0.00%	0	0.00%	Master of Business Administration, Shih Hsin University		N/A	N/A	N/A
Vice President	Republic of China	CAI, QING-FEN	Female	11.15.2006	8,787	0.00%	0	0.00%	0	0.00%	Master of Finance, On-job Master Program, National Taiwan University		N/A	N/A	N/A
Assistant Vice President	Republic of China	WU, CHEN-YI	Male	9.1.2016	0	0.00%	0	0.00%	0	0.00%	EMBA, National Taipei College of Business School of Open Education		N/A	N/A	N/A
Assistant Vice President	Republic of China	CHEN, MEI-RU	Female	7.19.2014	0	0.00%	0	0.00%	0	0.00%	Department of Accounting and Statistics, I-Lan Commercial Vocational Senior High School		N/A	N/A	N/A
Vice President	Republic of China	XIE, JIA-JUN	Male	1.1.2013	0	0.00%	0	0.00%	0	0.00%	IE MBA, Executive Master of Business Administration in International Finance, National Taipei University		N/A	N/A	N/A
Vice President	Republic of China	CHEN, ZHI-ZHONG	Male	8.8.2002	522	0.00%	0	0.00%	0	0.00%	Department of Chinese Literature, National Chengchi University		N/A	N/A	N/A

Title	Nationality	Name	Gender	Date elected / appointed	Current shareholding		Shares held by spouse and underage children		Shares held by proxy		Major career (academic) achievements	Concurrent positions in other companies	Spouse or relatives of second degree or closer acting as managers		
					Shares Held	Shareholding percentage	Shares Held	Shareholding percentage	Shares Held	Shareholding percentage			Title	Name	Relationship
Assistant Vice President	Republic of China	WU, ZHI-WEI	Male	4.1.2018	0	0.00%	0	0.00%	0	0.00%	Master of Applied Economics, National Taiwan Ocean University		N/A	N/A	N/A
Vice President	Republic of China	TANG, WEN-JI	Female	5.2.2011	0	0.00%	0	0.00%	0	0.00%	Department of International Trade, Fu Jen Catholic University		N/A	N/A	N/A
Assistant Vice President	Republic of China	HUANG, CHONG-JIE	Male	8.1.2018	0	0.00%	0	0.00%	0	0.00%	Department of Finance, Tunghai University		N/A	N/A	N/A
Vice President	Republic of China	LIN, JING-WEN	Male	6.28.2011	0	0.00%	0	0.00%	0	0.00%	Department of Business Administration, National Taipei College of Business		N/A	N/A	N/A
Assistant Vice President	Republic of China	YANG, YAN-QIU	Female	9.1.2013	12,169	0.00%	1393	0.00%	0	0.00%	Department of Accounting, National Taichung University		N/A	N/A	N/A
Vice President	Republic of China	CHEN, ZHI-SHAN	Male	3.3.2014	0	0.00%	0	0.00%	0	0.00%	Department of Business Administration, Ming Chuan University		N/A	N/A	N/A
Assistant Vice President	Republic of China	HUANG, MIAO-YIN	Female	6.2.2017	459	0.00%	0	0.00%	0	0.00%	Department of Accounting and Statistics, Overseas Chinese University		N/A	N/A	N/A
Vice President	Republic of China	HAI, YAN	Female	9.1.2011	0	0.00%	0	0.00%	0	0.00%	Department of Banking & Insurance, Feng Chia University		N/A	N/A	N/A
Assistant Vice President	Republic of China	LIN, JING-ZHI	Male	8.1.2015	0	0.00%	8	0.00%	0	0.00%	Department of International Trade, Takming University of Science and Technology		N/A	N/A	N/A
Assistant Vice President	Republic of China	PENG, XIAN-HE	Male	5.13.2017	0	0.00%	0	0.00%	0	0.00%	Master of National Kaohsiung University of Science and Technology College of Management		N/A	N/A	N/A
Vice President	Republic of China	CHEN, ZHENG-YANG	Male	10.1.2014	0	0.00%	0	0.00%	0	0.00%	Master of Business Administration, Feng Chia University		N/A	N/A	N/A
Vice President	Republic of China	HUANG, YI-LIAN	Female	8.3.2015	0	0.00%	0	0.00%	0	0.00%	Department of Business Administration, Feng Chia University		N/A	N/A	N/A
Vice President	Republic of China	XU, JUN-YANG	Male	10.15.2007	0	0.00%	0	0.00%	0	0.00%	Department of Tourism Management, Chinese Culture University		N/A	N/A	N/A

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Title	Nationality	Name	Gender	Date elected / appointed	Current shareholding		Shares held by spouse and underage children		Shares held by proxy		Major career (academic) achievements	Concurrent positions in other companies	Spouse or relatives of second degree or closer acting as managers		
					Shares Held	Shareholding percentage	Shares Held	Shareholding percentage	Shares Held	Shareholding percentage			Title	Name	Relationship
Assistant Vice President	Republic of China	ZHANG, REN-FANG	Male	9.1.2013	0	0.00%	0	0.00%	0	0.00%	Master of Business Administration, National Kaohsiung First University of Science and Technology		N/A	N/A	N/A
Vice President	Republic of China	RUAN, YUAN-CHUN	Male	2.1.2017	0	0.00%	0	0.00%	0	0.00%	Department of Nutritional Science, Fu Jen Catholic University		N/A	N/A	N/A
Vice President	Republic of China	DENG, XUE-REN	Male	1.7.2015	0	0.00%	0	0.00%	0	0.00%	MBA, Central Missouri State University		N/A	N/A	N/A
Senior Specialist	Republic of China	PAN, HUI-MEI	Female	8.1.1999	23,540	0.00%	0	0.00%	0	0.00%	MBA, University of South Carolina		N/A	N/A	N/A



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

#### 1. Remuneration to Directors (including Independent Directors) (Individual disclosure of names and remuneration)

NTD thousands

Title	Name	Director's remuneration								The sum of A, B, C and D as a percentage of net income		Compensation as Company employee								The sum of A, B, C, D, E, F, and G as a percentage of net income		Compensation from investments other than subsidiaries
		Compensation (A)		Pension (B)		Directors' remuneration (C)		Fees for services rendered (D)				Salaries, bonuses, special allowances etc. (E)		Pension (F)		Employee remuneration (G)						
		The Company	All companies included in the consolidated	The Company	All companies included in the consolidated	The Company	All companies included in the consolidated	The Company	All companies included in the consolidated	The Company	All companies included in the consolidated	The Company	All companies included in the consolidated	The Company	All companies included in the consolidated	The Company	All companies included in the consolidated					
Chairman	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	20,548	20,548	0	0	8,066	8,066	876	916	2.09 %	2.10 %	0	0	0	0	0	0	0	0	2.09 %	2.10 %	N/A
Director	Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN	0	0	0	0	2,689	2,689	150	310	0.20 %	0.21 %	0	0	0	0	0	0	0	0	0.20 %	0.21 %	N/A

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

Note 1: A sum of NT\$974 was paid to drivers

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

Title	Name	Director's remuneration								The sum of A, B, C and D as a percentage of net income		Compensation as Company employee								The sum of A, B, C, D, E, F, and G as a percentage of net income		Compensation from investments other than subsidiaries		
		Compensation (A)		Pension (B)		Directors' remuneration (C)		Fees for services rendered (D)				Salaries, bonuses, special allowances etc. (E)		Pension (F)		Employee remuneration (G)								
		The Company	All companies included in the consolidated	The Company	All companies included in the consolidated	The Company	All companies included in the consolidated	The Company	All companies included in the consolidated	The Company	All companies included in the consolidated	The Company	All companies included in the consolidated	The Company	All companies included in the consolidated	The Company	All companies included in the consolidated							
Director	Kwang Hsing Industrial Co., Ltd. Representative: YANG, CHE-HUNG (Note 2), TING, HSUEH-WEN (Note 3)																							
Director	San He Industrial Co., Ltd. Representative: CHU, HAI-YING																							
Director	Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIH-MING																							
Director	Tai Chun Enterprise Co., Ltd. Representative: TSAI, I-CHING	2,733	3,213	22	22	24,196	25,295	1,510	1,610	2.02%	2.14%	0	0	0	0	0	0	0	0	2.02%	2.14%			N/A
Director/Vice Chairman	Tai Chun Enterprise Co., Ltd. Representative: KUO, GUAN-CHYUN (Note 4), CHAO, YUNG-FEI (Note 5)																							
Director	Hung Lung Enterprise Co., Ltd. Representative: KUO, YUH-CHYI																							
Independent Director	HWANG, JYH-DEAN																							
Independent Director	SHEA, JIA-DONG																							
Independent Director	LIN, HSIN-HUI																							

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

Note 1: A sum of NT\$136 was paid to drivers

Note 2: Resigned on 3.7.2018

Note 3: Onboard since 3.8.2018

Note 4: Resigned on 10.10.2018

Note 5: Onboard since 10.11.2018

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Remuneration bracket table

Range of remuneration paid to directors	Name of director			
	Sum of the first 4 items (A+B+C+D)		Sum of the first 7 items (A+B+C+D+E+F+G)	
	The Company	All companies included in the consolidated statements H	The Company	All companies included in the consolidated statements I
Below NT\$2,000,000	-	-	-	-
NT\$ 2,000,000 (inclusive) ~ NT\$ 5,000,000 (non-inclusive)	Kwang Hsing Industrial Co., Ltd. Representative: YANG,CHE-HUNG, TING,HSUEH-WEN, San He Industrial Co., Ltd. Representative: CHU,HAI-YING, Yin Feng Enterprise Co., Ltd. Representative: LIU,CHING-TSUN, Tai Chun Enterprise Co., Ltd. Representative: CHANG,CHIH-MING, Tai Chun Enterprise Co., Ltd. Representative: TSAI,I-CHING, Tai Chun Enterprise Co., Ltd. Representative: KUO,GUAN-CHYUN, CHAO,YUNG-FEI, Hung Lung Enterprise Co., Ltd. Representative: KUO,YUH-CHYI, HWANG,JYH-DEAN, SHEA,JIA-DONG, LIN,HSIN-HUI	Kwang Hsing Industrial Co., Ltd. Representative: YANG,CHE-HUNG, TING,HSUEH-WEN, San He Industrial Co., Ltd. Representative: CHU,HAI-YING, Yin Feng Enterprise Co., Ltd. Representative: LIU,CHING-TSUN, Tai Chun Enterprise Co., Ltd. Representative: CHANG,CHIH-MING, Tai Chun Enterprise Co., Ltd. Representative: TSAI,I-CHING, Tai Chun Enterprise Co., Ltd. Representative: KUO,GUAN-CHYUN, CHAO,YUNG-FEI, Hung Lung Enterprise Co., Ltd. Representative: KUO,YUH-CHYI, HWANG,JYH-DEAN, LIN,HSIN-HUI	Kwang Hsing Industrial Co., Ltd. Representative: YANG,CHE-HUNG, TING,HSUEH-WEN, San He Industrial Co., Ltd. Representative: CHU,HAI-YING, Yin Feng Enterprise Co., Ltd. Representative: LIU,CHING-TSUN, Tai Chun Enterprise Co., Ltd. Representative: CHANG,CHIH-MING, Tai Chun Enterprise Co., Ltd. Representative: TSAI,I-CHING, Tai Chun Enterprise Co., Ltd. Representative: KUO,GUAN-CHYUN, CHAO,YUNG-FEI, Hung Lung Enterprise Co., Ltd. Representative: KUO,YUH-CHYI, HWANG,JYH-DEAN, SHEA,JIA-DONG, LIN,HSIN-HUI	Kwang Hsing Industrial Co., Ltd. Representative: YANG,CHE-HUNG, TING,HSUEH-WEN, San He Industrial Co., Ltd. Representative: CHU,HAI-YING, Yin Feng Enterprise Co., Ltd. Representative: LIU,CHING-TSUN, Tai Chun Enterprise Co., Ltd. Representative: CHANG,CHIH-MING, Tai Chun Enterprise Co., Ltd. Representative: TSAI,I-CHING, Tai Chun Enterprise Co., Ltd. Representative: KUO,GUAN-CHYUN, CHAO,YUNG-FEI, Hung Lung Enterprise Co., Ltd. Representative: KUO,YUH-CHYI, HWANG,JYH-DEAN, LIN,HSIN-HUI
NT\$ 5,000,000 (inclusive) ~ NT\$ 10,000,000 (non-inclusive)	-	SHEA,JIA-DONG	-	SHEA,JIA-DONG
NT\$ 10,000,000 (inclusive) ~ NT\$ 15,000,000 (non-inclusive)	-	-	-	-
NT\$ 15,000,000 (inclusive) ~ NT\$ 30,000,000 (non-inclusive)	Yin Feng Enterprise Co., Ltd. Representative: WANG,JIUNN-CHIH	Yin Feng Enterprise Co., Ltd. Representative: WANG,JIUNN-CHIH	Yin Feng Enterprise Co., Ltd. Representative: WANG,JIUNN-CHIH	Yin Feng Enterprise Co., Ltd. Representative: WANG,JIUNN-CHIH
NT\$ 30,000,000 (inclusive) ~ NT\$ 50,000,000 (non-inclusive)	-	-	-	-
NT\$ 50,000,000 (inclusive) ~ NT\$ 100,000,000 (non-inclusive)	-	-	-	-
NT\$ 100,000,000 and above	-	-	-	-
Total	11	11	11	11

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

Title	Name	Salary (A)		Pension (B)		Bonus and special allowances (C)		Employee remuneration (D)				Sum of A, B, C and D as a percentage of net income (%)		Compensation from investments other than subsidiaries
		The Company	All companies included in the consolidated	The Company	All companies included in the consolidated	The Company	All companies included in the consolidated	The Company		All companies included in the consolidated		The Company	All companies included in the consolidated	
								Cash amount	Shares amount	Cash amount	Shares amount			
CSO	WANG, JIUNN-CHIH	29,687	32,180 (Note 10)	7,557 (Note 9)	10,197 (Note 10)	57,240	61,826 (Note 10)	2,336	0	2,336 (Note 10)	0	6.88%	7.56%	N/A
President/ CIO	CHAO, YUNG-FEI (Note 2)													
President	CHIA, CHUNG-TAO (Note 3)													
Executive Vice President	CHEN, MING-SHING (Note 4)													
Executive Vice President	HUANG, CHI-MING													
Executive Vice President	FANG, CHIH-HUNG (Note 5)													
Executive Vice President	ZHANG, PEI-WEN													
Executive Vice President	GUO, MEI-LING (Note 6)													
Executive Vice President	TAN, TE-CHENG													
Senior Executive Vice President	YANG, JIE-BIN													
Executive Vice President	ZHANG, JIA-WEN (Note 7)													
Executive Vice President	LAI, JUN-FU (Note 8)													
Executive Vice President	LIN, YAN-FEN													
Executive Vice President	MA, JIA-HUAN													
Executive Vice President	WENG, CHIN-NENG													

Note 1: A sum of NT\$584 (unit:thousand) was paid to drivers

Note 2: Assumed concurrent duty as CIO since 10.17.2018

Note 3: Onboard since 10.17.2018

Note 4: Onboard since 10.1.2018

Note 5: Onboard since 4.1.2018

Note 6: Retired on 12.17.2018

Note 7: Onboard since 4.1.2018

Note 8: Onboard since 4.1.2018

Note 9: The amount of pension actually paid amounted to NT\$6,494,330 in 2018. The amount of pension contribution expensed during the year was NT\$1,063,092.

Note 10: Includes compensation the Company's President CHIA, CHUNG-TAO had received during service in Capital Futures (Jan~Oct 2018).

# III. Corporate Governance Report

Remuneration bracket table

Range of remunerations to the President and Executive Vice Presidents	Name of President and Executive Vice Presidents	
	The Company	All companies included in the consolidated statements E
Below NT\$2,000,000	WANG,JIUNN-CHIH; CHIA,CHUNG-TAO; CHEN,MING-SHING;ZHANG,JIA-WEN; LAI,JUN-FU	WANG,JIUNN-CHIH; CHEN,MING-SHING; ZHANG,JIA-WEN; LAI,JUN-FU
NT\$ 2,000,000 (inclusive) ~ NT\$ 5,000,000 (non-inclusive)	HUANG,CHI-MING; FANG,CHIH- HUNG; ZHANG,PEI- WEN; WENG,CHIN-NENG	HUANG,CHI-MING; FANG,CHIH-HUNG; ZHANG,PEI-WEN; WENG,CHIN-NENG
NT\$ 5,000,000 (inclusive) ~ NT\$ 10,000,000 (non-inclusive)	TAN,TE-CHENG; MA,JIA-HUAN	TAN,TE-CHENG; MA,JIA- HUAN
NT\$ 10,000,000 (inclusive) ~ NT\$ 15,000,000 (non-inclusive)	CHAO,YUNG-FEI; GUO,MEI-LING; LIN,YAN-FEN	CHAO,YUNG-FEI; CHIA,CHUNG-TAO; GUO,MEI-LING;LIN,YAN-FEN
NT\$ 15,000,000 (inclusive) ~ NT\$ 30,000,000 (non-inclusive)	YANG,JIE-BIN	YANG,JIE-BIN
NT\$ 30,000,000 (inclusive) ~ NT\$ 50,000,000 (non-inclusive)	-	-
NT\$ 50,000,000 (inclusive) ~ NT\$ 100,000,000 (non-inclusive)	-	-
NT\$ 100,000,000 and above	-	-
Total	15	15

#### 4. Names of managers who received employee remuneration

March 31, 2019

	Title	Name	Shares amount	Cash amount	Total	Total as a percentage of net income (%)
Managers	CSO	WANG,JIUNN-CHIH	0	15,728	15,728	1.12%
	CIO	CHAO,YUNG-FEI				
	President	CHIA,CHUNG-TAO				
	Senior Executive Vice President	YANG,JIE-BIN				
	Executive Vice President	CHEN,MING-SHING; HUANG,CHI-MING; FANG,CHIH-HUNG; ZHANG,PEI-WEN; TAN,TE-CHENG; ZHANG JIA-WEN; LAI,JUN-FU; LIN,YAN-FEN; MA,JIA-HUAN; WENG,CHIN-NENG				
	Senior Vice President	CHANG,TUN-FU; PAN,HUI-MEI				
	Senior Vice President	LIN,JING-HUA; WANG,YA-FANG; WU,YUN-WEN; QIU,JIAN-HUA; HOU,LE-PING; YAO,MING-QING; CHEN,DING-YUAN; CHEN,PEI-QI; WANG,JUAN-HUI; ZHENG,SHU-FEN				
	Senior Vice President	XIE,XIU-YING; LIN,SHU-CHUAN; LIN,BO-WEI; CHANG,LI-FEN; LIU,SHU-RU; XIE,YU-LIN; XU,TSUI-YUN; CHIU,TSAN-HSI; CHEN,YI-REN; YE,YI-LING; ZHANG,JING-YAO; YE,YU-ZHEN; HUANG,ZHI-HUA; WENG,HE-MING;ZHENG,YU-LING; CHEN,YI-RU; LI,MU-XIAN; ZHAO,FENG-RONG				
	Vice President	LAI,AI-WEN; XIE,HUI-YA; WU,HONG-ZHI; ZHANG,TIAN-MU; WU,CHEN-MING; YEN,HSIOU-RONG; ZHU,DE-REN; YANG,ZHI-KAI; WEI,YU-MEI; HUANG,XIU-YU; LIN,JIANG-HE; LI,XIANG-JUN; MA,SHAO-HONG; CHEN,LI-ZHUN; WANG,WAN-QI; YU,XIAO-MEI; XU,HONG-BO; PENG,GUI-CONG; WU,ZHENG-HAN; KAI,SHI-HUA; ZHANG,MING-YI; HUANG,QING-YAN; LIN,HUI-JING; CHEN,XUAN-ZHI; ZHANG,XUE-HE; ZHAO,ZHI-MING; CAO,HOU-SHENG; ZHENG,YU-CHANG; XU,LI-FEN; TIAN,DA-ZHONG; SU,RUI-YI; WEI,WEN-JIN; CAI,QING-FEN; CHEN,MEI-RU; XIE,JIA-JUN; CHEN,ZHI-ZHONG; TANG,WEN-JI; LIN,JING-WEN; YANG,YAN-QIU; CHEN,ZHI-SHAN; HAI,YAN; LIN,JING-ZHI; CHEN,ZHENG-YANG; HUANG,YI-LIAN; XU,JUN-YANG; ZHANG,REN-FANG; RUAN,YUAN-JUN; DENG,XUE-REN				
	Assistant Vice President	WU,QING-YAN; ZHANG,ZHE-MING; YANG,KUN-LONG; WU,CHEN-YI; WU,ZHI-WEI; HUANG,CHONG-JIE; HUANG,MIAO-YIN; PENG,XIAN-HE				

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

Percentage of remuneration paid to the Company's directors, President and vice presidents relative to net income in 2017 and 2018:

- (1) The sum of remuneration, travel allowance and meeting allowance paid to the Company's directors in 2017 represented 2.71% of net income; the sum of remuneration paid to the President, vice presidents and managers represented 2.06% of 2017 net income.
- (2) The sum of remuneration, travel allowance and meeting allowance paid to the Company's directors in 2018 represented 4.31% of net income; the sum of remuneration paid to the President, vice presidents and managers represented 6.88% of 2018 net income.
- (3) Directors' and Supervisors' remuneration are allocated according to the Articles of Incorporation in a manner that encourages growth of business and profitability. In addition to monthly salaries, the President and Vice Presidents are also entitled to share the Company's business success, depending on the performance of their respective departments.

# III. Corporate Governance Report

## 3.3 Corporate governance

### 3.3.1 Functionality of board of directors

A total of 11 meetings (A) were held in the last year (01.01.2018~03.31.2019); below are the attendance records:

Title	Name	Actual attendance (B)	Proxy attendance	Actual attendance rate (%) [B/A]	Remarks
Chairman	Yin Feng Enterprise Co., Ltd. Representative: WANG,JIUNN-CHIH	11	0	100%	
Director	Yin Feng Enterprise Co., Ltd. Representative: LIU,CHING-TSUN	11	0	100%	
Director	Tai Chun Enterprise Co., Ltd. Representative: CHANG,CHIH-MING	10	1	91%	
Vice Chairman	Tai Chun Enterprise Co., Ltd. Representative: CHAO YUNG-FEI	4	1	80%	Tai Chun Enterprise reappointed CHAO,YUNG-FEI as its representative on 10.11.2018; a total of 5 meetings were held during active duty. (formerly KUO,GUAN-CHYUN)
Director	Tai Chun Enterprise Co., Ltd. Representative: TSAI,I-CHING	11	0	100%	
Director	Kwang Hsing Industrial Co., Ltd. Representative: TING,HSUEH-WEN	6	2	60%	Kwang Hsing Industrial reappointed TING, HSUEH-WEN as its representative on 03.08.2018; a total of 10 meetings were held during active duty. (Formerly YANG,CHE-HUNG)
Director	San He Industrial Co., Ltd. Representative: CHU,HAI-YING	11	0	100%	
Director	Hung Lung Enterprise Co., Ltd. Representative: KUO,YUH-CHYI	11	0	100%	
Independent Director	SHEA,JIA-DONG	11	0	100%	
Independent Director	LIN,HSIN-HUI	11	0	100%	
Independent Director	HWANG,JYH-DEAN	11	0	100%	
Former director	Tai Chun Enterprise Co., Ltd. Representative: KUO,GUAN-CHYUN Tai Chun Enterprise Co., Ltd.	4	1	67%	Tai Chun Enterprise reappointed CHAO,YUNG-FEI as its representative on 10.11.2018 (formerly KUO,GUAN-CHYUN); a total of 6 meetings were held during active duty.
Former director	Kwang Hsing Industrial Co., Ltd. Representative: YANG,CHE-HUNG	1	0	100%	Kwang Hsing Industrial reappointed TING, HSUEH-WEN as its representative on 03.08.2018 (formerly YANG,CHE-HUNG); a total of 1 meeting was held during active duty.

Other relevant information:

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

- 10th meeting of the 10th board (01.29.2018)
  1. Agenda: Amendment and accreditation to the Company's "Internal Control Policy" and "Implementation Rules for Internal Audit Regulations".  
 Description: To proceed according to "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets", November 13, 2017 TPEX No. 10600295802. The letter has been circulated in accordance with external communications or methods.  
 Resolution: The case was consulted by all the directors without objection on the accreditation. (All Independent Directors' Comments: Passed without objection.)
- 11th meeting of the 10th board (03.26.2018)
  1. Agenda: The proposal for issuance of new shares through capitalization of 2017 earnings.  
 Description: According to the 2017 earnings distribution plan, it is planned that earnings of NT\$1,518,351,100 will be used for capital increase and issuance of new shares at a par value of NT\$10 per share, for a total of 151,835,110 shares. 70 shares per 1,000 shares held will be distributed to the original shareholders in the shareholder's register based on their number of shares held on the ex-dividend date.  
 Resolution: The case was consulted by all the directors without objection. (All Independent Directors' Comments: Passed without objection.)
- 12th meeting of the 10th board (05.11.2018)
  1. Agenda: Amendment and accreditation to the Company's "Internal Control Policy" and "Implementation Rules for Internal Audit Regulations".  
 Description: To proceed according to "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets," TSA No.1070000992 dated February 26, 2018, and TDCC No. 10700038991 and No.10700038992 dated March 21, 2018. The letter has been circulated in accordance with external communications or methods.  
 Resolution: The case was consulted by all the directors without objection on the accreditation. (All Independent Directors' Comments: Passed without objection.)
- 5th extraordinary meeting of the 10th board (08.27.2018)
  1. Agenda: Amendment and accreditation to the Company's "Internal Control Policy" and "Implementation Rules for Internal Audit Regulations".  
 Description: To proceed according to "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets," TWSE No. 1070008867 dated May 17, 2018, TWSE No.1070009291 dated May 22, 2018, TAIEX No.10700019491 dated June 7, 2018, TAROC No.1070000383 dated July 3, 2018, TAROC No.1070000396 dated July 13, 2018 and TWSE No.1070014535 dated July 27, 2018. The letter has been circulated in accordance with external communications or methods.  
 Resolution: The case was consulted by all the directors without objection on the accreditation. (All Independent Directors' Comments: Passed without objection.)
- 15th meeting of the 10th board (11.12.2018)
  1. Agenda: Amendment and accreditation to the Company's "Internal Control Policy" and "Implementation Rules for Internal Audit Regulations".  
 Description: To proceed according to "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets," FSC No. 1070320901, FSC No.10703209011 and FSC No.10703209012 dated June



### III. Corporate Governance Report

1, 2018, and TWSE No.1070017493 dated September 10, 2018. The letter has been circulated in accordance with external communications or methods.

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

2. Agenda: Proposal to add a whistleblower system to the "Internal Control Policy" and "Implementation Rules for Internal Audit Regulations."

Description: To proceed according to "Regulations Governing the Establishment of Internal Control Policy by Service Enterprises in Securities and Futures Markets." FSC No. 1070319112 dated May 30, 2018 required the Company to establish a whistleblower system as part of its Internal Control Policy.

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

3. Agenda: Assessment of accountant independence - 2018.

Description: The Company has created an independence assessment worksheet based on Article 47 of the Certified Public Accountant Act and the "Integrity, Fairness, Objectivity and Independence" principles of the Statement of CPA Professional Ethics No. 10. Furthermore, CPA's statement has been obtained with CPA independence assessment worksheet and accounting firm employee independence rules implemented for this purpose. It has been assessed that both Certified Public Accountants, Lee, Feng-Hui and Chung, Tan-Tan, of KPMG, have met the criteria for independence assessment and are qualified to serve as financial and tax auditing accountants of the Company.

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

4. Agenda: 2019 accountant remuneration.

Description: This year's accountant remuneration is the same and unchanged from the previous year.

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

● 7th extraordinary meeting of the 10th board (12.17.2018)

1. Agenda: Proposal to apply for permission from the authority to conduct exchange-traded note (ETN) service through the Derivatives Department.

Description: To proceed according to "Regulations Governing the Issuance of Exchange Traded Notes by Securities Firms." The department's first ETN is expected to be listed on Taipei Exchange (TPEX) with a link to FTSE A50 Low Carbon Index, denominated in NTD and have a duration of 3 years. 50,000 units are expected to be issued.

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

2. Agenda: Proposal to rent the building located on Minsheng East Road from "Chuan Yi Construction Co., Ltd." to provide for the relocation of the head office from its current address at Songren Road.

Description: Considering that the building on Songren Road which the Head Office has occupied for 19 years since 1999 is exhibiting deteriorated interiors, lack of space needed to accommodate current requirements, and frequent malfunction in outdated electromechanical facilities that are due for renewal, a relocation of office address has been planned as a result.

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

3. Agenda: Proposal to engage Sheng Hsiang Enterprise Co., Ltd. for the management of the Company's property located on Songren Road, Xinyi District, Taipei City.

Description: The Company plans to relocate its Head Office before the end of April 2019. To prevent its property (Plaza Building Jiao-2) from being left idle after the relocation, the Company proposes to engage Sheng Hsiang Enterprise Co., Ltd. for the management of this property and to generate economic benefits from active use.

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

- 17th meeting of the 10th board (03.29.2019)

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

Description: To proceed according to "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets," TWSE No. 1070023227 dated November 30, 2018 and TDCC No. 10800021571 and 10800021573 dated February 19, 2019. The letter has been circulated in accordance with external communications or methods.

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

2. Agenda: Amendment partial articles of the Company's "Procedures for the Acquisition or Disposal of Assets".

Description: Proposal to partially amend the Company's "Procedures for the Acquisition or Disposal of Assets" to accommodate actual practices and to conform with the latest "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" amended under FSC No. 1070341072 issued by Securities and Futures Bureau, Financial Supervisory Commission, on November 26, 2018.

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

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

- 11th meeting of the 10th board (03.26.2018)

1. Agenda: Application for a USD 10-million short-term loan limit by the Company's overseas investment - CSC Securities (HK) Ltd. from its parent company - CSC International Holdings Ltd.

Reason for avoidance and the vote outcome: Chairman WANG,JIUNN-CHIH concurrently served as the representative of Capital Securities Corporation, a corporate director of CSC International Holdings Ltd., and the representative of CSC International Holdings Ltd., a corporate director of CSC Securities (HK) Ltd., and had avoided involvement in this case due to status as a stakeholder. The case was circumvented by the chairman (the chairman of the case, WANG,JIUNN-CHIH was evaded, and was chaired by the director LIU,CHING-TSUN). The remaining directors were consulted and passed without objection.

2. Agenda: Proposal to issue a Letter of Comfort to support business expansion and capital requirement of subsidiary - CSC International Holdings Ltd.

Reason for avoidance and the vote outcome: Chairman WANG,JIUNN-CHIH was the representative of Capital Securities Corporation, a corporate director of CSC International Holdings Ltd., and had avoided involvement in this case due to status as a stakeholder. The case was circumvented by the chairman (the chairman of the case, WANG,JIUNN-CHIH was evaded, and was chaired by the director LIU,CHING-TSUN). The remaining directors were consulted and passed without objection.

### III. Corporate Governance Report

3. Agenda: Proposal to issue a Letter of Comfort to support business expansion and capital requirement of subsidiary CSC Securities (HK) Ltd.

Reason for avoidance and the vote outcome: Chairman WANG,JIUNN-CHIH was the representative of CSC International Holdings Ltd., a corporate director of CSC Securities (HK) Ltd., and had avoided involvement in this case due to status as a stakeholder. The case was circumvented by the chairman (the chairman of the case, WANG,JIUNN-CHIH was evaded, and was chaired by the director LIU,CHING-TSUN). The remaining directors were consulted and passed without objection.

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

Reason for avoidance and the vote outcome: The Company has existing investment relationship with Capital Investment Trust Corp., and the proposal to appoint Director TING,HSUEH-WEN as the representative of the related party's corporate director made TING a stakeholder, which required avoidance. Director TING,HSUEH-WEN did not attend or participate in the resolution. The case was consulted by all the directors without objection.

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

Reason for avoidance and the vote outcome: The Company has existing investment relationship with Capital Investment Trust Corp., and the proposal to appoint Director TING,HSUEH-WEN as the representative of the related party's corporate director made TING a stakeholder, which required avoidance. Director TING,HSUEH-WEN did not attend or participate in the resolution. The case was consulted by all the directors without objection.

- 12th meeting of the 10th board (05.11.2018)

Agenda: Distribution of 2017 employee (cash) remuneration.

Reason for avoidance and the vote outcome: Chairman WANG,JIUNN-CHIH of the Company was one of the recipients, and had avoided involvement in this case due to status as a stakeholder. The case was circumvented by the chairman (the chairman of the case, WANG,JIUNN-CHIH was evaded, and was chaired by the director LIU,CHING-TSUN). The remaining directors were consulted and passed without objection.

- 13th meeting of the 10th board (07.27.2018)

Agenda: Proposal to issue a Letter of Comfort to support business expansion and capital requirements of subsidiary - CSC Securities (HK) Ltd.

Reason for avoidance and the vote outcome: Chairman WANG,JIUNN-CHIH was the representative of CSC International Holdings Ltd., a corporate director of CSC Securities (HK) Ltd., and had avoided involvement in this case due to status as a stakeholder. The case was circumvented by th chairmen (the Chairman of the case, WANG,JIUNN-CHIH was evaded, and was chaired by Director LIU,CHING-TSUN). The remaining directors were consulted and passed without abjection.

- 5th extraordinary meeting of the 10th board (08.27.2018)

Agenda: Distribution of festive bonus for the Company's Chairman, President and employees of manager grade and above for the first half of 2018.

Reason for avoidance and the vote outcome: Chairman WANG,JIUNN-CHIH of the Company was one of the recipients, and had avoided involvement in this case due to status as a stakeholder. The case was circumvented by the chairman (the chairman of the case, WANG,JIUNN-CHIH was evaded, and was chaired by the director

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

- 14th meeting of the 10th board (09.28.2018)

Agenda: Proposal to issue a Letter of Comfort to support business expansion and capital requirements of subsidiary - CSC Securities (HK) Ltd.

Reason for avoidance and the vote outcome: Chairman WANG, JIUNN-CHIH was the representative of CSC International Holdings Ltd., a corporate director of CSC Securities (HK) Ltd., and had avoided involvement in this case due to status as a stakeholder. The case was circumvented by the chairman (the chairman of the case, WANG,JIUNN-CHIH was evaded, and was chaired by the director LIU,CHING-TSUN). The remaining directors were consulted and passed without objection.

- 15th meeting of the 10th board (11.12.2018)

1. Agenda: Acknowledgment on the renewal of corporate vehicle lease for Chairman and Vice Chairman, and additional corporate vehicle lease for the President.

Reason for avoidance and the vote outcome: Chairman WANG,JIUNN-CHIH and Vice Chairman CHAO,YUNG-FEI are users of corporate vehicle, which made them stakeholders and required avoidance. The case was circumvented by the chairman (the chairman of the case, WANG,JIUNN-CHIH was evaded, and was chaired by Director LIU,CHING-TSUN). The remaining directors were consulted and passed without objection.

2. Agenda: Proposal to issue a Letter of Comfort to support business expansion and capital requirements of subsidiary - CSC Securities (HK) Ltd.

Reason for avoidance and the vote outcome: Chairman WANG,JIUNN-CHIH was the representative of CSC International Holdings Ltd., a corporate director of CSC Securities (HK) Ltd., and had avoided involvement in this case due to status as a stakeholder. The case was circumvented by the chairman (the chairman of the case, WANG,JIUNN-CHIH was evaded, and was chaired by the Vice Chairman CHAO,YUNG-FEI). The remaining directors were consulted and passed without objection.

3. Agenda: Recommendation of candidates for the 2nd board of directors and supervisors for investee - CSC Venture Capital Corporation.

Reason for avoidance and the vote outcome: Chairman WANG,JIUNN-CHIH and Vice Chairman CHAO,YUNG-FEI were director candidates in this case, which made them stakeholders and required avoidance. The case was circumvented by the chairman (the chairman of the case, WANG,JIUNN-CHIH was evaded, and was chaired by the director LIU,CHING-TSUN). The remaining directors were consulted and passed without objection.

4. Agenda: Reappointment of directors for subsidiaries of Capital Futures Corporation, including Capital International Technology Corp., Capital True Partner Technology Co., Ltd. and Capital Futures Technology (Shanghai) Co., Ltd., and change of President for Capital International Technology Corp.

Reason for avoidance and the vote outcome: Chairman WANG,JIUNN-CHIH and Director LIU,CHING-TSUN were representatives of Capital Securities Corporation, a corporate director of Capital Futures Corporation, whereas Independent Director SHEA,JIA-DONG concurrently served as independent director for Capital Futures Corporation, had avoided involvement in this case due to status as stakeholders. The case was circumvented by the chairman (the chairman of the case,WANG, JIUNN-CHIH was evaded, and was chaired by Vice Chairman CHAO,YUNG-FEI). The remaining directors were consulted and passed without objection.

### III. Corporate Governance Report

- 16th meeting of the 10th board dated (01.28.2019)
  1. Agenda: Approval of 2018 performance evaluation results for employees of manager grade and above.

Reason for avoidance and the vote outcome: Chairman WANG,JIUNN-CHIH and Vice Chairman CHAO,YUNG-FEI were among the list of parties subject to performance evaluation, which made them stakeholders and required avoidance. The case was circumvented by the chairman (the chairman of the case, WANG,JIUNN-CHIH was evaded, and was chaired by Director LIU,CHING-TSUN). The remaining directors were consulted and passed without objection.
  2. Agenda: Distribution of 2018 year-end bonus for the Company's employees of manager grade and above.

Reason for avoidance and the vote outcome: Chairman WANG,JIUNN-CHIH and Vice Chairman CHAO,YUNG-FEI were among the list of recipients, which made them stakeholders and required avoidance. The case was circumvented by the chairman (the chairman of the case, WANG,JIUNN-CHIH was evaded, and was chaired by Director LIU,CHING-TSUN). The remaining directors were consulted and passed without objection.
  3. Agenda: Proposal to apply for approval from the authority to invest into overseas business - CSC Securities (HK) Ltd. and to engage people, corporate entities, organizations and institutions of the Mainland, as well as branches established in other regions, in securities and futures service.

Reason for avoidance and the vote outcome: Chairman WANG,JIUNN-CHIH was the representative of CSC International Holdings Ltd., a corporate director of CSC Securities (HK) Ltd., and had avoided involvement in this case due to status as a stakeholder. The case was circumvented by the chairman (the chairman of the case, WANG,JIUNN-CHIH was evaded, and was chaired by Vice Chairman CHAO,YUNG-FEI). The remaining directors were consulted and passed without objection.
  4. Agenda: Distribution of special rewards.

Reason for avoidance and the vote outcome: Chairman WANG,JIUNN-CHIH and Vice Chairman CHAO,YUNG-FEI were among the list of recipients, which made them stakeholders and required avoidance. The case was circumvented by the chairman (the chairman of the case, WANG,JIUNN-CHIH was evaded, and was chaired by the director LIU,CHING-TSUN). The remaining directors were consulted and passed without objection.
- 17th meeting of the 10th board (03.29.2019)
  1. Agenda: Proposal to issue a Letter of Comfort to support business expansion and capital requirements of subsidiary - Capital International Holdings Ltd.

Reason for avoidance and the vote outcome: Chairman WANG,JIUNN-CHIH was the representative of Capital Securities Corporation, a corporate director of CSC International Holdings Ltd., and had avoided involvement in this case due to status as a stakeholder. The case was circumvented by the chairman (the chairman of the case, WANG,JIUNN-CHIH was evaded, and was chaired by Vice Chairman CHAO,YUNG-FEI). The remaining directors were consulted and passed without objection.
  2. Agenda: Proposal to issue a Letter of Comfort to support business expansion and capital requirements of subsidiary - CSC Securities (HK) Ltd.

Reason for avoidance and the vote outcome: Chairman WANG,JIUNN-CHIH was the representative of CSC International Holdings Ltd., a corporate director of CSC Securities (HK) Ltd., and had avoided involvement in this case due to status as a stakeholder. The case was circumvented by the chairman (the chairman of the case,

WANG,JIUNN-CHIH was evaded, and was chaired by Vice Chairman CHAO,YUNG-FEI). The remaining directors were consulted and passed without objection.

3. Agenda: Continuous application for a USD 10-million short-term loan limit by the Company's overseas investment - CSC Securities (HK) Ltd. from its parent company - CSC International Holdings Ltd.

Reason for avoidance and the vote outcome: Chairman WANG,JIUNN-CHIH concurrently served as the representative of Capital Securities Corporation, a corporate director of CSC International Holdings Ltd., and the representative of CSC International Holdings Ltd., a corporate director of CSC Securities (HK) Ltd., and had avoided involvement in this case due to status as a stakeholder. The case was circumvented by the chairman (the chairman of the case, WANG,JIUNN-CHIH was evaded, and was chaired by Vice Chairman CHAO,YUNG-FEI). The remaining directors were consulted and passed without objection.

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

The Company has functional committees including Remuneration Committee, Risk Management Committee and Audit Committee assembled under the board of directors to support the board's duties. These committees will continue to follow international corporate governance trends and the authority's instructions, and support the board of directors in a way that enables directors to supervise the Company's operations professionally and independently.

### 3.3.2 Functionality of the Audit Committee

A total of 8 (A) Audit Committee meetings were held in the last year (01.01.2018~03.31.2019); independent directors' attendance records are summarized below:

Title	Name	Actual attendance (B)	Proxy attendance	Actual attendance rate (%) (B/A)	Remarks
Independent Director	SHEA,JIA-DONG	8	0	100%	
Independent Director	LIN,HSIN-HUI	8	0	100%	
Independent Director	HWANG,JYH-DEAN	8	0	100%	

Other relevant information:

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

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

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

- 8th meeting of the 1st Audit Committee dated 01.15.2018 (10th meeting of the 10th board of directors dated 01.29.2018)

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

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

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



### III. Corporate Governance Report

- 9th meeting of the 1st Audit Committee dated 03.15.2018 (11th meeting of the 10th board of directors dated 03.26.2018)
  1. Agenda: The Company's 2017 standalone financial statements and consolidated financial statements have been prepared and completed. They are audited by LEE,FENG-HUI and CHUNG,TAN-TAN CPA of KPMG and plans to issue an audit report.

Resolution: The case was explained and discussed with the accountant, and after the attended staff left the meeting, the chairman consulted all members with no objections.
  2. Agenda: The proposal for issuance of new shares through capitalization of 2017 earnings.

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

Resolution: The all directors were consulted and passed without objection.
- 10th meeting of the 1st Audit Committee dated 04.27.2018 (12th meeting of the 10th board of directors dated 05.11.2018)
  1. Agenda: Amendment and accreditation to the Company's "Internal Control Policy" and "Implementation Rules for Internal Audit Regulations".

Description: To proceed according to "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets," TSA No.1070000992 dated February 26, 2018, and TDCC No. 10700038991 and No.10700038992 dated March 21, 2018. The letter has been circulated in accordance with external communications or methods.

Resolution: The all directors were consulted and passed without objection.
- 11th meeting of the 1st Audit Committee dated 08.16.2018 (5th extraordinary meeting of the 10th board of directors dated 08.27.2018)
  1. Agenda: Amendment and accreditation to the Company's "Internal Control Policy" and "Implementation Rules for Internal Audit Regulations".

Description: To proceed according to "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets," TWSE No. 1070008867 dated May 17, 2018, TWSE No.1070009291 dated May 22, 2018, TAIEX No.10700019491 dated June 7, 2018, TAROC No.1070000383 dated July 3, 2018, TAROC No.1070000396 dated July 13, 2018 and TWSE No.1070014535 dated July 27, 2018. The letter has been circulated in accordance with external communications or methods.

Independent directors' opinions: Independent Director Huang suggested that the Auditing Department should consult the Association for revision of document wording, such as changing all mentioning of the supervisor to independent directors, and clarifying the meaning of certain terms.

Company's response: Vice President HUANG,CHI- MING of the Auditing Department explained that wording of existing policies have been revised in accordance with the reference version. The department will continue seeking clarification for meanings of certain text through the Association or the Audit Committee, and revise wording according to recommendations.

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



2. Agenda: The Company has completed preparation of standalone and consolidated financial statements for the 2nd quarter of 2018 (Jan~June 2018), and proposes to seek independent audit opinions from CPA Lee, Feng-Hui and CPA Chung, Dan-Dan of KPMG.

Independents' opinion: With respect to fair value assessment, Independent Director Huang asked about how the CPAs had established valuation on financial assets without open market quotation.

CPAs' explanation: CPA Li replied that fair value was established fundamentally based on the market approach, using P/E and other value multiples of local and foreign public-listed/OTC-traded companies of similar industry and scale, with a 30% liquidity discount.

Resolution: Vice President TAN, TE-CHENG of the Finance Department reported the financial figures, and the CPA followed up with explanations and joined in discussion. Following the departure of auxiliary meeting participants, the motion was unanimously passed without objection from members of the committee.

- 12th meeting of the 1st Audit Committee dated 10.29.2018 (15th meeting of the 10th board of directors dated 11.12.2018)

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

Description: To proceed according to "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets," FSC No. 1070320901, FSC No.10703209011 and FSC No.10703209012 dated June 1, 2018, and TWSE No.1070017493 dated September 10, 2018. The letter has been circulated in accordance with external communications or methods.

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

2. Agenda: Proposal to add a whistleblower system to the "Internal Control Policy" and "Implementation Rules for Internal Audit Regulations."

Description: To proceed according to "Regulations Governing the Establishment of Internal Control Policy by Service Enterprises in Securities and Futures Markets," FSC No. 1070319112 dated May 30, 2018 required the Company to establish a whistleblower system as part of its Internal Control Policy.

Independent directors' opinions: Suggestion to amend the summary, description and appendix format.

Company's response: Summary, description and appendix format of this motion were amended according to the committee's opinions and reported to the board of directors.

Resolution:

- 1) To proceed according to the committee's suggestions and amend the summary, description and appendix format of this motion.
- 2) This motion was passed unanimously with modification.

3. Agenda: Assessment of accountant independence - 2018.

Description: The Company has created an independence assessment worksheet based on Article 47 of the Certified Public Accountant Act and the "Integrity, Fairness, Objectivity and Independence" principles of Statement of CPA Professional Ethics No. 10. Furthermore, CPA's statement has been obtained with CPA independence assessment worksheet and accounting firm employee independence rules implemented for this purpose. It has been assessed that both Certified Public Accountants, Lee, Feng-Hui and Chung, Tan-Tan, of KPMG, have met the criteria for independence assessment and are qualified to serve as financial and tax auditing accountants of the Company.

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

### III. Corporate Governance Report

4. Agenda: 2019 accountant remuneration.

Description: This year's accountant remuneration is the same and unchanged from the previous year.

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

● 2nd extraordinary meeting of the 1st Audit Committee dated 12.10.2018 (7th extraordinary meeting of the 10th board of directors dated 12.17.2018)

1. Agenda: Proposal to apply for permission from the authority to conduct exchange-traded note (ETN) service through the Derivatives Department.

Description: To proceed according to "Regulations Governing the Issuance of Exchange Traded Notes by Securities Firms." The department's first ETN is expected to be listed on Taipei Exchange (TPEX) with a link to FTSE A50 Low Carbon Index, denominated in NTD and have a duration of 3 years. 50,000 units are expected to be issued.

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

2. Agenda: Proposal to rent the building located on Minsheng East Road from "Chuan Yi Construction Co., Ltd." to provide for the relocation of the head office from its current address at Songren Road.

Description: Considering that the building on Songren Road which the Head Office has occupied for 19 years since 1999 is exhibiting deteriorated interiors, lack of space needed to accommodate current requirements, and frequent malfunction in outdated electromechanical facilities that are due for renewal, a relocation of office address has been planned as a result.

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

3. Agenda: Proposal to engage Sheng Hsiang Enterprise Co., Ltd. for the management of the Company's property located on Songren Road, Xinyi District, Taipei City.

Description: The Company plans to relocate its Head Office before the end of April 2019. To prevent its property (Plaza Building Jiao-2) from being left idle after the relocation, the Company proposes to engage Sheng Hsiang Enterprise Co., Ltd. for the management of this property and to generate economic benefits from active use.

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

● 13th meeting of the 1st Audit Committee dated 03.18.2019 (17th meeting of the 10th board of directors dated 03.29.2019)

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

Description: To proceed according to "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets," TWSE No. 1070023227 dated November 30, 2018 and TDCC No. 10800021571 and 10800021573 dated February 19, 2019. The letter has been circulated in accordance with external communications or methods.

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

2. Agenda: The Company has completed preparation of standalone and consolidated financial statements for 2018, and proposes to seek independent audit opinions from CPA Lee, Feng-Hui and CPA Chung, Dan-Dan of KPMG.

Resolution: Vice President TAN, TE-CHENG of the Finance Department reported the financial figures, and the CPA followed up with explanations and joined in discussion. Following the departure of auxiliary meeting participants, the motion was unanimously passed without objection from members of the committee.

3. Agenda: Amendment partial articles of the Company's "Procedures for the Acquisition or Disposal of Assets".

Description: Proposal to partially amend the Company's "Procedures for the Acquisition or Disposal of Assets" to accommodate actual practices and to conform with the latest "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" amended under FSC No. 1070341072 issued by Securities and Futures Bureau, Financial Supervisory Commission, on November 26, 2018.

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

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

None of the motions discussed during Audit Committee meetings dated 01.01.2018~03.31.2019 presented any conflict of interest to independent directors.

3. Communication between Independent Directors and internal/external auditors (e.g. discussions concerning the Company's financial and business affairs, the method of communication used, and the outcome).
  1. The Company prepares written reports on previous month's audit defects and subsequent improvements and presents them for review by independent directors. Independent directors may request for explanation, reporting of further details and make other suggestions in regards to the report.
  2. Progress of the Company's audit tasks, outcomes and follow-up actions are reported by the Chief Auditor during Audit Committee meetings.
  3. Independent directors and the Chief Auditor are invited to participate in every board of directors meeting. Progress of the Company's internal audit tasks, outcomes and follow-up actions are reported by the Chief Auditor during every board meeting.
  4. When reviewing the semi-annual and annual financial reports, the certified accountant attends the audit committee to explain the review of the Company's financial statement process, scope issues, and updates of relevant laws and regulations, and fully discusses with the independent directors. Certified accountants also attended the board of directors and explained and communicated with the directors.
  5. Audit supervisors, accountants, and independent directors may contact each other at any time, as required, and have a smooth communication channel.
  6. For more information on the topics that independent directors have discussed with the Chief Auditor and CPA, please visit the Company's website.

# III. Corporate Governance Report

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

Assessment criteria	Compliance (Note)			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
1. Has the company established and disclosed its corporate governance principles based on "Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies?"	✓		The Company has established "Corporate Governance Principles" and disclosed them on the corporate website, intranet, and Market Observation Post System.	N/A
2. Shareholding structure and shareholders' interests				
(1) Has the company implemented a set of internal procedures to handle shareholders' suggestions, queries, disputes and litigations?	✓		(1) The Company has "Dispute Resolution Guidelines" and "Fair Customer Treatment Guidelines" in place, while business departments are guided by numerous procedures and policies on matters such as: KYC, protection of customers' interests, business personnel standard practices, business dispute resolution, etc. The Company also has spokesperson, investor relations contact, a "Stakeholders" section on its website, a Customer Service Center, a Registrar Agency Dept., a Compliance and Legal Division available to communicate with stakeholders and address their suggestions, queries, disputes, and litigations.	N/A
(2) Is the company constantly informed of the identities of its major shareholders and the ultimate controller?	✓		(2) The Company keeps track of shareholders and their shareholding positions by monitoring the shareholder registry and monthly holding reports. The names of major shareholders have been duly disclosed in the annual report (where the major shareholder is a corporate entity, the major shareholders of that corporate entity are also disclosed in page 11).	N/A
(3) Has the company established and implemented risk management practices and firewalls for companies it is affiliated with?	✓		(3) Risk control measures and firewalls have been established and implemented to regulate transactions between the Company and affiliated enterprises. The Company follows the authority's rules with regards to other matters concerned.	N/A
(4) Has the company established internal policies that prevent insiders from trading securities against non-public information?	✓		(4) The Company has "Operating Procedures and Guidelines of Ethical Corporate Management Best Practice," "Insider Account Opening, Security Trading and Futures Trading Management Policy" and "Conflict of Interest Prevention Guidelines for Business Personnel Undertaking Concurrent Duties" in place to regulate insiders' use of non-public information for securities trading.	N/A
3. Assembly and obligations of the board of directors				
(1) Has the board devised and implemented policies to ensure diversity of its members?	✓		(1) The Company has established a set of "Corporate Governance Principles" and disclosed them on the corporate website and the Market Observation Post System. The principles require the board of directors to devise appropriate strategies with respect to the Company's operations and prospects. All board members are being required to possess the knowledge, skills and characters needed to perform their duties. Composition of the board has been diversified in a number of aspects including but limited to gender, age, culture, education background, and professional experience. The board of directors currently comprises both male and female members, whose collective knowledge covers a broad spectrum of expertise from business administration, international businesses, technology management, banking, securities, finance/investment, information management to legal studies. The members each possesses extensive academic achievements and strong industry background that are helpful to the Company's overall strategy and operational performance. Board members' information is disclosed in page 8.	N/A
(2) Apart from the Remuneration Committee and Audit Committee, has the company assembled other functional committees at its own discretion?	✓		(2) The Company currently has Remuneration Committee, Audit Committee, Risk Management Committee, Integrity Committee, and Human Resource Review Committee in place.	N/A

Assessment criteria	Compliance (Note)			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
(3) Has the company established a set of policies and assessment tools to evaluate the board's performance? Is performance evaluated regularly at least on an annual basis?		✓	(3) All members of the board possess the professional knowledge needed to accomplish their duties. Currently, board performance is evaluated on a yearly basis by reviewing directors' meeting attendance, discussions, and continuing education/training.	The Company will be organizing a self-evaluation or peer evaluation for the board of directors in 2020 as instructed by the authority, and complete the report before the end of the first quarter of the following year.
(4) Are external auditors' independence assessed on a regular basis?	✓		(4) The Company has created an independence assessment worksheet based on Article 47 of the Certified Public Accountant Act and the "Integrity, Fairness, Objectivity and Independence" principles of Statement of CPA Professional Ethics No. 10 to assess CPA's independence, professionalism and suitability and determine whether they are stakeholders or whether they have business or financial interests with the Company. The Company also obtains CPA's statement to the above. The accounting firm also issues a declaration of independence as a form of commitment. Auditor's independence is evaluated by the Audit Committee and Board of Directors in the fourth quarter of each year. Board resolutions concerning auditors' independence can be found in page 34.	N/A
4. Where the company is a TWSE/TPEX listed company, has the company designated a department or personnel that specializes (or is involved) in corporate governance affairs (including but not limited to providing directors/supervisors with the information needed to perform their duties, convention of board meetings and shareholder meetings, company registration and changes, preparations of board meetings and shareholders' meetings minutes, etc)?	✓		The Company has a Corporate Governance Section established under the Corporate Planning Office. The section is supervised by the Vice President of the Corporate Planning Office and staffed with officers and managers. It serves as the Company's corporate governance unit and oversees affairs concerning board meeting, business integrity, preparation of corporate social responsibility report, and corporate governance. The section takes initiative in learning new laws and knowledge, and utilizes them to improve corporate governance performance, board functionality, and shape the Company's corporate governance culture.	N/A
5. Has the company provided proper communication channels and created dedicated sections on its website to address corporate social responsibility issues that are of significant concern to stakeholders (including but not limited to shareholders, employees, customers and suppliers)?	✓		The Company has a spokesperson, an investor relations contact, a Customer Service Center and a "Stakeholders" section on its website to gather opinions from stakeholders. Information of the above contact windows and contact methods have already been disclosed on the Company's website. We are dedicated to maximizing stakeholders' interest, and maintaining open and diverse communication channels for discovering problems and solutions.	N/A
6. Has the company engaged a shares administration agency to handle shareholders' meeting affairs?	✓		Capital Securities Corporation is an integrated securities service provider, and has a Registrar Agency Department to handle shareholder meeting affairs.	N/A
7. Information disclosure (1) Has the company established a website that discloses financial, business and corporate governance-related information? (2) Has the company adopted other means to disclose information (e.g. English website, assignment of dedicated personnel to collect and disclose corporate information, implementation of a spokesperson system, broadcasting of investor conferences via the company website)?	✓ ✓		(1) Financial, business and corporate governance information has been disclosed on the Company's website and is updated regularly to keep investors informed.  (2) 1. The Company has made an English version of its website that is accessible from the home page. 2. Gathering and disclosure of information are being handled by dedicated departments. 3. The Company has spokesperson and investor relations contact available to facilitate communication with investors. Information of the above contact windows and contact methods have already been disclosed on the Company's website. 4. All disclosures and video recordings made at investor seminars are posted onto website.	N/A N/A
8. Does the company have other information that enables a better understanding of the company's corporate governance practices (including but not limited to employee rights, employee care, investor relations, supplier relations, stakeholders' interests, continuing education of directors/supervisors, implementation of risk management policies and risk measurements, implementation of customer policy, and insuring against liabilities of company directors and	✓		(1) Employee rights: The Company has personnel management policies, "Workplace Sexual Harassment Prevention, Grievance and Disciplinary Policy" and "Employee Opinion Usage Guidelines" in place to gather employees' opinions with respect to the Company's business, operating procedures, administrative measures, policies, suggestions, or any incident of violation against personal rights. (2) Employee care: The Company offers various types of leave as required by law. In addition to purchasing Labor Insurance and National Health Insurance coverage, the Company also offers employees other types of insurance	N/A

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Assessment criteria	Compliance (Note)			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
supervisors)?			<p>coverage (accident, life, medical, savings, etc) that they can purchase at discounted rate, and arranges wedding subsidies, funeral subsidies, emergency aids and a series of activities aimed at enhancing employees' loyalty and identification.</p> <p>(3) Investor relations and stakeholders' rights: The Company has spokesperson, investor relations contact, a Customer Service Center, and a "Stakeholders" section on its website to gather opinions from stakeholders. Information of the above contact windows and contact methods have already been disclosed on the Company's website. We are dedicated to maximizing stakeholders' interest, and maintaining open and diverse communication channels for discovering problems and solutions.</p> <p>(4) Supplier relations: Prior to engaging in business transactions, the Company evaluates its suppliers for history of adverse environmental and social impact, and avoids transacting with counterparties that act in contradiction against the Company's corporate social responsibility policies. All contracts signed between the Company and major suppliers outline the corporate social responsibilities that the two parties are bound to comply. The Company may terminate its contract at any time if suppliers commit any violation that causes significant impact to the environment or society from which product or service is sourced.</p> <p>(5) Directors' education: Details of directors' education have been disclosed in page 65.</p> <p>(6) Risk management policies and risk assessment standards: The Company has "Risk Management Policy" and risk assessment standards in place, and convenes Risk Management Committee meetings on a quarterly basis. Risk-return trade-offs and impacts on capital adequacy ratio are measured with adequacy reports prepared and presented to the management. By enforcing the risk management system, the Company aims to generate consistent and high-quality profits for its shareholders.</p> <p>(7) Customer policy: The Company has a set of "Fair Customer Treatment Guidelines" that covers many aspects of its business activities including fair contract, duty of care and loyalty, truthful advertising, product/service suitability, notification, disclosure, sale of complex and high-risk products, balanced performance compensation, grievance protection and professionalism.</p> <p>(8) Insurance against directors' liabilities: The board of directors passes resolution each year to insure the Company against directors' liabilities. For details regarding board's resolution on the purchase of liability insurance, please refer to page 60.</p>	

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

A total of 1,554 TWSE/TPEX listed companies were assessed during the 2018 Corporate Governance Evaluation; the Company was ranked among 6%~20% of all TWSE-listed companies. the Company was ranked among 6%~20% of all TWSE-listed companies. In the Corporate Governance Evaluation, the Company had shown improvement over the previous year in five categories: protection of shareholders' interests, fair treatment for shareholders, board structure and functionality, information transparency, and corporate social responsibilities. At this point, the Company will aim to enhance board structure and functionality as the top priority, then review and make improvements to areas it did not score well.

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



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

#### 1. Remuneration Committee members

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

Note 1: The "Identity" field describes the party's title as director, independent director, or others.

Note 2: A "✓" is placed in the box below if the member met the following criteria at any time during active duty and two years prior to the date of appointment.

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



## III. Corporate Governance Report

### 2. Functionality of the Remuneration Committee

1. The Company's Remuneration Committee consists of 3 members.
2. Duration of service: from June 27, 2016 to June 24, 2019. The Remuneration Committee held 10 meetings (A) in the last year (2018); details of members' eligibility and attendance are as follows:

Title	Name	Actual attendance (B)	Proxy attendance	Percentage of actual attendance (%) (B/A)(Note)	Remarks
Convener	HWANG, JYH-DEAN	10	0	100%	
Committee member	CHUANG, CHIH-CHENG	10	0	100%	
Committee member	YEN, CHIEN-SAN	10	0	100%	

### Other relevant information:

1. In the event where the Remuneration Committee's proposal is rejected or amended in a board of directors meeting, an explanation shall be made regarding the date and session of the meeting, details of the motion, the board's resolution, and how the Company had handled the Remuneration Committee's proposals (including differences and reasons, if any, should the board of directors approve a solution that was more favorable than the one proposed by the Remuneration Committee).
2. Should any member object or express qualified opinions to the resolution made by the Remuneration Committee, whether on-record or in writing, please describe the date and session of the meeting, details of the agenda, the entire members' opinions, and how their opinions were addressed.

- Note: (1) Date of resignation is shown for members of the Remuneration Committee who had resigned prior to the close of the financial year. The percentage of actual attendance (%) is calculated based on the number of Remuneration Committee meetings held and the number of meetings actually attended during active duty.
- (2) If a re-election of Remuneration Committee members had taken place prior to the close of the financial year, members of both the previous and the current Remuneration Committee are listed; in which case, the remarks column would specify whether the committee member was elected in the previous board, the new board, or both. The percentage of actual attendance (%) is calculated based on the number of Remuneration Committee meetings held and the number of meetings actually attended during active duty.
- (3) Duties of the Remuneration Committee:
1. Stipulate and review regularly the compensation policies, systems, standards and structures, and performance of directors and managers.
  2. Regularly review and adjust directors' and managers' remuneration.

### 3.3.5 Fulfillment of social responsibilities

Assessment criteria	Compliance (Note1)			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description(Note2)	
1. Sound corporate governance				
(1) Does the Company have a corporate social responsibility policy or system in place? Is progress reviewed on a regular basis?	✓		<p>(1)</p> <p>1. The Company has implemented a "Corporate Social Responsibility Code of Conduct" and a "Corporate Social Responsibility Policy," details of which have been disclosed on the Company's website and on the Market Observation Post System.</p> <p>2. The Company follows its Corporate Social Responsibility Policy and is committed to protecting the interests and welfare of all stakeholders. The Company is actively involved in community and charity activities, and has been known as an advocate for reuse of resource, protection of the natural environment, and fulfillment of social responsibilities. The Company makes yearly corporate social activity plans targeted for different stakeholders, and reports progress along with next year's plans to the board of directors and shareholders. Furthermore, the Company prepares corporate social responsibility reports in accordance with TWSE's specifications and discloses them on website for view by stakeholders.</p> <p>3. Capital Group's blood donation campaign raised 1,403 bags of blood in total; in the meantime, the Company purchased stationery hand-made by Syn-Lu Social Welfare Foundation - Sheltered Workshop as gift for donors. A "Capital loves to Read" campaign was organized to tell stories to children located in remote areas, and the program made donations to 9 elementary schools in 2018. The Company conducts annual greenhouse gas surveys for the head office and branches. The amount of CO2 emission caused by consumption of water, electricity and fuel in 2018 was calculated at 3.344 million kg, which was 5.5% lower compared to the previous year. Please visit the Company's website for more details.</p>	N/A
(2) Does the company organize social responsibility training on a regular basis?	✓		<p>(2) The Company organizes the following training activities in relation to social responsibilities:</p> <p>1. The Company's "Ethical Behavior Guidelines" clearly outline the ethics and obligations that directors, managers and employees are bound to obey. The Ethical Behavior Guidelines specifies how employees and the Company should interact with the public and stakeholders.</p> <p>2. The Company requires all employees to sign a commitment to "Capital Financial Group Employee Behavior Policy" and integrity principles when carrying out business activities.</p> <p>3. The Company organizes orientation training for new recruits. The orientation not only incorporates the "Ethical Behavior Guidelines," but also includes an overview of the Company's business philosophy, vision, management approach, policy, and ideals toward corporate social responsibilities.</p> <p>4. The Company organizes regular "Corporate Social Responsibility Courses" for employees.</p>	N/A
(3) Does the company have a unit that specializes (or is involved) in CSR practices? Is the CSR unit run by senior management and reports its progress to the board of directors?	✓		<p>(3) During the board of directors meeting held on March 27, 2015, the Corporate Planning Office was assigned the duty to oversee corporate social responsibilities, while the President was made the responsible person for CSR activities. The role of the Corporate Planning Dept. in regards to corporate social responsibilities is to assist in practical actions. In addition to establishing/amending corporate social responsibility policies, the Corporate Planning Dept. is also responsible for the preparation of annual CSR reports, and the reporting of CSR plans and progress during board meetings and shareholder meetings.</p> <p>Driven by its awareness towards sustainability, the Corporate Planning Office takes into consideration the possible impacts of the Company's business activities on the society and the natural environment when making strategic plans. The Office also pays attention to CSR issues and trends local and abroad, and shares them with employees to shape the Company's distinctive CSR culture.</p>	N/A

# III. Corporate Governance Report

Assessment criteria	Compliance (Note1)			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies
	Yes	No	Summary description(Note2)	
(4) Has the Company implemented a reasonable remuneration system that associates employees' performance appraisals with CSR? Is the remuneration system supported by an effective reward/discipline system?	✓		(4) The Company convenes regular Remuneration Committee meetings and operates based on a defined set of Remuneration Committee Foundation Principles. All of the Company's policies have been developed on principles of professional ethic, protection of employees' rightful interest, and environmental sustainability. To further enforce corporate social responsibilities, the Company implements clear reward and discipline rules and convenes regular personnel review committee meetings that associate employees' rewards/penalties with performance evaluation.	N/A
2. Fostering a sustainable environment				
(1) Is the Company committed to achieving efficient use of resources, and using renewable materials that produce less impact on the environment?	✓		(1) The Company is a securities service provider and operates in a low pollution industry. It does not manufacture any product, and nor is it required to recycle packaging materials for the products sold. The Company is dedicated to improving the efficiency of all resources used. It has been active in the promotion of a paper-less environment by introducing new measures such as: e-statement, e-bulletin, e-signature, and use of electronic presentation in meetings. Employees are encouraged to make double-sided photocopies, and a recycling tray has been placed near all photocopying machines to reduce the use of paper. The Company purchases environmental friendly toners, and all empty toners are recycled by the original manufacturer to avoid pollution. Recycling bins have been placed on each floor to sort waste and reduce waste and thereby ensure the sustainability of resources.	N/A
(2) Has the Company developed an appropriate environmental management system, given its distinctive characteristics?	✓		(2) The Company continues to implement energy and carbon reduction policies throughout the organization. It is our hope to minimize consumption of Earth's resources, and create an environment-friendly corporate culture by bringing green into our service. Furthermore, the Company is a securities service provider and not a manufacturer. It produces no pollution to the environment, and hence does not require certification for ISO 14001 or any environmental management system of similar nature.	N/A
(3) Is the Company aware of how climate changes affect its business activities? Are there any actions taken to measure and reduce greenhouse gas emission and energy use?	✓		(3) The Company has been supporting the government's energy conservation policies by replacing power-consuming equipment with more efficient alternatives. The Company organizes self-inspections and reminds employees from time to time to take steps toward minimizing the impact of climate change on business activities. The Company conducts annual greenhouse gas surveys for the head office and various branches. The amount of CO <sub>2</sub> emission caused by consumption of water, electricity and fuel in 2018 was calculated at 3.344 million kg, which was 5.5% lower compared to the previous year.	N/A
3. Enforcement of public welfare				
(1) Has the Company developed its policies and procedures in accordance with laws and International Bill of Human Rights?	✓		(1) <ol style="list-style-type: none"> <li>All terms of employment agreed between the Company and employees, such as salary, leave of absence, pension, occupational hazard compensation etc., are compliant with "Labor Standards Act." They exist to protect employees' rights and facilitate proper personnel management as well as harmonic labor management relations.</li> <li>The Company has established "Workplace Sexual Harassment Prevention, Grievance and Disciplinary Policy" in compliance with "Act of Gender Equality in Employment."</li> <li>The Company has specified in its "Work Rules" that all employees are covered by Labor Insurance and National Health Insurance. Insurance premiums for the above coverage are subsidized by the Company according to law.</li> <li>Decisions concerning workers' recruitment, interview, employment, assignment, appraisal, promotion, training, and compensation are made without discrimination whatsoever, whether in terms of gender, sexual preference, age, ethnicity, or religion.</li> </ol>	N/A

Assessment criteria	Compliance (Note1)			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies						
	Yes	No	Summary description(Note2)							
(2) Does the Company have means through which employees may raise complaints? Are employee complaints being handled properly?	✓		(2) 1. The Company provides all managers with an electronic mailbox, which employees may use to make recommendations and express opinions. 2. The Company has established an opinion mailbox that is open to all employees, and implemented "Employee Opinion Mailbox Usage Guidelines" to raise employees' awareness towards risk management, improving operating procedures, and reporting misconducts. The "employee opinion mailbox" is read by the head of a dedicated department on a daily basis. Any constructive opinions gathered from employees are treated as confidential and escalated to the President and Chairman. 3. The Company has a wide range of whistleblower channels available to support a corporate culture of integrity, transparency and progress and to encourage report of illegal conducts, including: E-mail: Complaint@capital.com.tw TEL: 02-87895808 Mailing address: The Company's place of business For "Capital Securities Corp. Grievance Mailbox" 4. In response to employee complaints, the Company has established the "Sexual Harassment Grievance Disposal Committee" and "Workplace Violence Appeal Handling Committee" to provide employees with appropriate complaint mechanisms and channels.	N/A						
(3) Does the Company provide employees with a safe and healthy work environment? Are employees trained regularly on safety and health issues?	✓		(3) The Company inspects the work environment for worker safety issues on a regular basis. Regular employee health checkups are arranged while physicians are invited to provide medical consultation on-site, thereby helping employees understand their health conditions and take early prevention and treatment. <table><tr><th>Implemented measures</th><th>Item</th><th>Description</th></tr><tr><td>Employee Health</td><td>Insurance and welfare</td><td>Measures mandated by law: 1. Labor Insurance and National Health Insurance. 2. Establishment of "Workplace Sexual Harassment Prevention, Grievance and Disciplinary Policy." 3. Implementation of a "Nursery Room." 4. Regular employee health checkups. 5. Commissioning of physicians to perform consultation service on occupational hazard, health promotion and hygiene at the head office on a regular basis. Measures provided above legal requirements: 1. The Company provides employees with a broad variety of group insurance coverage from life, accidental injury, accidental medical treatment, to occupational hazard. 2. Employees are invited to include their family members into group insurance at discounted premium. Term life, accidental injury, medical treatment, and cancer insurance policies have been offered to care for employees and their family members. 3. Complimentary massage service for employees of the head office. 4. Seminars on "Healthy Lunch for Office Workers" and "Work Pain Relief for Office Workers" and "Fitness Tests" were organized to promote exercise awareness among employees. 5. "Recreational and Charitable</td></tr></table>	Implemented measures	Item	Description	Employee Health	Insurance and welfare	Measures mandated by law: 1. Labor Insurance and National Health Insurance. 2. Establishment of "Workplace Sexual Harassment Prevention, Grievance and Disciplinary Policy." 3. Implementation of a "Nursery Room." 4. Regular employee health checkups. 5. Commissioning of physicians to perform consultation service on occupational hazard, health promotion and hygiene at the head office on a regular basis. Measures provided above legal requirements: 1. The Company provides employees with a broad variety of group insurance coverage from life, accidental injury, accidental medical treatment, to occupational hazard. 2. Employees are invited to include their family members into group insurance at discounted premium. Term life, accidental injury, medical treatment, and cancer insurance policies have been offered to care for employees and their family members. 3. Complimentary massage service for employees of the head office. 4. Seminars on "Healthy Lunch for Office Workers" and "Work Pain Relief for Office Workers" and "Fitness Tests" were organized to promote exercise awareness among employees. 5. "Recreational and Charitable	N/A
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Assessment criteria	Compliance (Note1)			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description(Note2)	
			<p>Club Foundation and Subsidy Policy" was introduced as an incentive for employees to engage themselves in sports and charity activities.</p> <p>6. The Company acquired certification for "Taiwan iSport" from Sports Administration, Ministry of Education.</p>	
			<p>Environmental health</p> <p>(1) Smoke-free office environment</p> <p>1. "Summary Notes on Tobacco Hazards Prevention Act" was posted on the Company's intranet.</p> <p>2. Videos of "How to quit smoking" were posted on the Company's intranet.</p> <p>3. A set of "Tobacco Hazard Prevention Measures" was implemented.</p> <p>(2) The Company acquired "Badge of Accredited Healthy Workplace" from Health Promotion Administration, Ministry of Health and Welfare</p> <p>(3) The Company acquired "Certification for Voluntary Public Indoor Air Quality Management" from Taipei City Department of Environmental Protection.</p>	
			<p>Safety of work environment</p> <p>Safety certification</p> <p>The Company received ISO22301 certification for continuity management from British Standards Institution. The main purpose of this certification is to ensure that the Company is able to minimize damage and recover operations within the target time in the event of an emergency, and thereby ensure personnel safety, compliance with laws, and protection of customers' interests, corporate reputation and assets.</p>	
			<p>Certification for personal information</p> <p>The Company is the first financial institution to obtain international certification for personal information management with respect to securities, futures, and insurance brokerage/agency services. It shows that the Personal Information Management System (PIMS) adopted by the Company offers effective protection and management of personal information, and complies with all requirements of the Personal Information Protection Act to protect the rights of information owners, while at the same time minimize possible impacts from event of attack. It represents the Company's commitment to continually manage and improve its personal information management system.</p>	
			<p>Workers' safety</p> <p>The Company has complied with the "Occupational Safety and Health Act" by appointing an OSH Officer, a team of first aid officers, and organizing training according to the Worker Safety Education Principles</p> <p>The Company has established and</p>	

Assessment criteria	Compliance (Note1)			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies						
	Yes	No	Summary description(Note2)							
			<table><tr><td></td><td>implemented an "Ergonomic Hazard Prevention Program" to prevent musculoskeletal injuries or illnesses caused by work activities. In addition, it has formulated and promoted the "Abnormal Workload Induced Disease Prevention Plan" to plan and take the necessary safety and health measures for the prevention of diseases caused by abnormal workloads such as shifts, night work, and long working hours.</td></tr><tr><td>Fire safety</td><td>1. Fire drills are organized on a regular basis. 2. Fire safety officers have been appointed in accordance with the Fire Services Act and Enforcement Rules of Fire Services Act. They are trained on a regular basis.</td></tr><tr><td>Safety assurance</td><td>All of the Company's business premises and branches are covered by the following insurance: 1. Commercial fire insurance 2. Electronic equipment insurance 3. Public liability insurance</td></tr></table>		implemented an "Ergonomic Hazard Prevention Program" to prevent musculoskeletal injuries or illnesses caused by work activities. In addition, it has formulated and promoted the "Abnormal Workload Induced Disease Prevention Plan" to plan and take the necessary safety and health measures for the prevention of diseases caused by abnormal workloads such as shifts, night work, and long working hours.	Fire safety	1. Fire drills are organized on a regular basis. 2. Fire safety officers have been appointed in accordance with the Fire Services Act and Enforcement Rules of Fire Services Act. They are trained on a regular basis.	Safety assurance	All of the Company's business premises and branches are covered by the following insurance: 1. Commercial fire insurance 2. Electronic equipment insurance 3. Public liability insurance	
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Fire safety	1. Fire drills are organized on a regular basis. 2. Fire safety officers have been appointed in accordance with the Fire Services Act and Enforcement Rules of Fire Services Act. They are trained on a regular basis.									
Safety assurance	All of the Company's business premises and branches are covered by the following insurance: 1. Commercial fire insurance 2. Electronic equipment insurance 3. Public liability insurance									
(4) Does the Company have means to communicate with employees on a regular basis, and inform them of operational changes that may be of significant impact?	✓		(4) The Company engages employees in regular labor-management meetings for the purpose of enhancing working relationship and cooperation. Information concerning the Company's policies, systems, welfare and news are published on the intranet. The intranet also has an e-bulletin for timely announcements of material information.	N/A						
(5) Has the Company implemented an effective training program that helps employees develop skills over their career?	✓		(5) The Company has implemented the following programs to help employees develop skills over their career: 1. With respect to the development of specialist talents, the Company offers a comprehensive training program that supports employees of all levels in various stages of their career development. There is a broad variety of channels that employees may utilize to learn in a timely manner. The talent development system works not only in favor of employees' careers, but supports the Company's growth as well. These include: orientation, specialist training, management reserve training, management growth training, and seminars hosted by renowned experts and scholars on the topic of finance. In addition, Capital Finance College was founded in 2007 to nurture the Company's managerial staff. 2. The Company trains its sales force intensively using nation-wide video conferencing and broadcast to help them develop professional qualities and skills. Many e-learning courses have also been designed to enhance outcome of the learning process. By utilizing digital means, employees are able to learn and grow anytime, anywhere. 3. Employees are encouraged to obtain financial certifications, and the Company has introduced a broad variety of incentives including registration fee subsidies to support their efforts.	N/A						
(6) Has the Company implemented consumer protection and grievance policies with regards to its research, development, procurement, production, operating and service activities?	✓		(6) The Company has "Dispute Resolution Guidelines" and "Fair Customer Treatment Guidelines" in place, while business departments are guided by numerous procedures and policies on matters such as: KYC, protection of customers' interests, standard operations, dispute resolution etc. For the protection of customers' interests, the Company provides effective channels of communication that customers may use to raise complaints. Information concerning customers' rights and grievance channels has been disclosed on the CAPITAL website. Webpage: CAPITAL website>>About Capital>>Customers' Rights Customer service hotline: 412-8878 (add prefix 02 when dialing with mobile) Email: cs@capital.com.tw Counter: Available at all business offices of the Company	N/A						

# III. Corporate Governance Report

Assessment criteria	Compliance (Note1)			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description(Note2)	
(7) Has the Company complied with laws and international standards with regards to the marketing and labeling of products and services?	✓		(7) The Company has established policies on the preparation and dissemination of advertising, business solicitation and promotion materials in accordance with Financial Consumers Protection Act, Article 6 of Regulations Governing Advertising, Business Solicitation and Promotion by Financial Service Providers, and Taiwan Securities Association Rules on Advertising, Business Solicitation and Promotion by Members, and enforced accordingly.	N/A
(8) Does the Company evaluate suppliers' environmental and social conducts before commencing business relationships?	✓		(8) The Company conducts regular assessments on the capacity of all new and existing suppliers before deciding whether to begin or continue business relationship. All supplier agreements are signed with a clause that entitles the Company to terminate the agreement without having to pay remedy if the supplier is found to have violated the corporate social responsibility policy mentioned above.	N/A
(9) Is the Company entitled to terminate supply agreement at any time with a major supplier, if the supplier is found to have violated its corporate social responsibilities and caused significant impacts against the environment or the society?	✓		(9) All suppliers that the Company chooses to sign agreement with need to be reviewed for history of environmental and social impact, in order to determine whether the Company should begin or continue supply relationship. All supplier agreements are signed with a clause that entitles the Company to terminate the agreement without having to pay remedy if the supplier is found to have violated the corporate social responsibility policy mentioned above.	N/A
4. Enhanced information disclosure				
(1) Has the company disclosed relevant and reliable CSR information on its website and at the Market Observation Post System?	✓		The Company values corporate social responsibilities as well as its commitment and mission towards sustainable management. The Company discloses relevant and reliable information through corporate social responsibility reports and its website (under sections such as "About Capital"/CSR, Capital News, bulletin, etc). Information relating to the CSR report has been disclosed on the Market Observation Post System. Webpage: Market Observation Post System>>Corporate Governance>>Corporate Social Responsibility Report.	N/A
5. If the Company has established CSR principles in accordance with "Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies," please describe its current practices and any deviations from the Best Practice Principles: The board of directors passed the Corporate Social Responsibility Code of Conduct during the meeting held on January 28, 2015. The code of conduct has been implemented throughout the Company since then.				
6. Other information useful to the understanding of corporate social responsibilities: The Company has been publishing corporate social responsibility reports on a regular basis since 2015. The Company has also created a CSR section on its website to disclose relevant and reliable information concerning the CSR report. Stakeholders are able raise queries via phone, website, or email, and the Company will respond to such queries individually.				
7. Describe the criteria undertaken by any institution to certify the company's CSR report: The Company's CSR report is not certified by any institution.				

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

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



### 3.3.6 Integrity performance

Assessment criteria	Compliance (Note1)			Deviation and causes of deviation from Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
1. Establishment of integrity policies and solutions				
(1) Has the Company stated in its Memorandum or external correspondence about the policies and practices it has to maintain business integrity? Are the board of directors and the management committed to fulfilling this commitment?	✓		(1) The Company has "Integrity Code of Conduct" and "Operational Procedures and Guidelines of Ethical Corporate Management Best Practice" in place. Both the board of directors and the management are committed to fulfilling duties of integrity, and have reflected their commitments in internal management and commercial activities. Details of the business integrity policy have been disclosed on the Company's website to provide counterparties, customers and business-related institutions and personnel with a better understanding of the Company's integrity philosophy and policy.	N/A
(2) Does the company have any measures against dishonest conduct? Are these measures supported by proper procedures, behavioral guidelines, disciplinary actions and complaint systems?	✓		(2) The Company's "Operating Procedures and Guidelines of Ethical Corporate Management Best Practice" have outlined clear rules and procedures regarding dishonest conducts. Business integrity has been included as part of the employees' performance evaluation and the Company's human resource policy. There are clear and effective systems in place to enforce discipline and reporting of dishonest conducts. Employees who commit major violation against integrity principles are dismissed according to relevant laws and personnel policy.	N/A
(3) Has the Company taken steps to prevent occurrences listed in Paragraph 2, Article 7 of "Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies" or business conducts that are prone to integrity risks?	✓		(3) The Company adopts an integrity insurance system, where it insures itself against risk of employees' dishonesty depending on the nature of their duties. The insurance covers robbery, theft, fraud, embezzlement or any illegal conduct committed by employees that result in financial losses to the Company. The Company has implemented policies and rules to regulate business activities that are susceptible to higher levels of integrity risk.	N/A
2. Enforcing ethical management				
(1) Does the Company evaluate the integrity of all counterparties it has business relationships with? Are there any integrity clauses in the agreements it signs with business partners?	✓		(1) Prior to signing a contract with another party, the Company would learn the integrity of its counterparty and incorporate integrity principles into the commercial contracts that enable either party to terminate the contract unconditionally at any time if the other party is found to have been involved in dishonest conduct.	N/A
(2) Does the Company have a unit that specializes (or is involved) in business integrity? Does this unit report its progress to the board of directors on a regular basis?	✓		(2) The Company has an Integrity Committee in place that is responsible for the establishment, supervision and execution of integrity policies and prevention measures. The committee convenes meetings at least once a year to review integrity performance on a yearly basis; the committee's findings are reported to the board of directors. The Company has "Integrity Code of Conduct" and "Operational Procedures and Guidelines of Ethical Corporate Management Best Practice" in place. They exist to enforce integrity principles throughout internal management and commercial activities. The Company actively organizes integrity courses for employees. Participants are required to pass a post-course exam to be considered of having completed the course. In 2018, the Company organized online courses on a total of 17 different topics (including Financial Consumers Protection Act, fair customer treatment principles, corporate social responsibilities, integrity regulations, and prohibited conducts of securities personnel). 2,275 employees had completed the above training for a total of 4,929 hours.	N/A

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Assessment criteria	Compliance (Note 1)			Deviation and causes of deviation from Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
(3) Does the company have any policy that prevents conflict of interest, and channels that facilitate the report of conflicting interests?	✓		(3) The Company has "Operational Procedures and Guidelines of Ethical Corporate Management Best Practice," "Conflict of Interest Prevention Guidelines for Business Personnel Undertaking Concurrent Duties" and other internal policies in place to govern conflict of interest. Furthermore, directors of the Company may express opinions and answer queries, but are required to disassociate from discussion and voting if the motions discussed present potential conflict of interest between them, their spouse, direct relative of 2nd degree or closer, their controlling or controlled entity, or the companies they represent and the Company. Details of such conflict also have to be recorded in the minutes of the current meeting. In addition, employees are required to report to the head of department and the responsible unit any situation that may put them or stakeholder at risk of improper gains when conducting business activities, for which the head of department is required to provide appropriate guidance.	N/A
(4) Has the Company implemented effective accounting and internal control systems for the purpose of maintaining business integrity? Are these systems reviewed by internal or external auditors on a regular basis?	✓		(4) The Company has designed its "Accounting System" and "Internal Control System" in accordance with "Regulations Governing the Preparation of Financial Reports by Securities Firms" and "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets" to enforce business integrity. These systems are audited regularly by the internal audit unit.	N/A
(5) Does the Company organize internal or external training on a regular basis to maintain business integrity?	✓		(5) The Company organizes integrity training on a regular basis. Employees are required to pass a post-course exam to be considered of having completed the course. In 2018, the Company organized online courses on a total of 17 different topics (including Financial Consumers Protection Act, fair customer treatment principles, corporate social responsibilities, integrity regulations, and prohibited conducts of securities personnel). 2,275 employees had completed the above training for a total of 4,929 hours.	N/A
3. Whistleblowing system				
(1) Does the Company provide incentives and means for employees to report misconducts? Does the Company assign dedicated personnel to investigate the reported misconducts?	✓		(1) During the 15th meeting of the 10th board of directors held on 11.22.2018, a set of "Whistleblower System Implementation Guidelines" was passed to support a corporate culture of integrity, transparency and progress and to encourage report of illegal conducts. The Auditing Department was assigned the responsibility to receive and investigate reported cases. Informants may raise reports through phone, e-mail or written mail.	N/A
(2) Has the Company implemented any standard procedures or confidentiality measures for handling reported misconducts?	✓		(2) Under the Company's "Whistleblower System Implementation Guidelines," all employees are able to report crime, fraud or any occurrence within the Company that is likely to constitute a violation of law. The types of cases that employees may report on include: crime, fraud or any occurrence likely to constitute a violation of law. The Auditing Department has been assigned the responsibility to handle and investigate reported cases. The Company is bound to provide the following protection for informants: (1) Confidentiality over the informant's identity and refrain from leaking any information that can be used to identify the informant. (2) Any substantiated violation of the confidentiality principle will be subject to review by the personnel review committee and treatment according to the Work Rules.	N/A

Assessment criteria	Compliance (Note 1)			Deviation and causes of deviation from Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
(3) Has the Company provided proper whistleblower protection?	✓		(3) The Company ensures that whistleblowers are not subjected to adverse treatment of any kind, such as dismissal, relief of duty, demotion, salary cut, or any loss of benefit that they are entitled to under laws, contracts or customary practices, as a result of the reports they raise.	N/A
4. Enhanced information disclosure (1) Has the company disclosed its integrity principles and progress onto its website and MOPS?	✓		(1) The Company's "Integrity Code of Conduct" and "Operating Procedures and Guidelines of Ethical Corporate Management Best Practice" have been disclosed on the Intranet, the Internet and on Market Observation Post System. Progress of integrity management has been disclosed on the Company's website.	N/A
5. If the Company has established Ethical Corporate Management Principles in accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies", describe any discrepancies between the principles and their implementation: The Company's operations, "Integrity Code of Conduct" and "Operational Procedures and Guidelines of Ethical Corporate Management Best Practice" are fully compliant with "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies."				
6. Other information relevant to understanding the Company's business integrity (e.g. review of business integrity principles) Integrity management rules and policies are reviewed and amended on an unscheduled basis. Once approved by the board of directors, they are disclosed via the Company's portal, intranet, and Market Observation Post System to give investors and employees an up-to-date understanding about the Company's integrity policy.				

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

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

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

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

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

## 3.3.9 Internal Control Systems

### 1. Statement of Internal Control System

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

Date: March 29, 2019

The following declaration has been made based on the 2018 self-assessment of the Company's internal control system:

1. The Company is aware that creation, implementation, and maintenance of internal control system are the responsibilities of its board of directors and management, and has duly established such a system. The purpose of internal control system is to provide reasonable assurances concerning the outcome and efficiency of the Company's operations (including profitability, business performance, and asset security), the reliability, timeliness, and transparency of reported information, and compliance and accomplishment of relevant regulations and goals.
2. There are inherent limitations to even the most well designed internal control system. As such, an effective internal control system can only reasonably assure the achievement of the three goals mentioned above. Furthermore, changes in the environment and circumstances may all affect the effectiveness of the internal control system. However, the internal control system of the Company features a self-monitoring mechanism that rectifies any deficiencies immediately upon discovery.
3. The Company evaluates the effectiveness of its internal control system design and execution using the criteria outlined in "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets" (hereinafter referred to as the "Regulations"). The criteria introduced by the "Regulations" consists of five major elements, each representing a different stage of internal control: 1. Control environment, 2. Risk assessment, 3. Control activities, 4. Information and communication, and 5. Monitoring activities. Each major element is further broken down into several subelements. Please refer to the "Regulations" for more details.
4. The Company has adopted the abovementioned criteria to validate the effectiveness of its internal control system design and execution.
5. Based on the assessments described above, the Company considers the design and execution of its internal control system to be effective as at December 31, 2018. This system (including the supervision and management of subsidiaries) has provided assurance with regards to: (1) the Company's business results and target accomplishments; (2) reliability, timeliness and transparency of reported financial information; and (3) compliance with relevant laws.
6. This statement constitutes part of the Company's annual report and prospectus, and shall be disclosed to the public. Any illegal misrepresentation or concealment in the public statement above are subject to the legal consequences described in Articles 20, 32, 171, and 174 of the Securities and Exchange Act.
7. This declaration was passed unanimously without objection by all 11 Directors present at the board meeting dated March 29, 2019.

Capital Securities Corporation

Chairman: Wang, Jiunn-Chih

President: Chia, Chung-Tao

2. If the internal control system was reviewed by an external CPA, the result of such review must be disclosed: The Company did not engage an external CPA to review its internal control system this year.

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

- (1) Decision letter issued by TPEX on January 15, 2019: The Company's Xisong Branch and sales personnel were found to have violated Article 18 of Regulations Governing Responsible Persons and Associated Persons of Securities Firms, Article 25 of TPEX's "Rules Governing Securities Trading" and the Internal Control System Standards. A fine of NT\$200,000 was imposed against the Company, whereas the sales representative at fault was suspended from business practice for 6 months, the clerk at fault was suspended from business practice for 1 month, and other managers and clerks were issued warnings.  
Improvements: The Internal Control System has been reviewed for improvement, while enhanced training is being implemented to enforce compliance and execution of the Internal Control System.

### **3.3.11 Major resolutions passed in shareholder meetings and board of director's meetings held in the most recent year up till the publication date of this annual report:**

#### **1. Major board of directors' resolutions and execution**

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

1. 10th meeting of the 10th board (01.29.2018)
  1. Agenda: Proposal to engage KPMG Taiwan as the Company's consultant and to assist the Company with the optimization of AML/CFT procedures.  
Resolution: The case was consulted by all the directors without objection.  
Execution: After the all directors ere consulted and passed without objection, appointment by resolution suggested.
2. 11th meeting of the 10th board (03.26.2018)
  1. Agenda: Proposal for the Company's 2017 employee and director remuneration.  
Resolution: The case was consulted by all the directors without objection.  
Execution: This motion was unanimously passed as proposed without objection from any director present at the meeting, and has been reported during the 2018 annual general meeting as required by policy.
  2. Agenda: The Company's 2017 earnings distribution proposal.  
Resolution: The case was consulted by all the directors without objection.  
Execution: This motion was unanimously passed as proposed without objection from any director present at the meeting, and had been raised for acknowledgment during the 2018 annual general meeting.
  3. Agenda: Revision of the Company's accounting system.  
Resolution: The case was consulted by all the directors without objection.  
Execution: After the all directors were consulted and passed without objection, and handled according to the resolution.

# III. Corporate Governance Report

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

Resolution: Director TING,HSUEH-WEN requested Chairman Wang to attend the meeting as a proxy, and did not participate in the resolution. The case was consulted by all the directors without objection.

Execution: Director TING,HSUEH-WEN requested Chairman Wang to attend the meeting as a proxy, and did not participate in the resolution. This motion was passed unanimously without objections from any director present at the meeting, and has been approved by the authority.

3. 5th extraordinary meeting of the 10th board (08.27.2018)

1. Agenda: Anti-money laundering and counter terrorism financing risk evaluation report for the Company for 2017.

Resolution: The case was consulted by all the directors without objection.

Execution: This motion was passed unanimously without objections from any director present at the meeting, and has been acknowledged by the Securities and Futures Bureau, Financial Supervisory Commission, on August 30, 2018.

2. Agenda: Proposal to insure against liabilities of the Company's directors, supervisors and key staff for 2018.

Resolution: The case was consulted by all the directors without objection.

Execution: This motion was passed unanimously without objections from any director present at the meeting, and insurance policy has been renewed to cover from September 1, 2018 to September 1, 2019.

4. 17th meeting of the 10th board (03.29.2019)

1. Agenda: Proposal for the Company's 2018 employee and director remuneration.

Resolution: The case was consulted by all the directors without objection.

Execution: This motion was unanimously passed as proposed without objections from any director present at the meeting, and will be reported during the 2019 annual general meeting.

2. Agenda: Proposal for the Company's 2018 earnings appropriation.

Resolution: The case was consulted by all the directors without objection.

Execution: This motion was unanimously passed as proposed without objections from any director present at the meeting, and will be raised for acknowledgment during the 2019 annual general meeting.

## 2. Execution progress

Resolutions of annual general meeting dated June 27, 2018:

	Item	Proposal	Voting results/Resolution	Execution
Approved items	No. 1	Acknowledgment of the Company's 2017 business report and year-end account closure.	1,531,298,773 votes in favor (of which 435,772,373 votes were exercised using the electronic method) and 94,348 votes against (of which 94,348 votes were exercised using the electronic method). 83,817,112 votes abstained (of which 83,817,112 were exercised using the electronic method); 0 votes were void, and 94,230,062 votes were not exercised. A statutory majority voted in favor, and the proposal was approved as proposed.	To proceed as resolved during the shareholders' meeting and announce accordingly.
	No. 2	Acknowledgment of the Company's 2017 earnings appropriation.	There were a total of 1,531,294,682 votes in favor (of which 435,772,282 votes were exercised using the electronic method) and 122,444 votes against (of which 122,444	Distribution has been completed according to resolution of the annual general meeting (baseline date for stock/cash dividends has been set at



			votes were exercised using the electronic method). A total of 83,793,107 votes were abstained (of which 83,793,107 were exercised using the electronic method), 0 votes were void, and 94,230,062 votes were not exercised. A statutory majority voted in favor, and the proposal was approved as proposed.	September 1, 2018): Cash dividends totaling NT\$433,814,597 (NT\$0.20 per share) were paid on September 28, 2018, whereas common share dividends totaling NT\$1,518,351,100 (NT\$0.70 per share) were paid on October 5, 2018.
Discussion items	No. 1	Issuance of new shares against capitalized 2017 earnings.	There were a total of 1,531,294,273 votes in favor (of which 435,767,873 votes were exercised using the electronic method) and 108,798 votes against (of which 108,798 votes were exercised using the electronic method). A total of 83,807,162 votes were abstained (of which 83,807,162 were exercised using the electronic method), 0 votes were void, and 94,230,062 votes were not exercised. A statutory majority voted in favor, and the proposal was approved as proposed.	151,835,110 new common shares were issued as per resolution of the annual general meeting based on shareholding information shown on the shareholder registry as of the stock dividends baseline date (September 1, 2018). 70 shares of stock dividends were issued per 1,000 shares held.
	No. 2	Removal of restrictions against competing business involvements by the Company's directors.	There were a total of 1,521,445,022 votes in favor (of which 425,918,622 votes were exercised using the electronic method) and 194,472 votes against (of which 194,472 votes were exercised using the electronic method). A total of 93,570,739 votes were abstained (of which 93,570,739 were exercised using the electronic method), 0 votes were void, and 94,230,062 votes were not exercised. A statutory majority voted in favor, and the proposal was approved as proposed.	To proceed as resolved. The resolution had been announced over the Market Observation Post System as material information on June 27, 2018.

### 3.3.12 Documented opinions or declarations made by directors or supervisors against board resolutions in the most recent year, up until the publication date of this annual report:

7th extraordinary meeting of the 10th board (12.17.2018)

1. Agenda: Proposal to invest 3,600,000 shares in Taiwan Stock Exchange Corporation (TWSE) for a sum of NT\$270,468,000.

Description: CDIB Capital Group plans to sell shares of TWSE at NT\$75.13 per share based on TWSE's net worth at the end of June 2018. This investment amounting to NT\$270,468,000 should increase the Company's cumulative shareholding position to about 0.58%. Judging by the amount of dividends distributed in the last 3 years, return on investment is estimated at 2%~3%, which is higher than the one-year time deposit rate of 1.035%~1.065% quoted by Bank of Taiwan.

Opinions raised by Director TING, HSUEH-WEN in writing:

Presence of Director TING, HSUEH-WEN in this meeting was represented by Director WANG, JIUNN-CHIH. Director WANG, JIUNN-CHIH had expressed the following opinions on behalf of Director TING, HSUEH-WEN with respect to this case:

- (1) The meeting notice period was too short.
- (2) Independent directors should express opinions on this case and have opinions reflected in meeting minutes.

Chairperson's explanation:

- (1) This board of directors meeting was convened under short notice because the investment proposal is time-sensitive, as the Company is required to complete settlement of TWSE's shares with CDIB Capital Group before the end of December 2018.
- (2) TWSE's Employee Welfare Committee had previously auctioned its holding of TWSE shares on August 29, 2018, to which the Company submitted its bid at NT\$100 per share and lost the bid to another securities firm that offered NT\$101.2 per share.
- (3) Directors and independent directors are able to fully express their opinions in board of directors' meetings and each director is entitled to express his/her opinions independently.



## III. Corporate Governance Report

The other 3 independent directors had already discussed this case thoroughly during the 2nd extraordinary meeting of the 1st Audit Committee held on December 10, 2018, and minutes of the above extraordinary Audit Committee has been included as one of the reported issues.

Resolution: Following the departure of auxiliary meeting participants, Director TING,HSUEH-WEN expressed objection and the motion was passed without objection from the other directors present at the meeting (10 seats including the chairperson).

### 2. Agenda: Proposal to invest NT\$100 million in "AppWorks Fund III Co., Ltd."

Description: "AppWorks Fund III Co., Ltd." is the 3rd venture capital fund founded by "AppWorks Capital Co., Ltd." The fund has been established to invest into new startup companies specialized in "artificial intelligence" and "block chain" in "Southeast Asia," which conforms with the Company's industry trend forecast. Based on an expected Net Current IRR of 24.7%, the Company estimates the final disposal and recovery value at 6.1 times the initial cost.

Opinions raised by Director TING,HSUEH-WEN in writing:

Presence of Director TING,HSUEH-WEN in this meeting was represented by Director WANG,JIUNN-CHIH. Director WANG,JIUNN-CHIH had expressed the following opinions on behalf of Director TING,HSUEH-WEN with respect to this case:

- (1) The meeting notice period was too short.
- (2) Rationality of venture capital funds is difficult to assess.
- (3) Independent directors should express opinions on this case and have opinions reflected in meeting minutes.

Chairperson's explanation:

- (1) This board of directors meeting was convened under short notice because the investment proposal is time-sensitive, as the investment capital has to be readied before the end of February 2019. Furthermore, the investment proposal is still subject to approval of the Financial Supervisory Commission after being resolved by the board.
- (2) New startup businesses generally lack the figures needed for more detailed analysis, and investment decisions such as these are evaluated mainly based on past performance and reputation of the management team. For this case, we have evaluated the performance and reputation of the management team in their previous 2 funds, and given the fact that the management is offering a complimentary incubation center that can be used to more closely counsel, observe and support the startup company, we consider the venture capital fund to have greater chances of success compared to others. Furthermore, potentials of this investment proposal have already been established by the Company's Investment Evaluation Team.
- (3) Directors and independent directors are able to fully express their opinions in board of directors' meetings and each director is entitled to express his/her opinions independently. The other 3 independent directors had already discussed this case thoroughly during the 2nd extraordinary meetings of the 1st Audit Committee held on December 10, 2018, and minutes of the above extraordinary Audit Committee has been included as one of the reported issues.

Resolution: Following the departure of auxiliary meeting participants, Director TING,HSUEH-WEN expressed objection and the motion was passed without objection from other directors present at the meeting (10 seats including the chairperson).

### 3.3.13 Resignation of relevant personnel in the last year, up till the publication date of this annual report

March.31.2019

Title	Name	DATE ONBOARD	DATE DEPARTED	REASONS FOR RESIGNATION OR DISCHARGE
President	CHAO,YUNG-FEI	12.20.2012	10.17.2018	Change of job duty

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

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

#### 1. Managers:

Title	Name	Course start time	Course end time	Organizer	Hours	Course Name
Vice President	LAI, AI-WEN	6.3.2018	6.3.2018	Taiwan Securities Association	6	On-job Training for AML/CTF Personnel and Officers
		6.30.2018	6.30.2018	Taiwan Academy of Banking and Finance	6	On-job Training for AML/CTF Personnel and Officers
		8.21.2018	8.21.2018	Trust Association of R.O.C	6	Trust Supervisors On-the-job Training
		8.27.2018	8.27.2018	Capital Securities Corporation	3	Corporate Social Responsibilities - Corporate Ethics in Profit Making - An Overview on Insider Trading
		11.16.2018	11.16.2018	Taiwan Securities Association	3	Entrusted with the purchase and sale of foreign securities laws and professional ethics
Senior Vice President	XIE, XIU-YING	1.25.2018	1.25.2018	Capital Securities Corporation	3	Analysis of Legal Procedures in Public Acquisition and Fraud Cases Involving Back Door Listing
		5.10.2018	5.10.2018	Taiwan Academy of Banking and Finance	4	Fintalent Development in the Digital Era
		6.28.2018	6.28.2018	Capital Securities Corporation	6	Statistical Analysis in Operating Procedure Review and Fraud Detection
Executive Vice President	HUANG, CHI-MING	3.9.2018	3.9.2018	Taiwan Stock Exchange Corporation	4	2018 Internal Control System and Standards Seminar
		4.12.2018	4.12.2018	Taiwan Securities Association	3.5	Announcement of Preliminary Conclusion for National Risk Assessment on Securities, Futures and Investment Trust/Consultant Industries
		5.21.2018	5.22.2018	Chinese National Futures Association	6	On-job Training of Futures Specialists
		5.25.2018	5.25.2018	Capital Securities Corporation	3	Bond Derivative Trading
		6.26.2018	6.26.2018	Taiwan Futures Exchange Corporation	3	2018 Futures Commission Merchant and Introducing Broker Internal Control and AML/CTF Seminar
		6.28.2018	6.28.2018	Capital Securities Corporation	6	Statistical Analysis in Operating Procedure Review and Fraud Detection
		8.9.2018	8.9.2018	Taiwan Securities Association, Chinese National Futures Association, Securities Investment Trust and Consulting Association	3.5	Announcement of National Risk Assessment Report on Securities, Futures and Investment Trust/Consultant Industries
		8.27.2018	8.27.2018	Capital Securities Corporation	3	Corporate Social Responsibilities - Corporate Ethics in Profit Making - An Overview on Insider Trading
		9.7.2018	9.7.2018	KPMG	3	2018 AML and CTF Training
		9.27.2018	9.27.2018	Capital Securities Corporation	6	Risk-based Internal Audit
Senior Vice President	LIN, SHU-CHUAN	1.22.2018	1.23.2018	Chinese National Futures Association	6	On-job Training of Futures Specialists
		3.26.2018	3.26.2018	Trust Association of R.O.C	3.5	Announcement of Preliminary Conclusion for National Risk Assessment
		4.16.2018	4.16.2018	Taiwan Securities Association	3	Seminar on Responses to "Regulation Governing Common Reporting and Due Diligence Review by Financial Institutions" for Securities Firms
		5.25.2018	5.25.2018	Capital Securities Corporation	3	Bond Derivative Trading
		6.7.2018	6.7.2018	Capital Securities Corporation	3	Introduction and Case Studies of the Financial Consumer Protection Act
		6.21.2018	6.21.2018	Taiwan Futures Exchange Corporation	3	Futures Commission Merchant and Introducing Broker Internal Control System Modification and AML/CTF Seminar
		6.28.2018	6.28.2018	Capital Securities Corporation	3	Statistical Analysis in Operating Procedure Review and Fraud Detection
		7.30.2018	7.30.2018	Taiwan Securities Association	3	AML and CTF Practices Seminar for Securities Firms
		8.21.2018	8.21.2018	Trust Association of R.O.C	6	AML Practice and Sharing of International Experience for Financial Institutions and Trust Enterprises
		9.27.2018	9.27.2018	Capital Securities Corporation	6	Risk-based Internal Audit
		10.19.2018	10.19.2018	Taiwan Financial Services Roundtable	4	AML/CTF Compliance Forum for the Financial Industry
Executive Vice President	FANG, CHIH-HUNG	11.17.2018	11.17.2018	Taiwan Securities Association	3	On-job Training of Foreign Currency Derivatives
		5.29.2018	5.29.2018	Trust Association of R.O.C	6	Trust Supervisors On-the-job Training
		8.27.2018	8.27.2018	Capital Securities Corporation	3	Corporate Social Responsibilities - Corporate Ethics in Profit Making - An Overview on Insider Trading
		11.22.2018	11.23.2018	Securities and Futures Institute	6	Model Management - Data Mining and Volatility Trading Strategies Workshop
Executive Vice President	TAN, TE-CHENG	11.25.2018	12.2.2018	Taiwan Academy of Banking and Finance	15	Introduction to New CPA Audit Report, Latest IFRS and Expected Credit Loss Model - For Risk Managers
		2.1.2018	2.1.2018	Taiwan Securities Association	3	Analysis and Practical Implications of Corporate M&A Laws
		3.9.2018	3.9.2018	Taipei Exchange	3.5	AML and CTF Seminar for Senior Officers of Securities Firms
		5.8.2018	5.8.2018	Taiwan Securities Association	8	On-job Training of Securities Specialists
		6.1.2018	6.1.2018	Taiwan Securities Association	3	Directors and Supervisors, Transfer of Equity Interests of Accounting Supervisors and Tax Planning Practice
		8.15.2018	8.15.2018	Taiwan Securities Association	3	High Net Worth Customers' Response to FATCA and CRS

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Title	Name	Course start time	Course end time	Organizer	Hours	Course Name
		8.27.2018	8.27.2018	Capital Securities Corporation	3	Corporate Social Responsibilities - Corporate Ethics in Profit Making - An Overview on Insider Trading
		9.5.2018	9.5.2018	Taiwan Securities Association	3	The Enterprise's Countermeasures and Countermeasures in the Face of Exchange Rate Fluctuations
Senior Vice President	HOU, LE-PING	2.26.2018	2.26.2018	Taipei Exchange	3.5	Local Adoption of International Financial Reporting Standards
		8.15.2018	8.15.2018	Taiwan Securities Association	3	High Net Worth Customers' Response to FATCA and CRS
		9.5.2018	9.5.2018	Taiwan Securities Association	3	The Enterprise's Countermeasures and Countermeasures in the Face of Exchange Rate Fluctuations
		11.14.2018	11.14.2018	Taiwan Securities Association	3	Practical Application of Forensic Accounting in Fraud Detection
		12.19.2018	12.19.2018	Taiwan Securities Association	3	Corporate Legal Strategies and Crisis Management Case Study
Executive Vice President	ZHANG, PEI-WEN	8.27.2018	8.27.2018	Capital Securities Corporation	3	Corporate Social Responsibilities - Corporate Ethics in Profit Making - An Overview on Insider Trading
Senior Vice President	WU, YUN-WEN	6.30.2018	8.19.2018	IT Training Co., Ltd.	56	FPGA and Digital IC Design
Senior Vice President	YAO, MING-QING	8.27.2018	8.27.2018	Capital Securities Corporation	3	Corporate Social Responsibilities - Corporate Ethics in Profit Making - An Overview on Insider Trading
Senior Vice Executive President	YANG, JIE-BIN	8.27.2018	8.27.2018	Capital Securities Corporation	3	Corporate Social Responsibilities - Corporate Ethics in Profit Making - An Overview on Insider Trading
Executive Vice President	ZHANG, JIA-WEN	1.25.2018	1.25.2018	Capital Securities Corporation	3	Analysis of Legal Procedures in Public Acquisition and Fraud Cases Involving Back Door Listing
		8.27.2018	8.27.2018	Capital Securities Corporation	3	Corporate Social Responsibilities - Corporate Ethics in Profit Making - An Overview on Insider Trading
		9.17.2018	9.17.2018	Capital Securities Corporation	3	Latest Company Act Amendments and Corporate Response
		10.23.2018	10.23.2018	Capital Securities Corporation	2	Latest Regulations, TWSE/TPEX Review Practices, High-tech Industry Review Focuses and Case Study
Executive Vice President	LAI, JUN-FU	5.8.2018	5.8.2018	Taiwan Securities Association	8	On-job Training of Securities Specialists
		8.27.2018	8.27.2018	Capital Securities Corporation	3	Corporate Social Responsibilities - Corporate Ethics in Profit Making - An Overview on Insider Trading
Vice President	Tseng, Mei-Ling	5.8.2018	5.8.2018	Taiwan Securities Association	8	On-job Training of Securities Specialists
		9.7.2018	9.7.2018	KPMG	3	2018 AML and CTF Training
Executive Vice President	LIN, YAN-FEN	5.8.2018	5.8.2018	Taiwan Securities Association	8	On-job Training of Securities Specialists
		11.10.2018	11.10.2018	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
		8.27.2018	8.27.2018	Capital Securities Corporation	3	Corporate Social Responsibilities - Corporate Ethics in Profit Making - An Overview on Insider Trading
Senior Vice President	CHEN, PEI-QI	12.18.2018	12.18.2018	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
Senior Vice President	WANG, JUAN-HUI	6.7.2018	6.7.2018	Capital Securities Corporation	3	Introduction and Case Studies of the Financial Consumer Protection Act
		7.7.2018	7.7.2018	Taiwan Securities Association	6	On-job Training for AML/CTF Personnel and Officers
		7.29.2018	7.29.2018	Taiwan Securities Association	6	On-job Training for AML/CTF Personnel and Officers
		8.27.2018	8.27.2018	Capital Securities Corporation	3	Corporate Social Responsibilities - Corporate Ethics in Profit Making - An Overview on Insider Trading
		9.7.2018	9.8.2018	Chinese National Futures Association	12	On-job Training of Futures Specialists
		10.13.2018	10.13.2018	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
		11.21.2018	11.21.2018	Trust Association of R.O.C	6	Trust Supervisors On-the-job Training
Senior Vice President	ZHENG, SHU-FEN	3.2.2018	3.2.2018	Trust Association of R.O.C	3	Trust Supervisors On-the-job Training
		3.27.2018	3.28.2018	Taiwan Securities Association	6	Fund Sales
		5.25.2018	5.25.2018	Capital Securities Corporation	3	Bond Derivative Trading
		8.27.2018	8.27.2018	Capital Securities Corporation	3	Corporate Social Responsibilities - Corporate Ethics in Profit Making - An Overview on Insider Trading
Executive Vice President	MA, JIA-HUAN	3.7.2018	3.8.2018	Taiwan Securities Association	6	Wealth Management Business onthe-job training
		5.8.2018	5.8.2018	Taiwan Securities Association	8	On-job Training of Securities Specialists
		8.27.2018	8.27.2018	Capital Securities Corporation	3	Corporate Social Responsibilities - Corporate Ethics in Profit Making - An Overview on Insider Trading
Executive Vice President	WENG, CHIN-NENG	3.7.2018	3.8.2018	Taiwan Securities Association	6	Wealth Management Business onthe-job training
		5.8.2018	5.8.2018	Taiwan Securities Association	8	On-job Training of Securities Specialists
		8.27.2018	8.27.2018	Capital Securities Corporation	3	Corporate Social Responsibilities - Corporate Ethics in Profit Making - An Overview on Insider Trading
Senior Vice President	ZHENG, YU-LING	2.26.2018	2.27.2018	Chinese National Futures Association	6	On-job Training of Futures Specialists
		3.23.2018	3.24.2018	Taiwan Securities Association	15	On-job Training of Securities Specialists

## 2.Directors and supervisors:

Title	Name	Date	Organizer	Course Name	Training hours
Chairman	Yin Feng Enterprise Co., Ltd. Representative: WANG,JIUNN-CHIH	2.22.2018	Taiwan Stock Exchange Corporation	2018 AML Seminar for Securities Firms	3
		3.5.2018	Taiwan Stock Exchange Corporation	Electronic Voting and Corporate Value Improvement Forum	6
		4.16.2018	Association of Taiwan Listed Companies	Role and Function of Corporate Governance in Capital Market	2
		8.27.2018	Dharma Drum Mountain Humanities and Social Improvement Foundation	Corporate Ethics in Profit Making - An Overview on Insider Trading	3
Director	Yin Feng Enterprise Co., Ltd. Representative : LIU,CHING-TSUN	8.15.2018	Taiwan Securities Association	High Net Worth Customers' Response to FATCA and CRS	3
		8.27.2018	Dharma Drum Mountain Humanities and Social Improvement Foundation	Corporate Ethics in Profit Making - An Overview on Insider Trading	3
Director	Tai Chun Enterprise Co., Ltd. Representative: CHANG,CHIH-MING	8.27.2018	Dharma Drum Mountain Humanities and Social Improvement Foundation	Corporate Ethics in Profit Making - An Overview on Insider Trading	3
Vice Chairman	Tai Chun Enterprise Co., Ltd. Representative: CHAO,YUNG-FEI	10.30.2018	Taiwan Corporate Governance Association	Internal Audit and Control from Directors' and Supervisors' Perspective	3
		11.2.2018	Taiwan Corporate Governance Association	Corporate Internal Control and Risk Management	3
Director	Tai Chun Enterprise Co., Ltd. Representative: TSAI,I-CHING	8.27.2018	Dharma Drum Mountain Humanities and Social Improvement Foundation	Corporate Ethics in Profit Making - An Overview on Insider Trading	3
		10.4.2018	Securities and Futures Institute	Case Studies on Directors'/Supervisors' Breach of Trust and Special Breach of Trust	3
Director	San He Industrial Co., Ltd. Representative: CHU,HAI-YING	8.27.2018	Dharma Drum Mountain Humanities and Social Improvement Foundation	Corporate Ethics in Profit Making - An Overview on Insider Trading	3
		10.3.2018	Securities and Futures Institute	Corporate Strategy and KPI	3
Director	Hung Lung Enterprise Co., Ltd. Representative: KUO,YUH-CHYI	7.18.2018	Taiwan Securities Association	Corporate Governance and Financial Information Transparency	3
		7.24.2018	Securities and Futures Institute	Compliance Propaganda on Share Transfers by Insiders of Listed and Unlisted Companies	3
		8.27.2018	Dharma Drum Mountain Humanities and Social Improvement Foundation	Corporate Ethics in Profit Making - An Overview on Insider Trading	3
		10.3.2018	Taiwan Securities Association	Exploring Financial Reports' window dressing and fraud from Problem Enterprises	3
Independent Director	SHEA,JIA-DONG	7.13.2018	Corporate Operation Association of the Republic of China	Corporate M&A Framework and Case Study	3
		7.18.2018	Taiwan Securities Association	Corporate Governance and Financial Information Transparency	3
		7.24.2018	Securities and Futures Institute	Compliance Propaganda on Share Transfers by Insiders of Listed and Unlisted Companies	3
		8.27.2018	Dharma Drum Mountain Humanities and Social Improvement Foundation	Corporate Ethics in Profit Making - An Overview on Insider Trading	3
Independent Director	LIN,HSIN-HUI	8.27.2018	Dharma Drum Mountain Humanities and Social Improvement Foundation	Corporate Ethics in Profit Making - An Overview on Insider Trading	3
		10.5.2018	Taiwan Academy of Banking and Finance	Trust Supervisors (Including In-service Personnel) Workshop	3
		11.8.2018	Taiwan Securities Association	Exploring Financial Reports' window dressing and fraud from Problem Enterprises	3
Independent Director	HWANG,JYH-DEAN	7.13.2018	Corporate Operation Association of the Republic of China	Corporate M&A Framework and Case Study	3
		7.19.2018	Corporate Operation Association of the Republic of China	Defense Against Non-consensual Acquisition and Responsibilities of the Person-in-charge	3

# III. Corporate Governance Report

## 3.3.15. Qualification of personnel associated with financial transparency

Name of certification	Auditing Department (26 people)	Finance Department (40 people)	Risk Management Office (6 people)
Securities Specialist	7	12	1
Senior Securities Specialist	26	17	5
Margin trading and short sale	14	3	1
Securities lending	2		
Futures specialist	21	6	3
Securities investment trust and consulting professional	13	11	
Securities investment trust and consulting laws (including self-governance rules)	1	2	
Bill finance specialist	4	1	
Life insurance representative	13	5	1
Investment-linked insurance representative	7	1	
Non-life insurance representative	9	1	
Qualification for non-investment foreign currency insurance products	7	2	
Wealth management specialist	18	2	
Stock affair specialist	1		
Bonds specialist	1		
Trust specialist	13	7	1
Trust manager	1		1
Trust laws	1	2	
Structured instrument specialist	1		1
Bookkeeper		3	
First-time internal auditor seminar	6		
Bank internal control and internal audit		2	
Advanced securities capital adequacy ratio calculation and reporting personnel	11	21	6
Chartered Financial Analyst (CFA)			1
Financial Risk Manager (FRM)			4
Derivative sales personnel	1		
Foreign Currency Derivative Course	6	3	1
Qualification for spot foreign currency transactions in a securities firm		7	
Proficiency test for junior foreign exchange specialist		1	
Certified Anti-Money Laundering Specialist (CAMS)	1		
AML and CTF Specialist Exam	2		
Anti-money laundering and countering terrorism financing 12-hour courses	4		
Anti-money laundering and countering terrorism financing 24-hour courses	4		
Total	195	109	26

### 3.4. Disclosure of CPAs' remuneration :

#### 3.4.1 Audit remuneration brackets table

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

Amount Unit: NTD thousands

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

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

In 2018, the Company paid non-audit remuneration totaling NT\$130,000 to auditors, accounting firm and related businesses (for capitalization of earnings in 2017); this amount did not exceed one-quarter of audit remuneration.

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

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

### 3.5. Change of CPA: None.

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

## 3.7. Transfer and Pledge of shares by directors, supervisors, managers and major shareholders

Title	Name	2018		Year-to-date as at April 26 2018	
		Increase (decrease) in shares held	Increase (decrease) in shares collateralized	Increase (decrease) in shares held	Increase (decrease) in shares collateralized
Chairman	Yin Feng Enterprise Co., Ltd. Representative: WANG,JIUNN-CHIH	525,982	0	0	0
Vice Chairman	Tai Chun Enterprise Co., Ltd. Representative: CHAO,YUNG-FEI	557,742	0	0	0
Director	Yin Feng Enterprise Co., Ltd. Representative: LIU CHING-TSUN	525,982	0	0	0
Director	Tai Chun Enterprise Co., Ltd. Representative: CHANG,CHIH-MING	557,742	0	0	0
Director	Tai Chun Enterprise Co., Ltd. Representative: TSAI,I-CHING	557,742	0	0	0
Director	Hung Lung Enterprise Co., Ltd. Representative: KUO,YUH-CHYI	3,328,028	0	0	0
Director	Kwang Hsing Industrial Co., Ltd. Representative: TING,HSUEH-WEN	648,334	0	0	0
Director	San He Industrial Co., Ltd. Representative: CHU,HAI-YING	249,333	0	0	0
Independent Director	SHEA,JIA-DONG	0	0	0	0
Independent Director	LIN,HSIN-HUI	0	0	0	0
Independent Director	HWANG JYH-DEAN	0	0	0	0
Chairman	WANG,JIUNN- CHIH	0	0	0	0
Vice Chairman	CHAO,YUNG-FEI	0	0	0	0
President	CHIA,CHUNG-TAO	80,000	0	0	0
Executive Vice President	MA,JIA-HUAN	80,000	0	20,000	0
Executive Vice President	YANG,JIE-BIN	39	0	0	0
Executive Vice President	TAN,TE-CHENG	(38,530)	0	0	0
Executive Vice President	WENG,CHIN-NENG	1,448	0	0	0
Executive Vice President	HUANG,CHI-MING	21,009	0	0	0
Executive Vice President	ZHANG,PEI-WEN	0	0	0	0
Executive Vice President	LIN,YAN-FEN	0	0	0	0
Executive Vice President	ZHANG,JIA-WEN	23	0	0	0
Executive Vice President	LAI JUN-FU	26,138	0	0	0
Executive Vice President	FANG,CHIH-HUNG	0	0	0	0



Title	Name	2018		Year-to-date as at April 26 2018	
		Increase (decrease) in shares held	Increase (decrease) in shares collateralized	Increase (decrease) in shares held	Increase (decrease) in shares collateralized
Executive Vice President	CHEN,MING-SHING	0	0	0	0
Senior Vice President	ZHENG,YU-LING	29,245	0	0	0
Senior Vice President	XIE,YU-LIN	59,462	0	0	0
Senior Vice President	CHANG,TUN-FU	9,629	0	0	0
Senior Vice President	WENG,HE-MING	30	0	0	0
Senior Vice President	CHEN,PEI-QI	100	0	0	0
Senior Vice President	WANG,YA-FANG	0	0	0	0
Senior Vice President	HOU,LE-PING	38,501	0	0	0
Senior Vice President	PAN,HUI-MEI	11,003	0	0	0
Senior Vice President	LI,MU-XIAN	0	0	0	0
Senior Vice President	WANG,JUAN-HUI	538	0	0	0
Senior Vice President	QIU,JIAN-HUA	4,928	0	0	0
Senior Vice President	LIN,JING-HUA	17,192	0	0	0
Senior Vice President	ZHENG,SHU-FEN	16,934	0	0	0
Senior Vice President	XIE,XIU-YING	0	0	0	0
Senior Vice President	LIN,SHU-CHUAN	(9,519)	0	0	0
Senior Vice President	ZHAO,FENG-RONG	0	0	0	0
Senior Vice President	LIN,BO-WEI	0	0	0	0
Senior Vice President	HUANG,ZHI-HUA	19,094	0	0	0
Senior Vice President	WU,YUN-WEN	0	0	0	0
Senior Vice President	CHEN,YI-RU	17,608	0	0	0
Senior Vice President	LIU,SHU-RU	1,470	0	0	0
Senior Vice President	CHEN,YI- REN	45	0	0	0
Senior Vice President	YE,YI-LING	39	0	0	0
Senior Vice President	YAO,MING-QING	0	0	0	0
Senior Vice President	XU,TSUI-YUN	217	0	0	0

# III. Corporate Governance Report

Title	Name	2018		Year-to-date as at April 26 2018	
		Increase (decrease) in shares held	Increase (decrease) in shares collateralized	Increase (decrease) in shares held	Increase (decrease) in shares collateralized
Senior Vice President	ZHANG, LI-FEN	0	0	0	0
Senior Vice President	CHIU, TSAN-HSI	0	0	0	0
Senior Vice President	ZHANG, JING-YAO	0	0	0	0
Senior Vice President	YE, YU-ZHEN	692	0	0	0
Senior Vice President	CHEB, TING-YUAN	0	0	0	0
Manager	CHEN, LI-ZHUN	21,880	0	0	0
Manager	CHEN, ZHI-ZHONG	34	0	0	0
Manager	TANG, WEN-JI	0	0	0	0
Manager	LIN, JING-WEN	0	0	0	0
Manager	KAI, SHI-HUA	0	0	0	0
Manager	HUANG, QING-YAN	0	0	0	0
Manager	LIN, HUI-JING	2,396	0	0	0
Manager	YANG, ZHI-KAI	0	0	0	0
Manager	XU, HONG-BO	1,322	0	0	0
Manager	HAI, YAN	0	0	0	0
Manager	SU, RUI-YI	15	0	0	0
Manager	PENG, GUI-CONG	0	0	0	0
Manager	HUANG, MEI-ZHU	2,786	0	0	0
Manager	YU, XIAO-MEI	0	0	0	0
Manager	XU, LI-FEN	817	0	(12,000)	0
Manager	WU, HONG-ZHI	0	0	0	0
Manager	ZHENG, YU-CHANG	70	0	0	0
Manager	ZHANG, TIAN-MU	34	0	0	0
Manager	ZHAO, ZHI-MING	448	0	0	0
Manager	WEI, WEN-JIN	29	0	0	0
Manager	LI, XIANG-JUN	0	0	0	0
Manager	ZHU, DE-REN	(8,078)	0	0	0
Manager	CAO, HOU-SHENG	0	0	0	0
Manager	TIAN, DA-ZHONG	0	0	0	0
Manager	ZHANG, XUE-HE	734	0	0	0
Manager	CAI, QING-FEN	574	0	0	0
Manager	XU, JUN-YANG	0	0	0	0
Manager	CHEN, XUAN-ZHI	0	0	0	0
Manager	XIE, JIA-JUN	0	0	0	0
Manager	LIN, JIANG-HE	757	0	0	0
Manager	YANG, YAN-QIU	796	0	0	0
Manager	ZHANG, REN-FANG	0	0	0	0
Manager	WANG, WAN-QI	0	0	0	0

Title	Name	2018		Year-to-date as at April 26 2018	
		Increase (decrease) in shares held	Increase (decrease) in shares collateralized	Increase (decrease) in shares held	Increase (decrease) in shares collateralized
Manager	CHEN,ZHI-SHAN	0	0	0	0
Manager	CHEN,MEI-RU	0	0	0	0
Manager	CHEN,ZHENG-YANG	0	0	0	0
Manager	LAI,AI-WEN	1	0	0	0
Manager	DENG,XUE-REN	0	0	0	0
Manager	YANG,KUN-LONG	0	0	0	0
Manager	ZHANG,MING-YI	0	0	0	0
Manager	MA,SHAO-HONG	0	0	0	0
Manager	WEI,YU-MEI	0	0	0	0
Manager	LIN,JING-ZHI	0	0	0	0
Manager	WU,ZHENG-HAN	0	0	0	0
Manager	HUANG,YI-LIAN	0	0	0	0
Manager	YEN,HSIOU-RONG	0	0	0	0
Manager	WU,CHEN-YI	0	0	0	0
Manager	WU,CHEN-MING	0	0	0	0
Manager	RUAN,YUAN-CHUN	0	0	0	0
Manager	PENG,XIAN-HE	0	0	0	0
Manager	HUANG,MIU-IN	30	0	0	0
Manager	ZHANG,ZHE-MING	0	0	0	0
Manager	WU,ZHI-WE	0	0	0	0
Manager	WU,QING-YAN	0	0	0	0
Manager	XIE,HUI-YA	5,435	0	0	0
Manager	HUANG,CHONG-JIE	0	0	0	0

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

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

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

Note 4: Departed on 2018/4/1.

# III. Corporate Governance Report

## 3.8. Relationships among top-10 shareholders

Name (Note 1)	SELF SHAREHOLDING		Shares held by spouse and underage children		SHARES HELD IN THE NAMES OF OTHERS		Relationship characterized as spouse or relative of second degree or closer among the top-10 shareholders. (Note 3)		Remarks
	Shares Held	Shareholding	Shares Held	Shareholding	Shares Held	Shareholding	Name	Relation	
Hontai Life Insurance Co., Ltd. Representative: Lu,Huan-Yi	89,702,749	3.87%	0	0.00%	0	0.00%	-	-	-
Fu Ding Investment Co., Ltd. Representative: Liao,Chien-Hung	76,405,643	3.29%	0	0.00%	0	0.00%	-	-	-
Bao Zuo Investment Co., Ltd. Representative: Liao,Chien-Hung	75,871,574	3.27%	0	0.00%	0	0.00%	-	-	-
Bao Sheng Investment Co., Ltd. Representative: Chang,Yen-Keng	72,313,817	3.12%	0	0.00%	0	0.00%	-	-	-
Tai Sheng Investment Co., Ltd. Representative: Yang,Shu-Huei	71,454,831	3.08%	0	0.00%	0	0.00%	-	-	-
Hong Chia Investment Co., Ltd. Representative: Hsieh,Yu-Ting	64,689,914	2.79%	0	0.00%	0	0.00%	-	-	-
Min Huei Enterprise Co., Ltd. Representative: Wang,Huei-Chin	61,245,459	2.64%	0	0.00%	0	0.00%	-	-	-
Bao Qing Investment Co., Ltd. Representative: Yang,Shu-Huei	60,338,725	2.60%	0	0.00%	0	0.00%	-	-	-
Hung Lung Enterprise Co., Ltd. Representative: Liao,Chien-Hung	50,871,288	2.19%	0	0.00%	0	0.00%	-	-	-
Vanguard Emerging Markets Stock Index Fund, A Series of Vanguard International Equity Index Fund	45,667,593	1.97%	0	0.00%	0	0.00%	-	-	-

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

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

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

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

Unit: shares; %  
March 31, 2019

Invested business (Note)	Held by the Company		Held by Directors, Supervisors, managers, and directly or indirectly controlled enterprises		Aggregate ownership interest	
	Shares Held	Shareholding percentage	Shares Held	Shareholding percentage	Shares Held	Shareholding percentage
Capital Investment Management Corporation	7,000,000	100.00%	-	-	7,000,000	100.00%
CSC International Holdings Ltd.	45,000,000	100.00%	-	-	45,000,000	100.00%
Capital Futures Corporation	99,182,845	56.21%	419,844	0.24%	99,602,689	56.45%
Capital Insurance Advisory Corp.	500,000	100.00%	-	-	500,000	100.00%
Capital Insurance Agency Corp.	740,000	100.00%	-	-	740,000	100.00%
CSC Venture Capital Corporation	100,000,000	100.00%	-	-	100,000,000	100.00%
Taiwan International Securities (B.V.I.) Corporation	300	100.00%	-	-	300	100.00%
Taiwan International Securities Investment Consulting Corp.	999,200	99.92%	100	0.01%	999,300	99.93%
Capital Investment Management Corp.	33,067,507	20.00%	15,901,740	9.62%	48,969,247	29.62%

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

## IV. Funding Status

### 4.1. Capital and outstanding shares

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

##### 1. Source of capital

Unit: thousand shares / NT\$ thousands

Year /month	Issued price (NTD)	Authorized capital		Paid-up capital		Remarks		
		Shares Held	Amount	Shares Held	Amount	Sources of share capital	Paid in properties other than cash	Other
June 2011	10	3,000,000	30,000,000	2,334,062	23,340,621	New shares totaling NT\$283,395,000 were issued for merger	None	Note 1
October 2011	10	3,000,000	30,000,000	2,369,073	23,690,730	Capitalization of retained earnings totaling NT\$350,109,000	None	Note 2
November 2015	10	3,000,000	30,000,000	2,319,073	23,190,730	Reduced share capital by NT\$500,000,000	None	Note 3
February 2016	10	3,000,000	30,000,000	2,269,073	22,690,730	Reduced share capital by NT\$500,000,000	None	Note 4
February 2017	10	3,000,000	30,000,000	2,169,073	21,690,730	Reduced share capital by NT\$1,000,000,000	None	Note 5
September 2018	10	3,000,000	30,000,000	2,320,908	23,209,081	Capitalization of retained earnings totaling NT\$1,518,351,000	None	Note 6

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

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

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

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

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

Note 6: Approved under Letter No. Jing-Shou-Shang-10701117580 with acknowledgment from Securities and Futures Bureau, Financial Supervisory Commission, on July 12, 2018 and Ministry of Economic Affairs on September 25, 2018.

##### 2. Share categories

Unit: thousand shares

Share category	Authorized capital			Remarks
	Outstanding shares (public listed)	Unissued shares	Total	
Registered common shares	2,320,908	679,092	3,000,000	-

3. Information relevant to the aggregate reporting policy: Not applicable.

#### 4.1.2. Shareholder Structure

April 26, 2019

Shareholder Structure Quantity	Government Agencies	Financial Institutions	Other Institutional Investors	Domestic Natural Persons	Foreign Institutions & Individuals	Total
Number of shareholders	3	8	334	87,220	298	87,863
Shares held	10,302,725	144,984,156	1,017,249,001	706,855,196	441,517,019	2,320,908,097
Shareholding percentage	0.44%	6.25%	43.83%	30.46%	19.02%	100.00%

Note: All TWSE/TPEX/Emerging Stock Market companies listing for the first time are required to disclose Chinese investors' holding interests. A Chinese investor refers to an individual, corporation, organization, or institution of Mainland origin, or any company owned by the above party in a foreign location, as defined in Article 3 of Regulation Governing Mainland Residents' Investment in Taiwan.

#### 4.1.3. Shareholding Distribution Status

(Face value: NT\$10) April 26, 2019

Class of Shareholding	Number of Shareholders	Shares held	Shareholding percentage
1 ~ 999	47,075	8,489,738	0.37%
1,000 ~ 5,000	22,109	50,258,409	2.17%
5,001 ~ 10,000	7,369	50,719,400	2.19%
10,001 ~ 15,000	3,651	43,587,657	1.88%
15,001 ~ 20,000	1,491	26,002,497	1.12%
20,001 ~ 30,000	2,086	50,066,215	2.16%
30,001 ~ 40,000	963	33,116,475	1.43%
40,001 ~ 50,000	584	26,100,580	1.13%
50,001 ~ 100,000	1,231	84,811,131	3.65%
100,001 ~ 200,000	633	86,377,553	3.72%
200,001 ~ 400,000	310	86,101,326	3.71%
400,001 ~ 600,000	103	49,352,392	2.12%
600,001 ~ 800,000	47	31,667,134	1.36%
800,001 ~ 1,000,000	42	37,849,292	1.63%
1,00,001 or over (based on Company's self-classification)	169	1,656,408,298	71.36%
Total	87,863	2,320,908,097	100.00%

#### 4.1.4. List of Major Shareholders

Name of major shareholder	Shares held	Shareholding percentage
Hontai Life Insurance Co., Ltd.	89,702,749	3.87%
Fu Ding Investment Co., Ltd.	76,405,643	3.29%
Bao Zuo Investment Co., Ltd.	75,871,574	3.27%
Bao Sheng Investment Co., Ltd.	72,313,817	3.12%
Tai Sheng Investment Co., Ltd.	71,454,831	3.08%
Hong Chia Investment Co., Ltd.	64,689,914	2.79%
Min Huei Enterprise Co., Ltd.	61,245,459	2.64%
Bao Qing Investment Co., Ltd.	60,338,725	2.60%
Hung Lung Enterprise Co., Ltd.	50,871,288	2.19%
Vanguard Emerging Markets Stock Index Fund, A Series of Vanguard International Equity Index Fund	45,667,593	1.97%



## IV. Funding Status

### 4.1.5. Information relating to market price, net worth, earnings, and dividends per share for the last 2 year and the current year (2019) up till March 31:

Item \ Year			2017	2018	Year-to-date as at March 31 (2019) (Note 8)
Market price per-share (Note 1)	Highest		12.20	12.30	9.75
	Lowest		8.88	8.86	8.87
	Average		10.14	10.68	9.44
Net worth per-share (Note 2)	Before distribution		14.49	14.21	-
	After distribution		14.29	-	-
Earnings per-share	Weighted average outstanding shares (in thousands)		2,169,193	2,320,908	2,320,908
	Earnings per-share	Before adjustment	1.33	0.61	-
		After adjustment	1.25	-	-
Dividend per-share	Cash dividend		0.2	-	-
	Stock dividend	From earnings	0.7	-	-
		From capital surplus	0	-	-
	Cumulative undistributed dividends (Note 4)		0	-	-
Investment return analysis	P/E ratio (Note 5)		7.62	17.51	-
	Price to dividend ratio (Note 6)		50.70	-	-
	Cash dividend yield (Note 7)		1.97%	-	-

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

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

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

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

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

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

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

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

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

#### 4.1.6. Dividend policy and execution

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

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

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.

2. Dividends distribution proposed for the next shareholder meeting:

A proposal was made to distribute cash dividends totaling NT\$928,363,239 (NT\$0.40 per share) from the Company's 2018 earnings. The amount of cash dividends paid to each shareholder will be truncated to the nearest dollar. Cash dividends baseline date will be determined by the board of directors once the resolution is passed during a shareholders' meeting.

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

#### 4.1.8. Employee/director/supervisor remuneration:

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

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

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

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

- (1) Basis of calculation for share-based employee/director/supervisor remuneration and stock dividends: Pursuant to the Company's Articles of Incorporation, profits concluded in a financial year are subject to employee remuneration of 0.6% ~ 2% and director remuneration of no more than 3%. If there is accumulated deficit, specific amount shall be retained to cover. The Company's 2018 employee/director/supervisor remuneration were estimated by multiplying pre-tax profit the given year (before employee/director remuneration) with the aforementioned remuneration percentages stated in the Articles of Incorporation.

- (2) The number of shares distributed as share-based payment is calculated based on closing price one day before the shareholders' resolution date, while taking into consideration the effects of cash and stock dividends.

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

## IV. Funding Status

### 3. Remuneration resolved by the board of directors:

#### (1) Employee/director/supervisor remuneration, in cash or in shares. (in cash or in shares) and expenses previously recognized:

On March 29, 2019, the board of directors passed a resolution to distribute employee remuneration totaling NT\$14,586,628 and director remuneration totaling NT\$24,247,902 in cash. The difference between the amount of remuneration to employees and directors resolved by the Board of Directors and the estimated amount recognized as expense of the fiscal year is as follows:

Item (2018)	Proposed amount of distribution resolved by the Board of Directors (A)	Estimated amount recognized as expense of the fiscal year (B)	Difference (A - B)	Cause and treatment of difference
Employee remuneration - stock	0	0	0	-
Employee remuneration - cash	14,586,628	20,970,750	(6,384,122)	Previous estimates were made based on unaudited profit and loss; the difference will be treated as a change of accounting estimate and adjusted to 2019 profit and loss.
Directors' remuneration	24,247,902	34,951,250	(10,703,348)	

#### (2) Percentage of employee remuneration paid in shares, relative to net income and total employee remuneration shown in current standalone financial statements: 0% (employee profit-sharing was entirely paid in cash).

### 4. Actual payment of employee/director remuneration in the previous year (2017), including the number of shares allocated, the sum of cash paid, and the price at which shares were issued), and any differences from the figures estimated (explain the amount, the cause, and treatment of such discrepancies):

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

#### 4.1.9. Shares repurchased by the Company in the most recent year and up till the publication date: None.

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

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

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

#### 4.5. Employee stock options: None.

#### 4.6. Employee restricted shares: None.

#### 4.7. New shares issued for merger or acquisition: None.

#### 4.8. Progress on planned use of capital: None.

## V. Business Performance

### 5.1. Business activities

#### 5.1.1. Scope of business

##### (1) Principal business activities

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

##### (2) Weight of business activities in the last 3 years

Unit: NTD thousands

Year	2016		2017		2018	
Product category	Amount	%	Amount	%	Amount	%
Brokerage	2,742,954	65	3,584,085	54	3,828,016	78
Proprietary trading	1,227,556	29	2,729,602	41	810,967	16
Underwriting	271,028	6	307,545	5	283,678	6
Total	4,241,538	100	6,621,232	100	4,922,661	100

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

Service categories	Main purpose or function
Brokerage Department	Consigned trading of domestic and foreign securities, futures and options approved by the authority, settlement, and offering of margin trading, short-selling and securities borrowing/lending services.
Wealth Management Department	Offering of services such as wealth management planning, asset allocation, investment advisory, management/usage/disposal of entrusted property, and execution/acceptance of investment capital.
Investment Banking Department	Provides guidance to businesses on fundraising solutions such as public offering, TWSE/TPEX listing, cash issue, corporate bond issue, TDR issue and securities underwriting, and comprehensive investment banking services including corporate M&A, business sale, equity investment, valuation, privatization, finance planning and services as an offshore securities unit (OSU).
Proprietary Trading Department	Trades securities in own capacity at TWSE, TPEX and any foreign securities exchanges permitted by the authority, and plays the role of market maker for securities underwritten by the underwriting department.
Fixed Income Department	Trades bonds, short-term notes and repurchase agreements, and provides customers with timely and accurate information and consultation service on bond investments.
Derivatives Department	Issuance and trading of derivatives, and offering of investment and advisory services on derivatives.
Registrar Agency Department	Provides share administration service for TWSE/TPEX listed companies and public companies.

## V. Business Performance

### (4) New product (service) development plans

1. Adopt segmented marketing strategy; incorporate the use of digital platform and offer tiered services and precision marketing depending on customers' attributes for consistent growth of assets under management.
2. Introduce a "Capital Master Account" that accommodates a comprehensive range of services from securities, sub-brokerage, trust, derivatives to bonds to make settlement simple and capital utilization more efficient for customers.
3. Grow the existing Hong Kong platform and sub-brokerage services to provide customers with closer access to overseas securities markets including Hong Kong stock market, Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and U.S. stock market, and increase income contribution from sub-brokerage and Hong Kong.
4. In response to recent deregulations of the Financial Supervisory Commission, more ETNs will be issued to expand customers' investment horizon.
5. Apply innovative thinking and introduce new financial products or services in a safe, controlled Fintech experimental environment, and submit entry request into the financial regulatory sandbox.

### 5.1.2. Industry overview:

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

The overviewing of the securities market in 107 is detailed in the table below. The trade volume of stocks and stock warrants increased over the previous year. Market-wise, trade volume had increased by 24.67% in TWSE and 5.76% in the OTC. Overall, trade volume of equity and debt instruments had increased by 11.89% compared to the previous year.

Securities Market Trade Volume in the Last 3 Years

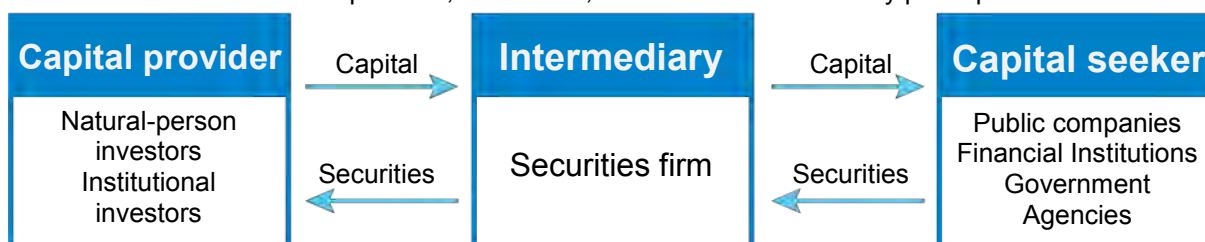
Unit: NTD billions

Year	2016	2017	2018	Increase/decrease in 2018
TWSE-listed				
Shares	16,771.14	23,972.24	29,608.87	5,636.63
ETF	1,707.40	1,231.73	1,834.05	602.32
Beneficiary securities	7.11	4.26	4.22	-0.04
Stock warrants	425.54	584.47	712.55	128.08
TDR	4.43	6.18	2.68	-3.50
Subtotal	18,915.62	25,798.88	32,162.37	6,363.49
TPEX-listed				
Shares	5,050.30	7,683.50	8,145.50	462.00
Stock warrants	128.50	226.50	211.70	-14.80
ETF	0.10	68.10	316.80	248.70
Bond	49,696.50	45,815.30	48,217.50	2,402.20
Subtotal	54,875.40	53,793.40	56,891.50	3,098.10
Total	73,791.02	79,592.28	89,053.87	9,461.59
Excluding bonds	24,094.52	33,776.98	40,836.37	7,059.39

Source: TWSE, TPEX.

Ongoing deregulation of the financial market has given rise to new instruments, whereas new financial technologies provide investors with broader means and products to invest. The authority has been actively introducing deregulations to help inspire creativity and connect the financial industry with the rest of the world, while at the same time adopt enhanced corporate governance and risk management practices for the protection of consumers' interests. It has been the authority's goal to improve the strength of financial institutions and competitiveness of the securities industry through "innovation and stability." By leveraging on current regional advantage and asset allocation/risk management capacity, the securities industry will progressively develop its distinctive competitive advantage and turn into profitable business models.

2. Association between upstream, midstream, and downstream industry participants:



3. Product trend and competition:

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

(1) Brokerage

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

(2) Underwriting:

The Company completed several SPOs as the lead arranger in the secondary market in 2018, including: CB and cash issue for Century Iron and Steel, cash issue for Nyquest Technology, cash issue for TaiSol Electronics, and cash issue for Ching Feng. The Company has a well-experienced underwriting team available to undertake requests of different sizes and categories from customers local and abroad.

The number of TWSE and TPEX listed companies had increased by 43 from 1,651 in 2017 to 1,694 in 2018, whereas market capitalization of TWSE and TPEX listed companies had decreased by NT\$3 trillion from NT\$35.14 trillion to NT\$32.14 trillion. In 2018, a total of 130 fundraising projects were organized by TWSE and TPEX listed companies, which was 7 projects more compared to the 123 in 2017.

The stock market has great influence on the economy. In an attempt to expand the local capital market, the government has been offering numerous incentives to encourage overseas companies, particularly top-performing Taiwanese enterprises, to list for trading in Taiwan. In 2014, an Incubation Board for Startup and Acceleration Firms (GISA) was created by TPEX to support the innovation and growth of micro enterprises, and secure the foundation for future economic development. The underwriting segment will continue to play its role as the facilitator of direct finance.

(3) Derivatives:

Increased volatility of the stock market combined with a shrunken options market had resulted in a significant drop in options trade volume in 2018. Recent deregulations have

## V. Business Performance

enabled securities firms to issue exchange-traded notes (ETN). The Company will be listing its first ETN in April 2019 to maintain leadership in the derivatives market.

### (4) Wealth management:

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

For the wealth management segment, the Company will aim to raise its brand identity in 2017 and build an image of professionalism that is recognized among high-end customers. Meanwhile, the Company will be enhancing its KYC practices with the help of big data analysis, so that products and customers can be segmented properly to achieve differentiation, thereby ensuring that customers are offered the most suitable products. Digital, online and mobile functions will also be enhanced to facilitate innovative data mining. Doing so would provide in-depth knowledge about each customer for more value-adding services. The goal of the Company is to continuously bring quality wealth management products and services to the market, and establish itself as the all-round broker with wealth management at its center of business.

### 5.1.3. Technological research and development

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

Year	Amount (\$ 1000)
2016	55,563
2017	57,958
2018	60,788
2019 (estimate)	74,943

#### 2. Recent R&D progress

##### New financial product development

The Company issued 4,690 call (put) options with a total value of NT\$52 billion in 2018, ranking 2nd in amount and scope. Issuance of structured instruments amounted to NT\$23.7 billion during the year.

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

##### Financial Innovation Trends and Innovative Marketing Technology

Capital is dedicated to promoting smart finance and safeguarding and creating customers' wealth with "innovation and service" in mind. After introducing GOODi, a financial advisory bot, in 2016 that won 2016 IT Month "Top 100 Innovative Products," the Company followed up with the launch of "MinText AR+" in 2017 that was once again ranked among the 2017 IT Month "Top 100 Innovative Products," making it the only winning financial institution in the Fintech Division. Not only has the Company accumulated 3 invention patents and 3 utility model patents to date, it is also the only securities firm to pass review for financial R&D tax credit for two consecutive years (2016/2017) with the approval of the Financial Supervisory Commission.

In 2019, Capital Securities will continue to integrate GOODi with big data for more in-depth applications such as AI, text mining and machine learning, so that smart order placement, cloud strategies and optimized user experience can be introduced to further support customers' global asset allocation.

Furthermore, Capital will be actively submitting entry requests into Financial Regulatory Sandbox for new business models developed using financial technologies and innovations. Using the Financial Regulatory Sandbox as an experimental environment, the Company hopes to



make more active and efficient use of customers' capital, and thereby increase trade volume and liquidity in the market.

2019 has been designated by Capital Securities as the "Digital Marketing Grand Year" and the Company will be incorporating a new concept called Customer Experience Management (CXM) to create a social network marketing platform where sales representatives may engage customers for digital marketing and financial services.

To accommodate TWSE's transition over to deal-by-deal matching by March 23, 2020, Capital Securities launched a simulation platform in March 2019 that interfaces with TWSE's simulation platform for trade order simulation by Capital customers, so that customers may adapt to deal-by-deal matching early and accumulate experience that would increase their chances of profit while reducing losses. In the meantime, Capital Securities is investing pro-actively into equipment upgrades, service enhancements and hiring of trading program developers to accommodate the new system as well as provide investors with faster and better investment service and experience.

Apart from business development, the Company is also exploring financial technologies for other uses such as customer risk management and compliance. By incorporating scientific methods, the Company is able to reduce manual costs while enhance the efficiency and effectiveness of risk management efforts, and prevent and reduce chances of risk event. Occurrence of information security incidents in the financial industry is increasingly frequent, which is why it is necessary to develop FinTech based on the latest information security standards. In addition to obtaining external certification for ISO27001 - Information Security Management, ISO 22301 - Business Continuity Management, ISO 20000 - IT Service Management, and BS 10012 - Personal Information Management, Capital Securities will continue enhancing information security protection for customers' best interest.

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

1. Short-term business plans:
  - (1) Increase commission income from product sale to mitigate volatility of position gains/losses, and thereby maintain profit stability.
  - (2) Designate 2019 as the "Digital Marketing Grand Year"; incorporate the use of digital platform and offer tiered services and precision marketing depending on customers' attributes for consistent growth of assets under management.
  - (3) Introduce a "Capital Master Account" that accommodates a comprehensive range of services from securities, sub-brokerage, trust, derivatives to bonds to make settlement simple and capital utilization more efficient for customers.
  - (4) Grow the existing Hong Kong platform and sub-brokerage services to provide customers with closer access to overseas securities markets including Hong Kong stock market, Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and U.S. stock market, and increase income contribution from sub-brokerage and Hong Kong.
  - (5) In response to recent deregulations of the Financial Supervisory Commission, more ETNs will be issued to expand customers' investment horizon.
  - (6) Apply innovative thinking and introduce new financial products or services in a safe, controlled Fintech experimental environment and submit an entry request into the financial regulatory sandbox.
  - (7) Complete preparation for the testing of simulation platform for TWSE's deal-by-deal matching system.
  - (8) Centralize the clearing process, optimize operating procedures and enhance operational risk control.
  - (9) Enhance coordination and create synergies between subsidiaries including Capital Futures, Capital Fund, CSC Venture Capital, and Capital Investment Management.
  - (10) Expand into China as regulation permits.
2. Long-term business plans:
  - (1) Become the best investment bank and wealth management service provider in Asia.
  - (2) Develop research capacity on new products and become the most innovative financial institution.
  - (3) Evaluate the possibility of setting up overseas subsidiaries at potential locations.

## 5.2 Market and sales overview

### 5.2.1. Market analysis

TAIEX closed at 9,727 in 2018, down 915 points or 8.6% from the previous year. Overall market capitalization of TWSE was calculated at NT\$29.36 trillion at the end of 2018. TPEx, on the other hand, closed at 123.5, down 25 points or 16.8% for the year.

Performance of Taiwan stock market exhibited two extremes in the first half the second half of 2018. Driven by strong investor confidence, TAIEX rose to 11,270 in the first half, setting record for the highest level since February 1990. However, investors' confidence took a sharp turn in the second half; the OTC index began its descend and encountered a significant loss of trade volume since July. While the TWSE showed some degree of resilience (largely due to TSMC), the index fell following the sharp dive of the U.S. stock market in October. Corrections in the 4th quarter caused TAIEX to close below the 10,000 mark for the year.

Below are some of the distinctive characteristics of Taiwan's 2018 economic performance:

1. Industry prospects affected by outcomes of the China-USA trade war  
The China-USA trade war now has the attention of the entire world. USA has imposed additional tariffs on Chinese imports largely on the basis that China, despite having enjoyed growth and benefited from the export side of free trade, uses import tariff/quota and exchange rate manipulation to gain unfair trade advantage, and is found to have committed infringements against intellectual property rights and forced investors into transferring business know-how. From USA's perspective, the tariff increase serves as a means to get China to make improvements.  
As an export-driven economy, Taiwan is highly susceptible to the outcome of the trade war. Many Taiwanese enterprises that export products from their Chinese production facilities into the U.S. are now facing decisions to relocate production sites. Furthermore, uncertainties associated with the trade war have caused buyers to put purchase orders on hold, and increased the risks of long-term investments.
2. Stagnant domestic demand due to low fertility rate  
Taiwan's fertility rate has been falling in the last 30 years, ranking last in the world with an average of 1.2 children per woman. Financial stress has been widely regarded as the key factor behind the low fertility rate, particularly for newlyweds.  
Industries that rely on domestic demand, such as food, retail, restaurant and tourism, are expected to encounter downturn over the short run, whereas the education system has already been severely affected, and is reflected in the decrease of salaries among higher educated workers. Meanwhile, increasing globalization causes young people to seek work in foreign countries, which reduces demand for real estate properties in Taiwan. In the long run, an aging population wears down the pension system and slows economic growth; both of which may trigger national security crisis.
3. Alternative energy sources and the energy transition program  
Providing stable power at reasonable prices is one of keys to Taiwan's economic growth. Use of nuclear power is still under dispute, and it was voted via a referendum at the end of 2018. The government has been trying to use natural gas as a substitute for coal in an attempt to reduce air pollution, but given the fact that prices of liquefied natural gas and oil are controlled by foreign suppliers, a shift towards natural gas would undermine the stability of energy supply in Taiwan, and even cause a rise in electricity price, a power shortage in Northern Taiwan or other issues of national security.  
Alternative energy source makes up a significant portion of the several energy transition programs that the government has put in motion. According to world-renowned renewable energy solution providers, the Strait of Taiwan presents many advantages for the establishment of offshore wind farm, and the government's commitment to creating a nuclear-free environment and reducing coal provides strong support to this initiative. Success of offshore wind power now depends upon the government's ability to stabilize the wholesale rate, develop professional talents and reduce project financing risks.
4. Rise of the Internet economy  
Arrival of the mobile era has opened up new possibilities and applications of information and communication technology. Product/service providers now have direct reach with their audience, and may even utilize technology to explore potential customers. Global resources can now be

acquired and consolidated more conveniently than ever, and this accessibility has opened up possibilities for new products, services and business models including:

- (1) Innovative business ventures: Increase in cross-border online retail marketing and new micro businesses has changed the ways industries and territories are defined.
- (2) E-commerce: B2C e-commerce is a rapidly growing business model in the Asia Pacific region. Meanwhile, international giants such as Amazon and Google are introducing the concept of analyzing massive volumes of consumer data which, when combined with the use of smart device or application, delivers a shopping and service experience that more closely caters for customers' needs.
- (3) Intelligent industry: Smart manufacturing programs such as Germany's "Industry 4.0" and "Made in China 2025" are all aimed at creating an intelligent manufacturing, production and sales system that quickly responds to or predicts market demands.
- (4) Online banking: Digital capacity represents the core competitiveness of a financial institution. New technologies and business models continue to impact the financial environment, and industry participants now have the ability to deliver more efficient financial services through online marketing, social network and online interactions.

Four distinctive characteristics of Taiwan's stock market performance in 2018:

1. High-tech stocks remain the mainstream: Led by semiconductors and FAANG, U.S. tech stocks continued to soar to new heights, which in turn inspired Taiwanese stocks to gain in value (since high-tech stocks account for 52% of capitalization weighting). The electronics index managed to reach its new high since year 2000 due to the significant gain in share prices of electronic component manufacturers in the first half of 2018, but smartphone OEMs, on the other hand, exhibited relatively weak performance due to stagnant growth of the cellphone market and the ongoing China-USA trade war. Companies of the Foxconn Group, a major OEM for Apple iPhone, had been relatively quiet during this time.
2. Influence from foreign investors: There had been significant diversity in the performance of stock markets worldwide. In the United States, Dow Jones Industrial Average set record-high levels at the end of January and early October in 2018 due to strong economic performance and policy support. Although the U.S. market was the world's best performing market in 2018, it also endured the steepest correction in nearly 10 years during the 4th quarter. With the escalation of China-USA trade war, stock markets in China, Hong Kong and Korea all performed poorly in 2018. In comparison, Taiwan's stock market outperformed other parts of Asia.
3. Widened diversity in individual stock performance: There has been great diversity in the prospect of different industries. PC, for example, exhibits zero growth potential whereas cellphones are saturating, and growth is observed in AI, online applications and electric vehicle parts. The government currently provides active support for the biotech industry. Industries that exhibit slow growth or are in the declining stage have performed far worse than the index. The solar energy industry, for example, saw a substantial fall in share price due to the severe losses.
4. Yields: Taiwan's stock market offers greater yields compared to other markets, which is one of the advantages that appeal to foreign investors. Most TWSE and TPEx listed companies have been able to pay cash dividends in recent years, which is very attractive to large institutional investors and is starting to appeal to general investors and short-term traders as well. High dividend payout usually implies strong profit performance and is often rewarded with high share price. High dividends yield also attracts some long-term investors.

Below are the key factors that will influence the performance of the Taiwan's stock market in 2019:

1. U.S. stock market performance

Growth of the U.S. economy recovered in 2018 due to low unemployment, strong private spending and inflow of overseas corporate profits following the government's tax cut.

Performance of most stock markets in the world are highly correlated with the U.S. market. The main goals of Trump's foreign policies in 2019 are to complete trade negotiation with China and begin trade negotiations with the EU in the first half, and sustain growth of the U.S. economy by reducing trade deficit; as election draws near, Trump is likely to introduce new economic and fiscal incentives in the second half, possibly in the form of a second tax cut.

The U.S. stock market has a decisive impact on the performance of capital markets worldwide. While inflow of capital and policy incentives do support gains on the index level, poor financial figures or business prospects may still result in corrections. Furthermore, Trump's questionable

## V. Business Performance

policies on immigrants and affairs in the Middle East may all give rise to additional volatility to the global stock market in 2019.

### 2. The Fed's interest rate policy and market expectations

In early 2019, Chairman Jerome Powell of the Federal Reserve announced the interest rate unchanged and stated the Fed's intent to be "patient" about interest rate adjustments, as opposed to its "progressive hike" previously adopted. Following the meeting in March, the Fed maintained interest rates unchanged within the range of 2.25%~2.5% and revised down its U.S. GDP forecast, which implied that no further rate hike will occur for the rest of 2019. Slowdown of global economic growth combined with "Trump's uncertainties" should keep interest rates low for an extended period of time, and provide liquidity to support stock market performance worldwide. Trump is very likely to advocate for interest rate cuts before the 2020 election.

Janet Yellen, former chairperson of the Fed, said in January 2019: "If there is a downturn in the global economy and that spills into the U.S. ...It's very possible we may have seen the last interest rate hike of this cycle" and mentioned again later in March that "inversion" of the yield curve does not mean that the U.S. economy is going into recession, but serves as a signal for the Fed to cut interest rates at an appropriate time in the future.

### 3. Multilateral impacts of the China-USA trade war

The China-USA trade war has lasted for more than 1 year. After the meeting between leaders of the two countries in December 2018, the USA issued an ultimatum demanding corrections from China within 3 months that provoked a series of panic selling and resulted in substantial losses of the U.S. stock market. After trade negotiation resumed in 2019, Trump, his representatives and the Secretary of Commerce continue to release mixed messages while Chinese officials, on the other hand, are rather consistent and low-key about their statements, but it is certain that the Chinese government has resolved to liquidity and tax cuts as means to support economic growth. Outcome of the trade negotiation not only affects trade deficit, but will set the tone for the race of 5G and associated business opportunities as well. Factors such as the Huawei ban, China's technology transfer, protection of intellectual property and enforcement measures will all affect the pace of the negotiation.

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

Towards the end of February 2019, MSCI made an announcement to increase the weight of China A-shares to 10% by May, 15% by August, and 20% by November 2019, at which time China A-shares will account for 3.3% of MSCI Emerging Markets Index at the end of November 2019. This decision by MSCI will substantially increase the significance of China A-shares to global investors. FTSE Russell and S&P Dow Jones Indices, too, are planning to include A-shares by June and September 2019, respectively, and will continue to increase the weight of A-shares in the index composition. MSCI said that China is opening up at a rate faster than what most people expect, which means that MSCI should also hasten its inclusion of the Chinese market.

In terms of economic performance, the ongoing trade war puts China's exports at risk of decline. China's GDP growth was concluded at a mere 6.6% in 2018, and as growth decline continued into the first half of 2019, China is starting to see a slowdown of fixed asset investment, an increase in private debt risk, and a potential real estate bubble that may impact the stability of the financial system.

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

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

## 2. Market share

Market share of primary business activities in 2018:

Ranking	Brokerage volume		Margin trading balance (2018)	
	Securities firm	Market share	Securities firm	Market share
1	Yuanta	12.11%	Yuanta	14.87%
2	KGI	8.36%	KGI	8.06%
3	Fubon	6.09%	Sinopac	7.24%
4	Sinopac	4.96%	Fubon	5.88%
5	Capital	4.39%	Capital	5.74%
6	Masterlink	3.86%	Mega	5.34%
7	JihSun	3.59%	Masterlink	5.23%
8	Mega	3.28%	JihSun	5.15%
9	Hua Nan	3.28%	President	4.80%
10	President	3.16%	Hua Nan	4.64%

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

## 3. Future market supply and demand

### (1) Demand

Growth of the global economy is expected to slow down in 2019 amidst low interest rates. While the environment may be unfavorable to savings and private consumption, it presents upsides for the capital market. Performance of Taiwan's stock market should become highly correlated with the rest of the world. The upcoming election in 2020 combined with the government's policy incentives have removed many investment restrictions and injected significant liquidity into the domestic stock market. Once deal-by-deal matching is implemented by TWSE in 2020, Taiwan stock market will become more connected with the rest of the world and more appealing to foreign and institutional investors.

### (2) Supply

As online banking, online marketing and social networks emerge, the securities service industry has adapted by accepting digital capacity as part of their competitive advantage, and using new technologies and innovative business models to bring customers a comprehensive range of investment services.

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

## 4. Opportunities and threats

### Opportunities:

- (1) The Company has achieved balanced growth across multiple business segments, including brokerage, corporate finance, derivative, and margin trading service.
- (2) Opportunity to bring in online banking and financial advisors to lower dependency upon securities brokerage.
- (3) Opportunity to improve the quality and coverage of investment research and advisory services.

### Threats:

- (1) It is increasingly difficult to train and allocate human resources in professional securities investment.
- (2) The brokerage service faces intensive price competition that narrows overall profitability of securities firms.
- (3) Increased diversity of investment channels and instruments.

Response strategy: The Company will strive to maintain stable growth for all its departments, using KPIs to manage service activities and FinTech or AI to help identify new business opportunities. Resources will

## V. Business Performance

be integrated across securities service providers to accomplish the organization's growth strategies and goals, and increase profitability as a result.

**5.2.2. Main product purpose and production process:** Not applicable.

**5.2.3. Supply of key raw materials:** Not applicable.

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

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

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

### 5.3. Employee information

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

March 31, 2019

Year		2017	2018	Year-to-date March 31, 2019 (Note)
Employee count		1,853	1,818	1,778
Average age		45.56	47.95	45.45
Average years of service		12.89	12.97	13.03
Academic Qualification	Doctoral Degree	0.11%	0.17%	0.11%
	Masters Degree	10.69%	10.51%	10.69%
	Bachelor Degree	70.48%	69.40%	69.74%
	Senior high school	18.72%	19.86%	19.40%
	Below senior high school	0%	0.06%	0.06%

Note: Provide information up until the publication date of this annual report.

### 5.4. Contribution to environmental protection

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



## 5.5. Labor-management relations

- (1) Availability and execution of employee welfare, education, training and retirement policies, agreement between employer and employees, and protection of employees' rights:

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

Employee education and training: In an attempt to build a strong talent base and improve management performance, the Company has been organizing a broad variety of training including: orientation, specialization training, management reserve training, management growth training, and seminars hosted by renowned experts and scholars on the topic of finance. Capital Financial College was founded in 2007 for training the Company's top management talents. Employee training expenses amounted to NT\$7,219,000 in 2018. A total of 3,542 enrollments were registered with external training courses, which represented 195% of total employees. The Company held 128 internal training courses during the year, and trained its sales force intensively using nation-wide video conferencing and broadcast to help them develop professional qualities and skills. Many e-learning courses have also been designed to enhance outcome of the learning process. By utilizing digital means, employees are able to learn and grow anytime, anywhere.

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

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

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

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

- (2) Losses arising as a result of employment disputes in the last year up till the publication date of this annual report. Please quantify the estimated losses and state any response actions, and state the reasons if losses can not be reasonably estimated:

The Company has been able to maintain harmonious employment relations, and there was no violation against Labor Standards Act in 2018.

## 5.6. Major contracts: None.



## 5.7. The company's workplace environment and employee safety measures:

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

Implemented measures	Item	Description
Employee Health	Insurance and welfare	<ol style="list-style-type: none"> <li>(1) Measures mandated by law <ol style="list-style-type: none"> <li>1. Labor Insurance and National Health Insurance.</li> <li>2. Establishment of "Workplace Sexual Harassment Prevention, Grievance and Disciplinary Policy."</li> <li>3. Implementation of a "Nursery Room."</li> <li>4. Regular employee health checkups.</li> <li>5. Commissioning of physicians to perform consultation service on occupational hazard, health promotion and hygiene at the head office on a regular basis.</li> </ol> </li> <li>(2) Measures provided above legal requirements <ol style="list-style-type: none"> <li>1. The Company provides employees with a broad variety of group insurance coverage from life, accidental injury, accidental medical treatment, to occupational hazard.</li> <li>2. Employees are invited to include their family members into group insurance at discounted premium. Term life, accidental injury, medical treatment, and cancer insurance policies have been offered to care for employees and their family members.</li> <li>3. Complimentary massage service for employees of the head office.</li> <li>4. Seminars on "Healthy Lunch for Office Workers" and "Work Pain Relief for Office Workers" and "Fitness Tests" were organized to promote exercise awareness among employees.</li> <li>5. "Recreational and Charitable Club Foundation and Subsidy Policy" was introduced as an incentive for employees to engage themselves in sports and charity activities.</li> <li>6. The Company acquired certification for "Taiwan iSport" from Sports Administration, Ministry of Education.</li> </ol> </li> </ol>
	Environmental health	<ol style="list-style-type: none"> <li>(1) Smoke-free office environment <ol style="list-style-type: none"> <li>1. "Summary Notes on Tobacco Hazards Prevention Act" was posted on the Company's intranet.</li> <li>2. Videos of "How to quit smoking" were posted on the Company's intranet.</li> <li>3. A set of "Tobacco Hazard Prevention Measures" was implemented.</li> </ol> </li> <li>(2) The Company acquired "Badge of Accredited Healthy Workplace" from Health Promotion Administration, Ministry of Health and Welfare</li> <li>(3) The Company acquired "Certification for Voluntary Public Indoor Air Quality Management" from Taipei City Department of Environmental Protection</li> </ol>
Safety of work environment	Safety certification	The Company received ISO22301 certification for continuity management from British Standards Institution. The main purpose of this certification is to ensure that the Company is able to minimize damage and recover operations within the target time in the event of an emergency, and thereby ensure personnel safety, compliance with laws, and protection of customers' interests, corporate reputation and assets.
	Certification for personal information	The Company is the first financial institution to obtain international certification for personal information management with respect to securities, futures, and insurance brokerage/agency services. It shows that the Personal Information Management System (PIMS) adopted by the Company offers effective protection and management of personal information, and complies with all requirements of the Personal Information Protection Act to protect the rights of information owners, while at the same time minimize possible impacts from event of attack. It represents the Company's commitment to continually manage and improve its personal information management system.
	Workers' safety	<p>The Company has complied with the "Occupational Safety and Health Act" by appointing an OSH Officer, a team of first aid officers, and organizing training according to the Worker Safety Education Principles</p> <p>The Company has established and implemented an "Ergonomic Hazard Prevention Program" to prevent musculoskeletal injuries or illnesses caused by work activities. In addition, it has formulated and promoted the "Abnormal Workload Induced Disease Prevention Plan" to plan and take the necessary safety and health measures for the prevention of diseases caused by abnormal workloads such as shifts, night work, and long working hours.</p>
	Fire safety	<ol style="list-style-type: none"> <li>1. Fire drills are organized on a regular basis.</li> <li>2. Fire safety officers have been appointed in accordance with the Fire Services Act and Enforcement Rules of Fire Services Act. They are trained on a regular basis.</li> </ol>

Implemented measures	Item	Description
	Safety assurance	All of the Company's business premises and branches are covered by the following insurance 1. Commercial fire insurance. 2. Electronic equipment insurance. 3. Public liability insurance.

## 5.8. Employees' behaviors and moral principles :

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

1. We offer high value-adding products and services. We establish and maintain long-term relationships with customers and help them achieve their goals.
2. We uphold the highest moral and safety standards in all our interactions and dealings with customers. We provide rigorous protection for customers' information, and make sure that information is used only to the extent permitted by law. All customers explored during our employment are owned by the Company, and shall not be referred to another Company during or after employment.
3. We never put ourselves in situations where personal interests may work in conflict to those of the Company or the customers.
4. We do not reveal to others any news or information gained in relation to our job role. We shall refrain from holding or trading securities using own name or name of proxy.
5. Whether during or after our employment with the Company, we shall never: (1) reveal any business secret gained during employment (including but not limited to technologies, system programs, customers' information, trade strategies, business information, personnel or organization records, accounting records, strategic plans and any other information) for own use or use by others, or make illegal use of non-public information (also referred to as "inside information"); and (2) exploit our vested authorities for illicit gains for self or any other party.
6. We shall incorporate risk management and compliance practices into our business procedures, and follow accordingly.
7. We report performance information and facts in a timely and accurate manner, and strive to maximize the Company's interests.
8. We are aware of the fact that we are working with shareholders' assets. We shall handle the Company's properties carefully as we do our own.
9. We do not use the Company's network and email systems for non-business related purpose such as: browsing, distribution and storage of disturbing literature, pictures or offensive articles. Neither shall the Company's network system be used for political discussions or propaganda, personal entertainment or any non-business related purpose.
10. We shall comply strictly with regulations and refrain from using email, e-bulletin or the Internet system (including but not limited to personal blog or online forums) to conduct inappropriate sales activities, improper competition (without commission), or make forecasts and recommendations regarding future transaction price of specific contracts or trade strategies.
11. We shall maintain the accuracy and completeness of all information, reports, records and data owned, used and managed by Capital Financial Group. We shall also refrain from removing or transmitting them in any inappropriate manner.  
To comply with the "Personal Information Protection Act", we shall refrain from inquiring internal information and data that we do not have access to. All documents of the Company are to be used solely for internal management, and cannot be reproduced or used outside the scope mentioned above. We shall be solely responsible for any civil and criminal liabilities that arise as a result of our violation.

12. We shall refrain from communicating with the public on our own. Only the spokesperson may address the media on behalf of the Company.
13. We shall never accept or permit relatives or family members to accept any gift, service, loan or special treatment offered by any party (including customers, suppliers or any other party) for the purpose of gaining immediate or future relationship with the Company.
14. We shall notify the line manager, the human resource department, the internal audit department or any appropriate personnel whenever we discover a possible violation against laws or the Company's work rules.

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

### 6.1.1 Summary balance sheet (consolidated and standalone)

Unit: NTD thousands

Year Item		Financial information for the latest 5 years (Note 1)									
		Consolidated					Standalone				
		2018	2017	2016	2015	2014	2018	2017	2016	2015	2014
Current assets		101,969,620	128,220,873	94,506,013	79,591,301	69,531,529	61,469,761	93,599,832	65,616,894	58,594,636	52,867,228
Property, plant and equipment		5,340,960	4,966,752	5,129,823	5,177,406	5,390,207	4,577,214	4,231,972	4,389,956	4,535,525	4,770,367
Intangible assets		3,621,070	3,628,174	3,612,248	3,627,517	3,605,104	3,543,038	3,544,235	3,532,620	3,550,988	3,552,023
Other assets		6,458,257	4,670,519	4,796,129	4,914,967	5,161,503	11,838,403	9,767,364	9,467,444	8,510,170	8,521,678
Total assets		117,389,907	141,486,318	108,044,213	93,311,191	83,688,343	81,428,416	111,143,403	83,006,914	75,191,319	69,711,296
Current liabilities	Before dividend	80,738,838	106,463,149	75,399,960	59,982,074	49,996,260	47,025,844	78,368,174	51,991,187	43,403,662	37,422,576
	After dividend	(Note 2)	106,896,964	76,202,518	61,093,919	51,417,704	(Note 2)	78,801,989	52,793,745	44,515,507	38,844,020
Non-current liabilities		1,446,333	1,545,169	1,799,975	1,801,450	1,489,963	1,430,580	1,353,599	1,495,179	1,497,057	1,190,240
Total liabilities	Before dividend	82,185,171	108,008,318	77,199,935	61,783,524	51,486,223	48,456,424	79,721,773	53,486,366	44,900,719	38,612,816
	After dividend	(Note 2)	108,442,133	78,002,493	62,895,369	52,907,667	(Note 2)	80,155,588	54,288,924	46,012,564	40,034,260
Equity attributable to parent company shareholders		32,971,992	31,421,630	29,520,548	30,290,600	31,098,480	-	-	-	-	-
Share capital		23,209,081	21,690,730	22,690,730	23,190,730	23,690,730	23,209,081	21,690,730	22,690,730	23,190,730	23,690,730
Capital reserves		2,852,299	2,852,299	2,750,972	2,742,807	2,711,760	2,852,299	2,852,299	2,750,972	2,742,807	2,711,760
Retained earnings	Before dividend	6,209,696	6,790,451	4,763,521	4,697,083	4,598,641	6,209,696	6,790,451	4,763,521	4,697,083	4,598,641
	After dividend	(Note 2)	4,838,285	3,960,963	3,585,238	3,177,197	(Note 2)	4,838,285	3,960,963	3,585,238	3,177,197
Other equity items		700,916	88,150	150,373	129,135	97,349	700,916	88,150	150,373	129,135	97,349
Treasury stocks		-	-	(835,048)	(469,155)	-	-	-	(835,048)	(469,155)	-
Non-controlling interests		2,232,744	2,056,370	1,323,730	1,237,067	1,103,640	-	-	-	-	-
Total equity	Before dividend	35,204,736	33,478,000	30,844,278	31,527,667	32,202,120	32,971,992	31,421,630	29,520,548	30,290,600	31,098,480
	After dividend	(Note 2)	33,044,185	30,041,720	30,415,822	30,780,676	(Note 2)	30,987,815	28,717,990	29,178,755	29,677,036

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

Note 2: appropriation of 2018 earnings had yet to be resolved in a shareholder meeting.

## 6.1.2 Summary income statement (consolidated and standalone)

Unit: NTD thousands

Year Item	Financial information for the last 5 years (Note)									
	Consolidated					Standalone				
	2018	2017	2016	2015	2014	2018	2017	2016	2015	2014
Operating revenues	7,638,645	9,244,897	6,437,645	6,564,157	6,868,876	4,922,660	6,621,232	4,241,538	5,003,528	5,718,477
Gross profit	5,695,441	7,237,386	5,091,449	5,601,522	6,041,154	4,003,138	5,807,603	3,829,131	4,643,604	5,363,306
Operating profit	1,173,168	2,751,541	1,110,568	1,364,740	1,806,703	619,169	2,264,634	702,923	1,179,123	1,713,748
Non-operating revenues and expenses	1,153,362	752,096	561,665	669,295	625,998	1,219,276	818,720	665,171	605,223	551,555
Pre-tax profit	2,326,530	3,503,637	1,672,233	2,034,035	2,432,701	1,838,445	3,083,354	1,368,094	1,784,346	2,265,303
Net income from continuing operations	1,777,510	3,215,395	1,406,497	1,728,358	2,143,663	1,408,865	2,893,600	1,196,756	1,549,327	2,025,305
Loss from discontinued operations	0	0	0	0	0	0	0	0	0	0
Net income	1,777,510	3,215,395	1,406,497	1,728,358	2,143,663	1,408,865	2,893,600	1,196,756	1,549,327	2,025,305
Other comprehensive income/loss for the current period (net, after-tax)	(442,188)	(139,233)	4,196	5,573	97,761	(451,114)	(65,893)	2,765	2,345	85,906
Total comprehensive income (loss) in current period	1,335,322	3,076,162	1,410,693	1,733,931	2,241,424	957,751	2,827,707	1,199,521	1,551,672	2,111,211
Net income attributable to parent company shareholders	1,408,865	2,893,600	1,196,756	1,549,327	2,025,305	-	-	-	-	-
Net income attributable to non-controlling shareholders	368,645	321,795	209,741	179,031	118,358	-	-	-	-	-
Comprehensive income attributable to parent company shareholders	957,751	2,827,707	1,199,521	1,551,672	2,111,211	-	-	-	-	-
Comprehensive income attributable to non-controlling shareholders	377,571	248,455	211,172	182,259	130,213	-	-	-	-	-
Earnings per share	0.61	1.25	0.49	0.61	0.80	0.61	1.25	0.49	0.61	0.80

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

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

Year	Name of CPAs	Audit opinion
2014	Feng Hui Li (Note), Fu-Wei Chen	Unqualified opinion
2015	Feng Hui Li, Fu-Wei Chen	Unqualified opinion
2016	Feng Hui Li, Tan Tan Chung (Note)	Unqualified opinion
2017	Feng Hui Li, Tan Tan Chung	Unqualified opinion
2018	Feng Hui Li, Tan Tan Chung	Unqualified opinion

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

## 6.2 Financial analysis for the previous 5 years

Financial analysis (consolidated and standalone)

Analysis \ Year		Financial analysis for the latest 5 years (Note 1)										
		Consolidated					Standalone					
		2018	2017	2016	2015	2014	2018	2017	2016	2015	2014	
Financial structure (%)	Debt to assets ratio	70.01	76.34	71.45	66.21	61.52	59.51	71.73	64.44	59.72	55.39	
	Long-term capital to property, plants and equipment	686.23	705.15	636.36	643.74	625.06	751.61	774.47	706.52	700.86	676.86	
Solvency (%)	Current ratio	126.30	120.44	125.34	132.69	139.07	130.71	119.44	126.21	135.00	141.27	
	Quick ratio	126.25	120.40	125.27	132.63	139.00	130.68	119.41	126.16	134.96	141.21	
Profitability	Return on assets (%)	1.37	2.58	1.40	1.95	2.65	1.46	2.98	1.51	2.14	2.95	
	Return on equity (%)	5.18	10.00	4.51	5.42	6.80	4.38	9.50	4.00	5.05	6.62	
	As a percentage of paid up capital (%)	Operating profit	5.05	12.69	4.89	5.88	7.63	2.67	10.44	3.10	5.08	7.23
		Pre-tax profit	10.02	16.15	7.37	8.77	10.27	7.92	14.22	6.03	7.69	9.56
	Net profit margin (%)	23.27	34.78	21.85	26.33	31.21	28.62	43.70	28.22	30.96	35.42	
	Earnings per share (NT\$)	0.61	1.25	0.49	0.61	0.80	0.61	1.25	0.49	0.61	0.80	
Cash flow (%)	Cash flow ratio	12.93	-	0.76	9.97	-	20.44	-	-	14.83	-	
	Cash flow adequacy ratio	228.37	111.99	134.18	509.72	127.95	190.52	91.81	118.20	538.41	126.55	
	Cash flow reinvestment ratio	25.97	-	-	13.00	-	26.02	-	-	15.28	-	
Special Purpose Ratio (%)	Total liabilities to net worth	233.45	322.62	250.29	195.97	159.88	146.96	253.72	181.18	148.23	124.16	
	Fixed assets to total assets	5.50	4.25	5.66	6.85	8.13	6.70	4.57	6.26	7.42	8.64	
	Underwritten securities to quick asset ratio	1.43	1.19	0.59	0.48	0.60	2.10	1.71	0.83	0.62	0.76	
	Margin trading balance to net worth ratio	28.40	44.47	38.66	48.07	60.97	29.60	45.81	39.17	47.20	62.52	
	Short-sell balance to net worth ratio	13.98	14.12	11.90	13.54	14.99	14.92	15.04	12.43	14.09	15.52	

#### 6.2.2 Variations exceeding 20% in the last 2 years:

1. The decrease of return on total assets, return on equity, operating profit as a percentage of paid-in capital, pre-tax income as a percentage of paid-in capital and net margin was mainly due to the net losses on sale of trading securities, resulting in economic recession.
2. The increase in cash flow adequacy ratio was mainly due to the net cash inflow from operating activities, which resulted in bond investments and receivables for securities provided as collateral decreasing.
3. The decrease of total liabilities to equity was mainly due to a decrease of bonds sold under repurchase agreements.
4. The decrease of margin trading balance to net worth ratio was mainly due to a decrease of receivable for securities provided as collateral, resulting in declining demand for securities financing.
5. The increase of fixed assets to total assets and underwritten securities to quick asset ratio was mainly due to a decrease in total assets, resulting in overseas bond investment declining.

Note 1: All financial statement figures were audited.

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

##### 1. Financial structure

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

##### 2. Solvency

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

##### 3. Profitability

- (1) Return on assets = (net income + interest expenses x (1 - tax rate)) / average asset balance.
  - (2) Return on equity = net income / average shareholders' equity.
  - (3) Operating profit to paid-up capital ratio = operating profit / paid-up capital.
  - (4) Pre-tax profit to paid-up capital ratio = pre-tax profit / paid-up capital.
  - (5) Net profit margin = net income / net sales.
  - (6) Earnings per share = (net income attributable to parent company shareholders - preferred share dividends) / weighted average outstanding shares.
- ##### 4. Cash flow
- (1) Cash flow ratio = net cash flow from operating activities / current liabilities.
  - (2) Cash flow adequacy ratio = net cash flow from operating activities for the previous 5 years / (capital expenditure + increase in inventory + cash dividends) for the previous 5 years.

- (3) Cash reinvestment ratio = (net cash flow from operating activities - cash dividends) / (gross property, plant and equipment + long-term investments + other non-current assets + working capital).

##### 5. Special purpose ratios:

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

6.3 Supervisors' or Audit Committee's review of the latest financial reports: See page 97

6.4 Consolidated financial statements for the most recent years: See page 98~214

6.5 Standalone financial statements for the most recent years: See page 215~316

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



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## Capital Securities Corporation Audit Committee's Review Report

The 2018 business report, financial statements (including consolidated financial statements) and earnings distribution proposal have been presented by the board of directors. The presented financial statements were audited by KPMG, for which they issued an unqualified opinion.

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

Regards

Capital Securities Corporation 2019 Annual General Meeting

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

March 29, 2019

## **Representation Letter**

The entities that are required to be included in the combined financial statements of Capital Securities Corporation as of and for the year ended December 31, 2018 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Capital Securities Corporation and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Capital Securities Corporation

Chairman: Jiunn-Chih Wang

Date: March 29, 2019



安侯建業聯合會計師事務所

KPMG

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## Independent Auditors' Report

To the Board of Directors of  
Capital Securities Corporation:

### Opinion

We have audited the consolidated financial statements of Capital Securities Corporation and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as of December 31, 2018 and 2017, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of another auditor (please refer to Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Key audit matters of the Group's financial statements are stated as follows:

## 1. Valuation of financial instruments

Please refer to Note 4(g) for the related accounting policy regarding the valuation of financial instruments, Note 6(b) financial assets, Note 6(k) Financial liabilities at fair value through profit or loss and Note 6(u)(v). fair value and fair value hierarchy of financial instruments for details.

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

The Group's valuation of financial instruments is one of audit processes refer to important judgements. Financial products 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 products invested and issued depends on models and observably variable factors in the market, so management's professional judgement has highly importance when using different valuation methods and assumptions. Therefore, the valuation of financial instruments is one of our key audit matters.

### 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 products were in accordance with relevant regulations. For financial assets with quoted market prices in an active market, we selected samples to test the appropriateness of quoted prices used. For financial assets without quoted market prices in an active market and measured at fair value using valuation techniques, we selected samples to test the appropriateness of underlying parameters.

## 2. Goodwill impairment

Please refer to Note 4(q) for the related accounting policy regarding the impairment of non-financial assets, Note 5 for accounting assumptions and estimation uncertainty of the goodwill impairment, Note 6(h)(i) , for details about measurement of goodwill impairment.

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

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

### Procedures performed:

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



### Other Matter

We did not audit the financial statements of Capital Investment Trust Corporation, an associate of Capital Securities Corporation. Those financial statements were audited by another auditor, whose report has been furnished to us, and our conclusion, insofar as it relates to the amounts included for Capital Investment Trust Corporation, is based solely on the report of another auditor. The recognized investment amount of Capital Investment Trust Corporation under equity method constituted 1.07% and 0.00% of consolidated total assets as of December 31, 2018 and 2017, respectively, and the recognized profit of loss under equity method constituted 3.75% and 0.00% of consolidated net income before income tax for the years ended December 31, 2018 and 2017, respectively.

The Group has prepared its parent-company-only financial statements as of and for the years ended December 31, 2018 and 2017, on which we have issued an unmodified opinion with other matters paragraph.

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

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

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

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

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.



3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We 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 of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

KPMG

Taipei, Taiwan (Republic of China)  
March 29, 2019

#### Notes to Readers

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

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

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

**Consolidated Balance Sheets**

**December 31, 2018 and 2017**

**(Expressed in Thousands of New Taiwan Dollars)**

		<b>December 31, 2018</b>		<b>December 31, 2017</b>				<b>December 31, 2018</b>		<b>December 31, 2017</b>	
		<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>			<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>Assets</b>						<b>Liabilities and Equity</b>					
110000	<b>Current assets:</b>					210000	<b>Current liabilities:</b>				
111100	Cash and cash equivalents (note 6(a))	\$ 7,993,419	7	7,104,077	5	211100	Short-term borrowings (note 6(i))	\$ 3,873,506	3	7,081,698	5
112000	Financial assets at fair value through profit or loss - current (notes 6(b) and 8)	31,060,874	26	34,737,268	24	211200	Commercial paper payable (note 6(j))	-	-	4,099,184	3
113200	Financial assets at fair value through other comprehensive income - current (note 6(b))	10,865,929	9	-	-	212000	Financial liabilities at fair value through profit or loss - current (note 6(k))	1,202,215	1	2,903,193	2
113400	Financial assets available for sale - current (notes 6(b) and 8)	-	-	32,807,779	23	214010	Bonds sold under repurchase agreements (note 6(l))	28,032,524	24	47,056,312	33
114030	Receivable for securities provided as collateral	9,994,568	9	14,886,813	11	214040	Guarantee deposited for short sales	2,316,744	2	2,226,264	2
114040	Refinancing margin	39,614	-	46,095	-	214050	Proceeds payable from short sales	2,603,315	2	2,500,853	2
114050	Refinancing collateral receivable	34,419	-	38,888	-	214070	Securities lending refundable deposits	644,843	1	1,190,277	1
114060	Receivable of securities business money lending	1,949,105	2	1,532,231	1	214080	Futures traders' equity (note 6(d))	33,158,826	28	27,268,226	19
114070	Customers' margin account (note 6(d))	33,275,630	29	27,302,712	19	214090	Customer equity of separate account ledger in settlement account (note 6(m))	26,969	-	13,479	-
114080	Receivable - futures margin	1	-	1	-	214100	Leverage contract trading - customers' equity	225,899	-	152,840	-
114090	Collateral for securities borrowed	454,200	-	914,343	1	214110	Notes payable	481	-	879	-
114100	Security borrowing margin	412,148	-	931,868	1	214130	Accounts payable (note 6(n))	3,857,893	4	5,778,758	4
114110	Notes receivable	17,181	-	21,811	-	214150	Advance receipts	37,089	-	55,544	-
114130	Accounts receivable (note 6(c))	4,607,173	4	6,726,055	5	214160	Receipts under custody	120,325	-	346,023	-
114150	Prepayments	37,751	-	33,940	-	214170	Other payables	765,572	1	995,443	1
114170	Other receivables	95,994	-	70,107	-	214200	Other financial liabilities - current (note 6(v))	3,357,887	3	4,509,983	3
114300	Leverage contract trading - customers' margin account	228,564	-	151,540	-	214600	Current income tax liabilities	452,432	-	228,401	-
114600	Current income tax assets	26,609	-	26,763	-	215100	Provisions - current (note 6(p))	50,666	-	49,066	-
119000	Other current assets	876,441	1	888,582	1	219000	Other current liabilities	11,652	-	6,726	-
		<u>101,969,620</u>	<u>87</u>	<u>128,220,873</u>	<u>91</u>			<u>80,738,838</u>	<u>69</u>	<u>106,463,149</u>	<u>75</u>
120000	<b>Non-current assets:</b>					220000	<b>Non-Current liabilities:</b>				
122000	Financial assets at fair value through profit or loss - non-current (notes 6(b) and 8)	185,109	-	186,015	-	224200	Other financial liabilities - non-current (note 6(v))	310,032	-	266,037	-
123100	Financial assets measured at cost - non-current (note 6(b))	-	-	754,545	1	228000	Deferred income tax liabilities (note 6(q))	478,035	-	479,193	-
123200	Financial assets at fair value through other comprehensive income - non-current (note 6(b))	1,911,577	2	-	-	229000	Other non-current liabilities	658,266	1	799,939	1
124100	Investments accounted for under equity method (note 6(e))	1,432,537	1	173,588	-			<u>1,446,333</u>	<u>1</u>	<u>1,545,169</u>	<u>1</u>
125000	Property and equipment (notes 6(f) and 8)	5,340,960	5	4,966,752	3			<u>82,185,171</u>	<u>70</u>	<u>108,008,318</u>	<u>76</u>
126000	Investment property (notes 6(g) and 8)	1,374,014	1	1,796,541	1						
127000	Intangible assets (note 6(h))	3,621,070	3	3,628,174	3	301010	Common stock (note 6(r))	23,209,081	20	21,690,730	15
128000	Deferred income tax assets (note 6(q))	115,770	-	174,236	-	302000	Capital surplus:				
129000	Other non-current assets	1,439,250	1	1,585,594	1	302010	Premium from stock issuance	1,776,413	1	1,776,413	1
		<u>15,420,287</u>	<u>13</u>	<u>13,265,445</u>	<u>9</u>	302020	Treasury stock transactions	437,096	-	437,096	-
						302070	Paid-in capital from merger	602,665	1	602,665	1
						302095	Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,338	-	1,338	-
						302096	Changes in ownership interests in subsidiaries	34,787	-	34,787	-
						304000	Retained earnings:				
						304010	Legal reserve	1,519,635	1	1,230,275	1
						304020	Special reserve	3,302,811	3	2,709,623	2
						304040	Unappropriated earnings (note 6(r))	1,387,250	1	2,850,553	2
						305120	Exchange differences on translation of foreign operations	(41,068)	-	(103,566)	-
						305140	Unrealized gains (losses) on financial assets at fair value through other comprehensive income	741,984	1	-	-
						305150	Unrealized gains (losses) on financial assets available for sale	-	-	191,716	-
							<b>Total equity attributable to the parent company</b>	<u>32,971,992</u>	<u>28</u>	<u>31,421,630</u>	<u>22</u>
							<b>Non-controlling interests</b>	<u>2,232,744</u>	<u>2</u>	<u>2,056,370</u>	<u>2</u>
							<b>Total equity</b>	<u>35,204,736</u>	<u>30</u>	<u>33,478,000</u>	<u>24</u>
							<b>Total liabilities and equity</b>	<u>\$ 117,389,907</u>	<u>100</u>	<u>141,486,318</u>	<u>100</u>
	<b>Total assets</b>	<u>\$ 117,389,907</u>	<u>100</u>	<u>141,486,318</u>	<u>100</u>						



(English Translation of Consolidated Financial Statements Originally Issued in Chinese)  
**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income**  
**For the years ended December 31, 2018 and 2017**  
**(Expressed in Thousands of New Taiwan Dollars , Except Earnings Per Share)**

		<b>2018</b>		<b>2017</b>	
		<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
	<b>Income:</b>				
401000	Brokerage commissions (note 6(t))	\$ 4,460,877	58	3,932,846	43
402000	Revenues from securities business money lending	264	-	620	-
403000	Revenue from securities lending	137,401	2	112,679	1
404000	Underwriting commissions (note 6(t))	92,602	1	121,517	1
406000	Commissions on wealth management business	107,619	2	103,629	1
410000	Net gains (losses) on sale of trading securities (note 6(t))	(1,473,896)	(19)	1,592,039	17
421100	Securities management, distribution, and management fees	140,394	2	137,373	1
421200	Interest revenue (note 6(t))	1,978,434	26	2,029,921	22
421300	Dividend revenue	247,080	3	227,475	3
421500	Net gains (losses) on measurement of trading securities at fair value through profit or loss (note 6(t))	(601,871)	(8)	72,955	1
421600	Net gains (losses) on covering of borrowed securities and bonds with resale agreements	177,866	2	(2,549)	-
421610	Net gains (losses) on measurement of borrowed securities and bonds with resale agreements	45,706	1	27,654	-
421750	Realized gains (losses) from investments in debt instruments at fair value through other comprehensive income	(386,551)	(5)	-	-
422200	Net gains (losses) on stock warrants issued (note 6(t))	1,683,041	22	691,161	8
424100	Futures commission revenues (note 6(t))	453,195	6	770,614	8
424400	Net gains (losses) on derivative instruments - futures (note 6(v))	476,053	6	(421,005)	(5)
424500	Net gains (losses) on derivative instruments - OTC (note 6(v))	112,452	2	(323,820)	(3)
424800	Management fee revenues	323	-	37	-
424900	Consultancy fee revenue	29,695	-	18,009	-
425300	Impairment gain and reversal of impairment loss (note 6(u))	(64,837)	(1)	-	-
428000	Other operating revenues	22,798	-	153,742	2
		<u>7,638,645</u>	<u>100</u>	<u>9,244,897</u>	<u>100</u>
	<b>Expenses:</b>				
501000	Brokerage fees	557,399	7	546,603	6
502000	Brokerage and clearing fees - proprietary trading	19,616	-	20,227	-
503000	Clearing and exchange fees - refinancing	2,127	-	2,192	-
504000	Clearing and exchange fees - underwriting	1,093	-	1,413	-
521200	Financial costs	714,798	10	638,730	7
524100	Futures commission expense (note 6(t))	468,227	6	646,399	7
524300	Cleaning and settlement expenses	173,218	2	147,313	2
528000	Other operating expenditure	6,726	-	4,634	-
531000	Employee benefits expenses (note 6(t))	2,581,484	34	2,682,982	29
532000	Depreciation and amortization expense (note 6(t))	207,465	3	215,975	2
533000	Other operating expenses (note 6(t))	1,733,324	23	1,586,888	17
		<u>6,465,477</u>	<u>85</u>	<u>6,493,356</u>	<u>70</u>
	<b>Other income (expenses):</b>				
601000	Share of profits of associates and joint venture (note 6(e))	151,205	2	67,844	1
602000	Other gains and losses (note 6(t))	1,002,157	13	684,252	7
		<u>1,153,362</u>	<u>15</u>	<u>752,096</u>	<u>8</u>
902001	<b>Net income before income tax</b>	2,326,530	30	3,503,637	38
701000	<b>Income tax expense (note 6(q))</b>	(549,020)	(7)	(288,242)	(3)
	<b>Net income</b>	<u>1,777,510</u>	<u>23</u>	<u>3,215,395</u>	<u>35</u>
805000	<b>Other comprehensive income:</b>				
805500	<b>Components that may not be reclassified to profit or loss in subsequent periods:</b>				
805510	Gains (losses) on remeasurements of defined benefit plans	(43,421)	(1)	(28,741)	-
805540	Unrealized gains (losses) from investments in equity instruments at fair value through other comprehensive income	(248,859)	(3)	-	-
805550	Share of other comprehensive income of associates and joint ventures accounted for using equity method	872	-	-	-
805599	Income tax related to components of other comprehensive income	-	-	-	-
	<b>Subtotal of components that may not be subsequently reclassified into profit or loss</b>	<u>(291,408)</u>	<u>(4)</u>	<u>(28,741)</u>	<u>-</u>
805600	<b>Components that may be reclassified to profit or loss in subsequent periods:</b>				
805610	Exchange differences on translation of foreign operations	90,803	1	(271,032)	(3)
805615	Unrealized gains (losses) from investments in debt instruments at fair value through other comprehensive income	(222,349)	(3)	-	-
805620	Unrealized gains (losses) on financial assets available for sale, net	-	-	122,771	1
805699	Income tax related to components of other comprehensive income (note 6(q))	(19,234)	-	37,769	1
	<b>Subtotal of items that may be subsequently reclassified into profit or loss</b>	<u>(150,780)</u>	<u>(2)</u>	<u>(110,492)</u>	<u>(1)</u>
805000	<b>Other comprehensive income, net</b>	<u>(442,188)</u>	<u>(6)</u>	<u>(139,233)</u>	<u>(1)</u>
902006	<b>Total comprehensive income</b>	<u>\$ 1,335,322</u>	<u>17</u>	<u>3,076,162</u>	<u>34</u>
	<b>Net income attributable to:</b>				
913100	Shareholders of the parent	\$ 1,408,865	18	2,893,600	31
913200	Non-controlling interests	368,645	5	321,795	4
		<u>\$ 1,777,510</u>	<u>23</u>	<u>3,215,395</u>	<u>35</u>
	<b>Total comprehensive income attributable to:</b>				
914100	Shareholders of the parent	\$ 957,751	12	2,827,707	31
914200	Non-controlling interests	377,571	5	248,455	3
		<u>\$ 1,335,322</u>	<u>17</u>	<u>3,076,162</u>	<u>34</u>
975000	<b>Basic earnings per share (note 6(s))</b>	<u>\$ 0.61</u>		<u>1.25</u>	
985000	<b>Diluted earnings per share (note 6(s))</b>	<u>\$ 0.61</u>		<u>1.25</u>	

See accompanying notes to consolidated financial statements.

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

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Changes in Equity**

**For the years ended December 31, 2018 and 2017**

**(Expressed in Thousands of New Taiwan Dollars)**

	Equity attributable to the parent company											
	Stock		Retained earnings			Total other equity interest						
							Unrealized gains (losses) from financial assets at fair value through other comprehensive income	Unrealized gains (losses) on financial assets available for sale	Treasury stocks	Total equity attributable to the parent company	Non-controlling interests	Total Equity
	Common stocks	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences on translation of foreign operations						
Balance at 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 year ended December 31,2017	-	-	-	-	2,893,600	-	-	-	-	2,893,600	321,795	3,215,395
Other comprehensive income	-	-	-	-	(28,401)	(200,724)	-	163,232	-	(65,893)	(73,340)	(139,233)
Total comprehensive income	-	-	-	-	2,865,199	(200,724)	-	163,232	-	2,827,707	248,455	3,076,162
Appropriation and distribution of retained earnings:												
Legal reserve	-	-	119,675	-	(119,675)	-	-	-	-	-	-	-
Special reserve	-	-	-	245,335	(245,335)	-	-	-	-	-	-	-
Cash dividends of common stocks	-	-	-	-	(802,558)	-	-	-	-	(802,558)	(155,227)	(957,785)
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	639,412	642,595
Indemnification to stockholders due to merger	-	-	-	-	(35,711)	-	-	-	-	(35,711)	-	(35,711)
Balance at December 31, 2017	21,690,730	2,852,299	1,230,275	2,709,623	2,850,553	(103,566)	-	191,716	-	31,421,630	2,056,370	33,478,000
Effects of retrospective application	-	-	-	-	12,367	-	1,205,775	(191,716)	-	1,026,426	400	1,026,826
Balance at January 1, 2018 after adjustments	21,690,730	2,852,299	1,230,275	2,709,623	2,862,920	(103,566)	1,205,775	-	-	32,448,056	2,056,770	34,504,826
Net income for the year ended December 31,2018	-	-	-	-	1,408,865	-	-	-	-	1,408,865	368,645	1,777,510
Other comprehensive income	-	-	-	-	(43,183)	62,498	(470,429)	-	-	(451,114)	8,926	(442,188)
Total comprehensive income	-	-	-	-	1,365,682	62,498	(470,429)	-	-	957,751	377,571	1,335,322
Appropriation and distribution of retained earnings:												
Legal reserve	-	-	289,360	-	(289,360)	-	-	-	-	-	-	-
Special reserve	-	-	-	593,188	(593,188)	-	-	-	-	-	-	-
Cash dividends of common stocks	-	-	-	-	(433,815)	-	-	-	-	(433,815)	(201,584)	(635,399)
Stock dividends of common stocks	1,518,351	-	-	-	(1,518,351)	-	-	-	-	-	-	-
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	(6,638)	-	6,638	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(13)	(13)
Balance at December 31, 2018	\$ 23,209,081	2,852,299	1,519,635	3,302,811	1,387,250	(41,068)	741,984	-	-	32,971,992	2,232,744	35,204,736

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
<b>Cash flows from (used in) operating activities:</b>		
Net income before tax	\$ 2,326,530	3,503,637
<b>Adjustments:</b>		
Income and expenses items with no effect on cash flows:		
Depreciation expense	173,545	179,486
Amortization expense	33,920	36,489
Impairment loss / Provision for bad debt expense	64,837	138,530
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	556,165	(72,955)
Interest expense	714,798	638,730
Interest revenue (including financial revenue)	(2,368,257)	(2,289,092)
Dividend revenue	(296,631)	(258,256)
Share-based payment compensation cost	-	17,530
Cash dividend received from investments under equity method	165,999	91,452
Share of profit of associates and joint ventures	(151,205)	(67,844)
Loss on disposal and retirement of property and equipment	122	3,034
Gain on disposal of investments under equity method	(69,645)	(40,386)
Net loss (gain) on non-operating financial instruments at fair value through profit or loss	13,052	(23,198)
<b>Net changes of income and expense items with no effect on cash flows</b>	<b>(1,163,300)</b>	<b>(1,646,480)</b>
<b>Changes in assets and liabilities from operating activities:</b>		
Decrease (increase) in financial assets at fair value through profit or loss	3,101,586	(6,911,031)
Increase in financial assets available for sale - current	-	(13,305,842)
Decrease in financial assets at fair value through other comprehensive income	21,632,321	-
Decrease (increase) in receivable for securities provided as collateral	4,873,250	(3,108,222)
Decrease in refinancing margin	6,481	47,258
Decrease in receivable on refinancing collateral	4,469	40,401
Increase in receivable of securities business money lending	(416,874)	(1,387,679)
Increase in customers' margin account	(5,972,918)	(4,132,870)
Decrease (increase) in margin receivable of futures trading	(33,370)	893
Decrease (increase) in collateral for securities borrowed	460,143	(111,606)
Decrease (increase) in security borrowing margin	519,720	(156,617)
Decrease (increase) in notes receivable	4,630	(4,880)
Decrease (increase) in accounts receivable	2,036,879	(2,478,807)
Decrease (increase) in prepayments	(6,110)	18,090
Decrease (increase) in other receivables	(38,630)	34,752
Increase in leverage contract trading - customers' margin account	(77,024)	(151,468)
Decrease (increase) in other current assets	84,071	(255,111)
Decrease (increase) in guarantee deposited for business operations	50,763	(2,106)
Decrease in settlement fund	5,589	5,614
Decrease (increase) in refundable deposits	(2,650)	54,698
Decrease in current income tax assets	-	17,896
Decrease in other non-current assets	91,681	135,247
Increase (decrease) in financial liabilities at fair value through profit or loss	(1,700,978)	1,427,429
Increase (decrease) in bonds sold under repurchase agreements	(19,023,788)	12,099,670
Increase in guarantee deposited for short sales	90,480	503,424
Increase in proceeds payable from short sales	102,462	553,749
Increase (decrease) in securities lending refundable deposits	(545,434)	311,411
Increase in futures traders' equity	5,890,600	4,135,995
Increase in customers' equity of separate account ledger in settlement account	13,490	8,942
Increase in leverage contract trading - customers' equity	73,059	152,770
Decrease in notes payable	(398)	-
Increase (decrease) in accounts payable	(1,902,319)	2,300,634
Increase (decrease) in advance receipts	(18,455)	21,975
Increase (decrease) in receipts under custody	(225,698)	198,695
Increase (decrease) in other payable	(228,608)	308,458
Increase in other current liabilities	4,926	12,250
Increase (decrease) in other financial liabilities - current	(1,152,096)	2,082,522
Increase in provision - current	1,540	26,403
Increase (decrease) in other financial liabilities - non-current	43,995	(16,299)
Decrease in other non-current liabilities	(185,129)	(113,130)
<b>Total changes in assets and liabilities from operating activities</b>	<b>7,561,656</b>	<b>(7,636,492)</b>
<b>Total cash generated from adjustment items</b>	<b>6,398,356</b>	<b>(9,282,972)</b>

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

**Consolidated Statements of Cash Flows**

**For the years ended December 31, 2018 and 2017**

**(Expressed in Thousands of New Taiwan Dollars)**

	<b>2018</b>	<b>2017</b>
Cash generated from operating activities	\$ 8,724,886	(5,779,335)
Interest received	2,443,078	2,151,528
Dividends received	296,636	258,256
Interest paid	(735,367)	(616,098)
Income taxes paid	(286,767)	(211,577)
<b>Net Cash flows provided by (used in) operating activities</b>	<b>10,442,466</b>	<b>(4,197,226)</b>
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of financial assets at fair value through other comprehensive income	(288,030)	-
Proceeds from disposal of financial assets at fair value through other comprehensive income	9,767	-
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	1,085	-
Proceeds from disposal of financial assets available for sale	-	71,827
Acquisition of financial assets measured at cost	-	(315,453)
Proceeds from capital reduction of financial assets measured at cost	-	9,368
Acquisition of investments accounted for using equity method	(1,272,505)	-
Increase in deferred debits	(912)	(343)
Acquisition of property and equipment	(123,026)	(95,061)
Acquisition of intangible assets	(26,773)	(50,454)
Proceeds from disposal of intangible assets	1,932	-
<b>Net cash flows provided by (used in) investing activities</b>	<b>(1,698,462)</b>	<b>(380,116)</b>
<b>Cash flows from (used in) financing activities:</b>		
Increase (decrease) in short-term borrowings	(3,208,192)	2,845,296
Increase (decrease) in commercial papers payable	(4,099,184)	4,099,184
Payments to acquire treasury shares	-	(91,539)
Cash dividends paid	(635,399)	(957,785)
Issuance of common stock for cash	-	626,096
<b>Net cash flows provided by (used in) financing activities</b>	<b>(7,942,775)</b>	<b>6,521,252</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>88,113</b>	<b>(263,248)</b>
<b>Increase in cash and cash equivalents</b>	<b>889,342</b>	<b>1,680,662</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>7,104,077</b>	<b>5,423,415</b>
<b>Cash and cash equivalents, end of this period</b>	<b>\$ 7,993,419</b>	<b>7,104,077</b>

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

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

**For the years ended December 31, 2018 and 2017**

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

**(1) Overview:**

Capital Securities Corporation (the “Company”) was registered under the Ministry of Economic Affairs, R.O.C. on June 21, 1988. The address of the Company’s registered office is 4th Fl. No. 101, Song-Jen Road, Taipei, Taiwan, R.O.C. As of December 31, 2018, the composition of the consolidated financial statements includes the Company and the subsidiaries (the “Group”). As of December 31, 2018, the Company has 53 branches nationwide.

The Company is authorized to conduct the following businesses:

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

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

The consolidated financial statements were authorized for issuance by the board of directors on March 29, 2019.

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

**(3) New standards, amendments and interpretations adopted:**

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018.

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendment to IFRS 2 “Clarifications of Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Statement of Cash Flows -Disclosure Initiative”	January 1, 2017
Amendment to IAS 12 “Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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

- (i) IFRS 9 “Financial Instruments”

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

As a result of the adoption of IFRS 9, the Group adopted the consequential amendments to IAS 1 “Presentation of Financial Statements” which requires impairment of financial assets to be presented in a separate item in the statement of comprehensive income. Previously, the Group’s approach was to include the impairment of account receivables in operating expenses. Additionally, the Group adopted the consequential amendments to IFRS 7 “Financial Instruments: Disclosures” that are applied to disclosures about year 2018 but generally have not been applied to comparative information.

## **CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

### **Notes to the Consolidated Financial Statements**

The detail and impact on significant accounting policies of IFRS 9 applied are set out below:

1) Classification of financial assets and financial liabilities

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 classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please refer to note 4(g).

The adoption of IFRS 9 did not have a significant impact on its accounting policies on financial liabilities.

2) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with the ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt instruments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please refer to note 4(f).

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and other equity items as at January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed 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.
- If an investment on debt instruments had low credit risk at the date of initial application of IFRS 9, then the Group assumed that the credit risk on those asset increase insignificantly since its initial recognition.



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

4) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original and new measurement categories under IAS 39 and IFRS 9 for each class of the Group's financial assets as of January 1, 2018. There were no changes on the measurement categories and the carrying amount of financial liabilities.

	IAS39		IFRS9	
	Measurement Categories	Carrying Amount	Measurement Categories	Carrying Amount
<b>Financial Assets</b>				
Cash and equivalents	Amortized cost	\$ 7,104,077	Amortized cost	7,104,077
Financial assets at fair value through profit or loss	FVTPL	34,923,283	FVTPL	34,916,845
		-	FVOCI (Note 2)	12,360
Financial assets available for sale	Available-for-sale	32,807,779	FVOCI (Note 1)	32,792,626
Accounts receivable	Amortized cost	25,194,975	Amortized cost	25,194,975
Customers' margin account	Amortized cost	27,302,712	Amortized cost	27,302,712
Leverage contract trading - customers' margin account	Amortized cost	151,540	Amortized cost	151,540
Financial assets measured at cost	Measured at cost	754,545	FVOCI (Note 2)	1,775,449
Other assets	Amortized cost	2,119,569	Amortized cost	2,119,569

Note1: The debt instrument investments were previously classified as financial asset available for sale under IAS 39, are held by the Group in same portfolio to provide interest income; however, they may be sold to meet liquidity requirements arising in the normal course of business. These debentures are held within a business model whose objective is both to collect contractual cash flows and sell financial assets. The contractual terms of these debentures give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. Therefore, these investments were classified as financial assets at FVOCI. With the transition to IFRS 9, an impairment loss \$15,153 was recognized, the adjustments would result in a decrease in retained earnings of \$15,153 and an increase in other equity items of \$15,153 on January 1, 2018.

Note2: These equity instruments (including financial assets measured at cost) represent investments that the Group intends to hold for the long term strategic purposes or not for the trading purposes. In accordance with IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Accordingly, an increase of \$1,026,826 in those assets recognized, and an increase of \$998,906, \$27,520 and \$400 were recognized in other equity items, retained earnings and non-controlling interests on January 1, 2018.

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The reconciliations of carrying amount of financial assets transferred from December 31, 2017 under IAS 39, to January 1, 2018 under IFRS 9, were as follows:

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings effect	2018.1.1 Other equity effect
Financial assets at fair value through profit or loss						
Beginning balance of FVTPL (IAS 39)	\$ 34,923,283	-	-		-	-
Subtraction – equity instruments:						
To FVOCI	-	(6,438)	-		-	-
Total	<u>\$ 34,923,283</u>	<u>(6,438)</u>	<u>-</u>	<u>34,916,845</u>	<u>-</u>	<u>-</u>
Financial assets at fair value through other comprehensive income						
Beginning balance of available for sale (including measured at cost) (IAS 39)	\$ 33,562,324	-	1,020,904		-	1,020,504
Addition – equity instruments:						
From FVTPL	-	6,438	5,922		27,520	(21,598)
Subtractions – debt instruments:						
Cumulative impairment adjustment	-	-	(15,153)		(15,153)	15,153
Total	<u>\$ 33,562,324</u>	<u>6,438</u>	<u>1,011,673</u>	<u>34,580,435</u>	<u>12,367</u>	<u>1,014,059</u>

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 “Leases”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IFRS 9 “Prepayment features with negative compensation”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019
Amendments to IAS 28 “Long-term interests in associates and joint ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

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

(i) IFRS 16 “Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC-15 “Operating Leases – Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”.

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard, and the lessors will continue to classify a lease as either a finance or an operating lease.

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Group plans to apply the practical expedient to exempt the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019.

2) Transition

As a lessee, the Group can apply the standard using either of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

On January 1, 2019, the Group plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019. Comparative information will not be restated.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group chooses to elect the following practical expedients:

- apply a single discount rate to a portfolio of leases with similar characteristics.
- adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
- apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.
- exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

- 3) So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for the operating leases of its offices. As of January 1, 2019, the Group estimated that the right-of-use assets and the lease liabilities to increase by \$1,071,347 and \$1,071,347, respectively.

#### (ii) IFRIC 23 Uncertainty over Income Tax Treatments

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, as well as 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, as well as 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.

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

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

#### (c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, the following IFRSs have been issued by the IASB, but have yet to be endorsed by the FSC:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

The Group assessed that the above IFRSs may not be relevant to the Group.

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

**(4) Summary of significant accounting policies:**

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

**(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with the “ Regulations Governing the Preparation of Financial Reports by Securities Firms” , and the IFRSs, IAS, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the Financial Supervisory Commission, R.O.C..

**(b) Basis of preparation**

**(i) Basis of measurement**

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

- 1) Financial instruments measured at fair value through profit or loss (including derivative instruments);
- 2) Financial assets at fair value through other comprehensive income; and
- 3) The defined benefit asset is recognized as plan assets, plus unrecognized actuarial loss, less unrecognized actuarial gain and the present value of the defined benefit obligation.

**(ii) Functional and presentation currency**

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

**(c) Basis of consolidation**

**(i) Principle of preparation of the consolidated financial statements**

The consolidated financial statements comprise the Company and its subsidiaries.

Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Inter-company transactions, balances and any unrealized gains or losses on transactions between companies within the Group are eliminated.

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(ii) List of subsidiaries in the consolidated financial statements

Subsidiaries included in the consolidated financial report are as follows:

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership		Note
			December 31, 2018	December 31, 2017	
The Company	Capital Investment Management Corp.	Engaged in providing advice on securities investment and securities investment consultancy	100.00 %	100.00 %	The corporation established in February, 1990. As of December 31, 2018, the paid-in capitals amounted to \$70,000.
"	CSC International Holdings Ltd.	Long-term equity investment business	100.00 %	100.00 %	The corporation established in March, 1996. As of December 31, 2018, the paid-in capitals amounted to US\$45,000 thousands.
"	Capital Futures Corp.	Engaged in domestic and foreign futures business	56.21 %	56.21 %	The corporation established in February, 1997, and increased capital on February, 2017. The ownership portion has decreased from 59.01% to 56.21%. As of December 31, 2018, the paid-in capitals amounted to \$1,764,376.
"	Taiwan International Futures Corp.	Management consultancy	- %	99.99 %	Completion of liquidation.
"	Taiwan International Securities (B.V.I) Corp.	Holding company for offshore securities units	100.00 %	100.00 %	The corporation established in December, 1996. As of December 31, 2018, the paid-in capitals amounted to US\$9,516 thousands.
"	Taiwan International Securities Investment Consulting Corp.	Investment consultancy	99.92 %	99.92 %	Liquidation in progress.
"	CSC Venture Capital Corp.	Venture Capital and consulting business	100.00 %	100.00 %	The corporation established in January, 2016. As of December 31, 2018, the paid-in capitals amounted to \$1,000,000.
Capital Futures Corp.	CSC Futures (HK) Ltd.	Futures dealing business	97.27 %	97.27 %	The corporation established in December, 1998. As of December 31, 2018, the paid-in capitals amounted to HK\$220,000 thousands.
"	Capital International Technology Corp.	Management, consulting and information service business	100.00 %	100.00 %	The corporation established in December, 2014. As of December 31, 2018, the paid-in capitals amounted to \$50,000.
Capital International Technology Corp.	Capital True Partner Technology Co., Ltd.	Management, consulting and information service business.	51.00 %	51.00 %	The corporation established in August 20, 2008. Acquired 51% of the equity on February 9, 2015 and held controlling interest. As of December 31, 2018, the paid-in capitals amounted to CNY\$1,000 thousands.
"	Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	100.00 %	100.00 %	The corporation established in October, 2016. As of December 31, 2018, the paid-in capitals amounted to CNY\$4,000 thousands.
CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses	100.00 %	100.00 %	The corporation established in May, 1994.
CSC Securities (HK) Ltd.	Capital Securities Nominees Ltd.	Agency service	100.00 %	100.00 %	The corporation established in April, 1995.
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Long-term equity investment business.	100.00 %	100.00 %	Not complied with the requirement of Financial Resources Rules (the "FRR") of the Hong Kong Securities and Futures Commission, the operations remain stagnant currently.
TIS Securities (HK) Limited	Taiwan International Capital (HK) Ltd.	Direct investment	100.00 %	100.00 %	"

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(iii) Subsidiaries not listed in the consolidated financial statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership		Note
			December 31, 2018	December 31, 2017	
The Company	Capital Insurance Agency Corp.	Manages personal insurance agent business.	100.00 %	100.00 %	The corporation established in November 2000. The Company acquired 100% of the equity and gained a controlling interest. The paid-in capitals amounted to \$7,400. As of December 31, 2018, and 2017, the total assets constituted 0.04% and 0.03% of the Group's total assets. For the years ended December 31, 2018 and 2017, the operation revenue were merely 0.88% and 0.79% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.
The Company	Capital Insurance Advisory Corp.	Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business.	100.00 %	100.00 %	The corporation established in November 2000. The Company acquired 100% of the equity and gained a controlling interest. The paid-in capitals amounted to \$5,000. As of December 31, 2018 and 2017, the total assets constituted 0.09% and 0.07% of the Group's total assets. For the years ended December 31, 2018 and 2017, the operation revenue were merely 2.36% and 2.06% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.

(d) Foreign currencies

(i) Foreign currency transaction

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

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

Foreign currency differences arising on retranslation are recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

- 1) Fair value through other comprehensive income (Available-for-sale) equity investment;
- 2) A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- 3) Qualifying cash flow hedges to the extent that the hedge is effective.



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

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Company's functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Company's functional currency at average rate. Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve in equity.

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

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

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

- (i) Assets arising from operating activities that are expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- (ii) Assets held for the trading purposes;
- (iii) Assets that are expected to be realized within twelve months from the balance sheet date;
- (iv) Cash and cash equivalent, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

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

- (i) Liabilities arising from operating activities that are expected to be settled in the normal operating cycle;
- (ii) Liabilities incurred for the trading purposes;
- (iii) Liabilities that are to be settled within twelve months from the balance sheet date;
- (iv) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

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

(f) Cash and cash equivalents

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

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

(g) Financial instruments

(i) Financial assets (policy applicable from January 1, 2018)

Financial assets are classified into the following categories: Financial assets measured at amortized cost, financial assets at fair value through other comprehensive income (FVOCI) and financial assets at fair value through profit or loss (FVTPL).

The Group shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following criteria and is not designated as at FVTPL :

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost plus or minus the cumulative amortization using the effective interest method and adjusted for any loss allowance for impairment. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Financial assets at fair value through other comprehensive income (FVOCI )

A debt instrument is measured at FVOCI if it meets both of the following criteria and is not designated as at FVTPL :

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated by using the effective interest method, foreign exchange gains and losses, impairment losses, and dividend income (unless the dividend clearly represents a recovery of part of the cost of the investment.) deriving from debt instruments are recognized in profit or loss. Other changes in the carrying amount are recognized in other comprehensive income and accumulated in other equity items. On derecognition, the cumulative gains and losses of debt instruments will be reclassified to profit or loss. However, the cumulative gains and losses of equity instrument investments will not be reclassified to profit or loss. Instead, they will be transferred to retained earnings.

Dividends derived from equity investments are recognized as revenue when the right to receive payment is established, which is normally the ex-dividend date.

#### 3) Financial assets at fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets. On initial recognition, the Group may irrevocably designate financial assets at amortized cost or at fair value through other comprehensive income as at fair value through profit or loss, if they can eliminate or significantly reduce a measurement or recognition inconsistency.

On initial recognition, the Group measures the financial assets at fair value and recognizes the transaction costs in profit or loss as incurred. The Group subsequently measures the financial assets at fair value, and recognizes the gains or losses (including dividend and interest income) in profit or loss.

#### 4) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, financial assets at amortized costs, notes and accounts receivable, other receivables, refundable deposits and other financial assets), debt instrument investments measured at FVOCI and contract assets.

The Group measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for accounts receivables and contract assets are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

12-month ECLs are the ECLs that result from all possible default events of a financial instrument within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered in estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment as well as forward-looking information.

The Group considers a debt instrument to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due or within 30 days but breached the contract. The Group considers a financial asset to be in default when the financial asset is more than 90 days past due or the borrower is unlikely to pay its credit obligations to the Group in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets measured at amortized cost and debt instruments at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial assets is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter into bankruptcy or other financial reorganization; or
- the disappearance of an active market for a financial asset because of financial difficulties.

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Loss allowances for financial assets measured at amortized cost are deducted from the carrying amount of the assets. For debt instrument investments at FVOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Group recognizes the amount of expected credit losses (or reversal) in profit or loss.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to reimburse the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

#### 5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a debt instrument in its entirety, the Group recognizes the difference between its carrying amount and the sum of the consideration received or receivable and any cumulative gains or losses that had been recognized in other comprehensive income and presented in "other equity – unrealized gains or losses on fair value through other comprehensive income" in profit or loss.

On derecognition of a debt instruments not in its entirety, the previous carrying amount and the cumulative gains or loss that had been recognized in other comprehensive income of the financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received from the part derecognized, and any cumulative gains or losses allocated to it that had been recognized in other comprehensive income, shall be recognized in profit or loss.

#### (ii) Financial assets (policy applicable before January 1, 2018)

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

##### 1) Financial assets at fair value through profit or loss

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

## **CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

### **Notes to the Consolidated Financial Statements**

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

#### **2) Financial assets available for sale**

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

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

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

#### **3) Held-to-maturity financial assets**

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

#### **4) Loans and receivables**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise accounts receivable and other receivables. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses other than insignificant interest on short-term receivables.

#### **5) Impairment of financial assets**

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

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

Impairment loss recognized on an available for sale equity security is not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available for sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.



## **CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

### **Notes to the Consolidated Financial Statements**

#### **6) Derecognition of financial assets**

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

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

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

#### **(iii) Financial liabilities and equity instruments**

##### **1) Financial liabilities measured at fair value through profit or loss**

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

##### **2) Other financial liabilities**

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

##### **3) Derecognition of financial liabilities**

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

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### 4) Offsetting of financial assets and liabilities

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

#### (iv) Derivative financial instruments

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

##### 1) Interest rate swaps

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

##### 2) Convertible bond asset-backed swaps

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

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

##### 3) Structured instruments

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

On the settlement date with physical delivery, the fair value of the acquired securities are stated at cost. The difference between fair value and the cost of the delivered securities are recognized as gains (losses) on sale of securities since January 1, 2018. Before that, the fair value and the cost of the delivered securities are recognized as revenue on sale of securities and cost on sale of securities, respectively.

## **CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

### **Notes to the Consolidated Financial Statements**

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

4) Interest options

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

5) Bond options

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

6) Equity options

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

On the settlement date with physical delivery, the fair value of the acquired securities are stated at cost. The difference between fair value and the cost of the delivered securities are recognized as gains (losses) on sale of securities since January 1, 2018. Before that, the fair value and the cost of the delivered securities are recognized as revenue on sale of securities and cost on sale of securities, respectively.

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

7) Forward rate agreement

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

8) Futures contracts and options

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

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

9) Stock warrants

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

(h) Margin loan, short sale and refinancing

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

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

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

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

(i) Bonds with resell and repurchase agreements

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

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

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

(j) Customers' margin accounts and futures customers' equity

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

(k) Securities borrowing transactions

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

(l) Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When changes in an associate's equity are not recognized in profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognizes change in ownership interests in the associate in capital surplus in proportion to its ownership.

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

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

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

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

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

#### **(m) Property and equipment**

##### **(i) Recognition and measurement**

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

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

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

##### **(ii) Reclassification to investment property**

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

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(iii) Subsequent cost

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

(iv) Depreciation

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

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

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

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

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

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

(n) Investment property

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



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

(o) Intangible assets

(i) Goodwill

1) Initial recognition

Goodwill resulted in acquisition of subsidiaries includes in intangible assets.

2) Subsequent measurement

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

(ii) Other intangible assets

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

(iii) Amortization

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

1) Customer relationships: 5 years

2) Computer software cost and dial-up service charges: 3 years

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

(p) Lessee

(i) Lessor

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

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(ii) Lessee

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

(q) Non-financial assets impairment

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

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

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

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

(r) Employee benefits

(i) Defined contribution plans

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

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(ii) Defined benefit plans

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

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

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

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

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

(iii) Termination benefits

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

(iv) Short-term employee benefits

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

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

(s) Provisions

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

(t) Revenue recognition

(i) Brokerage commissions

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

(ii) Underwriting commissions

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

(iii) Interest revenue

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

(u) Income tax

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

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

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

- (i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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- (ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (iii) Initial recognition of goodwill.

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

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

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

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

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

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

- (v) Business combinations

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

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(w) Earnings per share (EPS)

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

(x) Segment information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's CEO who allocates resources and assesses segment performance. Each operating segment consists of standalone financial information.

(y) Treasury stocks

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

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

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**(5) Major sources of significant accounting assumptions, judgments and estimation uncertainty:**

The preparation of the consolidated financial statements in conformity with the Regulations and the IFRSs endorsed by the FSC requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

The impairment evaluation of goodwill: The Group performed the impairment test of goodwill annually. The recoverable amount of the cash-generating unit was based on the value in use. The Group chose the appropriate discount rate and estimated the expected cash flows of the cash-generating unit.

**(6) Explanation of significant accounts:**

**(a) Cash and cash equivalents**

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Cash	\$ 2,796	2,767
Bank deposits		
Checking accounts	31,226	53,094
Demand deposits	735,856	956,250
Foreign currency deposits	1,080,614	1,875,088
Subtotal	1,847,696	2,884,432
Cash equivalents		
Time deposits	4,122,157	2,971,870
Futures margin - excess margin	1,998,273	1,098,046
Commercial papers	22,497	146,962
Subtotal	6,142,927	4,216,878
Total	<b>\$ 7,993,419</b>	<b>7,104,077</b>



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(b) Financial assets

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

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
<b>Open-ended funds and money-market instruments</b>		
Open-ended funds and money-market instruments	\$ 305,950	323,962
Valuation adjustment	<u>(8,129)</u>	<u>(1,886)</u>
Subtotal	<u>297,821</u>	<u>322,076</u>
<b>Securities invested by securities broker</b>		
Securities invested by securities broker	74,553	-
Valuation adjustment	<u>(7,283)</u>	<u>-</u>
Subtotal	<u>67,270</u>	<u>-</u>
<b>Trading securities - proprietary trading</b>		
Listed stocks	1,324,802	1,495,906
Listed funds	852,293	1,122,398
OTC stocks	306,931	742,663
OTC funds	83,480	40,000
Emerging market stocks	498,304	455,025
Emerging market funds	12,414	9,848
Convertible corporate bonds	496,130	767,352
Government bonds	6,511,541	6,695,553
Corporate bonds	9,652,271	9,403,722
International bonds	4,079,947	2,838,568
Financial debentures	300,000	300,000
Foreign stocks	219,070	646,649
Overseas bonds	302,675	59,353
Other	<u>257</u>	<u>34,858</u>
	24,640,115	24,611,895
Valuation adjustment	<u>(256,660)</u>	<u>132,192</u>
Subtotal	<u>24,383,455</u>	<u>24,744,087</u>

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	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<b>Trading securities - underwriting:</b>		
Listed stocks	\$ 107,320	81,823
OTC stocks	55,690	48,763
Convertible corporate bonds	<u>141,011</u>	<u>129,277</u>
	304,021	259,863
Valuation adjustment	<u>(8,312)</u>	<u>11,400</u>
Subtotal	<u>295,709</u>	<u>271,263</u>
<b>Trading securities - hedging</b>		
Listed stocks	1,746,810	4,022,877
OTC stocks	397,140	1,191,800
Convertible corporate bonds	3,799,450	3,456,957
Foreign stocks	<u>-</u>	<u>999</u>
	5,943,400	8,672,633
Valuation adjustment	<u>(231,510)</u>	<u>(65,965)</u>
Subtotal	<u>5,711,890</u>	<u>8,606,668</u>
<b>Derivatives</b>		
Call options	11,580	132,472
Futures margin - proprietary fund	223,490	611,870
IRS asset swaps	13,855	16,479
Asset swap options - long position	4,072	2,572
Currency derivatives	46,967	22,446
Structured notes	3,075	1,343
Currency swaps	1,690	4,072
Interest rate swaps	<u>-</u>	<u>1,920</u>
Subtotal	<u>304,729</u>	<u>793,174</u>
<b>Total</b>	<b><u>\$ 31,060,874</u></b>	<b><u>34,737,268</u></b>

As of December 31, 2018 and 2017, trading securities, financial assets at fair value through other comprehensive income and financial assets available for sale undertaken for repurchase agreements of the Group were \$29,145,321 and \$49,006,659, respectively, please refer to note 6(l) and note 8 for details.

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(ii) Financial assets at fair value through other comprehensive income — current

	<b>December 31, 2018</b>
Debt instruments at fair value through other comprehensive income	
International bonds	\$ 1,226,189
Overseas bonds	<u>9,205,561</u>
	10,431,750
Valuation adjustment	<u>(50,161)</u>
Subtotal	<u>10,381,589</u>
Equity instrument at fair value through other comprehensive income	
Listed stocks	237,755
OTC stocks	40,353
Emerging market stocks	24,130
Foreign stocks	<u>279,832</u>
	582,070
Valuation adjustment	<u>(97,730)</u>
Subtotal	<u>484,340</u>
Total	<u><u>\$ 10,865,929</u></u>

1) Debt instrument investments measured at fair value through other comprehensive income

The Group has assessed the debentures shown above are held within a business model whose objective is achieved by both collecting the contractual cash flows and selling securities; therefore, they have been classified as financial asset at fair value through other comprehensive income on January 1, 2018.

2) Equity instrument investments measured at fair value through other comprehensive income

For the year ended December 31, 2018, the dividends were recognized from the Group designated and disposed the aforementioned equity instrument investments measured at fair value through other comprehensive income – current amounted to \$25,757.

Due to the consideration of asset allocation and managing and adjusting the investment portfolio, the Group sold shares of stocks for a fair value \$490,485 and cumulative dispose losses for the year ended December 31, 2018 amounted \$6,645 were transferred from other equity items to retained earnings.

3) For credit risk (including the impairment of debt instrument investments) and market risk; please refer to note 6(u).

4) For the year ended December 31, 2018, impairment test have been applied by the Group, the variation of loss allowance in the debt instrument measured at fair value through other comprehensive income of the Group please refer to note 6(u).

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(iii) Financial assets available for sale - current:

	<b>December 31, 2017</b>
Listed stocks	\$ 101,209
OTC stocks	77,668
Emerging market stocks	24,907
International bonds	1,532,767
Foreign stocks	104,055
Overseas bonds	<u>30,797,054</u>
Subtotal	32,637,660
Valuation adjustment	<u>170,119</u>
Total	<u><u>\$ 32,807,779</u></u>

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

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
<b>Mandatorily measured at fair value through profit or loss:</b>		
Government bonds	\$ 185,952	-
Valuation adjustment	<u>(843)</u>	<u>-</u>
Subtotal	<u>185,109</u>	<u>-</u>
<b>Financial assets held for trading:</b>		
Government bonds	-	185,953
Valuation adjustment	<u>-</u>	<u>62</u>
Subtotal	<u>-</u>	<u>186,015</u>
Total	<u><u>\$ 185,109</u></u>	<u><u>186,015</u></u>

As of December 31, 2018 and 2017, 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).

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

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

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

<b>Non-listed (or non-over-the-counter)</b>	<b>December 31, 2017</b>	
	<b>Ownership ratio</b>	<b>Amount</b>
Taiwan Depository & Clearing Corp.	1.29 %	\$ 18,661
Taiwan Futures Exchange Corp.	2.86 %	58,117
Taiwan Stock Exchange Corporation	0.06 %	12,242
Global Securities Finance Corporation	6.05 %	202,681
Chou Chin Industrial Co., Ltd.	0.05 %	-
Jong-Yih Industrial Development Co., Ltd.	0.68 %	1,369
Reliance Securities Investment Trust Co., Ltd	3.02 %	9,767
Top Taiwan III Venture Capital Co., Ltd.	7.00 %	32,858
Prudence Venture Investment Corp.	1.50 %	27,397
Chanyee Hotelday Co., Ltd.	7.33 %	33,000
Miho International Co., Ltd.	2.37 %	49,962
LIPS Corp.	18.77 %	149,625
Xianlife Limited	2.36 %	46,140
FlexUP Technologies Corp.	15.31 %	30,000
Han Biomedical Inc.	9.20 %	23,000
Yonggu Group Co., Ltd.	1.66 %	59,726
<b>Total</b>		<b>\$ <u>754,545</u></b>

For the years 2017, Top Taiwan III Venture Capital Co., Ltd. refunded the proceeds of capital reduction amounted to \$1,400 and Prudence Venture Investment Corp. refunded the proceeds of capital reductions which amounted to \$7,968.

The Group acquired shares of LIPS Corp., Xianlife Limited, FlexUP Technologies Corp., Han Biomedical Inc. and Yonggu Group Co., Ltd. in March, April, June and December 2017, respectively.

(vii) Financial assets at fair value through other comprehensive income — non-current

	<b>December 31, 2018</b>
Equity instruments at fair value through other comprehensive income	
Non-listed or non-over-the-counter stocks	\$ 1,064,667
Valuation adjustment	<u>846,910</u>
<b>Total</b>	<b>\$ <u>1,911,577</u></b>

1) Equity instrument investments at fair value through other comprehensive income

For the year ended December 31, 2018, the dividends were recognized from the Group designated and disposed the aforementioned equity instrument investments at fair value through other comprehensive income – non-current amounted to \$52,529.

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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For the year ended December 31, 2018, under the consideration of asset allocation and managing and adjusting the investment portfolio, the Group sold equities recognized in FVOCI -non-current for a fair value \$9,774 and generated cumulative dispose gains \$7, and the gains were transferred from other equity items to retained earnings.

- (viii) The Group uses Value at risk (VaR) to monitor and measure the market risk of its investment in equity stocks. VaR refers to the unexpected loss of financial instruments derived from the changes in market risk factors within certain time periods and confidence level. The table below discloses the VaR, which is the estimation of potential loss in ten days and is covered by 99% of the adverse changes in market prices. In the table below by using this assumption, 2.5 out of 250 days VaR will exceed the disclosed amounts due to the changes in market price. For the years ended 2018 and 2017 VaR (99%, per 10-day) of equity stocks are as follows:

Type of market risk	December 31, 2018	December 31, 2017	For the years ended December 31,					
			2018			2017		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	997,970	1,446,742	1,263,629	1,615,221	947,949	992,682	1,446,742	666,504

(c) Accounts Receivable

	December 31, 2018	December 31, 2017
Receivable on securities purchased by customers	\$ 8,642	27,055
Settlement	712,274	1,000,019
Interests receivable	547,595	627,789
Receivables on securities sold	3,261,956	5,015,345
Others	<u>78,419</u>	<u>57,560</u>
Subtotal	4,608,886	6,727,768
Less: allowance for doubtful accounts	<u>(1,713)</u>	<u>(1,713)</u>
Total	<u><u>\$ 4,607,173</u></u>	<u><u>6,726,055</u></u>

- (i) For credit risk (including the impairment of debt instrument investments) and market risk; please refer to note 6(u).
- (ii) For the year ended December 31, 2018, impairment test have been applied by the Group, the variation of loss allowance in receivables, please refer to note 6(u).

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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(d) Customers' margin account / Futures traders' equity

As of December 31, 2018 and 2017, a reconciliation of the customers' margin account and the futures traders' equity was as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Customers' margin account		
Cash in banks	\$ 24,386,388	20,131,841
Customers' margin account - futures clearing house	2,579,464	3,485,434
Customers' margin account - other futures commission merchants	6,309,528	3,683,324
Marketable securities	<u>250</u>	<u>2,113</u>
Total customers' margin account	<u>33,275,630</u>	<u>27,302,712</u>
Add:		
Commission expense	5,035	1,651
Other	52	33
Less:		
Commission revenue	(17,259)	(11,431)
Futures transaction tax	(1,426)	(1,356)
Interest revenues	(3,726)	(2,326)
Temporary receipts	(669)	(590)
Remittance amount of the customers after the market closed	(7,179)	(2,424)
Other receivables	<u>(91,632)</u>	<u>(18,043)</u>
Futures traders' equity	<u><u>\$ 33,158,826</u></u>	<u><u>27,268,226</u></u>

(e) Investments under equity method

As of December 31, 2018 and 2017, investments under equity method consisted of the following:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Subsidiaries		
Capital Insurance Advisory Corp.	\$ 84,732	90,506
Capital Insurance Agency Corp.	<u>40,757</u>	<u>41,547</u>
Subtotal	<u>125,489</u>	<u>132,053</u>
Associates		
True Partner Advisor Hong Kong Ltd.	45,719	41,535
Capital Investment Trust Corp.	<u>1,261,329</u>	<u>-</u>
Subtotal	<u>1,307,048</u>	<u>41,535</u>
Total	<u><u>\$ 1,432,537</u></u>	<u><u>173,588</u></u>

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(i) Subsidiaries:

For the years ended 2018 and 2017, the Group's share of gains or losses of the subsidiaries were as follows:

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
The Group's share of gains based on the subsidiaries' financial statements	<u>\$ 60,232</u>	<u>66,816</u>
	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Total assets	<u>\$ 151,345</u>	<u>151,103</u>
Total liabilities	<u>\$ 25,856</u>	<u>19,050</u>
	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Revenue	<u>\$ 247,494</u>	<u>263,492</u>
Net income	<u>\$ 60,232</u>	<u>66,816</u>

(ii) Associates

The subsidiary Capital Futures Corporation acquired 49% shares of True Partner Advisor Hong Kong Ltd. with USD 1,123 thousands on October 2, 2015. The Company acquired 20% shares of Capital Investment Trust Corporation with \$1,272,505 on February 9, 2018. The relevant information is as following:

<b>Name of associate</b>	<b>Nature between the Company</b>	<b>Primary business area and registered country</b>	<b>% of Ownership and Voting Rights</b>	
			<b>December 31, 2018</b>	<b>December 31, 2017</b>
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 %
Capital Investment Trust Corp.	Engaged in security investment and discretionary investment services.	Taiwan	20.00 %	- %

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

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Total carrying amount of the associates that were not individually material	<u>\$ 1,307,048</u>	<u>41,535</u>



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	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
The Group's share of gains based on the associates' financial statements:		
Net gains from continuing operations	\$ 90,973	1,028
Other comprehensive income (losses)	<u>1,238</u>	<u>(1,009)</u>
Total comprehensive income (losses)	<b><u>\$ 92,211</u></b>	<b><u>19</u></b>

(iii) Collateral

As of December 31, 2018 and 2017, none of the investment accounted for under equity method of the Group were pledged for collateral.

(f) Property and equipment

	<b>Land</b>	<b>Buildings</b>	<b>Equipment</b>	<b>Leasehold improvements</b>	<b>Total</b>
Cost or deemed cost					
Balance at January 1, 2018	\$ 3,652,474	1,623,654	596,119	137,431	6,009,678
Additions	-	1,034	88,598	33,394	123,026
Transferred from investment property	276,798	163,015	-	-	439,813
Disposals and retirements	-	(325)	(112,018)	(13,754)	(126,097)
Effect of exchange rate changes	<u>-</u>	<u>3,352</u>	<u>2,113</u>	<u>391</u>	<u>5,856</u>
Balance at December 31, 2018	<b><u>\$ 3,929,272</u></b>	<b><u>1,790,730</u></b>	<b><u>574,812</u></b>	<b><u>157,462</u></b>	<b><u>6,452,276</u></b>
Balance at January 1, 2017	\$ 3,707,942	1,690,000	587,821	133,832	6,119,595
Additions	-	-	74,113	20,701	94,814
Reclassified to investment property	(55,468)	(57,484)	-	-	(112,952)
Disposals and retirements	-	(119)	(59,001)	(16,028)	(75,148)
Effect of exchange rate changes	<u>-</u>	<u>(8,743)</u>	<u>(6,814)</u>	<u>(1,074)</u>	<u>(16,631)</u>
Balance at December 31, 2017	<b><u>\$ 3,652,474</u></b>	<b><u>1,623,654</u></b>	<b><u>596,119</u></b>	<b><u>137,431</u></b>	<b><u>6,009,678</u></b>
Depreciation and impairment loss					
Balance at January 1, 2018	\$ -	575,137	400,425	67,364	1,042,926
Depreciation	-	34,122	95,956	28,637	158,715
Transferred from investment property	-	32,116	-	-	32,116
Disposals and retirements	-	(325)	(112,018)	(13,632)	(125,975)
Effect of exchange rate changes	<u>-</u>	<u>1,382</u>	<u>1,856</u>	<u>296</u>	<u>3,534</u>
Balance at December 31, 2018	<b><u>\$ -</u></b>	<b><u>642,432</u></b>	<b><u>386,219</u></b>	<b><u>82,665</u></b>	<b><u>1,111,316</u></b>
Balance at January 1, 2017	\$ -	573,289	360,524	55,959	989,772
Depreciation	-	29,461	104,816	25,528	159,805
Reclassified to investment property	-	(24,054)	-	-	(24,054)
Disposals and retirements	-	(119)	(58,706)	(13,289)	(72,114)
Effect of exchange rate changes	<u>-</u>	<u>(3,440)</u>	<u>(6,209)</u>	<u>(834)</u>	<u>(10,483)</u>
Balance at December 31, 2017	<b><u>\$ -</u></b>	<b><u>575,137</u></b>	<b><u>400,425</u></b>	<b><u>67,364</u></b>	<b><u>1,042,926</u></b>
Carrying amount:					
December 31, 2018	<b><u>\$ 3,929,272</u></b>	<b><u>1,148,298</u></b>	<b><u>188,593</u></b>	<b><u>74,797</u></b>	<b><u>5,340,960</u></b>
December 31, 2017	<b><u>\$ 3,652,474</u></b>	<b><u>1,048,517</u></b>	<b><u>195,694</u></b>	<b><u>70,067</u></b>	<b><u>4,966,752</u></b>

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As of December 31, 2018 and 2017, the property and equipment which are provided as collateral or pledge, please refer to note 8 for details.

(g) Investment property

	<b>Land and improvements</b>	<b>Buildings</b>	<b>Total</b>
<u>Cost or deemed cost</u>			
Balance at January 1, 2018	\$ 1,312,668	796,069	2,108,737
Reclassified to Property and equipment	<u>(276,798)</u>	<u>(163,015)</u>	<u>(439,813)</u>
Balance at December 31, 2018	<u><u>\$ 1,035,870</u></u>	<u><u>633,054</u></u>	<u><u>1,668,924</u></u>
Balance at January 1, 2017	\$ 1,257,200	738,705	1,995,905
Transferred from property and equipment	55,468	57,484	112,952
Disposals and retirements	<u>-</u>	<u>(120)</u>	<u>(120)</u>
Balance at December 31, 2017	<u><u>\$ 1,312,668</u></u>	<u><u>796,069</u></u>	<u><u>2,108,737</u></u>
<u>Depreciation and impairment loss</u>			
Balance at January 1, 2018	\$ -	312,196	312,196
Depreciation	-	14,830	14,830
Reclassified to Property and equipment	<u>-</u>	<u>(32,116)</u>	<u>(32,116)</u>
Balance at December 31, 2018	<u><u>\$ -</u></u>	<u><u>294,910</u></u>	<u><u>294,910</u></u>
Balance at January 1, 2017	\$ -	268,581	268,581
Depreciation	-	19,681	19,681
Transferred from property and equipment	-	24,054	24,054
Disposals and retirements	<u>-</u>	<u>(120)</u>	<u>(120)</u>
Balance at December 31, 2017	<u><u>\$ -</u></u>	<u><u>312,196</u></u>	<u><u>312,196</u></u>
<u>Carrying Amount:</u>			
December 31, 2018	<u><u>\$ 1,035,870</u></u>	<u><u>338,144</u></u>	<u><u>1,374,014</u></u>
December 31, 2017	<u><u>\$ 1,312,668</u></u>	<u><u>483,873</u></u>	<u><u>1,796,541</u></u>
<u>Fair Value:</u>			
December 31, 2018			<u><u>2,237,610</u></u>
December 31, 2017			<u><u>2,809,179</u></u>

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

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As of December 31, 2018 and 2017, the investment properties were provided as collateral or pledged, please refer to note 8 for details.

(h) Intangible assets

(i) Goodwill

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized as goodwill. As of December 31, 2018 and 2017, the book value was \$3,126,698 for the both years.

Goodwill is allocated to the operating segments as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Brokerage segment	\$ 1,304,458	1,304,458
Underwriting segment	265,144	265,144
Proprietary trading segment	<u>1,557,096</u>	<u>1,557,096</u>
Total	<u><b>\$ 3,126,698</b></u>	<u><b>3,126,698</b></u>

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

The past experience, the actual operating results and the pre-tax cash flows of the next year's financial budget approved by the board of directors are the basis to estimate the future cash flows. The growth rate was both 1.00% and the discount rate was 4.06% and 2.26% in year 2018 and 2017 respectively. But the cash flow projections for periods after five years will be estimated with no growth conservatively.

After impairment test, the recoverable amounts of both year 2018 and 2017 exceeded the carrying amount, no impairment occurred for both years.

The Capital International Technology Corp., the second level subsidiary, acquired 51% shares of the Capital True Partner Technology Co., Ltd in order to expand operations. The Group recognized the differences between investment costs and identifiable assets as goodwill. As of December 31, 2018 and 2017, the book value of goodwill was \$22,088 for the both years.

(ii) Other intangible assets - Operation franchise

The Company acquired the operation of securities corporation operation franchise during 1994 to 2005 and expected the franchise will generate continuing cash inflows. In accordance with IAS No.38 "Intangible Assets" endorsed by the FSC, the franchise is regarded as intangible assets with an indefinite useful life. As of December 31, 2018 and 2017, the book value of the operation franchise was \$389,999 for the both years.

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

The subsidiaries obtained the membership of foreign futures Exchanges - NYMEX, COMEX, CBOT, HKEX and CME for business development. In accordance with IAS 38 “Intangible Assets” endorsed by the FSC, the memberships are regarded as intangible assets with an indefinite useful life. As of December 31, 2018 and 2017, the book values of intangible assets were \$46,270 and \$48,102 respectively.

(iv) Other intangible assets - Computer software

Computer software was booked at cost and amortized by using the straight-line method over the estimated useful lives. As of December 31, 2018 and 2017, the amortized book value was \$36,015 and \$41,287 respectively.

(i) Short-term borrowings

<b>Nature of borrowings</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Collateralized loan	\$ 1,635,394	380,000
Credit loans	<u>2,238,112</u>	<u>6,701,698</u>
Total	<b><u>\$ 3,873,506</u></b>	<b><u>7,081,698</u></b>
Interest rate range	<b><u>0.65%~4.40%</u></b>	<b><u>0.60%~2.56%</u></b>

As of December 31, 2018 and 2017, the Group had provided the land, buildings, and certificates of time deposits as collateral; please refer to note 8 for details.

(j) Commercial paper payable

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Commercial paper payable	\$ -	4,100,000
Less: Unamortized discount	<u>-</u>	<u>(816)</u>
Net amount	<b><u>\$ -</u></b>	<b><u>4,099,184</u></b>
Interest rate range	<b><u>-</u></b>	<b><u>0.53%~0.56%</u></b>

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

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Liabilities on sale of borrowed securities	\$ 668,469	1,130,377
Redeem liabilities on sale of borrowed securities	(62,095)	(6,714)
Valuation adjustment	<u>(139,826)</u>	<u>(94,120)</u>
Subtotal	<u>466,548</u>	<u>1,029,543</u>
Settlement coverage bonds payable of short sale	-	49,983
Valuation adjustment	<u>-</u>	<u>(29)</u>
Subtotal	<u>-</u>	<u>49,954</u>
Stock warrants issued	13,077,314	14,405,116
Stock warrants repurchased	<u>(12,617,507)</u>	<u>(13,098,267)</u>
Subtotal	<u>459,807</u>	<u>1,306,849</u>
Put options	16,074	131,636
Equity derivatives	-	61
IRS asset swaps	763	239
Asset swap options - short position	208,927	364,910
Structured notes	8,914	9,234
Currency derivatives	9,063	2,847
Currency swaps	31,575	7,920
Interest rate swaps	<u>544</u>	<u>-</u>
Subtotal	<u>275,860</u>	<u>516,847</u>
Total	<u><u>\$ 1,202,215</u></u>	<u><u>2,903,193</u></u>

(l) Bonds sold under repurchase agreements

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Bonds sold under repurchase agreements	<u>\$ 28,032,524</u>	<u>47,056,312</u>
Agreed-upon repurchase amounts	<u>28,213,380</u>	<u>47,174,205</u>
Interest rates	<u>0.35%~4.40%</u>	<u>0.20%~4.30%</u>
Date of repurchase	<u>2019.1.2~2019.12.20</u>	<u>2018.1.2~2018.12.27</u>

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

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

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Customer equity of separate account ledger in settlement	<b>\$ 26,969</b>	<b>13,479</b>

(n) Accounts payable

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Payable of securities sold by customers	\$ 10,731	44,575
Payable of settlements	3,476,398	5,440,461
Others	370,764	293,722
Total	<b>\$ 3,857,893</b>	<b>5,778,758</b>

(o) Operating leases

(i) Lessee

Non-cancellable operating lease payables are as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Within 1 year	\$ 129,299	97,864
1-5 years	483,674	142,113
Over 5 years	455,396	11,859
	<b>\$ 1,068,369</b>	<b>251,836</b>

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

For the years ended December 31, 2018 and 2017, the operating lease expenses recognized in profit or loss were \$159,977 and \$157,805 respectively.

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(ii) Lessor

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

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Within 1 year	\$ 111,834	34,856
1-5 years	471,665	46,799
Over 5 years	<u>534,251</u>	<u>40,366</u>
	<b><u>\$ 1,117,750</u></b>	<b><u>122,021</u></b>

The rental revenue from investment property for the years ended 2018 and 2017 amounted to \$62,318 and \$69,409 respectively.

(p) Employee benefit

(i) Defined benefit plans

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

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Present value of defined benefit obligations	\$ (972,838)	(1,009,545)
Fair value of plan assets	<u>383,030</u>	<u>458,883</u>
Recognized liabilities for defined benefit obligations	<b><u>\$ (589,808)</u></b>	<b><u>(550,662)</u></b>

The Group's employee benefits liabilities are as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Compensated absences	<b><u>\$ 50,666</u></b>	<b><u>49,066</u></b>

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

1) Composition of plan assets

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

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

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The balance of the Group's labor pension preparatory special account in Bank of Taiwan amounted to \$253,883 and \$276,467 as of December 31, 2018 and 2017, respectively. The utilization of the labor pension fund includes the assets allocation and yield of the fund, please refers to the information published on the website under Bureau of Labor Funds, Ministry of Labor.

The balance of pension fund under employee retirement fund management committee was \$134,419 and \$185,442 as of December 31, 2018 and 2017, respectively.

#### 2) Movements in present value of the defined benefit obligations

The movements in present value of the defined benefit obligations of the Group in 2018 and 2017 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Defined benefit obligation on January 1	\$ 1,009,545	1,039,300
Current service costs and interest	18,740	20,005
Remeasurement of net defined liabilities		
-Actuarial loss (gain) arising from changes in demographical assumptions	-	4,203
-Actuarial loss (gain) arising from changes in financial assumptions	9,688	(1,089)
-Experience adjustments	42,570	25,279
Benefits paid by the plan	(107,705)	(78,153)
Defined benefit obligation on December 31	<b>\$ 972,838</b>	<b>1,009,545</b>

#### 3) Movements in fair value of defined benefit plan assets

The movements in fair value of defined benefit plan assets of the Group in 2018 and 2017 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Fair value of plan assets on January 1	\$ 458,883	517,011
Contributions from the employer	13,862	14,854
Benefits paid from plan assets	(103,392)	(77,945)
Interest revenue	4,840	5,311
Remeasurement of net defined liabilities		
-Return on plan assets (excluding interest)	8,837	(348)
Fair value of plan assets on December 31	<b>\$ 383,030</b>	<b>458,883</b>



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4) Expense recognized in profit or loss

The expenses recognized by the Group in 2018 and 2017 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Current service cost	\$ 8,206	9,324
Net interest of net defined benefit liabilities (assets)	5,694	5,370
Current pension cost	<u>\$ 13,900</u>	<u>14,694</u>

5) Re-measurement of net defined benefit plan recognized in other comprehensive income

For the years ended December 31, 2018 and 2017, the re-measurement of net defined benefit plan recognized accumulatively in other comprehensive income was as follows:

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Balance at January 1	\$ (125,105)	(96,364)
Recognized amount during the period	(43,421)	(28,741)
Balance at December 31	<u>\$ (168,526)</u>	<u>(125,105)</u>

6) Actuarial assumptions

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

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Discount rate	0.93%	1.05%
Future salary growth rate	2.00%~2.50%	2.00%~2.50%

The expected contribution to the defined benefit plan for the next year is \$13,762. The weighted average duration of the defined benefit obligation is 2~3 years.

7) Sensitivity Analysis

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

As of December 31, 2018 and 2017, the effects of adopting significant actuarial assumptions to defined benefit obligations were as follows:

	<b>Effects to Defined Benefit Obligations</b>	
	<b>Increase 0.5%</b>	<b>Decrease 0.5%</b>
December 31, 2018		
Discount rate	(25,549)	26,659
Future salary growth rate	21,402	(20,776)

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

	<u>Effects to Defined Benefit Obligations</u>	
	<u>Increase 0.5%</u>	<u>Decrease 0.5%</u>
December 31, 2017		
Discount rate	(27,419)	28,649
Future salary growth rate	23,205	(22,495)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. The method that the sensitivity analysis adopted is in accordance with the method of calculating net pension liability.

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

(ii) Defined contribution plan

In accordance with the Labor Pension Act of R.O.C, the Group contributes 6% of the employee's monthly wages to employee's individual pension accounts under 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 \$87,093 and \$82,937 under defined contribution plan to the Bureau of the Labor Insurance for the years ended December 31, 2018 and 2017, respectively.

(iii) For the years ended December 31, 2018 and 2017, the pension costs contributed by overseas subsidiaries in compliance with local ordinance were \$4,291 and \$4,226, respectively.

(q) Income tax

(i) The Group's tax rate interpretation was as follow:

The Company and its subsidiaries including Capital Investment Management Corp., Capital Futures Corp., Taiwan International Securities Investment Consulting Corp, Taiwan International Futures Corp., and CSC Venture Capital Corp. are founded in Taiwan. On February 7, 2018, the Office of the President of ROC promulgated the amendment of Income Tax Act. The corporate income tax rate was adjusted from 17% to 20% and effective January 1, 2018.

The subsidiaries CSC International Holdings Ltd. and Taiwan International Securities (B.V.I) Corp is founded in British Virgin Islands, and it has a tax exemption for the years ended December 31, 2018 and 2017.

The tax rate of reinvestment business of subsidiaries which founded in Hong Kong are all 16.5% for the years ended December 31, 2018 and 2017.

The tax rate of reinvestment business of subsidiaries which founded in Mainland are all 25% for the years ended 2018. Except for the third level Capital Futures Technology (Shanghai) Co., Ltd., which applies for Small Low-Profit Enterprises Income Tax, the tax rate is 20% for the years ended December 31, 2018 and 2017.

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(ii) Income tax expense (benefit)

The amount of income tax expense (benefit) for the years ended December 31, 2018 and 2017 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Current tax expense		
Current year	\$ 470,599	250,718
Adjustment to the prior years' income tax	40,349	(36,624)
	<u>510,948</u>	<u>214,094</u>
Deferred tax expense		
Unrealized gains (losses) on derivative financial instruments	(96,395)	49,461
Unrealized gains (losses) on foreign investments under Equity Method	(658)	(1,499)
Decrease in tax loss carried forward	92,455	117,021
Adjustments of deferred income tax assets and liabilities	(12,803)	(90,835)
Adjustment in tax rate	55,473	-
	<u>38,072</u>	<u>74,148</u>
Income tax expense from continuing operations	<u><u>\$ 549,020</u></u>	<u><u>288,242</u></u>

The amount of income tax expense or benefit recognized in other comprehensive income in year 2018 and 2017 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Foreign exchange difference from translating financial statements of foreign operations	<u><u>\$ 19,234</u></u>	<u><u>(37,769)</u></u>

Reconciliation of income tax expense (benefit) and income before tax in year 2018 and 2017 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Net income before tax	<u>\$ 2,326,530</u>	<u>3,503,637</u>
Income tax using the Company's domestic tax rate	\$ 560,885	667,856
Effect of tax rates in foreign jurisdiction (not applicable for separate financial statements)	978	(194)
Adjustment in tax rate	55,473	-
Tax exempt income	(104,036)	(392,119)
Alternative minimum tax	6,510	148,030
Unrecognized deferred tax assets for current-year losses	128	333
Unrecognized temporary differences for current years	(256)	(7)
Additional surtax on undistributed retained earnings	2,943	1,076
Amounts use in investment tax credit	(527)	-
Income tax difference of bonds purchased under resale agreements and income tax separately levied	(33)	(40)
Adjustments to prior years' income tax	40,349	(36,624)
Unrecognized temporary differences for prior years	(12,803)	(90,835)
Others	(591)	(9,234)
Total	<u><u>\$ 549,020</u></u>	<u><u>288,242</u></u>

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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(iii) Deferred income tax assets and liabilities

1) Recognized deferred income tax assets

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Tax loss carried forward	\$ 104,015	156,117
Unrealized losses on foreign investments under Equity Method	6,542	4,352
Foreign exchange difference from translating financial statements of foreign operations	170	13,767
Unrecognized loss in derivative financial instruments	5,043	-
Deferred income tax assets	<u><u>\$ 115,770</u></u>	<u><u>174,236</u></u>

2) Unrecognized deferred tax assets

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Unrealized losses on foreign investments under Equity Method	\$ 269	419
Tax loss carried forward	1,711	481
Unrecognized deferred tax assets	<u><u>\$ 1,980</u></u>	<u><u>900</u></u>

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

As of December 31, 2018, the Group's estimated tax losses recognized under deferred income tax asset were as follows:

<u><b>Year or loss</b></u>	<u><b>Amount</b></u>	<u><b>Expiry date</b></u>
2016 (Declared)	\$ 3,777	2026
2017 (Declared)	3,419	2027
2018 (Estimated)	1,361	2028
Total	<u><u>\$ 8,557</u></u>	

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3) Recognized deferred income tax liabilities

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Foreign exchange difference from translating financial statements of foreign operations	\$ 4,866	-
Unrealized gains on derivative financial instruments	7,581	84,093
Unrealized gains on foreign investments under Equity Method	1,975	1,030
Losses on intercompany transactions	1,928	1,639
Amortization of operation franchise	42,881	36,448
Amortization of goodwill	362,697	308,292
Land value incremental tax	<u>56,107</u>	<u>47,691</u>
Deferred income tax liabilities	<u><b>\$ 478,035</b></u>	<u><b>479,193</b></u>

4) Unrecognized deferred tax liabilities

As of December 31, 2018 and 2017, the Group's temporary differences are not recognized under deferred tax liabilities. Details are as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Aggregate amount of temporary differences related to investments in subsidiaries	<u><b>\$ 29,063</b></u>	<u><b>19,292</b></u>

The dividend policies of the Group's subsidiaries, CSC Futures (HK) Ltd. and Capital Futures Technology (Shanghai) Co., Ltd, were prescribed not to appropriate the retain earning until December 31, 2018. Also, the Group does not plan to dispose of the investees in foreseeable future. Thus, the temporary differences related to investments in subsidiaries for the portion of not to intend to dispose or to appropriate are not recognized under deferred tax liabilities.

(iv) Income tax assessment status

- 1) The Company's income tax returns through 2016, except for 2015, were assessed by the Tax Authority.
- 2) Subsidiary - Capital Investment Management Corp.'s income tax returns through 2017 were assessed by the Tax Authority.
- 3) Subsidiary - Capital Futures Corp.'s income tax returns through 2016 were assessed by the Tax Authority.
- 4) Subsidiary - Taiwan International Securities Investment Consulting Corp.'s income tax returns for the liquidation date as of June 30, 2012 were assessed by the Tax Authority.

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### **Notes to the Consolidated Financial Statements**

- 5) Subsidiary - Taiwan International Futures Corp.'s income tax returns for the liquidation period from September 19, 2008 to February 28, 2018 were assessed by the Tax Authority. And on February 12, 2019, the entirety was been admitted the completion of liquidation by the court.
- 6) Subsidiary - Capital International Technology Corp.'s income tax returns through 2017 were assessed by the Tax Authority.
- 7) Subsidiary - CSC Venture Capital Corp.'s income tax returns through 2017 were assessed by the Tax Authority.

(v) Income tax administrative relief

Since income tax of securities trading and amortization of intangible assets withheld from year 2010 to 2014 and 2016 were assessed differently from those reported by the Company, and the Company has filed for administrative relief. The additional tax was accrued based on conservative concept.

(r) Capital and other equity

(i) Capital stock

As of December 31, 2018 and 2017, the Company had authorized capital of \$30,000,000 and issued common stock of 2,320,908 thousand shares and 2,169,073 thousand shares with \$10 dollars face value per share. The disclosure of treasury shares retired and reduction of capital for the fiscal year and 2017, please refer to (iv). "Treasury stocks" for more details.

On June 27, 2018, the Company's stockholders resolved to transfer un-appropriated earnings of \$1,518,351 and issued 151,835 thousand shares of common stock. The capital increase was approved by the Financial Supervisory Commission on July 12, 2018 and the record date was September 1, 2018. The Company has completed the registration of change in paid-in capital on September 25, 2018.

(ii) Capital surplus

In accordance with the ROC Company Act amended in January 2012, realized capital surplus can only be used to cover accumulated deficit or to issue new shares or cash to shareholders in proportion to their share ownership, provided that the company has no accumulated deficit. The aforementioned capital surplus includes share premiums and donation gains. In accordance with the "Regulations Governing the Offering and Issuance of Securities by Securities Issuers", the amount of capital surplus to be capitalized shall not exceed 10 percent of the paid-in capital each year.

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The followings are the capital surplus of the Company:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Premium from stock issuance	\$ 1,776,413	1,776,413
Treasury stock transactions	437,096	437,096
Paid-in capital from merger	602,665	602,665
Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,338	1,338
Changes in ownership interests in subsidiaries	<u>34,787</u>	<u>34,787</u>
	<u><b>\$ 2,852,299</b></u>	<u><b>2,852,299</b></u>

(iii) Retained earnings

1) Legal reserve

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

2) Special reserve

In accordance with Article 41 of the "Securities and Exchange Act", 20 percent of the current year's earnings after tax should be set aside as special reserve. Ruling No. 1010028514 issued by the Financial Supervisory Commission on June 29, 2012, an equivalent amount of special reserve should be set aside from earnings after tax of the current year and the undistributed earnings of the prior period based on the decreased amount of stockholders' equity. For the cumulative deduction in stockholders' equity of the prior period, the equal amount of special reserve set aside based on undistributed earnings should not be distributed. If there is any reversal of the deduction in stockholders' equity, the earnings may be distributed based on the reversal proportion.

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

3) Undistributed earnings

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

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

The Company's 2017 earnings distribution for cash dividends \$433,815 and stock dividends \$1,518,351 had been resolved by the shareholders' meeting on June 27, 2018.

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

#### (iv) Treasury stocks

Pursuant to Article 28-2 of the "Securities and Exchange Act", the Company repurchased 100,000 thousand shares as treasury shares to maintain the Company's credit standing and shareholders' equity from November 2016 to January 2017. As of February 2017, all the repurchased shares were retired.

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

#### (s) Earnings per share

The basic earnings per share and dilutive earnings per share for the years ended December 31, 2018 and 2017 were calculated as follows:

	For the years ended December 31,	
	2018	2017
Net income attributable to common shareholders of the Company	\$ <u>1,408,865</u>	<u>2,893,600</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	<u>2,320,908</u>	<u>2,321,037</u>
Basic earnings per share (dollar)	\$ <u>0.61</u>	<u>1.25</u>
Effect of potentially dilutive common stock		
- Employee remuneration (thousands of shares) (Note)	<u>2,343</u>	<u>2,877</u>
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	<u>2,323,251</u>	<u>2,323,914</u>
Dilutive earnings per share (dollar)	\$ <u>0.61</u>	<u>1.25</u>

Note: The number of shares issued was calculated based on the closing price at the reporting date.



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(t) Items of the statements of comprehensive income

(i) Brokerage commissions

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Brokerage commission from TSE market	\$ 1,827,623	1,620,114
Brokerage commission from OTC market	637,115	656,041
Handling fee from security financing	35,585	30,903
Futures commission income - brokerage	1,836,830	1,490,999
Overseas subsidiaries	50,711	62,782
Others	73,013	72,007
	<b>\$ 4,460,877</b>	<b>3,932,846</b>

(ii) Underwriting commissions

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Revenue from underwriting securities on a firm commitment basis	\$ 61,900	63,450
Handling fee revenues from underwriting securities on best efforts basis	1,350	1,440
Processing fee revenues from underwriting operations	7,954	25,023
Revenue from underwriting consultation	9,953	5,180
Others	11,445	26,424
	<b>\$ 92,602</b>	<b>121,517</b>

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

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Gains (losses) on securities sold - proprietary trading	\$ (348,708)	1,130,115
Gains (losses) on securities sold - underwriting	30,003	7,807
Gains (losses) on securities sold - hedging	(1,155,191)	454,117
Total	<b>\$ (1,473,896)</b>	<b>1,592,039</b>

(iv) Interest revenue

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Interest revenue - margin loans	\$ 767,184	771,449
Interest revenue - bonds	1,100,550	1,167,972
Overseas subsidiaries	49,628	43,518
Others	61,072	46,982
	<b>\$ 1,978,434</b>	<b>2,029,921</b>

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

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Trading securities - proprietary	\$ (416,586)	91,025
Trading securities - underwriting	(19,711)	9,259
Trading securities - hedging	(165,545)	(27,358)
Settlement coverage bonds payable of short sale	(29)	29
	<b>\$ (601,871)</b>	<b>72,955</b>

(vi) Net gains (losses) on stock warrants issued

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Gains on changes in fair value of stock warrants	\$ 30,322,653	14,246,241
Gains on exercise of stock warrants before maturity	24,075,007	27,191,658
Losses on changes in fair value of stock warrants repurchased	(52,645,565)	(40,578,100)
Gains on expiration of stock warrants	112,965	19,515
Stock warrants issuance expenses	(182,019)	(188,153)
	<b>\$ 1,683,041</b>	<b>691,161</b>

(vii) Futures commission revenues

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Futures commission revenues - CSC Futures (HK) Ltd.	\$ 453,195	770,614

Future commission revenues 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.

(viii) Commission expenses - future

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Future trading - reconsignment	\$ 273,044	236,881
Future trading - introducing brokers	2,279	3,166
Commission expenses - CSC Futures (HK) Ltd.	192,904	406,352
	<b>\$ 468,227</b>	<b>646,399</b>

(ix) Employee benefits, depreciation, and amortization expenses

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Employee benefit expenses		
Salary expense	\$ 2,250,144	2,361,609
Health and labor insurance expense	165,668	157,994
Pension expense	105,284	101,857
Others	60,388	61,522
Depreciation expense	173,545	179,486
Amortization expense	33,920	36,489
	<b>\$ 2,788,949</b>	<b>2,898,957</b>

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(x) Other operating expenses

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Rental expense	\$ 159,977	157,805
Taxes	421,528	371,401
Information technology expense	209,881	194,003
Postage expense	153,246	136,181
Professional service fee	258,861	87,467
Other expenses	529,831	640,031
	<b>\$ 1,733,324</b>	<b>1,586,888</b>

(xi) Other gains and losses

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Financial revenue	\$ 389,823	259,171
Currency exchange gains (losses)	19,072	(11,725)
Net gains (losses) on disposal of investment	68,664	72,760
Net gains (losses) on measurement of non-operating financial instruments at fair value through profit or loss	(13,052)	23,198
Revenue from bank's allocation fee	133,107	139,255
Net gains (losses) on disposal of property and equipment	(122)	(3,034)
Dividend revenue	49,551	30,781
Gains on reversal of prior year's liabilities	202,491	25,875
Rental income	62,318	69,409
Others	90,305	78,562
	<b>\$ 1,002,157</b>	<b>684,252</b>

(xii) Remuneration to employees, directors and supervisors

According to the Company's Articles of Incorporation, the Company shall appropriate 0.6% to 2.0% of its earnings, if applicable, as remuneration to employees. The Board of Directors shall determine if the employees' remuneration distributed, in the form of shares or in cash. The targets of remuneration shall include the employees of subsidiaries meeting certain specific requirement that shall be determined by the Company's Board of Directors. The Company shall also allocate no more than 3% of the aforementioned amount of earnings as remuneration to the Directors. The proposal for the remuneration to employees and directors shall be reported to the shareholders' meeting.

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

For the years ended December 31, 2018 and 2017, the estimated amounts of remuneration to employee were \$20,971 and \$33,369, and to directors were \$34,951 and \$61,971, respectively, which were calculated based on the Company's net profit before income tax and remuneration to employees and director multiple the earnings allocation percentage as stated under the Company's Articles of Incorporation and were recognized as operating expense. 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

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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.

For the years ended December 31, 2017 and 2016, the estimated amounts of remuneration to employee were \$33,369 and \$12,090, and to directors and supervisors were \$61,971 and \$20,149 by the Company, respectively. The difference between actual employee remuneration of \$30,515 and \$9,120 and actual remuneration to directors and supervisors of \$50,859 and \$17,410 were \$13,966 and \$5,709 in total. The difference was accounted for as changes in accounting estimates and would be recognized as profit or loss in 2018 and 2017. The information about the appropriations is available at the Market Observation Post System website.

For the years ended December 31, 2018 and 2017, the estimated amounts of remuneration to employee were \$12,369 and \$11,027 and to directors and supervisors were \$12,274 and \$11,238 by the domestic subsidiaries of the Group, respectively.

(u) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of December 31, 2018 and 2017, the maximum credit exposure amounted to \$92,766,076 and \$111,905,084, 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 (73.75%); secondly, is in Asia (15.10%, exclusion of Taiwan); then, is in America (6.19%). Compare to the same period of last year, there is no significant change in proportion of region of investments. The subsidiary Capital Futures Corp. only reveals the regional distribution in cash and cash equivalent and customers' margin account.

<u>Region</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Taiwan	\$ 68,026,272	68,514,346
Asia (Taiwan is excluded)	13,929,523	20,531,390
Europe	4,495,750	8,375,096
America	5,709,464	12,370,332
Other	82,619	1,317,645
Total	<u>\$ 92,243,628</u>	<u>111,108,809</u>

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2) Impairment loss

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

	December 31, 2018		December 31, 2017	
	Total amount	Impairment	Total amount	Impairment
Not past due	\$ 16,677,224	23,522	23,216,757	1,551
Past due 0~30 days	272	272	2,115	2,115
Past due 31~120 days	914	914	31	31
Past due 121~360 days	25,523	25,523	85,694	85,694
Past due more than 360 days	288,286	288,286	135,899	128,771
	<u>\$ 16,992,219</u>	<u>338,517</u>	<u>23,440,496</u>	<u>218,162</u>

Allowance for doubtful debts under receivables and overdue receivables are recorded for the bad debt expense or impairment loss. Where a claim becomes definitely uncollectible, the allowance for doubtful debts should be written off to financial assets account. As of December 31, 2018 and 2017, the impairment losses of accrued receivables were recognized \$338,517 and \$218,162, respectively.

3) Credit risk of accrued receivables and debt securities

Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(g). Debt securities held by the Group including government bonds, listed and unlisted debt securities (previously classified as financial assets available for sale on December 31, 2017) are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses.

The Group regards a financial asset as a default when the client of brokerage business is unable to fulfill the settlement obligation, which the counterparty is unable to pay the Group. Thus, the Group will recognize the impairment losses.

The loss allowance provision for the year ended December 31, 2018 was as follows:

	12-month ECL		Lifetime ECL -not credit impaired		Lifetime ECL -credit impaired		Total
	Accrued receivables	Debt securities at FVOCI	Accrued receivables	Debt securities at FVOCI	Accrued receivables	Debt securities at FVOCI	
Balance on January 1 per IAS39	\$ -	-	-	-	260,851	-	260,851
Adjustment on initial application of IFRS 9	-	15,153	-	-	-	-	15,153
Balance on January 1 per IFRS 9	-	15,153	-	-	260,851	-	276,004
Provision or reversal of Impairment loss	-	(9,292)	-	-	74,129	-	64,837
Amounts written off	-	-	-	-	(1,806)	-	(1,806)
Effect of exchange rate	-	-	-	-	5,343	-	5,343
Balance on December 31	<u>\$ -</u>	<u>5,861</u>	<u>-</u>	<u>-</u>	<u>338,517</u>	<u>-</u>	<u>344,378</u>

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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(ii) Liquidity risk

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

	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
December 31, 2018							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 466,548	466,548	466,548	-	-	-	-
Stock warrants issued	459,807	459,807	442,191	17,616	-	-	-
Put options - futures	16,074	16,074	16,074	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	32,882	32,882	33,869	(2,727)	814	926	-
Put options	208,927	208,927	8,925	19,064	125,073	55,865	-
Currency derivatives	9,063	9,063	9,063	-	-	-	-
Short-term borrowings	3,873,506	3,873,506	3,714,303	159,203	-	-	-
Bonds sold under repurchase agreements	28,032,524	28,213,380	28,213,380	-	-	-	-
Guarantee deposited for short sales	2,316,744	2,316,744	2,316,744	-	-	-	-
Proceeds payable from short sales	2,603,315	2,603,315	2,603,315	-	-	-	-
Securities lending refundable deposits	644,843	644,843	644,843	-	-	-	-
Futures traders' equity	33,158,826	33,158,826	33,158,826	-	-	-	-
Leverage contract trading customers' equity	225,899	225,899	225,899	-	-	-	-
Notes payable and accounts payable	381,154	381,154	381,154	-	-	-	-
Receipts under custody	120,325	120,325	120,325	-	-	-	-
Other payables	765,572	765,572	763,523	2,049	-	-	-
Structured notes	3,676,833	3,676,833	3,175,382	191,419	237,377	72,655	-
	<u>\$ 76,992,842</u>	<u>77,173,698</u>	<u>76,294,364</u>	<u>386,624</u>	<u>363,264</u>	<u>129,446</u>	<u>-</u>

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	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
December 31, 2017							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 1,029,543	1,029,543	1,029,543	-	-	-	-
Settlement coverage bonds payable of short sale	49,954	49,954	49,954	-	-	-	-
Stock warrants issued	1,306,849	1,306,849	1,265,875	40,974	-	-	-
Put options - futures	131,636	131,636	131,636	-	-	-	-
Equity derivatives	61	61	61	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	8,159	8,159	7,770	155	234	-	-
Put options	364,910	364,910	44,131	51,385	106,359	163,035	-
Currency derivatives	2,847	2,847	2,847	-	-	-	-
Short-term borrowings	7,081,698	7,081,698	7,081,698	-	-	-	-
Commercial paper payable	4,099,184	4,100,000	4,100,000	-	-	-	-
Bonds sold under repurchase agreements	47,056,312	47,174,205	47,174,205	-	-	-	-
Guarantee deposited for short sales	2,226,264	2,226,264	2,226,264	-	-	-	-
Proceeds payable from short sales	2,500,853	2,500,853	2,500,853	-	-	-	-
Securities lending refundable deposits	1,190,277	1,190,277	1,190,277	-	-	-	-
Futures traders' equity	27,268,226	27,268,226	27,268,226	-	-	-	-
Leverage contract trading customers' equity	152,840	152,840	152,840	-	-	-	-
Notes payable and accounts payable	296,967	296,967	296,967	-	-	-	-
Receipts under custody	346,023	346,023	346,023	-	-	-	-
Other payables	995,443	995,443	994,660	783	-	-	-
Structured notes	<u>4,785,254</u>	<u>4,785,254</u>	<u>4,380,929</u>	<u>138,288</u>	<u>151,580</u>	<u>114,457</u>	<u>-</u>
	<u><b>\$ 100,893,300</b></u>	<u><b>101,012,009</b></u>	<u><b>100,244,759</b></u>	<u><b>231,585</b></u>	<u><b>258,173</b></u>	<u><b>277,492</b></u>	<u><b>-</b></u>

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(iii) Currency risk

1) Currency risk exposure

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

		December 31, 2018		
		Foreign Currency (thousands)	Exchange Rate	Amount
<b><u>Financial assets</u></b>				
<b><u>Monetary Item</u></b>				
USD	\$	555,736	30.7150	17,069,431
AUD		6,781	21.6650	146,910
CAD		232	22.5800	5,239
CHF		50	31.1850	1,559
EUR		9,261	35.2000	325,987
GBP		3,656	38.8800	142,145
HKD		123,996	3.9210	486,188
JPY		1,551,889	0.2782	431,736
SEK		4	3.4200	14
SGD		854	22.4800	19,198
CNY		68,900	4.4720	308,121
ZAR		5	2.1200	11
KRW		347,958	0.0278	9,673
NZD		51	20.6200	1,052
THB		5,447	0.9532	5,192
<b><u>Non-Monetary Item</u></b>				
USD		310,103	30.7150	9,524,814
AUD		167,642	21.6650	3,631,964
EUR		44	35.2000	1,549
GBP		2	38.8800	78
HKD		26,380	3.9210	103,436
JPY		10,593	0.2782	2,947
CNY		416,174	4.4720	1,861,130
<b><u>Investments under equity method</u></b>				
HKD		11,660	3.9210	45,719



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		December 31, 2018		
		Foreign Currency	Exchange Rate	Amount
		(thousands)		
<b><u>Financial liabilities</u></b>				
<b><u>Monetary Item</u></b>				
USD	\$	840,061	30.7150	25,802,474
AUD		169,752	21.6650	3,677,677
CAD		7	22.5800	158
CHF		50	31.1850	1,559
EUR		8,557	35.2000	301,206
GBP		3,553	38.8800	138,141
HKD		204,497	3.9210	801,833
JPY		1,498,089	0.2782	416,768
SEK		4	3.4200	14
SGD		852	22.4800	19,153
CNY		324,111	4.4720	1,449,424
KRW		168,066	0.0278	4,672
NZD		1	20.6200	21
THB		4,727	0.9532	4,506
<b><u>Non-Monetary Item</u></b>				
USD		179	30.7150	5,498
AUD		2	21.6650	43
CAD		14	22.5800	316
JPY		9,730	0.2782	2,707
CNY		113	4.4720	505

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

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

Because there are a variety of functional currencies, the Group discloses a summary of its information on currency exchange gain or loss. The realized and unrealized currency exchange gains (losses) amounted to \$(52,501) and \$31,396 for the years ended December 31, 2018 and 2017, respectively.

2) Sensitivity analysis

The currency risk of the Group arises mainly from cash and cash equivalents, other receivables, security borrowing margin, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, customers' margin account, futures traders' equity, and securities lending refundable deposits, which are denominated in foreign currencies. Currency exchange gains or losses occur when translating the foreign currency assets to NTD assets. For the year ended December 31, 2018 and 2017, given other factors remain the same, if the relevant foreign currencies, when compared with the NTD, had appreciates or depreciates by 5%, the net income and other comprehensive income will changes as follows:

	For the years ended December 31, 2018		For the years ended December 31, 2017	
	Appreciated 5%	Depreciated 5%	Appreciated 5%	Depreciated 5%
Net income	(366,625)	366,625	(1,277,950)	1,277,950
Other comprehensive income	426,520	(426,520)	1,355,076	(1,355,076)

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(iv) Sensitivity analysis of interest rate risk

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

Market risk type	December 31, 2018	December 31, 2017	For the years ended December 31,					
			2018			2017		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Interest risk	1,384,626	2,165,047	1,722,466	2,076,354	1,384,626	1,996,174	2,165,047	1,746,721

(v) Fair value information and hierarchy

1) Fair value information

a) General description

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

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

b) Definition of fair value hierarchy

i) Level 1

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

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ii) Level 2

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

iii) Level 3

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

2) Not based on fair value measurement

As of December 31, 2018 and 2017, the fair value information of the financial assets and financial liabilities of the Group was as follows:

a) Fair value information

	<b>December 31, 2018</b>		<b>December 31, 2017</b>	
	<b>Book value</b>	<b>Fair value</b>	<b>Book value</b>	<b>Fair value</b>
Financial assets :				
Cash and cash equivalents	\$ 7,993,419	7,993,419	7,104,077	7,104,077
Accrued receivable	17,631,012	17,631,012	25,194,975	25,194,975
Customers' margin account	33,275,630	33,275,630	27,302,712	27,302,712
Leverage contract trading - customers' margin account	228,564	228,564	151,540	151,540
Restricted assets - current	730,728	730,728	554,215	554,215
Financial assets measured at cost - non-current	-	-	754,545	754,545
Other non-current assets	1,416,547	1,416,547	1,565,354	1,565,354
Financial liabilities :				
Short-term borrowings	3,873,506	3,873,506	7,081,698	7,081,698
Commercial paper payable	-	-	4,099,184	4,099,184
Bonds sold under repurchase agreements	28,032,524	28,032,524	47,056,312	47,056,312
Accrued payable	10,788,574	10,788,574	13,280,377	13,280,377
Futures traders' equity	33,158,826	33,158,826	27,268,226	27,268,226
Leverage contract trading - customers' equity	225,899	225,899	152,840	152,840
Other financial liabilities - current	3,357,887	3,357,887	4,509,983	4,509,983
Other financial liabilities - non-current	310,032	310,032	266,037	266,037
Other non-current liabilities	68,458	68,458	249,277	249,277

b) Hierarchy information of fair value

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investment property				
December 31, 2018	\$ -	-	<b>2,237,610</b>	<b>2,237,610</b>
December 31, 2017	\$ -	-	<b>2,809,179</b>	<b>2,809,179</b>

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- c) Valuation techniques used in estimating the fair values of financial instruments
- i) For short term financial instruments, the fair values are determined based on their book value because of their short maturities. The method is applied to cash and cash equivalents, bonds purchased under resale agreements, accrued receivable, customers' margin account, leverage contract trading - customers' margin account, other current assets, other non-current assets, short term borrowings, commercial paper payable, bonds sold under repurchase agreements, accrued payable, futures traders' equity, leverage contract trading - customers' equity, other financial liabilities - current, other financial liabilities - non-current, and other non-current liabilities.
  - ii) Financial assets measured at cost in unlisted stocks before year 2017 do not have the quoted market prices in an active market and the variability in the range of reasonable fair values is significant or the probabilities of the various estimates within the range cannot be reasonably assessed, so the fair value is unable to be reliably measured. Therefore, the Group considers the book value as a reasonable approximation of fair value.
  - iii) The investment properties were evaluated and estimated using Market Method based on the market evidence of transaction price of similar properties.
- 3) Based on fair value measurement
- a) Hierarchy information of fair value

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>December 31, 2018</b>				
Financial assets at fair value through profit or loss	\$ 12,267,176	18,674,078	-	30,941,254
Financial assets at fair value through other comprehensive income	484,340	10,381,589	1,911,577	12,777,506
Derivative financial assets	<u>235,070</u>	<u>69,659</u>	<u>-</u>	<u>304,729</u>
	<u><b>\$ 12,986,586</b></u>	<u><b>29,125,326</b></u>	<u><b>1,911,577</b></u>	<u><b>44,023,489</b></u>
Financial liabilities at fair value through profit or loss	\$ 926,355	-	-	926,355
Derivative financial liabilities	<u>16,074</u>	<u>259,786</u>	<u>-</u>	<u>275,860</u>
	<u><b>\$ 942,429</b></u>	<u><b>259,786</b></u>	<u><b>-</b></u>	<u><b>1,202,215</b></u>

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	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>December 31, 2017</b>				
Financial assets at fair value through profit or loss	\$ 20,578,355	13,551,754	-	34,130,109
Financial assets available for sale	27,670,817	5,136,962	-	32,807,779
Derivative financial assets	<u>744,342</u>	<u>48,832</u>	<u>-</u>	<u>793,174</u>
	<u><b>\$ 48,993,514</b></u>	<u><b>18,737,548</b></u>	<u><b>-</b></u>	<u><b>67,731,062</b></u>
Financial liabilities at fair value through profit or loss	\$ 2,386,346	-	-	2,386,346
Derivative financial liabilities	<u>131,636</u>	<u>385,211</u>	<u>-</u>	<u>516,847</u>
	<u><b>\$ 2,517,982</b></u>	<u><b>385,211</b></u>	<u><b>-</b></u>	<u><b>2,903,193</b></u>

b) Valuation techniques

i) Non-derivative financial instruments

The quoted market price is used as the fair value when the financial instruments have an active market. Publicly listed and over-the-counter traded equity instruments of primary stock exchanges along with central government bonds that are popular securities all regard active market quotes as the basis of fair value.

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

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

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### ii) Derivative financial instruments

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

#### 4) Transfer between Level 1 and Level 2

There is no transfer between Level 1 and Level 2 for the years ended December 31, 2018 and 2017.

#### 5) Fair value adjustments

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

#### 6) Movements of financial assets at fair value classified into Level 3

(In Thousands Dollars)

Item	For the years ended December 31, 2018						
	Beginning Balance	Gains and losses on valuation		Addition		Reduction	
		Amount recognized in profit or loss	Amount recognized in comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3
Financial assets at fair value through other comprehensive income	\$ 1,787,809	-	(152,389)	288,030	-	11,873	-
							Ending Balance
							1,911,577

#### 7) Quantified information of fair value measurement for significant unobservable inputs (Level 3)

The Group's Level 3 fair value measurements are financial assets at fair value through other comprehensive income – equity instruments investment.

The Group's equity instruments investment without active market include multiple significant unobservable inputs. Those unobservable inputs of equity instrument without active market are independent from each other, thus, they are not correlative. Since the correlation between significant unobservable inputs and fair value cannot be fully measured in practical, the quantified information is not disclosed.



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## Notes to the Consolidated Financial Statements

Item	Valuation technique	Significant unobservable inputs	Correlation between inputs and fair value
Financial assets at fair value through other comprehensive income - equity instruments without an active market	Market approach	<ul style="list-style-type: none"> <li>Price-to-Book Ratio</li> <li>Discount for lack of marketability</li> </ul>	<ul style="list-style-type: none"> <li>The higher price-to-book ratio is, the higher fair value is.</li> <li>The higher discount for lack of marketability is, the lower the fair value is.</li> </ul>
Financial assets at fair value through other comprehensive income - equity instruments without an active market - venture capital corporation	Net Asset Value Method	Net Asset Value	Not applicable

- 8) Fair value measurement to Level 3, and the sensitivity analysis of the substitutable appropriate assumption made on fair value

The fair value measurement that the Group made for the financial instruments is deemed reasonable; however, different valuation models or inputs could result in different valuation results. Specifically, if the valuation input of financial instruments classified in the Level 3 changes by 1%, the effects on other comprehensive income are as follows:

	Change in fair value recognized in other comprehensive income	
	Favorable	Unfavorable
<b>December 31, 2018</b>		
Financial assets fair value through other comprehensive income	\$ <u>19,116</u>	<u>(19,116)</u>

Favorable and unfavorable movements of the Group refer to the fluctuation of fair value, and the fair value is calculated through the valuation technique according to the unobservable inputs to different extent. If the fair value of a financial instrument is affected by more than one input, the above table only illustrates the effect as a result of one single input, and the correlation and variance among multiple inputs are not listed here.

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(vi) Transfer of financial assets

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

December 31, 2018					
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	\$ 28,357,997	28,032,524	-	-	-

December 31, 2017					
Types of financial assets	Book value of the transferred financial assets	Book value of relevant financial liabilities	Fair value of the transferred financial assets (Note)	Fair value of relevant financial liabilities (Note)	Fair value net position (Note)
Under repurchase agreements	\$ 47,104,528	47,056,312	-	-	-

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

(vii) Offsetting financial assets and financial liabilities

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

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

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

December 31, 2018					
Financial assets under offsetting or general agreement of net amount settlement or similar norms					
Gross amount of recognized financial assets (a)	Gross amount of recognized financial liabilities offsetting in the balance sheet (b)	Net amount of financial assets presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
			Financial instruments (Note)	Cash received as collaterals	
Derivative financial assets	\$ 69,659	-	69,659	-	69,659

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December 31, 2018						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets offsetting in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals	
Derivative financial liabilities	\$ 259,786	-	259,786	-	-	259,786
Under repurchase agreements	28,032,524	-	28,032,524	28,032,524	-	-
Total	<u>\$ 28,292,310</u>	<u>-</u>	<u>28,292,310</u>	<u>28,032,524</u>	<u>-</u>	<u>259,786</u>

December 31, 2017						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial assets (a)	Gross amount of recognized financial liabilities offsetting in the balance sheet (b)	Net amount of financial assets presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals	
Derivative financial assets	<u>\$ 48,832</u>	<u>-</u>	<u>48,832</u>	<u>-</u>	<u>-</u>	<u>48,832</u>

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

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

(v) Financial risk management

(i) Brief

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

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

The disclosure hereby presents above-mentioned risk information, evaluation, and objectives, policies, and procedures of managing information. Further information regarding quantity disclosure please refers to related disclosures.

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(ii) Risk management framework

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

(iii) Credit risk

Policy applicable from January 1, 2018

1) Determining whether credit risk has increased significantly since initial recognition

- a) The Group measures each financial instrument that applies under IFRS9 if the credit risk of financial asset at the reporting date has increased significantly since initial recognition. The Group considers reasonable and supportable information that is relevant and available, including forward-looking information, since initial recognition for assessment. Main factors taking into consideration include credit risk rating and information of past due condition.
- b) Low Credit Risk: A financial instrument has low credit risk at the reporting date, assumed to have no significant increase in credit risk since initial recognition. The determination criteria are the financial instrument's external credit rating is 'investment grade' or above.

2) Measurement of Expected Credit Losses (ECL)

a) Methods adopted and assumptions

The Group applies 12-month ECLs to measure the impairment loss of financial instruments, which have not increased significantly since initial recognition. For those financial instruments have increased significantly after initial recognition or with credit loss, the Group adopts lifetime ECLs to measure.

In order to measure ECLs, the Group takes into the future 12 months and lifetime probability of default (PD) on the financial assets, issuer, and counterparty to the possibility of Loss given default (LGD), then multiplies the amount of exposure at default (EAD) with the consideration of time value on currency, to calculate the 12 month and lifetime ECLs respectively.

Probability of PD is the probability of defaults occurring of an issuer or the counterparty. Probability of LGD is the percentage of the amount of loss incurred when issuers or the counterparty default. The probability of PD and LGD used by the Group was referring to the information periodically release from international credit rating institutions such as S&P, Moody's and Fitch. The Group measures EAD by the amortized cost plus interest receivables of financial instruments.

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### **Notes to the Consolidated Financial Statements**

#### Policy applicable before January 1, 2018

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

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

#### (iv) Liquidity risk

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

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

#### (v) Market risk

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

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

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

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- 4) Margin trading: use the maintenance ratio ruled by the competent authority as the standard for disposal.

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

(vi) Hedging strategies (financial hedging)

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

- 1) Equity securities:

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

- 2) Fixed income instruments:

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

- 3) Stock warrants:

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

- 4) Structured notes:

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

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

5) Asset swap:

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

(vii) Financial risk information of derivative financial statements

As of December 31, 2018 and 2017, the related financial risk and the presentation of the Group's financial derivatives were as follows:

Stock warrants

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

	December 31, 2018		December 31, 2017	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Stock warrants issued	\$ 17,901,620	-	73,019,951	-

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

(ii) Market risk:

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

(iii) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand:

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

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

(iv) Type, purpose, and strategy of financial derivatives held:

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

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(v) Presentation of financial derivatives

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

1) For the years ended December 31, 2018 and 2017:

a) Gains (losses) on valuation

	<b>For the year ended December 31, 2018</b>	<b>For the year ended December 31, 2017</b>	<b>Account</b>
Stock warrants issued	\$ 15,625,056	13,281,013	Gains (losses) on stock warrants issued
Stock warrants repurchased	(15,308,436)	(12,653,445)	Gains (losses) on stock warrants issued

b) Gains (losses) on sale

	<b>For the year ended December 31, 2018</b>	<b>For the year ended December 31, 2017</b>	<b>Account</b>
Security borrowing	\$ 171,070	(4,673)	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	(1,331,899)	254,048	Gains (losses) on sale of trading securities
Futures transaction	(180,945)	(258,393)	Gains (losses) on derivative financial instruments - futures

c) Gains (losses) on maturity

	<b>For the year ended December 31, 2018</b>	<b>For the year ended December 31, 2017</b>	<b>Account</b>
Stock warrants issued	\$ 38,885,569	28,176,401	Gains (losses) on stock warrants issued
Stock warrants repurchased	(37,337,129)	(27,924,655)	Gains (losses) on stock warrants issued

**Futures**

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

Please refer to note 12(a) for the notional principal and nominal amount as of December 31, 2018 and 2017.

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

(ii) Market risk:

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



## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

- (iii) Liquidity risk, cash flow risk, and the amount, period and uncertainty of future cash demand:

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

Futures trading are considered as margin transactions. Margins are collected in advance and valued daily on open futures positions established by the Group. For margin calls, the Group has sufficient operating funds to meet the liquidity requirement. As a result, there is no liquidity risk, cash flow risk, or significant cash demand.

For options trading, premiums are collected or paid in advance. If the counterparty of a short put position exercises the option, the Group has sufficient operating funds to meet the liquidity requirement. Therefore, there is no liquidity risk, no cash flow risk, and no significant cash demand.

- (iv) Presentation of financial derivatives:

For the years ended December 31, 2018 and 2017, gains (losses) on futures and options transactions amounted to \$476,053 and \$(421,005), respectively, and were reflected as gains (losses) on derivatives - futures. As of December 31, 2018 and 2017, futures margin - proprietary fund amounted to \$223,490 and \$611,870, respectively, and were reflected as financial assets at fair value through profit or loss - current; excess future margin which recognized as cash and cash equivalent amounted to \$1,998,273 and \$1,098,046, respectively.

As of December 31, 2018 and 2017, the balance of call options which recognized as financial assets at fair value through profit or loss - current amounted to \$11,580 and \$132,472, respectively, put options which recognized as financial liabilities at fair value through profit or loss - current amounted to \$16,074 and \$131,636, respectively.

#### Derivative financial instruments - OTC

- (i) Interest rate financial derivatives

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

	December 31, 2018		December 31, 2017	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
Financial Instruments				
For trading purpose:				
NT dollar interest swaps	\$ 29,800,000	-	43,100,000	-

Counterparties to interest rate swaps are banks with good credit ratings. The Group pays fixed and collects floating interest payments. Since the trend of interest rate is stabilized, no default is expected and credit risk is accordingly remote.

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2) Market risk:

Non-trading NT dollar interest rate swaps are primarily held for hedging. Gain or loss from the fluctuations of interest rate tends to offset gains and losses of the hedged items, and therefore market risk is insignificant.

In order to manage risk, Stop-loss points are established in accordance to the changes in the contract value of trading NT dollar interest rate. Loss is kept within prediction, and therefore there is no significant market risk.

3) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand:

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

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

4) Type, purpose, and strategy of financial derivatives held:

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

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

(ii) Structured notes

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

Financial Instruments	December 31, 2018		December 31, 2017	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Equity-linked notes	\$ 49,225	-	40,461	-
Principal guaranteed notes	2,730,772	-	3,949,038	-
Credit-linked notes	562,300	-	490,600	-
Principle guaranteed notes (in USD thousands)	USD 10,597	-	USD 9,962	-

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

2) Market risk

For structured notes, the respective products are exercised at their fair value and the hedged items all have fair values. Therefore, there is no significant market risk of structured notes.

3) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand:

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

(iii) Convertible bond asset-backed swaps

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

Financial Instruments	December 31, 2018		December 31, 2017	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Convertible bond asset-backed swaps	\$ 694,900	-	943,700	-
Convertible bond options	3,012,400	-	2,437,300	-

Counterparties to convertible bond asset-backed swaps are institutions with good credit ratings. The Group swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. Since the counterparties are governed by relevant regulatory authorities, and the Group maintains good credit risk control over counterparties, the credit risks is minimal.

For convertible bond options, the Group collects premium or margins from investor prior to issuing convertible bond options, and therefore, there is no credit risk.

2) Market risk:

For convertible bond asset-backed swaps, the Group swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. Therefore, there is no market risk.

For convertible bond options, since the exercise price of the convertible bonds acquired through underwriting or proprietary trading is determined on the contract date, there is no market risk.

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- 3) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand:

Convertible bonds acquired through underwriting or proprietary trading are the underlying assets of asset-backed swaps. The underlying assets are sold to the counterparties for commission. Within the term of the contract, the Group swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. The Group also receives the right to call the convertible bond prior to the expiration of the contract. Therefore, there is no significant liquidity risk or significant cash demand.

(iv) Options

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

	December 31, 2018		December 31, 2017	
	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk
Financial Instruments				
For trading purpose:				
Equity options	\$ -	-	1,000	-

The counterparties that the Group entered into derivative transactions with are all well-known financial institutions with good credit ratings. The Group does not expect the counter-party will default. Therefore, the credit risks is minimal.

- 2) Market risk:

Market risk of trading equity options results from the purchase and sale of options. Since the fair values of 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.

- 3) Liquidity risk, cash flow risk, and the amount of future cash demand:

For equity options, premiums are collected or paid in advance. If the counterparty of a short put position exercises the option, the Group has sufficient operating funds to meet the liquidity requirement. As a result, there is no liquidity risk, no cash flow risk, and no significant cash demand.

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(v) Presentation of derivative financial instruments - OTC

As of December 31, 2018 and 2017, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options, convertible bond asset-backed swaps and currency swaps were presented on the balance sheets as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Financial assets at fair value through profit or loss - current		
IRS asset swaps	\$ 13,855	16,479
Asset swap options-long position	4,072	2,572
Currency derivatives	46,967	22,446
Structured notes	3,075	1,343
Currency swaps	1,690	4,072
Interest rate swaps	-	1,920
Total	<u><u>\$ 69,659</u></u>	<u><u>48,832</u></u>
Financial liabilities at fair value through profit or loss - current		
Equity derivatives	\$ -	61
IRS asset swaps	763	239
Asset swap options-short position	208,927	364,910
Structured notes	8,914	9,234
Currency derivatives	9,063	2,847
Currency swaps	31,575	7,920
Interest rate swaps	544	-
Total	<u><u>\$ 259,786</u></u>	<u><u>385,211</u></u>
Other financial liabilities - current		
Structured notes principal value	<u><u>\$ 3,357,887</u></u>	<u><u>4,509,983</u></u>
Other financial liabilities - non-current		
Structured notes principal value	<u><u>\$ 310,032</u></u>	<u><u>266,037</u></u>

For the years ended December 31, 2018 and 2017, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options, convertible bond asset-backed swaps and currency swaps are presented on statements of income as follows:

	<b>For the year ended December 31, 2018</b>		<b>For the year ended December 31, 2017</b>	
	<b>Gains (losses) on derivative financial instruments - OTC</b>	<b>Unrealized Gains (losses)</b>	<b>Gains (losses) on derivative financial instruments - OTC</b>	<b>Unrealized Gains (losses)</b>
Interest rate swaps	\$ (4,016)	(544)	(8,832)	1,920
Equity derivatives	873	-	(3,969)	(41)
Structured notes	(36,093)	(6,466)	(38,864)	(7,924)
IRS asset swaps	259	13,092	301	16,240
Asset swap options	64,786	130,058	(281,311)	(98,208)
Currency swaps	14,300	(29,885)	(64,026)	(3,848)
Currency derivatives	72,343	18,304	72,881	19,598
Total	<u><u>\$ 112,452</u></u>	<u><u>124,559</u></u>	<u><u>(323,820)</u></u>	<u><u>(72,263)</u></u>

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(w) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The capital base includes shares capital, capital surplus and retained earnings. The Board of Directors monitors the return on capital as well as the level of dividends to make sure the Group has sufficient financial resources to cope with the future need of operating fund, capital expenditure and other operating need.

As of December 31, 2018, the Company maintains no change of its capital management. The Company's capital adequacy ratio on December 31, 2018 was 435%.

**(7) Related party transactions:**

(a) Parent company and ultimate controlling party

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

(b) Names of related parties and relationships

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

Names of related parties	Relationships
Capital Insurance Advisory Corp.	Subsidiary
Capital Insurance Agency Corp	Subsidiary
Capital Investment Trust Corp. (Note)	Associate
Funds issued by Capital Investment Trust Corp. (Note)	Funds issued by associate
San Ho Enterprise Co., Ltd.	Juristic-person director
Kwang Hsing Industrial Co., Ltd.	Juristic-person director
Tai Chun Enterprise Co., Ltd	Juristic-person director
Others	Key management personnel and others

Note: The corporation has become an associate of the Company from February 9, 2018.

(c) Key management personnel transactions

(i) Key management personnel compensation:

	For the years ended December 31,	
	2018	2017
Short-term employee benefits	\$ 255,870	224,585
Post-employment benefits	2,564	2,282
Share-based Payment	-	5,960
Total	<u>\$ 258,434</u>	<u>232,827</u>

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(ii) Bond transactions - bonds sold under repurchase agreements

Bonds sold under repurchase agreements with key management personnel as of December 31, 2018 and 2017 were as follows:

	December 31, 2018		December 31, 2017	
	Par value	Purchase price	Par value	Purchase price
Key management personnel	<u>\$ 43,000</u>	<u>43,060</u>	<u>43,600</u>	<u>43,941</u>
		For the years ended December 31,		
Total financial expenses		2018	2017	
Key management personnel		\$ 152	209	

(iii) Structured notes transactions

As of December 31, 2018 and 2017, the balances of structured notes transactions with key management personnel were \$55,612 and \$45,971, respectively.

(d) Significant transactions with related parties

(i) Bond transactions - bonds sold under repurchase agreements

The balances of bonds sold under repurchase agreements with related parties as of December 31, 2018 and 2017 were as follows:

	December 31, 2018		December 31, 2017	
	Par value	Purchase price	Par value	Purchase price
Juristic-person directors	\$ 20,300	20,315	10,700	10,700
Funds issued by associate	50,000	50,044	-	-
Total	<u>\$ 70,300</u>	<u>70,359</u>	<u>10,700</u>	<u>10,700</u>

Total financial expenses	For the years ended December 31,	
	2018	2017
Funds issued by associate	\$ 161	-
Subsidiaries	-	42
Juristic-person directors	81	78
Total	<u>\$ 242</u>	<u>120</u>

Transaction terms are the same as those with general clients.

(ii) Structured notes transaction and future transactions

As of December 31, 2018 and 2017 the balances of structured notes transactions with juristic-person directors and others of the Group were \$17,082 and \$4,995, respectively. The balance of future transactions with the associate were \$287,357.

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(iii) Lease agreements

1) Lease revenue

		<b>For the years ended December 31,</b>	
		<b>2018</b>	<b>2017</b>
Subsidiaries	\$	1,038	1,036
Associates		15,810	-
Total	\$	<b>16,848</b>	<b>1,036</b>

2) Guarantee deposits received

		<b>December 31, 2018</b>	<b>December 31, 2017</b>
Subsidiaries	\$	200	200
Associates		3,811	-
Total	\$	<b>4,011</b>	<b>200</b>

(iv) Insurance commission revenues

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

1) Commission revenues

		<b>For the years ended December 31,</b>	
		<b>2018</b>	<b>2017</b>
Subsidiaries	\$	<b>11,905</b>	<b>13,626</b>

2) Accounts receivable

		<b>December 31, 2018</b>	<b>December 31, 2017</b>
Subsidiaries	\$	<b>2,020</b>	<b>1,169</b>

(v) Commissions

The brokerage commission received from the Juristic-person directors, funds issued by associate of the Group and other related parties engaging in securities and futures trading for the December 31, 2018 and 2017, were as follows:

		<b>For the years ended December 31,</b>	
<b>Brokerage commissions</b>		<b>2018</b>	<b>2017</b>
Juristic-person directors	\$	288	340
Funds issued by associate		15,969	-
Other related parties		10,270	13,209
Total	\$	<b>26,527</b>	<b>13,549</b>

		<b>For the years ended December 31,</b>	
<b>Re-consigned handling commissions</b>		<b>2018</b>	<b>2017</b>
Funds issued by associate	\$	4,879	-
Other related parties		235	148
Total	\$	<b>5,114</b>	<b>148</b>



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

	Other commissions	For the years ended December 31,	
		2018	2017
Funds issued by associate		\$ <u>639</u>	<u>-</u>

(vi) Management service income and stock service income:

The Group provided management service and stock service for associate, and the service income amounted to \$259 and \$0 in years for the December 31, 2018 and 2017, respectively.

(vii) Accrued receivables

The accrued receivables between the associate and the Group primarily were securities management service receivable. As of December 31, 2018 and 2017, the accrued receivables amounted to \$10.

(viii) Disposals of financial assets

On January 16, 2018, the Group disposed all its shareholdings (941 thousand shares) in Reliance Securities Investment Trust Co., Ltd (which was recognized as financial assets at fair value through other comprehensive income - non-current) to a juristic-person director. The selling price and gains on disposal amounted to \$9,774 and \$7, respectively.

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

**(8) Pledged assets:**

The following assets were pledged as collateral or restricted in use as of December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017	The collateral use
Restricted assets - current	\$ 730,728	554,215	Bank borrowings, commercial paper, accounts settled, repurchase agreement.
Restricted assets - non-current	-	94,875	Trust to an impartial third party (Note)
Trading securities and bonds purchased under resale agreements (par value)	29,145,321	49,006,659	Repurchase agreement
Property and equipment	3,968,485	3,938,041	Bank borrowings
Financial assets at fair value through profit or loss - non - current	185,109	186,015	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business
Investment property	895,814	955,695	Bank borrowings
Total	<u>\$ 34,925,457</u>	<u>54,735,500</u>	

Note : 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”). As of December 31, 2017, the accumulated compensation expense was \$87,125 and the trust amount of the impartial third party was \$94,875.

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

**(9) Significant contingent liability and unrecognized contract commitment:**

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

	<b>December 31, 2018</b>		<b>December 31, 2017</b>	
	<b>Shares (in thousands)</b>	<b>Par value</b>	<b>Shares (in thousands)</b>	<b>Par value</b>
Securities procured through margin purchase	528,296	\$ 5,282,960	715,087	7,150,870
Collateral for margin purchase	34,550	345,500	4,429	44,290
Collateral for short sales	6,150	61,500	5,063	50,630
Lending securities to customers through short sales	50,957	509,570	48,278	482,780

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

	<b>December 31, 2018</b>		<b>December 31, 2017</b>	
	<b>Shares (in thousands)</b>	<b>Par value</b>	<b>Shares (in thousands)</b>	<b>Par value</b>
Securities borrowed from securities finance companies	1,074	\$ 10,740	1,005	10,050
Collateral for refinancing margin	53	530	15	150

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

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Promissory notes	<b>\$ 26,440,000</b>	<b>24,890,000</b>
Promissory notes (in USD thousands)	<b>USD 60,000</b>	<b>80,000</b>

- (d) As of December 31, 2018 and 2017, the market values of collaterals which received from customers on conducting borrowing and lending business with unrestricted purposes were \$3,848,765 and \$3,146,425, respectively.
- (e) Securities and Futures Investors Protection Center claims against the Company for compensation of \$2,004; due to the fact that the Company, being the underwriter of client's year 2002 cash capital increase case had provided false information on the contents disclosed in the prospectus. The case is under the trial of Taiwan Shilin District Court. According to the opinion from the attorney of the Company, the case had no impact to the Company.
- (f) The client, Mr. Wu, declared that a resigned employee of Da-Sing branch conducted transactions for Mr. Chen without his consent. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation for damages of \$2,192. According to the final judgment made by the Supreme Court in January, 2019, the Company shall not be held liable to the damages.

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- (g) According to the documentation No. 0990030563 verdict of Financial Supervisory Commission (dated June 14, 2010), Taiwan International Securities Corporation (hereinafter known as “TISC”) is suspected to violate the “Regulations Governing Securities Firms” due to some employees selling private placed products of Genesis Growth Income Preferred Shares B1 issued by GVEC (Genesis Voyager Equity Corporation, Danny Pang as related party) privately. According to the understanding and inspection of TISC, some employees may have been selling the aforementioned product and the suspected sales amount is US\$15 million. Some investors instituted proceedings towards TISC and claimed damages amounting to US\$7,956,873 dollars (including claim amount US\$130,000 dollars towards Taiwan International Securities Investment Consulting Corp.). The damages claimed for amounted to US\$6,355,536, which was in favor of the Company, or the investors reached compromises to waive off the appeal rights. As of December 31, 2018, there is still one case that currently under the review of the Taiwan High Court. Nevertheless, the Company had signed an agreement with the Unitech Printed Circuit Board Corp. and the other nine companies which were the original major shareholders of TISC on May 2, 2011, the date of merger with TISC. According to this agreement, the maximum claim damage compensation afford by the Company is \$173,000, thus the Company recognized this amount as other liabilities and the balance was \$48,034 as of December 31, 2018.
- (h) The Company provided the Letter of Comfort to the banks which loaned to its subsidiary CSC International Holdings Ltd. and CSC Securities (HK) Ltd.
- (i) The subsidiary, Capital Futures Corp., acquired hardware and software system for the development of future operation, which cost \$18,990 for contract price. As of December 31, 2018, the remaining payable balance was \$8,903.
- (j) According to the Article 17 of Enforcement Rules of the Trust Enterprise Act, the balance sheet, income statement and list of trust properties of trust accounts were declared as follows:
- (i) Balance sheet of trust accounts

#### Balance Sheet of Trust Accounts

##### December 31, 2018 and 2017

	December 31, 2018	December 31, 2017		December 31, 2018	December 31, 2017
<b>Trust Assets</b>			<b>Trust Liabilities</b>		
Bank deposits	\$ 863,717	951,429	Accounts payable	\$ 230	328
Short-term investment			Trust capital	12,864,910	12,050,890
Funds	10,355,060	10,576,044	Accumulated earnings or deficit	(1,066,242)	42,146
Stocks	351,841	283,224			
Securities lent	90,222	181,899			
Bonds	12,003	10,143			
Structured notes	12,224	10,027			
Accounts receivable	113,831	80,598			
<b>Total Assets</b>	<b>\$ 11,798,898</b>	<b>12,093,364</b>	<b>Total Liabilities</b>	<b>\$ 11,798,898</b>	<b>12,093,364</b>

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

(ii) Income statement of trust accounts

<b>Income Statement of Trust Accounts</b>		
<b>For the years ended December 31, 2018 and 2017</b>		
	<u><b>2018</b></u>	<u><b>2017</b></u>
Revenue		
Interest revenue	\$ 5,686	4,988
Cash dividends revenue	480,749	-
Rental revenue	10,547	8,201
Realized investment gains	262,417	324,642
Unrealized investment gains	27,690	250,376
Unrealized currency exchange gains	882,532	18,453
Currency exchange gains	12,587,351	483,754
Other revenue	709	-
Subtotal	<u>14,257,681</u>	<u>1,090,414</u>
Expense		
Administrative fee	1,115	1,075
Commission expenses	75,544	83,923
Realized investment losses	266,352	84,223
Unrealized investment losses	1,808,804	321,081
Unrealized currency exchange losses	2,194,098	772,661
Supplementary insurance premium	76	-
Currency exchange losses	<u>11,760,193</u>	<u>98,547</u>
Subtotal	<u>16,106,182</u>	<u>1,361,510</u>
Net income (losses) before tax	(1,848,501)	(271,096)
Income tax expense	<u>(327)</u>	<u>(271)</u>
Net income (losses) after income tax	<u><u>\$ (1,848,828)</u></u>	<u><u>(271,367)</u></u>

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

(iii) List of trust properties

**List of Trust Properties**

**December 31, 2018 and 2017**

<b>Investment items</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Bank deposits	\$ 863,717	951,429
Short-term investment		
Stocks	351,841	283,224
Securities lent	90,222	181,899
Structured Notes	12,224	10,027
Bonds	12,003	10,143
Funds	10,355,060	10,576,044
Account receivables	<u>113,831</u>	<u>80,598</u>
Total	<u><u>\$ 11,798,898</u></u>	<u><u>12,093,364</u></u>

**(10) Significant Catastrophic Loss:**None

**(11) Significant Subsequent Events:**

The Company will change the business addresses to 11/F, No. 156, Section 3, Minsheng East Road, Songshan District, Taipei in 2019.

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

**(12) Other:**

(a) As of December 31, 2018 and 2017, the open positions of futures and option contracts were as follows:

(i) December 31, 2018

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/ Short	Number of contracts			
Futures contract :						
	TAIEX Futures	Long	219	\$ 419,425	423,418	
	TAIEX Futures	Short	674	(1,300,015)	(1,303,020)	
	Mini-TAIEX Futures	Short	264	(126,317)	(127,524)	
	Electronic Sector Index Futures	Long	23	35,333	35,397	
	Finance Sector Index Futures	Short	30	(35,369)	(35,358)	
	Stock Futures	Long	1,938	347,884	344,406	
	Stock Futures	Short	3,226	(395,545)	(380,106)	
	H Stocks Index Futures	Long	7	13,704	13,757	
	HSI Futures	Short	5	(25,340)	(25,343)	
	Mini-HSI Futures	Long	4	4,067	4,055	
	SGX Nifty 50 Index Futures	Short	36	(24,058)	(24,155)	
	Dow Futures	Short	58	(26,931)	(26,880)	
	Mini-Dow Futures	Long	5	17,770	17,867	
	Mini-Dow Futures	Short	2	(7,113)	(7,151)	
	Soybean Futures	Short	12	(16,964)	(16,494)	
	FTSE China A50 Index Futures	Short	466	(149,721)	(148,929)	
	MSCI Taiwan Index Futures	Short	70	(76,977)	(76,654)	
	S&P 500 Futures	Long	42	98,471	100,602	
	S&P 500 Futures	Short	12	(6,009)	(5,993)	
	Mini-S&P 500 Futures	Long	16	60,226	61,558	
	Mini-S&P 500 Futures	Short	6	(22,746)	(23,115)	
	SGX Nikkei 225 Index Futures	Short	4	(12,002)	(11,092)	
	U.S. 2-Year T-Note Futures	Short	1	(6,495)	(6,521)	
	U.S. 10-Year T-Note Futures	Short	100	(372,827)	(374,771)	
	Euro-Bund Futures	Short	23	(132,141)	(132,402)	
	Nifty 50 Index Futures	Long	48	26,045	26,189	
	Nifty 50 Index Futures	Short	4	(2,193)	(2,192)	
	USD/JPY FX Futures	Long	53	32,509	32,120	
	USD/JPY FX Futures	Short	213	(130,851)	(130,068)	
	EUR/USD FX Futures	Long	113	79,609	80,110	
	Dollar Index Futures	Short	1	(2,946)	(2,940)	
	Japanese Yen Futures	Long	3	10,249	10,563	
	Japanese Yen Futures	Short	28	(97,593)	(98,591)	
	Euro Futures	Short	18	(79,280)	(79,631)	
	Subtotal			(1,904,141)		

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

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/ Short	Number of contracts			
Options contract :						
	TAIEX Options (Call)	Long	572	\$ 1,584	1,183	
	TAIEX Options (Put )	Long	1,475	8,648	9,788	
	TAIEX Options (Call)	Short	538	(4,898)	(3,805)	
	TAIEX Options (Put )	Short	403	(3,794)	(3,187)	
	Stock Options (Call)	Long	1	98	30	
	Stock Options (Put)	Long	54	184	127	
	Stock Options (Call)	Short	1,153	(3,777)	(2,063)	
	Stock Options (Put)	Short	172	(2,263)	(2,749)	
	TAIEX Weekly Options (Put)	Long	240	72	25	
	TAIEX Weekly Options (Call)	Short	90	(173)	(208)	
	S&P 500 Options (Put)	Long	24	654	427	
	S&P 500 Options (Call)	Short	24	(1,684)	(4,059)	
	Japanese Yen Options (Put)	Short	3	(6)	(3)	
	Subtotal			(5,355)		
Total				<u>\$ (1,909,496)</u>		

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

(ii) December 31, 2017

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/ Short	Number of contracts			
Futures contract :						
	TAIEX Futures	Long	166	\$ 341,696	351,721	
	TAIEX Futures	Short	2,305	(4,866,095)	(4,899,355)	
	Mini-TAIEX Futures	Short	113	(59,538)	(59,835)	
	Electronic Sector Index Futures	Short	118	(206,165)	(208,247)	
	Non-Finance Non-Electronics Sub-Index Futures	Long	24	29,054	29,801	
	Stock Futures	Long	2,755	365,398	367,120	
	Stock Futures	Short	8,226	(1,524,440)	(1,517,181)	
	Finance Sector Index Futures	Long	17	20,196	20,190	
	Finance Sector Index Futures	Short	1	(1,177)	(1,189)	
	H stocks Index Futures	Long	5	11,037	11,076	
	SGX Nifty 50 Index Futures	Long	83	52,124	52,161	
	MSCI Taiwan Index Futures	Long	140	163,256	163,740	
	Real Estate Index Futures	Short	5	(4,836)	(4,782)	
	VIX Futures	Long	40	13,313	13,550	
	Japanese Yen Futures	Long	2	6,698	6,632	
	Japanese Yen Futures	Short	3	(9,942)	(9,948)	
	Dow Futures	Long	92	45,670	45,711	
	Dow Futures	Short	97	(48,132)	(48,174)	
	Mini-Dow Futures	Long	6	22,185	22,083	
	Mini-Dow Futures	Short	2	(7,362)	(7,366)	
	Gold Futures	Long	1	3,866	3,896	
	Gold Futures	Short	13	(49,580)	(50,654)	
	NT dollar Gold Futures	Long	3	1,399	1,399	
	USD/CNY FX Futures	Long	7	22,476	20,937	
	USD/CNY FX Futures	Short	17	(54,697)	(51,083)	
	Nifty 50 Index Futures	Short	99	(52,266)	(52,272)	
	Mini-USD/CNY FX Futures	Long	81	52,641	48,696	
	USD/JPY FX Futures	Long	76	45,094	45,066	
	USD/JPY FX Futures	Short	90	(53,137)	(53,082)	
	EUR/USD FX Futures	Long	134	95,766	96,370	
	EUR/USD FX Futures	Short	188	(133,994)	(134,423)	
	Euro Futures	Long	9	40,182	40,428	
	Crude Oil Futures	Long	2	3,446	3,595	
	Crude Oil Futures	Short	69	(117,989)	(124,070)	
	S&P 500 Futures	Long	63	33,766	33,875	
	S&P 500 Futures	Short	3	(1,616)	(1,614)	
	Mini-S&P 500 Futures	Long	11	43,562	43,479	
	Mini-S&P 500 Futures	Short	27	(107,897)	(107,538)	
	FTSE China A50 Index Futures	Long	570	227,493	224,470	
	FTSE China A50 Index Futures	Short	1,030	(408,178)	(405,920)	
	Nikkei 225 Index Futures	Short	2	(11,799)	(12,021)	
	SGX Nikkei 225 Index Futures	Short	2	(6,025)	(6,012)	
	U.S. 5-Year T-Note Futures	Short	95	(328,692)	(328,419)	
	U.S. 10-Year T-Note Futures	Short	267	(982,781)	(985,667)	
	Sugar Futures	Long	43	41,196	40,977	
	Soybean Meal Futures	Long	32	3,557	3,534	
	Subtotal			(7,351,267)		



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

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

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

(b) Restrictions and enforcement of the Group's various financial ratios under futures trading law

Subsidiary - Capital Futures Corp.'s the restrictions and enforcement of each financial ratio was calculated in accordance with "Regulations Governing Futures Commission Merchants" as follow:

Art.	Calculation formula	Current Period		Last Period		Standard	Enforcement
		Calculation	Ratio	Calculation	Ratio		
17	$\frac{\text{Stockholders' equity}}{\text{(Total liabilities - futures traders' equity)}}$	$\frac{5,032,092}{486,790}$	10.34	$\frac{4,637,732}{607,202}$	7.64	$\geq 1$	Satisfactory to requirement
17	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{38,113,857}{34,567,504}$	1.10	$\frac{30,719,057}{27,485,827}$	1.12	$\geq 1$	"
22	$\frac{\text{Stockholders' equity}}{\text{Minimum paid-in capital}}$	$\frac{5,032,092}{1,115,000}$	451.31 %	$\frac{4,637,732}{1,115,000}$	415.94 %	$\geq 60\%$ $\geq 40\%$	"
22	$\frac{\text{Post-adjustment net capital}}{\text{Total customers' margin deposits required for open positions of customers}}$	$\frac{3,659,697}{6,318,099}$	57.92 %	$\frac{3,183,040}{5,524,491}$	57.62 %	$\geq 20\%$ $\geq 15\%$	"

(c) Unique risks to specific futures commission merchant services

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

# CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (13) Other disclosures:

#### (a) Information on significant transactions:

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

#### (i) Loans to others:

(In Thousands Dollars)

Number	Name of the company providing Loans to Others	Party to Transactions	Account Classification	Related party	Maximum Balance of the Period	Ending balance	Capital Employed	Range of interest rate	Type of Loans (Note)	Amount of Transactions	Purposes of the Borrowers	Allowance of Doubtful Accounts	Collateral		Limit on Loans to a Single Business	Limit on the Amount of Loans
													Name	Value		
1	CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Account receivables - Related party	Yes	US 29,322 thousands	US 29,322 thousands	US 29,322 thousands	- %	2	-	Operations	-		-	US 53,380 thousands	US 53,380 thousands
2	Taiwan International Securities (B.V.I) Corp. Limited.	TIS Securities (HK) Limited.	Other receivables - Related party	Yes	US 3,380 thousands	US 3,380 thousands	US 3,380 thousands	- %	2	-	Operations & repayment of financing	-		-	US 3,380 thousands	US 3,380 thousands
3	TIS Securities (HK) Limited.	Taiwan International Capital (HK) Ltd.	Other receivables	Yes	HK 1,463 thousands	HK 1,463 thousands	HK 1,463 thousands	- %	2	-	Repayment of financing	-		-	HK 1,463 thousands	HK 1,463 thousands
4	CSC Futures (HK) Ltd.	Klaw Trading Limited	Account receivables - Customer	No	27,422	42,656	14,320	5 %	2	-	Tradings	-		-	103,575	414,300
5	CSC Futures (HK) Ltd.	AAA Fintech Limited	Account receivables - Customer	No	60,938	85,313	-	5.4 %	2	-	Tradings	-		-	103,575	414,300
6	CSC Futures (HK) Ltd.	Future Leading Investment Pte. Ltd.	Account receivables - Customer	No	85,313	85,313	-	3.5 %	2	-	Tradings	-		-	103,575	414,300
7	CSC Futures (HK) Ltd.	Tetrian Capital Limited	Account receivables - Customer	No	-	6,671	-	- %	2	-	Tradings	-		-	103,575	414,300
8	CSC Futures (HK) Ltd.	Alpha Rnd Singapore Pte Ltd.	Account receivables - Customer	No	5,864	85,313	-	5.4 %	2	-	Tradings	-		-	103,575	414,300
9	CSC Futures (HK) Ltd.	Pinnacle Corp. Pte. Ltd.	Account receivables - Customer	No	3,047	-	-	4 %	2	-	Tradings	-		-	103,575	414,300

Note: Type of Loans

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

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

# CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

(vii) Business relationships and significant intercompany transactions for the year ended December 31, 2018:

(In Thousands Dollars)

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Intercompany transaction details			
				General ledger account	Amount	Trading terms	Percentage of total consolidated revenue or total assets
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts payable	248		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts receivable	10,922		0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other receivables	278		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Bonds sold under repurchase agreements	198,000		0.17 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other payables	19,806		0.02 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Guarantee deposits received	3,819		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Futures commission revenue	166,348	General transaction	2.18 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Lease revenue	16,455	General transaction	0.22 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Revenue from securities management, distribution, and management fees	406	General transaction	0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Financial costs	359	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other operating revenue	19	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Securities commission expense	4,721	General transaction	0.06 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Interest revenue	424	General transaction	0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Miscellaneous expenses	22,618	General transaction	0.30 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Non-operating revenues	42,717	General transaction	0.56 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Brokerage commissions revenue	436	General transaction	0.01 %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Other receivables	147		- %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Professional service fees	82,000	General transaction	1.07 %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Lease revenue	1,200	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	120	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Non-operating revenues	120	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Revenue from securities management, distribution, and management fees	24	General transaction	- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Lease revenue	249	General transaction	- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Revenue from securities management, distribution, and management fees	90	General transaction	- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other receivables	278		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Receipts under custody	3		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other operating expense	5,887	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	93		- %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Lease revenue	962	General transaction	0.01 %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Financial costs	2	General transaction	- %

# CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Intercompany transaction details			
				General ledger account	Amount	Trading terms	Percentage of total consolidated revenue or total assets
0	Capital Securities Corp.	Capital International Technology Corp.	1	Lease revenue	146	General transaction	- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Professional service received	60	General transaction	- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Guarantee deposits received	37		- %
1	Capital Futures Corp.	Capital Securities Corp.	2	Customers' margin account	1,628,417		1.39 %
1	Capital Futures Corp.	Capital Securities Corp.	2	Futures traders' equity	1,628,417		1.39 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Customers' margin account	454,731		0.39 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures traders' equity	2,987,172		2.55 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Other payables	1,951		- %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures commission expense	10,289	General transaction	0.13 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Brokerage commissions revenue	68,377	General transaction	0.90 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Financial costs	2,482	General transaction	0.03 %
1	Capital Futures Corp.	Capital International Technology Corp.	3	Professional service fees	1,400	General transaction	0.02 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Customers' margin account	2,714,273		2.31 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Futures traders' equity	256,258		0.22 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Accounts receivable	74,427		0.06 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Information technology expenses	2,006	General transaction	0.03 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Accumulated depreciation	1,200		- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Depreciation expense	233	General transaction	- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Prepayments	241		- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Other payables	1,730		- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Professional service fees	14,968	General transaction	0.20 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Membership fee	114	General transaction	- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other receivables	HK 21		- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other operating revenue	HK 4,320	General transaction	0.22 %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Brokerage handling fee expense	HK 616	General transaction	0.03 %
3	CSC Securities (HK) Ltd.	CSC International Holdings Ltd.	3	Other payables	HK 228,306		0.75 %
4	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	3	Other receivables	HK 26,248		0.09 %

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 the Consolidated Financial Statements

(b) Information on reinvestment business:

(In Thousands of New Taiwan Dollars)

Ref. No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and number of FSC	Primary business operation	Original investment amount		Highest	Equity Ownership by company (note 3)			Operating income or loss of investee company during the period	Net income or loss of investee company during the period	Investment gain or loss recognized during the period	Cash dividend	Note
						Balance on December 31, 2018	Balance on December 31, 2017	Percentage of ownership	Shares	Ratio	Book value					
0	Capital Investment Management Corp.	Taipei ,Taiwan, R.O.C.	February 16, 1990		Engaged in providing research, analysis and recommendations pertaining to securities investment, organize seminars and publish materials on securities investments.	72,515	72,515	100.00 %	7,000,000	100.00 %	106,690	82,000	10,522	10,522	10,990	The transaction has been written off in the consolidated financial statements
0	Capital Futures Corp.	Taipei ,Taiwan, R.O.C.	February 26, 1997	No. FSC-1050044467 dated November 15, 2016	Engaged in domestic and foreign futures business.	1,212,539	1,212,539	56.21 %	99,182,845	56.21 %	2,828,539	2,373,305	835,205	469,488	258,777	"
0	CSC International Holdings Ltd.	British Virgin Island	March 4, 1996	No. FSC-65350 dated January 12, 1996	Long-term equity investment business.	1,339,555	1,339,555	100.00 %	45,000,000	100.00 %	1,636,902	9,012	(6,343)	(6,343)	-	"
0	Capital Insurance Advisory Corp.	Taipei ,Taiwan, R.O.C.	November 9, 2000		Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business.	3,890	3,890	100.00 %	500,000	100.00 %	84,732	180,643	58,876	58,876	64,650	Subsidiary
0	Capital Insurance Agency Corp.	Taipei ,Taiwan, R.O.C.	November 8, 2000		Manages personal insurance agent business.	7,400	7,400	100.00 %	740,000	100.00 %	40,757	66,851	1,356	1,356	2,146	"
0	Taiwan International Futures Corp. (Note 4)	Taipei ,Taiwan, R.O.C.	November 25, 1993		Completion of liquidation.	-	429,990	99.99 %	-	- %	-	-	-	173,048	-	The transaction has been written off in the consolidated financial statements
0	Taiwan International Securities (B.V.I) Corp.	British Virgin Island	December 10, 1996	No. FSC-53981	Long-term equity investment business.	1,394,817	1,394,817	100.00 %	300	100.00 %	347	413	(766)	(766)	-	"
0	Taiwan International Securities Investment Consulting Corp. (Note 5)	Taipei ,Taiwan, R.O.C.	March 3, 1994		Liquidation in progress.	9,992	9,992	99.92 %	999,200	99.92 %	12,799	-	(232)	(232)	-	"
0	CSC Venture Capital Corp.	Taipei ,Taiwan, R.O.C.	January 12, 2016	No. FSC-1040034071 dated September 8, 2015	Venture Capital and consulting business	1,000,000	1,000,000	100.00 %	100,000,000	100.00 %	854,906	3,716	(2,109)	(2,109)	-	"
0	Capital Investment Trust Corp.	Taipei ,Taiwan, R.O.C.	October 10, 1995		Engaged in security investment and discretionary investment services.	1,272,505	-	20.00 %	33,067,507	20.00 %	1,261,329	1,319,160	491,726	87,155	99,203	Associates
1	CSC Securities (HK) Ltd.	Hong Kong	May 3, 1994	No. FSC-90931 dated January 5, 1998	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong.	HK 128,000 thousands	HK 128,000 thousands	100.00 %	128,000,000	100.00 %	HK 160,384 thousands	HK 26,807 thousands	HK 2,332 thousands	-	-	The transaction has been written off in the consolidated financial statements
2	TIS Securities (HK) Limited. (Note 6)	Hong Kong	August 17, 1993	No. FSC-40912 dated November 4, 1993	Liquidation in progress.	HK 265,000 thousands	HK 265,000 thousands	100.00 %	265,000,000	100.00 %	HK (26,248) thousands	HK -	HK 107 thousands	-	-	"
3	Taiwan International Capital (HK) Ltd. (Note 6)	Hong Kong	July 16, 1997	No. FSC-110159	Liquidation in progress.	HK 2	HK 2	100.00 %	2	100.00 %	HK (66,157) thousands	-	HK (57) thousands	-	-	"
4	CSC Futures (HK) Ltd.	Hong Kong	December 9, 1998	No. FSC-1010027412 dated August 24, 2012	Future brokerage and other businesses permitted by local law of Hong Kong.	862,631	862,631	97.27 %	214,000,000	97.27 %	1,007,474	551,086	57,246	-	-	The transaction has been written off in the consolidated financial statements

(Continued)

# CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

Ref. No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and number of FSC	Primary business operation	Original investment amount		Highest Percentage of ownership	Equity Ownership by company (note 3)			Operating income or loss of investee company during the period	Net income or loss of investee company during the period	Investment gain or loss recognized during the period	Cash dividend	Note
						Balance on December 31, 2018	Balance on December 31, 2017		Shares	Ratio	Book value					
4	Capital International Technology Co., Ltd.	Taipei ,Taiwan, R.O.C.	December 29, 2014	No. FSC-1030038387 dated November 18, 2014	Management and consulting business. Information technology software	50,000	50,000	100.00 %	5,000,000	100.00 %	46,283	1,400	552	-	-	The transaction has been written off in the consolidated financial statements
4	True Partner Advisor Hong Kong Ltd	Hong Kong	May 31, 2010	No. FSC-1040027513 dated July 16, 2015	Asset Management	36,701	36,701	49.00 %	245,000	49.00 %	45,719	133,223	7,791	-	-	Associates
5	Capital Securities Nominee Ltd.	Hong Kong	April 7, 1995		Agency services.	HK 2	HK 2	100.00 %	2	100.00 %	HK -	HK -	HK -	-	-	The transaction has been written off in the consolidated financial statements

Note 1: (0) Capital Securities Corp. (1) CSC International Holdings Ltd. (2) Taiwan International Securities (B.V.I) Corp. (3) TIS Securities (HK) Limited. (4) Capital Futures Corp. (5) 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 acknowledged its documents for completion of liquidation on December 17, 2018. The entity was been permitted from the court approval of its completion of liquidation on February 12, 2019.

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

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

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

(In Thousands of New Taiwan Dollars)

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

# CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

(d) Information on investments in China:

(i) Investment in Mainland China and related information:

(In Thousands of New Taiwan Dollars)

Name of investee in Mainland China	Major Operations	Issued capital	Method of investment (Note 1)	Accumulated remittance as of January 1, 2018	Remittance of recoverable investment this period		Accumulated remittance as of December 31, 2018	Net gains (losses) of the investee	Direct or indirect Share holdings (%) by the company	Highest Percentage of ownership	Investment gains (losses) recognized during this period (Note 2)	Ending Balance of Investment	Investment income remitted back as of December 31, 2018
					Remittance amount	Recoverable amount							
Capital True Partner Technology Co., Ltd.	Management, consulting and information service business	5,013	(C)	24,372	-	-	24,372	2,506	28.67%	28.67 %	785 B(3)	12,945	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	18,863	(C)	18,863	-	-	18,863	2,374	56.21%	56.21 %	1,334 B(3)	12,702	-

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

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

Note 2: Investment gains and losses recognized during the period

- A. It should be indicated if the investee was still in the incorporation arrangements and had not yet any profit during this period.
- B. Indicate the basis for investment gains and losses recognition in the number of one of the following three categories:
  - (1) The financial statements that are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.
  - (2) The financial statements that are audited and attested by R.O.C. parent company's CPA.
  - (3) The financial statements that are provided by the investee without audited by CPA.

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

(ii) Limitation on investment in Mainland China:

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

Note: The Company invests through subsidiaries Capital International Technology Corp. to invest in Mainland China. According to the relevant rules to small and medium enterprises, the upper limit for investment in China is \$80,000.



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

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

According to article 4, no. 5 of the letter no. 10400414001 issued by Financial Supervisory Commission on November 19, 2015, the required supplementary disclosures of the Company's information on reinvestment in overseas businesses for the year ended December 31, 2018 are as follows:

- (i) Balance sheet and income statement:

- 1) Balance sheet

Unit: US \$ thousands

Company		
Nature	CSC International Holdings Ltd. December 31, 2018	Taiwan International Securities (B.V.I) Corp. December 31, 2018
Current assets	11,546	10
Long-term investments	20,478	-
Property and premises	2,080	-
Other assets	19,395	3,380
Total assets	53,499	3,390
Current liabilities	57	28
Other liabilities	62	3,351
Total liabilities	119	3,379
Common stock	45,000	9,516
Retained earnings (Accumulated deficit)	8,617	(9,455)
Cumulative translation adjustments	(237)	(50)
Total stockholders' equity	53,380	11
Total liabilities and stockholders' equity	53,499	3,390

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

2) Income statement

Unit: US \$ thousands

<b>Company</b>	<b>CSC International Holdings Ltd.</b>	<b>Taiwan International Securities (B.V.I) Corp.</b>
<b>Nature</b>	<b>For the years ended December 31, 2018</b>	<b>For the years ended December 31, 2018</b>
Operating revenue	298	14
Operating expense	(859)	(39)
Non-operating revenue	351	-
Non-operating expense	-	-
Income (loss) before tax	(210)	(25)
Net income (loss)	(210)	(25)

(ii) Marketable securities held as of December 31, 2018

Unit: shares / US\$ thousands

<b>Name of holding company</b>	<b>Securities types and name</b>	<b>Account classification</b>	<b>December 31, 2018</b>	
			<b>Shares</b>	<b>Book value</b>
CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Long-term investments	128,000,000	\$ <u><u>20,478</u></u>
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Other liabilities	265,000,000	\$ <u><u>(3,351)</u></u>

(iii) Transactions of financial derivatives: None.

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

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

**(14) Segment information:**

(a) Operating segment information

The operating segments are consistent with the internal reports provided to the chief operating decision-maker. The Group's operating segments are classified into brokerage, underwriting, dealing, derivative instrument and reinvestment according to the sources of revenue. The remaining operating results which have not reached the threshold requirements are consolidated in other operating segments.

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

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

(b) Measurement of segmental information

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

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

	For the year ended December 31, 2018							
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$ 3,828,016	283,678	312,051	498,916	203,870	2,814,164	(302,050)	7,638,645
Income	\$ 1,723,648	130,042	(498,734)	240,223	419,963	954,976	(643,588)	2,326,530

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

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

Note 1: Internal segment revenues are eliminated on consolidation.

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

(d) Information about products and services

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

(e) Information about geographical areas

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

(f) Information about major customers

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



安侯建業聯合會計師事務所

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## Independent Auditors' Report

To the Board of Directors of Capital Securities Corporation:

### Opinion

We have audited the financial statements of Capital Securities Corporation("the Company"), which comprise the statement of financial position as of December 31, 2018 and 2017, the statement of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of another auditor (please refer to Other Matter paragraph), the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years ended December 31, 2018 and 2017, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms.

### Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and the reports of another auditor, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Key audit matters of the Company's financial statements are stated as follows:

#### 1. Valuation of financial instruments

Please refer to Note 4(f) for the related accounting policy regarding the valuation of financial instruments, Note 6(b) financial assets, Note 6(j) Financial liabilities at fair value through profit or loss and Note 6(t)(v). fair value and fair value hierarchy of financial instruments for details.



Risk and descriptions of the key audit matter:

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

Procedures performed:

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

**2. Goodwill impairment**

Please refer to Note 4(o) for the related accounting policy regarding the impairment of non-financial assets, Note 5 for accounting assumptions and estimation uncertainty of the goodwill impairment, Note 6(g)(i) for details about measurement of goodwill impairment.

Risk and descriptions of the key audit matter:

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

Procedures performed:

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

**Other Matter**

We did not audit the financial statements of Capital Investment Trust Corporation, an associate of Capital Securities Corporation. Those financial statements were audited by another auditor, whose report has been furnished to us, and our conclusion, insofar as it relates to the amounts included for Capital Investment Trust Corporation, is based solely on the report of another auditor. The recognized investment amount of Capital Investment Trust Corporation under equity method constituted 1.55% and 0.00% of total assets as of December 31, 2018 and 2017, respectively, and the recognized profit or loss under equity method constituted 4.74% and 0.00% of net income before income tax for the years ended December 31, 2018 and 2017, respectively.



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

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

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

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

6. Obtain sufficient and appropriate audit evidence regarding the financial information of the investment in other entities accounted for using the equity method to express an opinion on this financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

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

KPMG

Taipei, Taiwan (Republic of China)  
March 29, 2019

#### **Notes to Readers**

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

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



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

**Balance Sheets**

**December 31, 2018 and 2017**

**(Expressed in Thousands of New Taiwan Dollars)**

		December 31, 2018		December 31, 2017				December 31, 2018		December 31, 2017	
		Amount	%	Amount	%			Amount	%	Amount	%
110000	<b>Assets</b>					210000	<b>Liabilities and Equity</b>				
111000	<b>Current assets:</b>					211000	<b>Current liabilities:</b>				
111100	Cash and cash equivalents (note 6(a))	\$ 2,554,322	3	2,113,161	2	211100	Short-term borrowings (note 6(h))	\$ 3,873,506	5	7,081,698	6
112000	Financial assets at fair value through profit or loss - current (notes 6(b) and 8)	30,265,614	37	33,660,442	30	211200	Commercial paper payable (note 6(i))	-	-	4,099,184	4
113200	Financial assets at fair value through other comprehensive income - current (note 6(b))	10,850,674	13	-	-	212000	Financial liabilities at fair value through profit or loss - current (note 6(j))	1,177,315	1	2,771,741	3
113400	Financial assets available for sale - current (note 6(b))	-	-	32,776,783	29	214010	Bonds sold under repurchase agreements (note 6(k))	28,230,524	35	47,067,813	43
114030	Receivable for securities provided as collateral	9,756,590	12	14,395,393	13	214040	Guarantee deposited for short sales	2,316,744	3	2,226,264	2
114040	Refinancing margin	39,614	-	46,095	-	214050	Proceeds payable from short sales	2,603,315	3	2,500,853	2
114050	Refinancing collateral receivable	34,419	-	38,888	-	214070	Securities lending refundable deposits	644,843	1	1,190,277	1
114060	Receivable of securities business money lending	1,949,105	2	1,532,231	1	214090	Customer equity of separate account ledger in settlement account (note 6(l))	26,969	-	13,479	-
114090	Collateral for securities borrowed	454,200	1	914,343	1	214110	Notes payable	481	-	879	-
114100	Security borrowing margin	412,148	1	931,868	1	214130	Accounts payable (note 6(m))	3,583,940	4	5,524,759	5
114110	Notes receivable	17,181	-	21,811	-	214150	Advance receipts	26,386	-	29,781	-
114130	Accounts receivable(note 6(c))	4,251,551	5	6,337,088	6	214160	Receipts under custody	115,918	-	341,174	-
114150	Prepayments	18,084	-	18,304	-	214170	Other payables	623,162	1	791,239	1
114170	Other receivables	22,368	-	10,511	-	214200	Other financial liabilities - current (note 6(u))	3,357,887	4	4,509,983	4
114600	Current income tax assets	26,358	-	26,358	-	214600	Current income tax liabilities	398,160	-	173,823	-
119000	Other current assets	817,533	1	776,556	1	215100	Provisions - current (note 6(o))	43,530	-	42,205	-
		61,469,761	75	93,599,832	84	219000	Other current liabilities	3,164	-	3,022	-
120000	<b>Non-current assets:</b>							47,025,844	57	78,368,174	71
122000	Financial assets at fair value through profit or loss - non-current (notes 6(b) and 8)	185,109	-	186,015	-	220000	<b>Non-Current liabilities:</b>				
123100	Financial assets measured at cost - non-current (note 6(b))	-	-	332,473	-	224200	Other financial liabilities - non-current (note 6(u))	310,032	-	266,037	-
123200	Financial assets at fair value through other comprehonsive income-non-current (note 6(b))	1,627,616	2	-	-	228000	Deferred income tax liabilities (note 6(p))	468,479	1	474,832	-
124100	Investments accounted for under equity method(note 6(d))	6,827,001	9	5,451,321	5	229000	Other non-current liabilities	652,069	1	612,730	1
125000	Property and equipment (notes 6(e) and 8)	4,577,214	6	4,231,972	4			1,430,580	2	1,353,599	1
126000	Investment property (notes 6(f) and 8)	2,021,203	3	2,412,176	2		<b>Total liabilities</b>	48,456,424	59	79,721,773	72
127000	Intangible assets (note 6(g))	3,543,038	4	3,544,235	4		<b>Equity:</b>				
128000	Deferred income tax assets (note 6(p))	115,600	-	164,844	-	301010	Common stock (note 6(q))	23,209,081	28	21,690,730	20
129000	Other non-current assets	1,061,874	1	1,220,535	1	302000	Capital surplus:				
		19,958,655	25	17,543,571	16	302010	Premium from stock issuance	1,776,413	2	1,776,413	1
						302020	Treasury stock transactions	437,096	1	437,096	-
						302070	Paid-in capital from merger	602,665	1	602,665	1
						302095	Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,338	-	1,338	-
						302096	Changes in ownership interests in subsidiaries	34,787	-	34,787	-
						304000	Retained earnings:				
						304010	Legal reserve	1,519,635	2	1,230,275	1
						304020	Special reserve	3,302,811	4	2,709,623	2
						304040	Unappropriated earnings (note 6(q))	1,387,250	2	2,850,553	3
						305120	Exchange differences on translation of foreign operations	(41,068)	-	(103,566)	-
						305140	Unrealized gains (losses) on financial assets at fair value through other comprehensive income	741,984	1	-	-
						305150	Unrealized gains (losses) on financial assets available for sale	-	-	191,716	-
							<b>Total equity</b>	32,971,992	41	31,421,630	28
	<b>Total assets</b>	<b>\$ 81,428,416</b>	<b>100</b>	<b>111,143,403</b>	<b>100</b>		<b>Total liabilities and equity</b>	<b>\$ 81,428,416</b>	<b>100</b>	<b>111,143,403</b>	<b>100</b>

## (English Translation of Financial Statements Originally Issued in Chinese)

## CAPITAL SECURITIES CORPORATION

## Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

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

		2018		2017	
		Amount	%	Amount	%
	<b>Income:</b>				
401000	Brokerage commissions (note 6(s))	\$ 2,573,772	52	2,379,147	36
402000	Revenues from securities business money lending	264	-	620	-
403000	Revenue from securities lending	137,401	3	112,681	2
404000	Underwriting commissions (note 6(s))	92,602	2	121,517	2
406000	Commissions on wealth management business	107,619	2	103,629	2
410000	Net gains (losses) on sale of trading securities (note 6(s))	(1,406,516)	(29)	1,465,874	22
421100	Securities management, distribution, and management fees	140,914	3	137,851	2
421200	Interest revenue (note 6(s))	1,929,231	39	1,986,559	30
421300	Dividend revenue	238,150	5	221,918	3
421500	Net gains (losses) on measurement of trading securities at fair value through profit or loss (note 6(s))	(595,797)	(12)	85,241	1
421600	Net gains (losses) on covering of borrowed securities and bonds with resale agreements	177,866	4	(6,357)	-
421610	Net gains (losses) on measurement of borrowed securities and bonds with resale agreements	45,706	1	27,654	-
421750	Net gains (losses) on measurement of debt instruments at fair value through other comprehensive income	(386,551)	(8)	-	-
422200	Net gains (losses) on stock warrants issued (note 6(s))	1,683,041	34	691,161	11
424100	Futures commission revenues	166,348	3	150,998	2
424400	Net gains (losses) on derivative instruments - futures (note 6(u))	10,268	-	(565,770)	(9)
424500	Net gains (losses) on derivative instruments - OTC (note 6(u))	40,109	1	(396,701)	(6)
425300	Impairment gain and reversal of impairment loss (note 6(t))	(10,514)	-	-	-
428000	Other operating revenues	(21,253)	-	105,210	2
		<u>4,922,660</u>	<u>100</u>	<u>6,621,232</u>	<u>100</u>
	<b>Expenses:</b>				
501000	Brokerage fees	190,239	4	161,502	2
502000	Brokerage and clearing fees - proprietary trading	14,697	-	11,647	-
503000	Clearing and exchange fees - refinancing	2,127	-	2,192	-
504000	Clearing and exchange fees - underwriting	1,093	-	1,413	-
521200	Financial costs	699,996	14	625,035	10
524200	Securities commission expense	4,721	-	5,147	-
528000	Other operating expenditure	6,649	-	6,693	-
531000	Employee benefits expenses (note 6(s))	1,974,377	40	2,107,451	32
532000	Depreciation and amortization expense (note 6(s))	171,347	4	184,758	3
533000	Other operating expenses (note 6(s))	<u>1,238,245</u>	<u>25</u>	<u>1,250,760</u>	<u>19</u>
		<u>4,303,491</u>	<u>87</u>	<u>4,356,598</u>	<u>66</u>
	<b>Other income (expenses):</b>				
601000	Share of profits of associates and joint venture(note 6(d))	790,995	16	476,853	8
602000	Other gains and losses (note 6(s))	<u>428,281</u>	<u>9</u>	<u>341,867</u>	<u>5</u>
		<u>1,219,276</u>	<u>25</u>	<u>818,720</u>	<u>13</u>
902001	<b>Net income before income tax</b>	1,838,445	38	3,083,354	47
701000	<b>Income tax expense (note 6(p))</b>	<u>(429,580)</u>	<u>(9)</u>	<u>(189,754)</u>	<u>(3)</u>
	<b>Net income</b>	<u>1,408,865</u>	<u>29</u>	<u>2,893,600</u>	<u>44</u>
805000	<b>Other comprehensive income:</b>				
805500	<b>Components that may not be reclassified to profit or loss in subsequent periods:</b>				
805510	Gains (losses) on remeasurements of defined benefit plans	(43,049)	(1)	(27,965)	-
805540	Unrealized gains (losses) from investments in equity instruments at fair value through other comprehensive income	(28,936)	(1)	-	-
805560	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method	(219,278)	(4)	(436)	-
805599	Income tax related to components of other comprehensive income	-	-	-	-
	<b>Subtotal of components that may not be subsequently reclassified into profit or loss</b>	<u>(291,263)</u>	<u>(6)</u>	<u>(28,401)</u>	<u>-</u>
805600	<b>Components that may be reclassified to profit or loss in subsequent periods:</b>				
805610	Exchange differences on translation of foreign operations	61,868	1	(183,972)	(3)
805615	Unrealized gains (losses) from investments in debt instruments at fair value through other comprehensive income	(222,349)	(4)	-	-
805620	Unrealized gains (losses) on financial assets available for sale, net	-	-	168,074	2
805660	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method	10,642	-	(45,107)	-
805699	Income tax related to components of other comprehensive income (note 6(p))	<u>(10,012)</u>	<u>-</u>	<u>23,513</u>	<u>-</u>
	<b>Subtotal of items that may be subsequently reclassified into profit or loss</b>	<u>(159,851)</u>	<u>(3)</u>	<u>(37,492)</u>	<u>(1)</u>
805000	<b>Other comprehensive income, net</b>	<u>(451,114)</u>	<u>(9)</u>	<u>(65,893)</u>	<u>(1)</u>
902006	<b>Total comprehensive income</b>	<u>\$ 957,751</u>	<u>20</u>	<u>2,827,707</u>	<u>43</u>
975000	<b>Basic earnings per share (note 6(r))</b>	<u>\$ 0.61</u>		<u>1.25</u>	
985000	<b>Diluted earnings per share (note 6(r))</b>	<u>\$ 0.61</u>		<u>1.25</u>	

(English Translation of Financial Statements Originally Issued in Chinese)

**CAPITAL SECURITIES CORPORATION**

**Statements of Changes in Equity**

**For the years ended December 31, 2018 and 2017**

**(Expressed in Thousands of New Taiwan Dollars)**

	Retained earnings					Total other equity interest					Treasury stocks	Total Equity
	Common stocks	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences on translation of foreign operations	Unrealized gains (losses) from financial assets at fair value through other comprehensive income	Unrealized gains (losses) on financial assets available for sale				
Balance at 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		
Net income for the year ended December 31, 2017	-	-	-	-	2,893,600	-	-	-	-	2,893,600		
Other comprehensive income	-	-	-	-	(28,401)	(200,724)	-	163,232	-	(65,893)		
Total comprehensive income	-	-	-	-	2,865,199	(200,724)	-	163,232	-	2,827,707		
Appropriation and distribution of retained earnings:												
Legal reserve	-	-	119,675	-	(119,675)	-	-	-	-	-		
Special reserve	-	-	-	245,335	(245,335)	-	-	-	-	-		
Cash dividends of common stocks	-	-	-	-	(802,558)	-	-	-	-	(802,558)		
Purchase of treasury stocks	-	-	-	-	-	-	-	-	(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		
Indemnification to stockholders due to merger	-	-	-	-	(35,711)	-	-	-	-	(35,711)		
Balance at December 31, 2017	21,690,730	2,852,299	1,230,275	2,709,623	2,850,553	(103,566)	-	191,716	-	31,421,630		
Effects of retrospective application	-	-	-	-	12,367	-	1,205,775	(191,716)	-	1,026,426		
Balance at January 1, 2018 after adjustments	21,690,730	2,852,299	1,230,275	2,709,623	2,862,920	(103,566)	1,205,775	-	-	32,448,056		
Net income for the year ended December 31, 2018	-	-	-	-	1,408,865	-	-	-	-	1,408,865		
Other comprehensive income	-	-	-	-	(43,183)	62,498	(470,429)	-	-	(451,114)		
Total comprehensive income	-	-	-	-	1,365,682	62,498	(470,429)	-	-	957,751		
Appropriation and distribution of retained earnings:												
Legal reserve	-	-	289,360	-	(289,360)	-	-	-	-	-		
Special reserve	-	-	-	593,188	(593,188)	-	-	-	-	-		
Cash dividends of common stocks	-	-	-	-	(433,815)	-	-	-	-	(433,815)		
Stock dividends of common stocks	1,518,351	-	-	-	(1,518,351)	-	-	-	-	-		
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	(6,638)	-	6,638	-	-	-		
Balance at December 31, 2018	\$ 23,209,081	2,852,299	1,519,635	3,302,811	1,387,250	(41,068)	741,984	-	-	32,971,992		

## (English Translation of Financial Statements Originally Issued in Chinese)

## CAPITAL SECURITIES CORPORATION

## Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
<b>Cash flows from (used in) operating activities:</b>		
Net income before tax	\$ 1,838,445	3,083,354
<b>Adjustments:</b>		
Income and expenses items with no effect on cash flows:		
Depreciation expense	145,380	154,790
Amortization expense	25,967	29,968
Impairment loss / Provision for bad debt expense	10,514	100,827
Net losses (gains) on financial assets or liabilities at fair value through profit or loss	550,091	(85,241)
Interest expense	699,996	625,035
Interest revenue (including financial revenue)	(1,932,206)	(1,988,576)
Dividend revenue	(287,653)	(240,687)
Cash dividend received from investments under equity method	435,766	301,149
Share of profit of subsidiaries, associates and joint ventures	(790,995)	(476,853)
Losses on disposal and retirement of property and equipment	122	3,012
Gains on disposal of investments under equity method	(69,631)	-
Net losses (gains) on non-operating financial instruments at fair value through profit or loss	24,859	(16,606)
<b>Total adjustments to reconcile profit (loss)</b>	<b>(1,187,790)</b>	<b>(1,593,182)</b>
<b>Changes in assets and liabilities from operating activities:</b>		
Decrease (increase) in financial assets at fair value through profit or loss	2,814,346	(6,435,683)
Increase in financial assets available for sale	-	(13,311,245)
Decrease in financial assets at fair value through other comprehensive income - current	21,631,372	-
Decrease (increase) in receivable for securities provided as collateral	4,638,803	(2,932,501)
Decrease in refinancing margin	6,481	47,258
Decrease in refinancing collateral receivable	4,469	40,401
Increase in receivable of securities business money lending	(416,874)	(1,387,679)
Decrease (increase) in collateral for securities borrowed	460,143	(111,606)
Decrease (increase) in security borrowing margin	519,720	(156,617)
Decrease (increase) in notes receivable	4,630	(4,880)
Decrease (increase) in accounts receivable	2,005,340	(2,334,589)
Decrease in prepayments	220	5,906
Decrease (increase) in other receivable	(30,649)	6,210
Increase in other current assets	(40,977)	(152,186)
Decrease (increase) in guarantee deposited for business operations	51,100	(3,100)
Decrease in settlement fund	4,695	5,499
Decrease in current income tax assets	-	18,057
Decrease in other non-current assets	101,755	31,292
Increase (decrease) in financial liabilities at fair value through profit or loss	(1,594,426)	1,361,598
Increase (decrease) in bonds sold under repurchase agreements	(18,837,289)	11,962,368
Increase in guarantee deposited for short sales	90,480	503,424
Increase in proceeds payable from short sales	102,462	553,749
Increase (decrease) in securities lending refundable deposits	(545,434)	311,411
Increase in customers' equity of separate account ledger in settlement account	13,490	8,942
Decrease in notes payable	(398)	-
Increase (decrease) in accounts payable	(1,922,273)	2,181,439
Increase (decrease) in advance receipts	(3,395)	414
Increase (decrease) in receipts under custody	(225,256)	197,544
Increase (decrease) in other payable	(166,836)	267,490
Increase in other current liabilities	142	3,019
Increase (decrease) in other financial liabilities-current	(1,152,096)	2,082,522
Increase (decrease) in provision-current	1,325	(15,577)
Increase in other financial liabilities-non-current	43,995	26,403
Increase (decrease) in other non-current liabilities	(3,710)	464
<b>Total changes in assets and liabilities from operating activities</b>	<b>7,555,355</b>	<b>(7,230,253)</b>
<b>Total cash generated from adjustment items</b>	<b>6,367,565</b>	<b>(8,823,435)</b>

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

Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
Cash generated from operating activities	\$ 8,206,010	(5,740,081)
Interest received	2,012,400	1,855,035
Dividends received	287,656	240,687
Interest paid	(719,783)	(601,820)
Income taxes paid	(172,364)	(129,019)
<b>Net Cash flows provided by (used in) operating activities</b>	<b>9,613,919</b>	<b>(4,375,198)</b>
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of financial assets at fair value through other comprehensive income - non-current	(270,470)	-
Proceeds from disposal of financial assets at fair value through other comprehensive income - non-current	9,767	-
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	1,085	-
Proceeds from capital reduction of financial assets measured at cost	-	9,368
Increase in deferred debits	(798)	(693)
Acquisition of investments accounted for using equity method	(1,272,505)	(562,929)
Proceeds from liquidation of investments accounted for using equity method	212,179	-
Acquisition of property and equipment	(99,771)	(64,931)
Acquisition of intangible assets	(22,861)	(39,251)
<b>Net cash flows provided by (used in) investing activities</b>	<b>(1,443,374)</b>	<b>(658,436)</b>
<b>Cash flows from (used in) financing activities:</b>		
Increase (decrease) in short-term borrowings	(3,208,192)	2,845,296
Increase (decrease) in commercial papers payable	(4,099,184)	4,099,184
Cash dividends paid	(433,815)	(802,558)
Payments to acquire treasury shares	-	(91,539)
<b>Net cash flows provided by (used in) financing activities</b>	<b>(7,741,191)</b>	<b>6,050,383</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>11,807</b>	<b>(45,660)</b>
<b>Increase in cash and cash equivalents</b>	<b>441,161</b>	<b>971,089</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>2,113,161</b>	<b>1,142,072</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 2,554,322</b>	<b>2,113,161</b>

(English Translation of Financial Statements Originally Issued in Chinese)

**CAPITAL SECURITIES CORPORATION**

**Notes to the Financial Statements**

**For the years ended December 31, 2018 and 2017**

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

**(1) Overview:**

Capital Securities Corporation (the “Company”) was registered under the Ministry of Economic Affairs, R.O.C. on June 21, 1988. The address of the Company’s registered office is 4th Fl. No. 101, Song-Jen Road, Taipei, Taiwan, R.O.C. As of December 31, 2018, the Company has 53 branches nationwide.

The Company is authorized to conduct the following businesses:

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

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

The financial statements were authorized for issuance by the board of directors on March 29, 2019.

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

**(3) New standards, amendments and interpretations adopted:**

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018.

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendment to IFRS 2 “Clarifications of Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Statement of Cash Flows -Disclosure Initiative”	January 1, 2017
Amendment to IAS 12 “Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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

- (i) IFRS 9 “Financial Instruments”

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

As a result of the adoption of IFRS 9, the Company adopted the consequential amendments to IAS 1 “Presentation of Financial Statements” which requires impairment of financial assets to be presented in a separate item in the statement of comprehensive income. Previously, the Company’s approach was to include the impairment of account receivables in operating expenses. Additionally, the Company adopted the consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about year 2018 but generally have not been applied to comparative information.

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

The detail and impact on significant accounting policies of IFRS 9 applied are set out below:

1) Classification of financial assets and financial liabilities

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 classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Company classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please refer to note 4(f).

The adoption of IFRS 9 did not have a significant impact on its accounting policies on financial liabilities.

2) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with the ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt instruments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please refer to note 4(f).

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and other equity items as at January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed 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.



## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

- If an investment on debt instruments had low credit risk at the date of initial application of IFRS 9, then the Company assumed that the credit risk on those asset increase insignificantly since its initial recognition.

4) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original and new measurement categories under IAS 39 and IFRS 9 for each class of the Company's financial assets as of January 1, 2018. There were no changes on the measurement categories and the carrying amount of financial liabilities.

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
<b>Financial Assets</b>				
Cash and equivalents	Amortized cost	\$ 2,113,161	Amortized cost	2,113,161
Financial assets at fair value through profit or loss	FVTPL	33,846,457	FVTPL	33,840,019
		-	FVOCI (Note 2)	12,360
Financial assets available for sale	Available-for-sale	32,776,783	FVOCI (Note 1)	32,761,630
Accounts receivable	Amortized cost	24,254,586	Amortized cost	24,254,586
Financial assets measured at cost	Measured at cost	332,473	FVOCI (Note 2)	935,882
Other assets	Amortized cost	1,646,287	Amortized cost	1,646,287

Note1: The debt instrument investments were previously classified as financial asset available for sale under IAS 39, are held by the Company in same portfolio to provide interest income; however, they may be sold to meet liquidity requirements arising in the normal course of business. These debentures are held within a business model whose objective is both to collect contractual cash flows and sell financial assets. The contractual terms of these debentures give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. Therefore, these investments were classified as financial assets at FVOCI. With the transition to IFRS 9, an impairment loss \$15,153 was recognized, the adjustments would result in a decrease in retained earnings of \$15,153 and an increase in other equity items of \$15,153 on January 1, 2018.

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

Note2: These equity instruments (including financial assets measured at cost) represent investments that the Company intends to hold for the long term for strategic purposes or not for the trading purposes. In accordance with IFRS 9, the Company has designated these investments at the date of initial application as measured at FVOCI. Accordingly, an increase of \$609,331 in those assets recognized, and an increase of \$581,811 and \$27,520 in other equity items and retained earnings on January 1, 2018. (An increase of \$417,095 in other equity items for the influences to reinvestment business.)

The reconciliations of carrying amount of financial assets transferred from December 31, 2017 under IAS 39, to January 1, 2018 under IFRS 9, were as follows:

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings effect	2018.1.1 Other equity effect
Financial assets at fair value through profit or loss						
Beginning balance of FVTPL (IAS 39)	\$ 33,846,457	-	-		-	-
Subtraction – equity instruments:						
To FVOCI	-	(6,438)	-		-	-
Total	<u>\$ 33,846,457</u>	<u>(6,438)</u>	<u>-</u>	<u>33,840,019</u>	<u>-</u>	<u>-</u>
Financial assets at fair value through other comprehensive income						
Beginning balance of available for sale (including measured at cost) (IAS 39)	\$ 33,109,256	-	603,409		-	603,409
Addition – equity instruments:						
From FVTPL	-	6,438	5,922		27,520	(21,598)
Subtractions – debt instruments:						
Cumulative impairment adjustment	-	-	(15,153)		(15,153)	15,153
Total	<u>\$ 33,109,256</u>	<u>6,438</u>	<u>594,178</u>	<u>33,709,872</u>	<u>12,367</u>	<u>596,964</u>

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 “Leases”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IFRS 9 “Prepayment features with negative compensation”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019
Amendments to IAS 28 “Long-term interests in associates and joint ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

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

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(i) IFRS 16“Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 “ Leases” , IFRIC “ 4 Determining whether an Arrangement contains a Lease” , SIC-15 “ Operating Leases – Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”.

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard, and the lessors will continue to classify leases as either a finance or an operating leases.

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Company can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Company plans to apply the practical expedient to exempt the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019.

2) Transition

As a lessee, the Company can apply the standard using either of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

On January 1, 2019, the Company plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Company chooses to elect the following practical expedients:

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

- apply a single discount rate to a portfolio of leases with similar characteristics.
  - adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
  - apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.
  - exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
  - use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
- 3) So far, the most significant impact identified is that the Company will have to recognize the new assets and liabilities for the operating leases of its offices. As of January 1, 2019, the Company estimated that the right-of-use assets and the lease liabilities to increase by \$939,469 and \$939,469 respectively.

#### (ii) IFRIC 23 Uncertainty over Income Tax Treatments

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, as well as 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, as well as 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.

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

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

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

- (c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, the following IFRSs that have been issued by the IASB, but have yet to be endorsed by the FSC:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

The Company assessed that the above IFRSs may not be relevant to the Company.

**(4) Summary of significant accounting policies:**

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

- (a) Statement of compliance

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

- (b) Basis of preparation

- (i) Basis of measurement

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

- 1) Financial instruments measured at fair value through profit or loss (including derivative instruments);
- 2) Financial assets at fair value through other comprehensive income; and
- 3) The defined benefit asset is recognized as plan assets, plus unrecognized actuarial loss, less unrecognized actuarial gain and the present value of the defined benefit obligation.

- (ii) Functional and presentation currency

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

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

(c) Foreign currency

(i) Foreign currency transaction

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

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

Foreign currency differences arising on retranslation are recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

- 1) Fair value through other comprehensive income (Available-for-sale )equity investment;
- 2) A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- 3) Qualifying cash flow hedges to the extent that the hedge is effective.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Company's functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Company's functional currency at the average rate. Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve in equity.

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

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

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

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

- (i) Assets arising from operating activities that are expected to be realized, or are intend to be sold or consumed within the normal operating cycle;
- (ii) Assets held for the trading purposes;
- (iii) Assets that are expected to be realized within twelve months from the balance sheet date;
- (iv) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

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

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

(e) Cash and cash equivalents

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

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

(f) Financial instruments

- (i) Financial assets (policy applicable from January 1, 2018)

Financial assets are classified into the following categories: Financial assets measured at amortized cost, financial assets at fair value through other comprehensive income (FVOCI) and financial assets at fair value through profit or loss (FVTPL).

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

The Company shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following criteria and is not designated as at FVTPL :

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost plus or minus the cumulative amortization using the effective interest method and adjusted for any loss allowance for impairment. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Financial assets at fair value through other comprehensive income (FVOCI)

A debt investment is measured at FVOCI if it meets both of the following criteria and is not designated as at FVTPL :

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated by using the effective interest method, foreign exchange gains and losses, impairment losses, and dividend income (unless the dividend clearly represents a recovery of part of the cost of the investment.) deriving from debt instruments are recognized in profit or loss. Other changes in the carrying amount are recognized in other comprehensive income and accumulated in other equity items. On derecognition, the cumulative gains and losses of debt instruments will be reclassified to profit or loss. However, the cumulative gains and losses of equity instrument investments will not be reclassified to profit or loss. Instead, they will be transferred to retained earnings.

Dividends derived from equity investments are recognized as revenue when the right to receive payment is established, which is normally the ex-dividend date.



## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

3) Financial assets at fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets. On initial recognition, the Company may irrevocably designate financial assets at amortized cost or at fair value through other comprehensive income as at fair value through profit or loss, if they can eliminate or significantly reduce a measurement or recognition inconsistency.

On initial recognition, the Company measures the financial assets at fair value and recognizes the transaction costs in profit or loss as incurred. The Company subsequently measures the financial assets at fair value, and recognizes the gains or losses (including dividend and interest income) in profit or loss.

4) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, financial assets at amortized costs, notes and accounts receivable, other receivables, refundable deposits and other financial assets), debt instrument investments measured at FVOCI and contract assets.

The Company measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL :

- debt securities that are determined to have low credit risk at the reporting date ; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for accounts receivables and contract assets are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the ECLs that result from all possible default events of a financial instrument within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered in estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company's historical experience and informed credit assessment as well as forward-looking information.

## **CAPITAL SECURITIES CORPORATION**

### **Notes to the Financial Statements**

The Company considers a debt instrument to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due or within 30 days but breached the contract. The Company considers a financial asset to be in default when the financial asset is more than 90 days past due or the borrower is unlikely to pay its credit obligations to the Company in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets measured at amortized cost and debt instruments at FVOCI are credit-impaired. A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter into bankruptcy or other financial reorganization; or
- the disappearance of an active market for a financial asset because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the carrying amount of the assets. For debt instrument investments at FVOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Company recognizes the amount of expected credit losses (or reversal) in profit or loss.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to reimburse the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company’s procedures for recovery of amounts due.

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

#### 5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a debt instrument in its entirety, the Company recognizes the difference between its carrying amount and the sum of the consideration received or receivable and any cumulative gains or losses that had been recognized in other comprehensive income and presented in “other equity – unrealized gains or losses on fair value through other comprehensive income” in profit or loss.

On derecognition of a debt instruments not in its entirety, the previous carrying amount and the cumulative gains or loss that had been recognized in other comprehensive income of the financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received from the part derecognized, and any cumulative gains or losses allocated to it that had been recognized in other comprehensive income, shall be recognized in profit or loss.

#### (ii) Financial assets (policy applicable before January 1, 2018)

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

#### 1) Financial assets at fair value through profit or loss

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

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

## **CAPITAL SECURITIES CORPORATION**

### **Notes to the Financial Statements**

2) Financial assets available for sale

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

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

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

3) Held-to-maturity financial assets

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

4) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise accounts receivable and other receivables. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses other than insignificant interest on short-term receivables.

5) Impairment of financial assets

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

## **CAPITAL SECURITIES CORPORATION**

### **Notes to the Financial Statements**

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

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

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

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

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

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

Impairment loss recognized on an available for sale equity security is not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available for sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

#### 6) Derecognition of financial assets

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

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

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

#### (iii) Financial liabilities

##### 1) Financial liabilities measured at fair value through profit or loss

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

##### 2) Other financial liabilities

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

##### 3) Derecognition of financial liabilities

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

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

#### 4) Offsetting of financial assets and liabilities

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

#### (iv) Derivative financial instruments

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

##### 1) Interest rate swaps

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

##### 2) Convertible bond asset- backed swaps

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

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

##### 3) Structured instruments

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

On the settlement date with physical delivery, the fair value of the acquired securities are stated at cost. The difference between fair value and the cost of the delivered securities are recognized as gains (losses) on sale of securities since January 1, 2018. Before that, the fair value and the cost of the delivered securities are recognized as revenue on sale of securities and cost on sale of securities, respectively.

## **CAPITAL SECURITIES CORPORATION**

### **Notes to the Financial Statements**

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

4) Interest options

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

5) Bond options

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

6) Equity options

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

On the settlement date with physical delivery, the fair value of the acquired securities are stated at cost. The difference between fair value and the cost of the delivered securities are recognized as gains (losses) on sale of securities since January 1, 2018. Before that, the fair value and the cost of the delivered securities are recognized as revenue on sale of securities and cost on sale of securities, respectively.

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

7) Forward rate agreement

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

8) Futures contracts and options

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



## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

9) Stock warrants

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

(g) Margin loan, short sale and refinancing

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

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

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

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

(h) Bonds and Bills with resell and repurchase agreements

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

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

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

(i) Securities borrowing transactions

To engage in securities borrowing transactions, the amount of the sale of securities borrowed is recognized as liability, and hedging and non-hedging purposes are distinguished, in accordance with stocks and bonds. When an amount is paid in cash to redeem refundable shares or bonds, the refundable deposit is recorded in a designated account, and the collateral paid in cash is recorded as security borrowing margin. Short sales delivered for securities market financing are recorded as security borrowing collateral prices.

(j) Investments in subsidiaries

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

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

(k) Property and equipment

(i) Recognition and measurement

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

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

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

(ii) Reclassification to investment property

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

(iii) Subsequent cost

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

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

#### (iv) Depreciation

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

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

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

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

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

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

#### (l) Investment property

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

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

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(m) Intangible assets

(i) Goodwill

1) Initial recognition

Goodwill resulted in acquisition of subsidiaries includes in intangible assets.

2) Subsequent measurement

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

(ii) Other intangible assets

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

(iii) Amortization

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

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

The estimated useful lives for the current and comparative periods are as follows:.

1) Customer relationships: 5 years

2) Computer software cost and dial-up service charges: 3 years

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

(n) Lessee

(i) Lessor

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

## **CAPITAL SECURITIES CORPORATION**

### **Notes to the Financial Statements**

(ii) Lessee

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

(o) Non-financial assets impairment

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

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

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

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

(p) Employee benefits

(i) Defined contribution plans

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

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

#### (ii) Defined benefit plans

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

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

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

Re-measurement is comprised of 1) actuarial gains and losses; 2) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and 3) changes in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset). Re-measurement arising on defined benefit plans is recognized in other comprehensive income in the period in which they arise and are recorded as retain earnings.

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

#### (iii) Termination benefits

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

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

(iv) Short-term employee benefits

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

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

(q) Revenue recognition

(i) Brokerage commissions

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

(ii) Underwriting commissions

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

(iii) Interest revenue

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

(r) Provisions

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

(s) Income tax

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

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

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

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

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

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

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

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

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

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

(t) Business combinations

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



## **CAPITAL SECURITIES CORPORATION**

### **Notes to the Financial Statements**

(u) Earnings per share (EPS)

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

(v) Segment information

The Company has disclosed the segment information on the consolidated financial report, thus, the Company does not disclose it on this financial report.

(w) Treasury stocks

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

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

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

**(5) Major sources of significant accounting assumptions, judgments and estimation uncertainty:**

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

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

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

The impairment evaluation of goodwill: the Company performed the impairment test of goodwill annually. The recoverable amount of the cash-generating unit was based on the value in use. The Company chose the appropriate discount rate and estimated the expected cash flows of the cash-generating unit.

**(6) Explanation of significant accounts:**

**(a) Cash and cash equivalents**

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Cash	\$ <u>2,590</u>	<u>2,590</u>
Bank deposits		
Checking accounts	31,152	48,546
Demand deposits	61,122	457,923
Foreign currency deposits	<u>412,303</u>	<u>623,694</u>
Subtotal	<u>504,577</u>	<u>1,130,163</u>
Cash equivalents		
Time deposits	566,510	606,610
Futures margin - excess margin	<u>1,480,645</u>	<u>373,798</u>
Subtotal	<u>2,047,155</u>	<u>980,408</u>
Total	<u><u>\$ 2,554,322</u></u>	<u><u>2,113,161</u></u>

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(b) Financial assets

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

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
<b>Open-ended funds and money-market instruments</b>		
Open-ended funds and money-market instruments	\$ 118,052	162,856
Valuation adjustment	<u>(6,965)</u>	<u>17,894</u>
Subtotal	<u>111,087</u>	<u>180,750</u>
<b>Trading securities - proprietary trading</b>		
Listed stocks	1,309,582	1,406,294
Listed funds	847,254	1,066,981
OTC stocks	303,916	558,763
OTC funds	83,480	40,000
Emerging market stocks	498,304	455,025
Emerging market funds	12,414	9,848
Convertible corporate bonds	496,130	767,352
Government bonds	6,511,541	6,695,553
Corporate bonds	9,652,271	9,403,722
International bonds	4,079,947	2,838,568
Financial debentures	300,000	300,000
Foreign stocks	126,052	454,786
Overseas bonds	-	59,353
Other	<u>257</u>	<u>34,858</u>
	24,221,148	24,091,103
Valuation adjustment	<u>(244,685)</u>	<u>138,033</u>
Subtotal	<u>23,976,463</u>	<u>24,229,136</u>
<b>Trading securities - underwriting:</b>		
Listed stocks	107,320	81,823
OTC stocks	55,690	48,763
Convertible corporate bonds	<u>141,011</u>	<u>129,277</u>
	304,021	259,863
Valuation adjustment	<u>(8,312)</u>	<u>11,400</u>
Subtotal	<u>295,709</u>	<u>271,263</u>

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<b>Trading securities - hedging</b>		
Listed stocks	\$ 1,746,810	4,022,877
OTC stocks	397,140	1,191,800
Convertible corporate bonds	3,799,450	3,456,957
Foreign stocks	<u>-</u>	<u>999</u>
	5,943,400	8,672,633
Valuation adjustment	<u>(231,510)</u>	<u>(65,965)</u>
Subtotal	<u>5,711,890</u>	<u>8,606,668</u>
<b>Derivatives</b>		
Call options	-	1,884
Futures margin - proprietary fund	147,773	344,355
IRS asset swaps	13,855	16,479
Asset swap options - long position	4,072	2,572
Structured notes	3,075	1,343
Currency swaps	1,690	4,072
Interest rate swaps	<u>-</u>	<u>1,920</u>
Subtotal	<u>170,465</u>	<u>372,625</u>
Total	<u><u>\$ 30,265,614</u></u>	<u><u>33,660,442</u></u>

As of December 31, 2018 and 2017, trading securities, financial assets at fair value through other comprehensive income and financial assets available for sale undertaken for repurchase agreement of the Company were \$29,343,321 and \$49,018,159, respectively, please refer to note 6(k) and note 8 for details.

- (ii) Financial assets at fair value through other comprehensive income - current

	<u>December 31, 2018</u>
<b>Debt instruments at fair value through other comprehensive income</b>	
International bonds	\$ 1,226,189
Overseas bonds	<u>9,205,561</u>
	10,431,750
Valuation adjustment	<u>(50,161)</u>
Subtotal	<u>10,381,589</u>

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

<b>Equity instrument at fair value through other comprehensive income</b>	<b>December 31, 2018</b>
Listed stocks	\$ 237,755
OTC stocks	40,353
Foreign stocks	<u>279,832</u>
	557,940
Valuation adjustment	<u>(88,855)</u>
Subtotal	<u>469,085</u>
Total	<u><u>\$ 10,850,674</u></u>

1) Debt instrument investments at fair value through other comprehensive income

The Company has assessed the debentures shown above are held within a business model whose objective is achieved by both collecting the contractual cash flows and selling securities; therefore, they have been classified as financial asset at fair value through other comprehensive income on January 1, 2018.

2) Equity instrument investments at fair value through other comprehensive income

For the year ended December 31, 2018, the dividends was recognized from the Company designated and disposed the aforementioned equity instrument investments at fair value through other comprehensive income – current amounted to \$25,717.

Due to the consideration of asset allocation and managing and adjusting the investment portfolio, the Company sold shares of stocks for a fair value \$489,535 and cumulative dispose losses for the year ended December 31, 2018 amounted \$6,818 were transferred from other equity items to retained earnings.

3) For credit risk (including the impairment of debt instrument investments) and market risk; please refer to note 6(t).

4) For the year ended December 31, 2018, impairment test have been applied by the Company, the variation of loss allowance in the debt instrument at fair value through other comprehensive income of the Company please refer to note 6(t).

(iii) Financial assets available for sale - current:

	<b>December 31, 2017</b>
Listed stocks	\$ 101,209
OTC stocks	77,668
International bonds	1,532,767
Foreign stocks	104,055
Overseas bonds	<u>30,797,054</u>
Subtotal	32,612,753
Valuation adjustment	<u>164,030</u>
Total	<u><u>\$ 32,776,783</u></u>

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

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

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
<b>Mandatorily measured at fair value through profit or loss:</b>		
Government bonds	\$ 185,952	-
Valuation adjustment	<u>(843)</u>	<u>-</u>
Subtotal	<u>185,109</u>	<u>-</u>
<b>Financial assets held for trading:</b>		
Government bonds	-	185,953
Valuation adjustment	<u>-</u>	<u>62</u>
Subtotal	<u>-</u>	<u>186,015</u>
<b>Total</b>	<b><u>\$ 185,109</u></b>	<b><u>186,015</u></b>

As of December 31, 2018 and 2017, the Company 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).

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

<b>Non-listed (or non-over-the-counter)</b>	<b>December 31, 2017</b>	
	<b>Ownership ratio</b>	<b>Amount</b>
Taiwan Depository & Clearing Corp.	1.29 %	\$ 18,661
Taiwan Futures Exchange Corp.	1.33 %	27,498
Taiwan Stock Exchange Corporation	0.06 %	12,242
Global Securities Finance Corporation	6.05 %	202,681
Chou Chin Industrial Co., Ltd.	0.05 %	-
Jong-Yih Industrial Development Co., Ltd.	0.68 %	1,369
Reliance Securities Investment Trust Co., Ltd	3.02 %	9,767
Top Taiwan III Venture Capital Co., Ltd.	7.00 %	32,858
Prudence Venture Investment Corp.	1.50 %	<u>27,397</u>
<b>Total</b>		<b><u>\$ 332,473</u></b>

For the years 2017, Top Taiwan III Venture Capital Co., Ltd. refunded the proceeds of capital reduction amounted to \$1,400 and Prudence Venture Investment Corp. refunded the proceeds of capital reductions which amounted to \$7,968.

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

- (vi) Financial assets at fair value through other comprehensive income — non-current

	<b>December 31, 2018</b>
Equity instruments at fair value through other comprehensive income	
Non-listed or non-over-the-counter stocks	\$ 655,534
Valuation adjustment	<u>972,082</u>
Total	<u><u>\$ 1,627,616</u></u>

- 1) Equity instrument investments at fair value through other comprehensive income

For the year ended December 31, 2018, the dividends was recognized from the Company designated and disposed the aforementioned equity instrument investments at fair value through other comprehensive income – non-current amounted to \$49,442.

For the year ended December 31, 2018, under the consideration of asset allocation and managing and adjusting the investment portfolio, the Company sold equities recognized in FVOCI -non-current for a fair value \$9,774 and generated cumulative dispose gains \$7, and the gains were transferred from other equity items to retained earnings.

- (vii) The Company uses Value at risk (VaR) to monitor and measure the market risk of its investment in equity stocks. VaR refers to the unexpected loss of financial instruments derived from the changes in market risk factors within certain time periods and confidence level. The table below discloses the VaR, which is the estimation of potential loss in ten days and is covered by 99% of the adverse changes in market prices. In the table below by using this assumption, 2.5 out of 250 days VaR will exceed the disclosed amounts due to the changes in market price. For the years ended December 31, 2018 and 2017 VaR (99%, per 10-day) of equity stocks are as follows:

Type of market risk	December 31, 2018	December 31, 2017	For the years ended December 31,					
			2018			2017		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	997,970	1,446,742	1,263,629	1,615,221	947,949	992,682	1,446,742	666,504

- (c) Accounts Receivable

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Receivable on securities purchased by customers	\$ 8,642	27,055
Settlement	712,274	1,000,019
Interests receivable	547,595	627,789
Receivables on securities sold	2,899,035	4,619,158
Others	<u>85,718</u>	<u>64,780</u>
Subtotal	4,253,264	6,338,801
Less: allowance for doubtful accounts	<u>(1,713)</u>	<u>(1,713)</u>
Total	<u><u>\$ 4,251,551</u></u>	<u><u>6,337,088</u></u>

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

- (i) For credit risk (include the impairment of debt instrument investments) and market risk; please refer to note 6(t).
- (ii) For the year ended December 31, 2018, impairment test have been applied by the Company, the variation of loss allowance in receivables, please refer to note 6(t).
- (d) Investments under equity method

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Subsidiaries		
Capital Investment Management Corp.	\$ 106,690	107,158
CSC International Holdings Ltd	1,636,902	1,593,416
Capital Futures Corp.	2,828,539	2,606,869
Capital Insurance Advisory Corp.	84,732	90,506
Capital Insurance Agency Corp.	40,757	41,547
CSC Venture Capital Corp.	854,906	997,913
Taiwan International Securities (B.V.I) Corp.	347	881
Taiwan International Securities Investment Consulting Corp.	<u>12,799</u>	<u>13,031</u>
Subtotal	<u>5,565,672</u>	<u>5,451,321</u>
Associates		
Capital Investment Trust Corp.	<u>1,261,329</u>	<u>-</u>
Total	<u><u>\$ 6,827,001</u></u>	<u><u>5,451,321</u></u>

- (i) Subsidiaries:

Please refer to the consolidated financial statements as of and for the year ended December 31, 2018 for further information.

For the years ended December 31, 2018 and 2017, the Company's share of gains or losses of the subsidiaries were as follows:

	<u>For the years ended December 31, 2018</u>	<u>2017</u>
Based on the audited financial statements	<u><u>\$ 703,840</u></u>	<u><u>476,853</u></u>

- (ii) Associates

The Company acquired 20% shares of Capital Investment Trust Corporation with \$1,272,505 on February 9, 2018. The relevant information is as following:

Name of associate	Nature between the Company	Primary business area and registered country	% of Ownership and Voting Rights	
			December 31, 2018	December 31, 2017
Capital Investment Trust Corp.	Engaged in security investment and discretionary investment services.	Taiwan	20.00 %	- %



## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

The financial information of associates accounted for under equity method was as follows, and these information were included in the Company's standalone financial report:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Total carrying amount of the associates	<u><u>\$ 1,261,329</u></u>	<u><u>-</u></u>
	<b>For the years ended December 31,</b>	<b>2018</b>
Based on the financial statements attributable to the Company:		<b>2017</b>
Net gains from continuing operations	\$ 87,155	-
Other comprehensive income (losses)	<u>872</u>	<u>-</u>
Total comprehensive income (losses)	<u><u>\$ 88,027</u></u>	<u><u>-</u></u>

#### (e) Property and equipment

	<b>Land</b>	<b>Buildings</b>	<b>Equipment</b>	<b>Leasehold improvements</b>	<b>Total</b>
Cost or deemed cost					
Balance at January 1, 2018	\$ 3,211,518	1,311,002	442,687	112,241	5,077,448
Additions	-	1,034	71,603	27,134	99,771
Transferred from investment property	278,253	163,463	-	-	441,716
Transferred to investment property	(25,548)	(13,983)	-	-	(39,531)
Disposals and retirements	-	(325)	(111,800)	(13,484)	(125,609)
Balance at December 31, 2018	<u><u>\$ 3,464,223</u></u>	<u><u>1,461,191</u></u>	<u><u>402,490</u></u>	<u><u>125,891</u></u>	<u><u>5,453,795</u></u>
Balance at January 1, 2017	\$ 3,266,986	1,368,605	442,023	115,090	5,192,704
Additions	-	-	51,962	12,969	64,931
Reclassified to investment property	(55,468)	(57,484)	-	-	(112,952)
Disposals and retirements	-	(119)	(51,298)	(15,818)	(67,235)
Balance at December 31, 2017	<u><u>\$ 3,211,518</u></u>	<u><u>1,311,002</u></u>	<u><u>442,687</u></u>	<u><u>112,241</u></u>	<u><u>5,077,448</u></u>
Depreciation and impairment loss					
Balance at January 1, 2018	\$ -	499,429	292,047	54,000	845,476
Depreciation	-	27,682	75,184	23,414	126,280
Transferred from investment property	-	32,231	-	-	32,231
Transferred to investment property	-	(1,919)	-	-	(1,919)
Disposals and retirements	-	(325)	(111,800)	(13,362)	(125,487)
Balance at December 31, 2018	<u><u>\$ -</u></u>	<u><u>557,098</u></u>	<u><u>255,431</u></u>	<u><u>64,052</u></u>	<u><u>876,581</u></u>
Balance at January 1, 2017	\$ -	500,470	257,401	44,877	802,748
Depreciation	-	27,236	85,671	22,202	135,109
Transferred to investment property	-	(28,158)	-	-	(28,158)
Disposals and retirements	-	(119)	(51,025)	(13,079)	(64,223)
Balance at December 31, 2017	<u><u>\$ -</u></u>	<u><u>499,429</u></u>	<u><u>292,047</u></u>	<u><u>54,000</u></u>	<u><u>845,476</u></u>
Carrying amount:					
December 31, 2018	<u><u>\$ 3,464,223</u></u>	<u><u>904,093</u></u>	<u><u>147,059</u></u>	<u><u>61,839</u></u>	<u><u>4,577,214</u></u>
December 31, 2017	<u><u>\$ 3,211,518</u></u>	<u><u>811,573</u></u>	<u><u>150,640</u></u>	<u><u>58,241</u></u>	<u><u>4,231,972</u></u>

As of December 31, 2018 and 2017, the property and equipment which are provided as collateral or pledge, please refer to Note 8 for details.

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(f) Investment property

	<u>Land and improvements</u>	<u>Buildings</u>	<u>Total</u>
<u>Cost or deemed cost</u>			
Balance at January 1, 2018	\$ 1,753,624	1,004,386	2,758,010
Transferred from property and equipment	25,548	13,983	39,531
Transferred to property and equipment	<u>(278,253)</u>	<u>(163,463)</u>	<u>(441,716)</u>
Balance at December 31, 2018	<u><u>\$ 1,500,919</u></u>	<u><u>854,906</u></u>	<u><u>2,355,825</u></u>
Balance at January 1, 2017	\$ 1,698,156	947,022	2,645,178
Transferred from property and equipment	55,468	57,484	112,952
Disposals and retirements	<u>-</u>	<u>(120)</u>	<u>(120)</u>
Balance at December 31, 2017	<u><u>\$ 1,753,624</u></u>	<u><u>1,004,386</u></u>	<u><u>2,758,010</u></u>
<u>Depreciation and impairment loss</u>			
Balance at January 1, 2018	\$ -	345,834	345,834
Depreciation	-	19,100	19,100
Transferred from property and equipment	-	1,919	1,919
Transferred to property and equipment	<u>-</u>	<u>(32,231)</u>	<u>(32,231)</u>
Balance at December 31, 2018	<u><u>\$ -</u></u>	<u><u>334,622</u></u>	<u><u>334,622</u></u>
Balance at January 1, 2017	\$ -	298,115	298,115
Depreciation	-	19,681	19,681
Transferred from property and equipment	-	28,158	28,158
Disposals and retirements	<u>-</u>	<u>(120)</u>	<u>(120)</u>
Balance at December 31, 2017	<u><u>\$ -</u></u>	<u><u>345,834</u></u>	<u><u>345,834</u></u>
<u>Carrying Amount:</u>			
December 31, 2018	<u><u>\$ 1,500,919</u></u>	<u><u>520,284</u></u>	<u><u>2,021,203</u></u>
December 31, 2017	<u><u>\$ 1,753,624</u></u>	<u><u>658,552</u></u>	<u><u>2,412,176</u></u>
<u>Fair Value:</u>			
December 31, 2018			<u><u>3,164,414</u></u>
December 31, 2017			<u><u>3,692,022</u></u>

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

As of December 31, 2018 and 2017, the investment property was provided as collateral or pledge, please refer to Note 8 for details.

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(g) Intangible assets

(i) Goodwill

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized as goodwill. As of December 31, 2018 and 2017, the book value was \$3,126,698 for the both year.

Goodwill is allocated to the operating segments as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Brokerage segment	\$ 1,304,458	1,304,458
Underwriting segment	265,144	265,144
Proprietary trading segment	<u>1,557,096</u>	<u>1,557,096</u>
Total	<b><u>\$ 3,126,698</u></b>	<b><u>3,126,698</u></b>

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

The past experience, the actual operating results and the pre-tax cash flows of the next year's financial budget approved by the board of directors are the basis to estimate the future cash flows. The growth rate was both 1.00% and the discount rate was 4.06% and 2.26% in year 2018 and 2017 respectively. The cash flow projections for periods after five years will be estimated with no growth conservatively.

After impairment test, the recoverable amounts of year 2018 and 2017 exceeded the carrying amount, no impairment occurred for the both years.

(ii) Other intangible assets - Operation franchise

The Company acquired the operation of securities corporation operation franchise during 1994 to 2005 and expected the franchise will generate continuing cash inflows. In accordance with IAS No.38 "Intangible Assets", the franchise is regarded as intangible assets with an indefinite useful life. As of December 31, 2018 and 2017, the book value of the operation franchise was \$389,999 for the both years.

(iii) Other intangible assets - Computer software

Computer software was booked at cost and amortized by using the straight-line method over the estimated useful lives. As of December 31, 2018 and 2017, the amortized book value was \$26,341 and \$27,538 respectively.

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(h) Short-term borrowings

<b>Nature of borrowings</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Collateralized loan	\$ 1,635,394	380,000
Credit loans	2,238,112	6,701,698
Total	<u><u>\$ 3,873,506</u></u>	<u><u>7,081,698</u></u>
Interest rate range	<u><u>0.65%~4.40%</u></u>	<u><u>0.60%~2.56%</u></u>

As of December 31, 2018 and 2017, the Company had provided the land, buildings, and certificates of time deposits as collateral; please refer to Note 8 for details.

(i) Commercial paper payable

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Commercial paper payable	\$ -	4,100,000
Less: Unamortized discount	-	(816)
Net amount	<u><u>\$ -</u></u>	<u><u>4,099,184</u></u>
Interest rate range	<u><u>-%</u></u>	<u><u>0.53%~0.56%</u></u>

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

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

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Liabilities on sale of borrowed securities	\$ 668,469	1,130,377
Redeem liabilities on sale of borrowed securities	(62,095)	(6,714)
Valuation adjustment	<u>(139,826)</u>	<u>(94,120)</u>
Subtotal	<u>466,548</u>	<u>1,029,543</u>
Settlement coverage bonds payable of short sale	-	49,983
Valuation adjustment	<u>-</u>	<u>(29)</u>
Subtotal	<u>-</u>	<u>49,954</u>
Stock warrants issued	13,077,314	14,405,116
Stock warrants repurchased	<u>(12,617,507)</u>	<u>(13,098,267)</u>
Subtotal	<u>459,807</u>	<u>1,306,849</u>
Put options	237	3,031
IRS asset swaps	763	239
Asset swap options - short position	208,927	364,910
Structured notes	8,914	9,234
Currency swaps	31,575	7,920
Equity derivatives	-	61
Interest rate swaps	<u>544</u>	<u>-</u>
Subtotal	<u>250,960</u>	<u>385,395</u>
Total	<u><u>\$ 1,177,315</u></u>	<u><u>2,771,741</u></u>

(k) Bonds sold under repurchase agreements

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Bonds sold under repurchase agreements	<u>\$ 28,230,524</u>	<u>47,067,813</u>
Agreed-upon repurchase amounts	<u>28,411,414</u>	<u>47,185,708</u>
Interest rates	<u>0.35%~4.40%</u>	<u>0.20%~4.30%</u>
Date of repurchase	<u>2019.1.2~2019.12.20</u>	<u>2018.1.2~2018.12.27</u>

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

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

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

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Customer equity of separate account ledger in settlement	<b>\$ 26,969</b>	<b>13,479</b>

(m) Accounts payable

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Payable of securities sold by customers	\$ 10,731	44,575
Payable on securities purchased	3,476,398	5,386,422
Others	96,811	93,762
Total	<b>\$ 3,583,940</b>	<b>5,524,759</b>

(n) Operating leases

(i) Lessee

Non-cancellable operating lease payables are as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Within 1 year	\$ 108,877	95,177
1-5 years	442,201	133,888
Over 5 years	428,795	11,859
	<b>\$ 979,873</b>	<b>240,924</b>

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

For the years ended December 31, 2018 and 2017, the operating lease expenses recognized in profit or loss were \$123,124 and \$121,070 respectively.

(ii) Lessor

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

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

	December 31, 2018	December 31, 2017
Within 1 year	\$ 127,527	53,485
1-5 years	481,386	71,880
Over 5 years	<u>534,251</u>	<u>40,366</u>
	<u><u>\$ 1,143,164</u></u>	<u><u>165,731</u></u>

The rental revenue from investment property for the year 2018 and 2017 amounted to \$72,048 and \$77,855 respectively.

(o) Employee benefit

(i) Defined benefit plans

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

	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	\$ (946,285)	(979,722)
Fair value of plan assets	<u>364,814</u>	<u>441,227</u>
Recognized liabilities for defined benefit obligations	<u><u>\$ (581,471)</u></u>	<u><u>(538,495)</u></u>

The Company's employee benefits liabilities are as follows:

	December 31, 2018	December 31, 2017
Compensated absences	<u><u>\$ 43,530</u></u>	<u><u>42,205</u></u>

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

1) Composition of plan assets

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

The balance of the Company's labor pension preparatory special account in Bank of Taiwan amounted to \$230,395 and \$255,785 as of December 31, 2018 and 2017 respectively. The utilization of the labor pension fund includes the assets allocation and yield of the fund, please refers to the information published on the website under under Bureau of Labor Funds, Ministry of Labor.

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The balance of pension fund under employee retirement fund management committee was \$134,419 and \$185,442 as of December 31, 2018 and 2017, respectively.

2) Movements in present value of the defined benefit obligations

The movements in present value of the defined benefit obligations of the Company in 2018 and 2017 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Defined benefit obligation on January 1	\$ 979,722	1,010,725
Current service costs and interest	17,958	19,303
Remeasurement of net defined liabilities		
-Actuarial loss (gain) arising from changes in demographic assumptions	-	4,203
-Actuarial loss (gain) arising from changes in financial assumptions	9,496	(1,171)
-Experience adjustments	41,871	24,607
Benefits paid by the plan	(102,762)	(77,945)
Defined benefit obligation on December 31	<u><u>\$ 946,285</u></u>	<u><u>979,722</u></u>

3) Movements in fair value of defined benefit plan assets

The movements in fair value of defined benefit plan assets of the Company in 2018 and 2017 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Fair value of plan assets on January 1	\$ 441,227	500,033
Interest revenue	4,652	5,122
Remeasurement of net defined liabilities		
-Return on plan assets (excluding interest)	8,318	(326)
Contributions from the employer	13,379	14,343
Benefits paid from plan assets	(102,762)	(77,945)
Fair value of plan assets on December 31	<u><u>\$ 364,814</u></u>	<u><u>441,227</u></u>

4) Expense recognized in profit or loss

The expenses recognized by the Company in 2018 and 2017 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Current service cost	\$ 7,734	8,930
Net interest of net defined benefit liabilities (asset)	5,572	5,251
Current pension cost	<u><u>\$ 13,306</u></u>	<u><u>14,181</u></u>



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- 5) Re-measurement of net defined benefit plan recognized in other comprehensive income

For the years ended December 31, 2018 and 2017, the re-measurement of net defined benefit plan recognized accumulatively in other comprehensive income was as follows:

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Balance at January 1	\$ (114,010)	(86,045)
Recognized amount during the period	(43,049)	(27,965)
Balance at December 31	<u><u>\$ (157,059)</u></u>	<u><u>(114,010)</u></u>

- 6) Actuarial assumptions

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

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Discount rate	0.93%	1.05%
Future salary growth rate	2.00%	2.00%

The expected contribution to the defined benefit plan for the next year is \$13,281. The weighted average duration of the defined benefit obligation is 2 years.

- 7) Sensitivity Analysis

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

As of December 31, 2018 and 2017, the effects of adopting significant actuarial assumptions to defined benefit obligations were as follows:

	<b>Effects to Defined Benefit Obligations</b>	
	<b>Increase 0.5%</b>	<b>Decrease 0.5%</b>
December 31, 2018		
Discount rate	(24,875)	25,956
Future salary growth rate	20,843	(20,233)
December 31, 2017		
Discount rate	(26,640)	27,836
Future salary growth rate	22,555	(21,864)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. The method that the sensitivity analysis adopted is in accordance with the method of calculating net pension liability.

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

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

(ii) Defined contribution plan

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

The Company contributed \$72,349 and \$67,839 under defined contribution plan to the Bureau of the Labor Insurance for the years ended December 31, 2018 and 2017, respectively.

(p) Income tax

On February 7, 2018, the Office of the President of ROC promulgated the amendment of Income Tax Act. The corporate income tax rate was adjusted from 17% to 20% and effective in January 1, 2018.

(i) Income tax expense (benefit)

The amount of income tax expense (benefit) for the year 2018 and 2017 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Current tax expense		
Current year	\$ 353,459	149,061
Adjustment to the prior years' income tax	43,244	(29,094)
	<u>396,703</u>	<u>119,967</u>
Deferred tax expense		
Unrealized gains (losses) on derivative financial instruments	(100,056)	46,130
Unrealized gains (losses) on foreign investments under Equity Method	(1,422)	(1,674)
Decrease in tax loss carried forward	92,455	117,021
Adjustments of deferred income tax assets and liabilities	(12,803)	(91,690)
Adjustment in tax rate	54,703	-
	<u>32,877</u>	<u>69,787</u>
Income tax expense from continuing operations	<u><u>\$ 429,580</u></u>	<u><u>189,754</u></u>

The amount of income tax expense or benefit recognized in other comprehensive income in year 2018 and 2017 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Foreign exchange difference from translating financial statements of foreign operations	<u><u>\$ 10,012</u></u>	<u><u>(23,513)</u></u>

**CAPITAL SECURITIES CORPORATION**  
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Reconciliation of income tax expense (benefit) and income before tax in year 2018 and 2017 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Net income before tax	\$ 1,838,445	3,083,354
Income tax using the Company's domestic tax rate	\$ 367,689	524,170
Adjustment in tax rate	54,703	-
Tax exempt income	(25,590)	(362,693)
Alternative minimum tax	-	148,030
Additional surtax on undistributed retained earnings	2,897	1,071
Amounts used in investment tax credit	(527)	-
Income tax difference of bonds purchased under resale agreements and income tax separately levied	(33)	(40)
Adjustments to prior years' income tax	43,244	(29,094)
Unrecognized temporary differences for prior years	(12,803)	(91,690)
Total	<u><u>\$ 429,580</u></u>	<u><u>189,754</u></u>

(ii) Deferred income tax assets and liabilities

1) Recognized deferred income tax assets

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Tax loss carried forward	\$ 104,015	156,117
Unrealized losses on foreign investments under Equity Method	6,542	4,352
Foreign exchange difference from translating financial statements of foreign operations	-	4,375
Unrealized losses on derivative financial instruments	5,043	-
Deferred income tax assets	<u><u>\$ 115,600</u></u>	<u><u>164,844</u></u>

2) Recognized deferred income tax liabilities

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Unrealized gains on derivative financial instruments	\$ -	80,762
Foreign exchange difference from translating financial statements of foreign operations	4,866	-
Losses on intercompany transactions	1,928	1,639
Amortization of operation franchise	42,881	36,448
Amortization of goodwill	362,697	308,292
Land value incremental tax	56,107	47,691
Deferred income tax liabilities	<u><u>\$ 468,479</u></u>	<u><u>474,832</u></u>

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

(iii) Income tax assessment status

The Company's income tax returns through 2016, except for 2015, were assessed by the Tax Authority.

(iv) Income tax administrative relief

Since income tax of securities trading and amortization of intangible assets withheld from year 2010 to 2014 and 2016 were assessed differently from those reported by the Company, and the Company has filed for administrative relief. The additional tax was accrued based on conservative concept.

(q) Capital and other equity

(i) Capital stock

As of December 31, 2018 and 2017, the Company had authorized capital of \$30,000,000 thousand and issued common stock of 2,320,908 thousand shares and 2,169,073 thousand shares with \$10 dollars face value per share. The disclosure of treasury shares retired and reduction of capital for the fiscal year 2017, please refer to (iv). "Treasury stocks" for more details.

On June 27, 2018, the Company's stockholders resolved to transfer un-appropriated earnings of \$1,518,351 and issued 151,835 thousand shares of common stock. The capital increase was approved by the Financial Supervisory Commission on July 12, 2018 and the record date was September 1, 2018. The Company has completed the registration of change in paid-in capital on September 25, 2018.

(ii) Capital surplus

In accordance with the ROC Company Act amended in January 2012, realized capital surplus can only be used to cover accumulated deficit or to issue new shares or cash to shareholders in proportion to their share ownership, provided that the company has no accumulated deficit. The aforementioned capital surplus includes share premiums and donation gains. In accordance with the "Regulations Governing the Offering and Issuance of Securities by Securities Issuers", the amount of capital surplus to be capitalized shall not exceed 10 percent of the paid-in capital each year.

The followings are the capital surplus of the Company:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Premium from stock issuance	\$ 1,776,413	1,776,413
Treasury stock transactions	437,096	437,096
Paid-in capital from merger	602,665	602,665
Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,338	1,338
Changes in ownership interests in subsidiaries	34,787	34,787
	<b><u>\$ 2,852,299</u></b>	<b><u>2,852,299</u></b>

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(iii) Retained earnings

1) Legal reserve

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

2) Special reserve

In accordance with Article 41 of the "Securities and Exchange Act", 20 percent of the current year's earnings after tax should be set aside as special reserve. Ruling No. 1010028514 issued by the Financial Supervisory Commission on June 29, 2012, an equivalent amount of special reserve should be set aside from earnings after tax of the current year and the undistributed earnings of the prior period based on the decreased amount of stockholders' equity. For the cumulative deduction in stockholders' equity of the prior period, the equal amount of special reserve set aside based on undistributed earnings should not be distributed. If there is any reversal of the deduction in stockholders' equity, the earnings may be distributed based on the reversal proportion.

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

3) Undistributed earnings

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

The Company's earnings distribution was proposed by board of directors and is subject to the resolution of the shareholders' meeting. The shareholders' meeting may declare dividends after retaining a certain portion of earnings. The amount of earnings to distribute after retaining earnings must be higher than 10% of the distributable balance. According to the capital budget of the Company, the payout of stock dividend is for retaining necessary capital and the remainder can be paid as cash dividend. Cash dividend shall not fall below 10% of the total dividend.

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

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

The Company's 2017 earnings distribution for cash dividends \$433,815 and stock dividends \$1,518,351 had been resolved by the shareholders' meeting on June 27, 2018.

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

#### (iv) Treasury stocks

Pursuant to Article 28-2 of the "Securities and Exchange Act", the Company repurchased 100,000 thousand shares as treasury shares to maintain the Company's credit standing and shareholders' equity from November 2016 to January 2017. As of February 2017, all the repurchased shares were retired.

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

#### (r) Earnings per share

The basic earnings per share and dilutive earnings per share for the years ended December 31, 2018 and 2017 were calculated as follows:

	For the years ended December 31,	
	2018	2017
Net income attributable to common shareholders of the Company	\$ <u>1,408,865</u>	<u>2,893,600</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	<u>2,320,908</u>	<u>2,321,037</u>
Basic earnings per share (dollar)	\$ <u>0.61</u>	<u>1.25</u>
Effect of potentially dilutive common stock		
- Employee remuneration (thousands of shares) (Note)	<u>2,343</u>	<u>2,877</u>
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	<u>2,323,251</u>	<u>2,323,914</u>
Dilutive earnings per share (dollar)	\$ <u>0.61</u>	<u>1.25</u>

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

#### (s) Items of the comprehensive income statement

##### (i) Brokerage commissions

	For the years ended December 31,	
	2018	2017
Brokerage commission from TSE market	\$ 1,828,059	1,620,196
Brokerage commission from OTC market	637,115	656,041
Handling fee from security financing	35,585	30,903
Others	<u>73,013</u>	<u>72,007</u>
	\$ <u>2,573,772</u>	<u>2,379,147</u>

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(ii) Underwriting commissions

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Revenue from underwriting securities on a firm commitment basis	\$ 61,900	63,450
Handling fee revenues from underwriting securities on best efforts basis	1,350	1,440
Processing fee revenues from underwriting operations	7,954	25,023
Revenue from underwriting consultation	9,953	5,180
Others	11,445	26,424
	<u><u>\$ 92,602</u></u>	<u><u>121,517</u></u>

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

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Gains (losses) on securities sold - proprietary trading	(281,328)	1,003,950
Gains (losses) on securities sold - underwriting	30,003	7,807
Gains (losses) on securities sold - hedging	(1,155,191)	454,117
Total	<u><u>\$ (1,406,516)</u></u>	<u><u>1,465,874</u></u>

(iv) Interest revenue

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Interest revenue - margin loans	\$ 767,184	771,449
Interest revenue - bonds	1,100,550	1,167,972
Others	61,497	47,138
	<u><u>\$ 1,929,231</u></u>	<u><u>1,986,559</u></u>

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

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Trading securities - proprietary	\$ (410,512)	103,311
Trading securities - underwriting	(19,711)	9,259
Trading securities - hedging	(165,545)	(27,358)
Settlement coverage bonds payable of short sale	(29)	29
	<u><u>\$ (595,797)</u></u>	<u><u>85,241</u></u>

(vi) Net gains (losses) on stock warrants issued

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Gains on changes in fair value of stock warrants	\$ 30,322,653	14,246,241
Gains on exercise of stock warrants before maturity	24,075,007	27,191,658
Losses on changes in fair value of stock warrants repurchased	(52,645,565)	(40,578,100)
Gains on expiration of stock warrants	112,965	19,515
Stock warrants issuance expenses	(182,019)	(188,153)
	<u><u>\$ 1,683,041</u></u>	<u><u>691,161</u></u>

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(vii) Employee benefits, depreciation, and amortization expenses

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Employee benefit expenses		
Salary expense	\$ 1,704,360	1,844,667
Health and labor insurance expense	137,448	132,942
Pension expense	85,655	82,020
Others	46,914	47,822
Depreciation expense	145,380	154,790
Amortization expense	25,967	29,968
	<b>\$ 2,145,724</b>	<b>2,292,209</b>

(viii) Other operating expenses

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Rental expense	\$ 123,124	121,070
Taxes	342,447	301,239
Information technology expense	102,604	96,697
Postage expense	107,026	100,886
Professional service fee	108,120	99,001
Other expenses	454,924	531,867
	<b>\$ 1,238,245</b>	<b>1,250,760</b>

(ix) Other gains and losses

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Financial revenue	\$ 2,975	2,017
Net gains (losses) on disposal of investment	68,505	23,190
Net gains (losses) on measurement of non-operating financial instruments at fair value through profit or loss	(24,859)	16,606
Revenue from bank's allocation fee	133,107	139,255
Revenue from information technology service	44,108	27,291
Net gains (losses) on disposal of property and equipment	(122)	(3,012)
Dividend revenue	49,503	18,769
Gains on reversal of prior year's liabilities	25,700	25,875
Rental income	72,048	77,855
Others	57,316	14,021
	<b>\$ 428,281</b>	<b>341,867</b>



## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

(x) Remuneration to employees, directors and supervisors

According to the Company's Articles of Incorporation, the Company shall appropriate 0.6% to 2.0% of its earnings, if applicable, as remuneration to employees. The Board of Directors shall determine if the employees' remuneration distributed, in the form of shares or in cash. The targets of remuneration shall include the employees of subsidiaries meeting certain specific requirement that shall be determined by the Company's Board of Directors. The Company shall also allocate no more than 3% of the aforementioned amount of earnings as remuneration to the Directors. The proposal for the remuneration to employees and directors shall be reported to the shareholders' meeting.

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

For the years ended December 31, 2018 and 2017, the estimated amounts of remuneration to employee were \$20,971 and \$33,369, and to directors were \$34,951 and \$61,971, respectively, which were calculated based on the Company's net profit before income tax and remuneration to employees and directors multiple the earnings allocation percentage as stated under the Company's Articles of Incorporation and were recognized as operating expense. 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.

For the years ended December 31, 2017 and 2016, the estimated amounts of remuneration to employee were \$33,369 and \$12,090, and to directors and supervisors were \$61,971 and \$20,149 by the Company, respectively. The difference between actual employee remuneration of \$30,515 and \$9,120 and actual remuneration to directors and supervisors of \$50,859 and \$17,410 were \$13,966 and \$5,709 in total. The difference was accounted for as changes in accounting estimates and would be reflected in the statement of income in 2017 and 2016. The information about the appropriations is available at the Market Observation Post System website.

(t) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of December 31, 2018 and 2017, the maximum credit exposure amounted to \$52,518,387 and \$77,800,088, respectively.

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

The regional distribution of financial assets' credit risk exposure amount which owned by the Company is as the list below. The region of exposure is mostly in Taiwan (72.74%); secondly, is in America (10.44%); then, is in Asia (8.50%, exclusion of Taiwan). Compare to the same period of last year, there is no significant change in proportion of region of investments.

Region	December 31, 2018	December 31, 2017
Taiwan	\$ 38,199,540	42,403,693
Asia (Taiwan is excluded)	4,466,342	14,679,191
Europe	4,367,262	8,370,951
America	5,485,243	12,195,122
Other	-	151,131
Total	<u>\$ 52,518,387</u>	<u>77,800,088</u>

#### 2) Impairment loss

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

	December 31, 2018		December 31, 2017	
	Total amount	Impairment	Total amount	Impairment
Not past due	\$ 16,001,621	15,146	22,276,774	1,551
Past due 0~30 days	272	272	2,115	2,115
Past due 31~120 days	914	914	31	31
Past due 121~360 days	377	377	85,694	85,694
Past due more than one year	221,259	221,259	135,899	128,771
	<u>\$ 16,224,443</u>	<u>237,968</u>	<u>22,500,513</u>	<u>218,162</u>

Allowance for doubtful debts under receivables and overdue receivables are recorded for the debt expense or impairment loss. Where a claim becomes definitely uncollectible, the allowance for doubtful debts should be written off to financial assets account. As of December 31, 2018 and 2017, the impairment losses of accrued receivables were recognized \$237,968 and \$218,162, respectively.

#### 3) Credit risk of accrued receivables and debt securities

Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(f). Debt securities held by the Company including government bonds, listed and unlisted debt securities (previously classified as financial assets available for sale on December 31, 2017) are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses.

The Company regards a financial asset as a default when the client of brokerage business is unable to fulfill the settlement obligation, which the counterparty is unable to pay the Company. Thus, the Company will recognize the impairment losses.

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

The loss allowance provision for the year ended December 31, 2018 was as follows:

	12-month ECL		Lifetime ECL -not credit impaired		Lifetime ECL -credit impaired		
	Accrued receivables	Debt securities at FVOCI	Accrued receivables	Debt securities at FVOCI	Accrued receivables	Debt securities at FVOCI	Total
Balance on January 1 per IAS39	\$ -	-	-	-	218,162	-	218,162
Adjustment on initial application of IFRS 9	-	15,153	-	-	-	-	15,153
Balance on January 1 per IFRS 9	-	15,153	-	-	218,162	-	233,315
Provision or reversal of Impairment loss	-	(9,292)	-	-	19,806	-	10,514
Balance on December 31	<u>\$ -</u>	<u>5,861</u>	<u>-</u>	<u>-</u>	<u>237,968</u>	<u>-</u>	<u>243,829</u>

#### (ii) Liquidity risk

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

	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
December 31, 2018							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 466,548	466,548	466,548	-	-	-	-
Stock warrants issued	459,807	459,807	442,191	17,616	-	-	-
Put options - futures	237	237	237	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	32,882	32,882	33,869	(2,727)	814	926	-
Put options	208,927	208,927	8,925	19,064	125,073	55,865	-
Short-term borrowings	3,873,506	3,873,506	3,714,303	159,203	-	-	-
Bonds sold under repurchase agreements	28,230,524	28,411,414	28,411,414	-	-	-	-
Guarantee deposited for short sales	2,316,744	2,316,744	2,316,744	-	-	-	-
Proceeds payable from short sales	2,603,315	2,603,315	2,603,315	-	-	-	-
Securities lending refundable deposits	644,843	644,843	644,843	-	-	-	-
Notes payable and accounts payable	107,201	107,201	107,201	-	-	-	-
Receipts under custody	115,918	115,918	115,918	-	-	-	-
Other payables	623,162	623,162	623,162	-	-	-	-
Structured notes	3,676,833	3,676,833	3,175,382	191,419	237,377	72,655	-
	<u>\$ 43,360,447</u>	<u>43,541,337</u>	<u>42,664,052</u>	<u>384,575</u>	<u>363,264</u>	<u>129,446</u>	<u>-</u>

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
December 31, 2017							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 1,029,543	1,029,543	1,029,543	-	-	-	-
Settlement coverage bonds payable of short sale	49,954	49,954	49,954	-	-	-	-
Stock warrants issued	1,306,849	1,306,849	1,265,875	40,974	-	-	-
Put options - futures	3,031	3,031	3,031	-	-	-	-
Equity derivatives	61	61	61	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	8,159	8,159	7,770	155	234	-	-
Put options	364,910	364,910	44,131	51,385	106,359	163,035	-
Short-term borrowings	7,081,698	7,081,698	7,081,698	-	-	-	-
Commercial paper payable	4,099,184	4,100,000	4,100,000	-	-	-	-
Bonds sold under repurchase agreements	47,067,813	47,185,708	47,185,708	-	-	-	-
Guarantee deposited for short saless	2,226,264	2,226,264	2,226,264	-	-	-	-
Proceeds payable from short sales	2,500,853	2,500,853	2,500,853	-	-	-	-
Securities lending refundable deposits	1,190,277	1,190,277	1,190,277	-	-	-	-
Notes payable and accounts payable	97,008	97,008	97,008	-	-	-	-
Receipts under custody	341,174	341,174	341,174	-	-	-	-
Other payables	791,239	791,239	791,239	-	-	-	-
Structured notes	<u>4,785,254</u>	<u>4,785,254</u>	<u>4,380,929</u>	<u>138,288</u>	<u>151,580</u>	<u>114,457</u>	<u>-</u>
	<u><u>\$ 72,943,271</u></u>	<u><u>73,061,982</u></u>	<u><u>72,295,515</u></u>	<u><u>230,802</u></u>	<u><u>258,173</u></u>	<u><u>277,492</u></u>	<u><u>-</u></u>

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(iii) Currency risk

1) Currency risk exposure

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

<b>December 31, 2018</b>			
	<b>Foreign Currency (thousands)</b>	<b>Exchange Rate</b>	<b>Amount</b>
<b><u>Financial assets</u></b>			
<b><u>Monetary Item</u></b>			
USD	\$ 20,628	30.7150	633,589
AUD	3,679	21.6650	79,706
EUR	16	35.2000	563
HKD	29,322	3.9210	114,972
JPY	653,961	0.2782	181,932
SGD	692	22.4800	15,556
CNY	26,225	4.4720	117,278
ZAR	5	2.1200	11
KRW	55	0.0278	2
SEK	4	3.4200	14
<b><u>Non-Monetary Item</u></b>			
USD	300,713	30.7150	9,236,400
AUD	167,642	21.6650	3,631,964
EUR	44	35.2000	1,549
HKD	26,297	3.9210	103,111
JPY	2,200	0.2782	612
CNY	416,174	4.4720	1,861,130
<b><u>Investments under equity method</u></b>			
USD	53,392	30.6650	1,637,266
<b><u>Financial liabilities</u></b>			
<b><u>Monetary Item</u></b>			
USD	\$ 322,270	30.7150	9,898,523
AUD	166,591	21.6650	3,609,194
EUR	9	35.2000	317
HKD	115,571	3.9210	453,154
JPY	621,026	0.2782	172,769
SGD	680	22.4800	15,286
CNY	287,318	4.4720	1,284,886
SEK	4	3.4200	14

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

December 31, 2017			
	Foreign Currency (thousands)	Exchange Rate	Amount
<b><u>Financial assets</u></b>			
<b><u>Monetary Item</u></b>			
USD	\$ 26,981	29.7600	802,955
AUD	5,547	23.1850	128,607
CAD	23	23.7100	545
EUR	269	35.5700	9,568
HKD	30,981	3.8070	117,945
JPY	23,645	0.2642	6,247
SGD	25	22.2600	557
CNY	24,265	4.5650	110,770
ZAR	8	2.4100	19
IDR	4,403	0.0022	10
<b><u>Non-Monetary Item</u></b>			
USD	907,431	29.7600	27,005,147
AUD	351,673	23.1850	8,153,539
HKD	36,089	3.8070	137,391
JPY	2,052	0.2642	542
CNY	163,599	4.5650	746,829
<b><u>Investments under equity method</u></b>			
USD	53,662	29.7100	1,594,297
<b><u>Financial liabilities</u></b>			
<b><u>Monetary Item</u></b>			
USD	935,426	29.7600	27,838,278
AUD	348,400	23.1850	8,077,654
CAD	20	23.7100	474
HKD	77,397	3.8070	294,650
JPY	39	0.2642	10
SGD	16	22.2600	356
CNY	89,922	4.5650	410,494
KRW	47	0.0281	1

Because there are a variety of currencies, the Company discloses a summary of its information on currency exchange gain or loss. The realized and unrealized currency exchange gains (losses) amounted to \$(75,010) and \$46,670 for years ended December 31, 2018 and 2017, respectively.

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

#### 2) Sensitivity analysis

The currency risk of The Company arises mainly from cash and cash equivalents, other receivables, security borrowing margin, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, 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 years ended December 31, 2018 and 2017, given other factors remain the same, if the relevant foreign currencies, when compared with the NTD, had appreciates or depreciates by 5%, the net income and other comprehensive income will changes as follows:

	For the year ended December 31, 2018		For the year ended December 31, 2017	
	Appreciated	Depreciated	Appreciated	Depreciated
	5%	5%	5%	5%
Net income	(402,922)	402,922	(1,328,502)	1,328,502
Other comprehensive income	490,182	(490,182)	1,419,515	(1,419,515)

#### (iv) Sensitivity analysis of interest rate risk

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

Market risk type	December 31, 2018	December 31, 2017	For the years ended December 31,					
			2018			2017		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Interest risk	1,384,626	2,165,047	1,722,466	2,076,354	1,384,626	1,996,174	2,165,047	1,746,721

#### (v) Fair value information and hierarchy

##### 1) Fair value information

##### a) General description

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

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

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

b) Definition of fair value hierarchy

i) Level 1

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

ii) Level 2

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

iii) Level 3

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

2) Not based on fair value measurement

As of December 31, 2018 and 2017, the fair value information of the financial assets and financial liabilities of the Company was as follows:

a) Fair value information

	December 31, 2018		December 31, 2017	
	Book value	Fair value	Book value	Fair value
Financial assets :				
Cash and cash equivalents	\$ 2,554,322	2,554,322	2,113,161	2,113,161
Accrued receivable	16,963,534	16,963,534	24,254,586	24,254,586
Restricted assets - current	671,822	671,822	442,190	442,190
Financial assets measured at cost - non-current	-	-	332,473	332,473
Other non-current assets	1,043,086	1,043,086	1,204,097	1,204,097



**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

	<b>December 31, 2018</b>		<b>December 31, 2017</b>	
	<b>Book value</b>	<b>Fair value</b>	<b>Book value</b>	<b>Fair value</b>
Financial liabilities :				
Short-term borrowings	\$ 3,873,506	3,873,506	7,081,698	7,081,698
Commercial paper payable	-	-	4,099,184	4,099,184
Bonds sold under repurchase agreements	28,230,524	28,230,524	47,067,813	47,067,813
Accrued payable	10,313,532	10,313,532	12,762,747	12,762,747
Other financial liabilities - current	3,357,887	3,357,887	4,509,983	4,509,983
Other financial liabilities - non-current	310,032	310,032	266,037	266,037
Other non-current liabilities	70,598	70,598	74,235	74,235

b) Hierarchy information of fair value

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investment property				
December 31, 2018	\$ <u>-</u>	<u>-</u>	<u>3,164,414</u>	<u>3,164,414</u>
December 31, 2017	\$ <u>-</u>	<u>-</u>	<u>3,692,022</u>	<u>3,692,022</u>

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

- i) For short term financial instruments, the fair values are determined based on their book value because of their short maturities. The method is applied to cash and cash equivalents, bonds purchased under resale agreements, accrued receivable, other current assets, other non-current assets, short term borrowings, commercial paper payable, bonds sold under repurchase agreements, accrued payable, other financial liabilities - current, other financial liabilities - non-current, and other non-current liabilities.
- ii) Financial assets measured at cost in unlisted stocks before year 2017 do not have the quoted market prices in an active market and the variability in the range of reasonable fair values is significant or the probabilities of the various estimates within the range cannot be reasonably assessed, so the fair value is unable to be reliably measured. Therefore, the Company considers the book value as a reasonable approximation of fair value.
- iii) The investment properties were evaluated and estimated using Market Method based on the market evidence of transaction price of similar properties.

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

3) Based on fair value measurement

a) Hierarchy information of fair value

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>December 31, 2018</b>				
Financial assets at fair value through profit or loss	\$ 11,905,284	18,374,974	-	30,280,258
Financial assets at fair value through other comprehensive income	469,085	10,381,589	1,627,616	12,478,290
Derivative financial assets	<u>147,773</u>	<u>22,692</u>	<u>-</u>	<u>170,465</u>
	<u><b>\$ 12,522,142</b></u>	<u><b>28,779,255</b></u>	<u><b>1,627,616</b></u>	<u><b>42,929,013</b></u>
Financial liabilities at fair value through profit or loss	\$ 926,355	-	-	926,355
Derivative financial liabilities	<u>237</u>	<u>250,723</u>	<u>-</u>	<u>250,960</u>
	<u><b>\$ 926,592</b></u>	<u><b>250,723</b></u>	<u><b>-</b></u>	<u><b>1,177,315</b></u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>December 31, 2017</b>				
Financial assets at fair value through profit or loss	\$ 16,326,335	17,147,497	-	33,473,832
Financial assets available for sale	269,717	32,507,066	-	32,776,783
Derivative financial assets	<u>346,239</u>	<u>26,386</u>	<u>-</u>	<u>372,625</u>
	<u><b>\$ 16,942,291</b></u>	<u><b>49,680,949</b></u>	<u><b>-</b></u>	<u><b>66,623,240</b></u>
Financial liabilities at fair value through profit or loss	\$ 2,386,346	-	-	2,386,346
Derivative financial liabilities	<u>3,031</u>	<u>382,364</u>	<u>-</u>	<u>385,395</u>
	<u><b>\$ 2,389,377</b></u>	<u><b>382,364</b></u>	<u><b>-</b></u>	<u><b>2,771,741</b></u>

## **CAPITAL SECURITIES CORPORATION**

### **Notes to the Financial Statements**

#### **b) Valuation techniques**

##### **i) Non-derivative financial instruments**

The quoted market price is used as the fair value when the financial instruments have an active market. Publicly listed and over-the-counter traded equity instruments of primary stock exchanges along with central government bonds that are popular securities all regard active market quotes as the basis of fair value.

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

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

##### **ii) Derivative financial instruments**

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

# CAPITAL SECURITIES CORPORATION

## Notes to the Financial Statements

4) Transfer between Level 1 and Level 2

There is no transfer between Level 1 and Level 2 for the years ended December 31, 2018 and 2017.

5) Fair value adjustments

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

6) Movements of financial assets at fair value classified into Level 3

(In Thousands Dollars)

Item	For the years ended December 31, 2018							
	Beginning Balance	Gains and losses on valuation		Addition		Reduction		Ending Balance
		Amount recognized in profit or loss	Amount recognized in comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	
Financial assets at fair value	\$ 948,242	-	52,744	638,503	-	11,873	-	1,627,616
through other								
comprehensive income								

7) Quantified information of fair value measurement for significant unobservable inputs (Level 3)

The Company's Level 3 fair value measurements are financial assets at fair value through other comprehensive income – equity instruments investment.

The Company's equity instruments investment without active market include multiple significant unobservable inputs. Those unobservable inputs of equity instrument without active market are independent from each other, thus, they are not correlative. Since the correlation between significant unobservable inputs and fair value cannot be fully measured in practical, the quantified information is not disclosed.

# CAPITAL SECURITIES CORPORATION

## Notes to the Financial Statements

Item	Valuation technique	Significant unobservable inputs	Correlation between inputs and fair value
Financial assets at fair value through other comprehensive income - equity instruments without an active market	Market approach	· Price-to-Book Ratio  · Discount for lack of marketability	· The higher price-to-book ratio is, the higher fair value is.  · The higher discount for lack of marketability is, the lower the fair value is.
Financial assets at fair value through other comprehensive income - equity instruments without an active market - venture capital corporation	Net Asset Value Method	· Net Asset Value	Not applicable

- 8) Fair value measurement to Level 3, and the sensitivity analysis of the substitutable appropriate assumption made on fair value

The fair value measurement that the Company made for the financial instruments is deemed reasonable; however, different valuation models or inputs could result in different valuation results. Specifically, if the valuation input of financial instruments classified in the Level 3 changes by 1%, the effects on other comprehensive income are as follows:

	Change in fair value recognized in other comprehensive income	
	Favorable	Unfavorable
<b>December 31, 2018</b>		
Financial assets fair value through other comprehensive income	\$ <u>16,276</u>	<u>(16,276)</u>

Favorable and unfavorable movements of the Company refer to the fluctuation of fair value, and the fair value is calculated through the valuation technique according to the unobservable inputs to different extent. If the fair value of a financial instrument is affected by more than one input, the above table only illustrates the effect as a result of one single input, and the correlation and variance among multiple inputs are not listed here.

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

(vi) Transfer of financial assets

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

December 31, 2018					
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	\$ 28,557,226	28,230,524	-	-	-

December 31, 2017					
Types of financial assets	Book value of the transferred financial assets	Book value of relevant financial liabilities	Fair value of the transferred financial assets (Note)	Fair value of relevant financial liabilities (Note)	Fair value net position (Note)
Under repurchase agreements	\$ 47,116,029	47,067,813	-	-	-

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

(vii) Offsetting financial assets and financial liabilities

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

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

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

December 31, 2018					
	Financial assets under offsetting or general agreement of net amount settlement or similar norms				
	Gross amount of recognized financial assets (a)	Gross amount of recognized financial liabilities offsetting in the balance sheet (b)	Net amount of financial assets presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)	
				Financial instruments (Note)	Cash received as collaterals
Derivative financial assets	\$ 22,692	-	22,692	-	-
					Net amount (e)=(c)-(d)
					22,692

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

December 31, 2018						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets offsetting in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals	
Derivative financial liabilities	\$ 250,723	-	250,723	-	-	250,723
Under repurchase agreements	28,230,524	-	28,230,524	28,230,524	-	-
Total	<u>\$ 28,481,247</u>	<u>-</u>	<u>28,481,247</u>	<u>28,230,524</u>	<u>-</u>	<u>250,723</u>

December 31, 2017						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial assets (a)	Gross amount of recognized financial liabilities offsetting in the balance sheet (b)	Net amount of financial assets presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals	
Derivative financial assets	\$ 26,386	-	26,386	-	-	26,386

December 31, 2017						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets offsetting in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals	
Derivative financial liabilities	\$ 382,364	-	382,364	-	-	382,364
Under repurchase agreements	47,067,813	-	47,067,813	47,067,813	-	-
Total	<u>\$ 47,450,177</u>	<u>-</u>	<u>47,450,177</u>	<u>47,067,813</u>	<u>-</u>	<u>382,364</u>

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

(u) Financial risk management

(i) Brief

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

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

The disclosure hereby presents above-mentioned risk information, evaluation, and objectives, policies, and procedures of managing information. Further information regarding quantity disclosure please refers to related disclosures.

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

#### (ii) Risk management framework

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

#### (iii) Credit risk

##### Policy applicable from January 1, 2018

##### 1) Determining whether credit risk has increased significantly since initial recognition

- a) The Company measures each financial instrument that applies under IFRS9 if the credit risk of financial asset at the reporting date has increased significantly since initial recognition. The Company considers reasonable and supportable information that is relevant and available, including forward-looking information, since initial recognition for assessment. Main factors taking into consideration include credit risk rating and information of past due condition.
- b) Low Credit Risk: A financial instrument has low credit risk at the reporting date, assumed to have no significant increase in credit risk since initial recognition. The determination criteria are the financial instrument's external credit rating is 'investment grade' or above.

##### 2) Measurement of Expected Credit Losses (ECL)

##### a) Methods adopted and assumptions

The Company applies 12-month ECLs to measure the impairment loss of financial instruments, which have not increased significantly since initial recognition. For those financial instruments have increased significantly after initial recognition or with credit loss, the Company adopts lifetime ECLs to measure.

In order to measure ECLs, the Company takes into the future 12 months and lifetime probability of default (PD) on the financial assets, issuer, and counterparty to the possibility of Loss given default (LGD), then multiplies the amount of exposure at default (EAD) with the consideration of time value on currency, to calculate the 12 month and lifetime ECLs respectively.

Probability of PD is the probability of defaults occurring of an issuer or the counterparty. Probability of LGD is the percentage of the amount of loss incurred when issuers or the counterparty default. The probability of PD and LGD used by the Company was referring to the information periodically release from international credit rating institutions such as S&P, Moody's and Fitch. The Company measures EAD by the amortized cost plus interest receivables of financial instruments.



## **CAPITAL SECURITIES CORPORATION**

### **Notes to the Financial Statements**

#### Policy applicable before January 1, 2018

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

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

#### (iv) Liquidity risk

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

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

#### (v) Market risk

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

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

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

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

- 4) Margin trading: use the maintenance ratio ruled by the competent authority as the standard for disposal.

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

(vi) Hedging strategies (financial hedging)

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

- 1) Equity securities:

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

- 2) Fixed income instruments:

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

- 3) Stock warrants:

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

- 4) Structured notes:

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

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

5) Asset swap:

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

(vii) Financial risk information of derivative financial instruments

As of December 31, 2018 and 2017, the related financial risk and the presentation of the Company's financial derivatives were as follows:

Stock warrants

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

Financial Instruments	December 31, 2018		December 31, 2017	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Stock warrants issued	\$ 17,901,620	-	73,019,951	-

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

(ii) Market risk:

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

(iii) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand:

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

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

(iv) Type, purpose, and strategy of financial derivatives held:

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

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(v) Presentation of financial derivatives

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

1) For the years ended December 31, 2018 and 2017:

a) Gains (losses) on valuation

	<b>For the year ended December 31, 2018</b>	<b>For the year ended December 31, 2017</b>	<b>Account</b>
Stock warrants issued	\$ 15,625,056	13,281,013	Gains (losses) on stock warrants issued
Stock warrants repurchased	(15,308,436)	(12,653,445)	Gains (losses) on stock warrants issued

b) Gains (losses) on sale

	<b>For the year ended December 31, 2018</b>	<b>For the year ended December 31, 2017</b>	<b>Account</b>
Security borrowing	\$ 171,070	(4,673)	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	(1,331,899)	254,048	Gains (losses) on sale of trading securities
Futures transaction	(180,945)	(258,393)	Gains (losses) on derivative financial instruments - futures

c) Gains (losses) on maturity

	<b>For the year ended December 31, 2018</b>	<b>For the year ended December 31, 2017</b>	<b>Account</b>
Stock warrants issued	\$ 38,885,569	28,176,401	Gains (losses) on stock warrants issued
Stock warrants repurchased	(37,337,129)	(27,924,655)	Gains (losses) on stock warrants issued

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

#### Futures

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

Financial Instruments	December 31, 2018		December 31, 2017	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Taiex Futures	\$ 1,029,517	-	1,380,298	-
Mini Taiex Futures	-	-	1,581	-
Mini-S&P 500 Futures	-	-	71,866	-
U.S. 5-Year T-Note Futures	-	-	328,692	-
U.S. 10-Year T-Note Futures	372,827	-	982,781	-
Euro-Bund Futures	132,141	-	-	-
TaieX Options	-	-	3,779	-
TaieX Weekly Options	173	-	507	-
Mini-S&P 500 Options	-	-	653	-
For non-trading purpose:				
TaieX Futures	87,429	-	474,601	-
Stock Futures	743,429	-	1,613,239	-
Electronic Sector Index Futures	-	-	79,631	-
Finance Sector Index Futures	-	-	18,999	-
HSI Futures	25,340	-	-	-
Soybean Futures	16,964	-	-	-
Gold Futures	-	-	53,447	-
Crude Oil Futures	-	-	121,435	-
FTSE China A50 Index Futures	136,494	-	595,089	-
SGX Nikkei 225 Index Futures	12,002	-	6,025	-
Osaka Nikkei 225 Index Futures	-	-	11,799	-
JPY dollar Futures	10,249	-	6,698	-
Real-Estate Index Futures	-	-	4,836	-
TaieX Options	41	-	-	-
Stock Options	1	-	3,451	-
Crude Oil Options	-	-	1	-
JPY dollar Options	6	-	-	-
Gold Options	-	-	4	-

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

(ii) Market risk:

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

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

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

- (iii) Liquidity risk, cash flow risk, and the amount, period and uncertainty of future cash demand:

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

Futures trading are considered as margin transactions. Margins are collected in advance and valued daily on open futures positions established by the Company. For margin calls, the Company has sufficient operating funds to meet the liquidity requirement. As a result, there is no liquidity risk, cash flow risk, or significant cash demand.

For options trading, premiums are collected or paid in advance. If the counterparty of a short put position exercises the option, the Company has sufficient operating funds to meet the liquidity requirement. Therefore, there is no liquidity risk, no cash flow risk, and no significant cash demand.

- (iv) Presentation of financial derivatives:

For the years ended December 31, 2018 and 2017, gains (losses) on futures and options transactions amounted to \$10,268 and \$(565,770), respectively, and were reflected as gains (losses) on derivatives - futures. As of December 31, 2018 and 2017, futures margin - proprietary fund amounted to \$147,773 and \$344,355, respectively, and were reflected as financial assets at fair value through profit or loss - current; excess future margin which recognized as cash and cash equivalent amounted to \$1,480,645 and \$373,798, respectively.

As of December 31, 2018 and 2017, the balance of call options which recognized as financial assets at fair value through profit or loss - current amounted to \$0 and \$1,884, respectively, put options which recognized as financial liabilities at fair value through profit or loss - current amounted to \$237 and \$3,031, respectively.

#### Derivative financial instruments - OTC

- (i) Interest rate financial derivatives

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

Financial Instruments	December 31, 2018		December 31, 2017	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
NT dollar interest swaps	\$ 29,800,000	-	43,100,000	-

Counterparties to interest rate swaps are banks with good credit ratings. The Company pays fixed and collects floating interest payments. Since the trend of interest rate is stabilized, no default is expected and credit risk is accordingly remote.

## **CAPITAL SECURITIES CORPORATION**

### **Notes to the Financial Statements**

2) Market risk:

Non-trading NT dollar interest rate swaps are primarily held for hedging. Gain or loss from the fluctuations of interest rate tends to offset gains and losses of the hedged items, and therefore market risk is insignificant.

In order to manage risk, Stop-loss points are established in accordance to the changes in the contract value of trading NT dollar interest rate. Loss is kept within prediction, and therefore there is no significant market risk.

3) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand:

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

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

4) Type, purpose, and strategy of financial derivatives held:

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

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

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(ii) Structured notes

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

Financial Instruments	December 31, 2018		December 31, 2017	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Equity-linked notes	\$ 49,225	-	40,461	-
Principal guaranteed notes	2,730,772	-	3,949,038	-
Credit-linked notes	562,300	-	490,600	-
Principle guaranteed notes	USD10,597 thousands	-	USD9,962 thousands	-

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

2) Market risk

For structured notes, the respective products are exercised at their fair value and the hedged items all have fair values. Therefore, there is no significant market risk of structured notes.

3) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand:

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

(iii) Convertible bond asset-backed swaps

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

Financial Instruments	December 31, 2018		December 31, 2017	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Convertible bond asset-backed swaps	\$ 694,900	-	943,700	-
Convertible bond options	3,012,400	-	2,437,300	-

Counterparties to convertible bond asset-backed swaps are institutions with good credit ratings. The Company swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. Since the counterparties are governed by relevant regulatory authorities, and the Company maintains good credit risk control over counterparties, the credit risks is minimal.

For convertible bond options, the Company collects premium or margins from investor prior to issuing convertible bond options, and therefore, there is no credit risk.



## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

2) Market risk:

For convertible bond asset-backed swaps, the Company swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. Therefore, there is no market risk.

For convertible bond options, since the exercise price of the convertible bonds acquired through underwriting or proprietary trading is determined on the contract date, there is no market risk.

3) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand:

Convertible bonds acquired through underwriting or proprietary trading are the underlying assets of asset-backed swaps. The underlying assets are sold to the counterparties for commission. Within the term of the contract, the Company swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. The Company also receives the right to call the convertible bond prior to the expiration of the contract. Therefore, there is no significant liquidity risk or significant cash demand.

(iv) Options

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

	December 31, 2018		December 31, 2017	
	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk
<b>Financial Instruments</b>				
For trading purpose:				
Equity options	\$ -	-	1,000	-

The counterparties that the Company entered into derivative transactions with are all well-known financial institutions with good credit ratings. The Company does not expect the counter-party will default. Therefore, the credit risks is minimal.

2) Market risk:

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

3) Liquidity risk, cash flow risk, and the amount of future cash demand:

For equity options, premiums are collected or paid in advance. If the counterparty of a short put position exercises the option, the Company has sufficient operating funds to meet the liquidity requirement. As a result, there is no liquidity risk, no cash flow risk, and no significant cash demand.

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(v) Presentation of derivative financial instruments - OTC

As of December 31, 2018 and 2017, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options, convertible bond assetbacked swaps and currency swaps were presented on the balance sheets as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Financial assets at fair value through profit or loss - current		
IRS asset swaps	\$ 13,855	16,479
Asset swap options - long position	4,072	2,572
Structured notes	3,075	1,343
Currency swaps	1,690	4,072
Interest rate swaps	-	1,920
Total	<b><u>\$ 22,692</u></b>	<b><u>26,386</u></b>
Financial liabilities at fair value through profit or loss - current		
IRS asset swaps	\$ 763	239
Asset swap options - short position	208,927	364,910
Structured notes	8,914	9,234
Currency swaps	31,575	7,920
Equity derivatives	-	61
Interest rate swaps	544	-
Total	<b><u>\$ 250,723</u></b>	<b><u>382,364</u></b>
Other financial liabilities - current		
Structured notes principal value	<b><u>\$ 3,357,887</u></b>	<b><u>4,509,983</u></b>
Other financial liabilities - non-current		
Structured notes principal value	<b><u>\$ 310,032</u></b>	<b><u>266,037</u></b>

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

For the years ended December 31, 2018 and 2017, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options, convertible bond asset-backed swaps and currency swaps are presented on statements of income as follows:

	For the year ended December 31, 2018		For the year ended December 31, 2017	
	Gains (losses) on derivative financial instruments - OTC	Unrealized Gains (losses)	Gains (losses) on derivative financial instruments - OTC	Unrealized Gains (losses)
Interest rate swaps	\$ (4,016)	(544)	(8,832)	1,920
Equity derivatives	873	-	(3,969)	(41)
Structured notes	(36,093)	(6,466)	(38,864)	(7,924)
IRS asset swaps	259	13,092	301	16,240
Asset swap options	64,786	130,058	(281,311)	(98,208)
Currency swaps	14,300	(29,885)	(64,026)	(3,848)
Total	<u>\$ 40,109</u>	<u>106,255</u>	<u>(396,701)</u>	<u>(91,861)</u>

#### (v) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The capital base includes shares capital, capital surplus and retained earnings. The Board of Directors monitors the return on capital as well as the level of dividends to make sure the Company has sufficient financial resources to cope with the future need of operating fund, capital expenditure and other operating need.

As of December 31, 2018, the Company maintains no change of its capital management.

The Company's capital adequacy ratio on December 31, 2018 was 435%.

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

**(7) Related party transactions:**

- (a) Relationships between parents and subsidiaries

Refer to Note 13(b) for a detailed list of the Company's subsidiaries.

- (b) Parent company and ultimate controlling party

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

- (c) Names of related parties and relationships

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

<u>Names of related parties</u>	<u>Relationships</u>
Capital Insurance Advisory Corp.	Subsidiary
Capital Insurance Agency Corp.	Subsidiary
Capital Futures Corp.	Subsidiary
Capital Investment Management Corp.	Subsidiary
CSC Venture Capital Corp.	Subsidiary
Taiwan International Securities Investment Consulting Corp.	Subsidiary
Taiwan International Futures Corp.	Subsidiary
CSC Securities (HK) Ltd.	Second-level subsidiary
Capital International Technology Corp.	Second-level subsidiary
Capital Investment Trust Corp. (Note)	Associate
Funds issued by Capital Investment Trust Corp. (Note)	Funds issued by associate
San Ho Enterprise Co., Ltd.	Juristic-person director
Kwang Hsing Industrial Co., Ltd.	Juristic-person director
Tai Chun Enterprise Co., Ltd	Juristic-person director
Others	Key management personnel and others

Note: The corporation has become an associate of the Company from February 9, 2018.

- (d) Key management personnel transactions

- (i) Key management personnel compensation:

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$ 150,210	136,974
Post-employment benefits	1,121	866
Total	<u>\$ 151,331</u>	<u>137,840</u>

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(ii) Bond transactions - bonds sold under repurchase agreements

Bonds sold under repurchase agreements with key management personnel as of December 31, 2018 and 2017 were as follows:

	December 31, 2018		December 31, 2017	
	Par value	Purchase price	Par value	Purchase price
Key management personnel	<u>\$ 43,000</u>	<u>43,060</u>	<u>43,600</u>	<u>43,941</u>
		For the years ended December 31,		
Total financial expenses		2018	2017	
Key management personnel		152	209	

(iii) Structured notes transactions

As of December 31, 2018 and 2017, the balances of structured notes transactions with key management personnel were \$55,612 and \$45,971, respectively.

(e) Significant transactions with related parties

(i) Bond transactions - bonds sold under repurchase agreements

The balances of bonds sold under repurchase agreements with related parties as of December 31, 2018 and 2017 were as follows:

	December 31, 2018		December 31, 2017	
	Par value	Purchase price	Par value	Purchase price
Funds issued by associate	\$ 50,000	50,044	-	-
Subsidiaries	198,000	198,000	11,500	11,501
Juristic-person directors	<u>20,300</u>	<u>20,315</u>	<u>10,700</u>	<u>10,700</u>
Total	<u>\$ 268,300</u>	<u>268,359</u>	<u>22,200</u>	<u>22,201</u>
		For the years ended December 31,		
		2018	2017	
Funds issued by associate	\$	161	-	
Subsidiaries		321	411	
Juristic-person directors		<u>81</u>	<u>78</u>	
Total	\$	<u>563</u>	<u>489</u>	

Transaction terms are the same as those with general clients.

(ii) Structured notes transaction

As of December 31, 2018 and 2017, the balances of structured notes transactions with juristic-person directors and others of the Company were \$17,082 and \$4,995, respectively.

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(iii) Futures commission revenue

The Company provided futures trading assistance for subsidiary.

	December 31, 2018	December 31, 2017
Commission receivable	\$ <u>10,922</u>	<u>14,688</u>
Other Receivable (Default loss)	\$ <u>19,806</u>	<u>-</u>
	<b>For the years ended December 31,</b>	<b>2018</b>
Futures commission revenue	\$ <u>166,348</u>	<u>150,998</u>

(iv) Futures trading

The futures margin in subsidiary of the Company is as follows:

	December 31, 2018	December 31, 2017
Futures margin - proprietary fund	\$ <u>1,628,418</u>	<u>718,153</u>
	<b>For the years ended December 31,</b>	<b>2018</b>
Interest revenue of futures margin	\$ <u>424</u>	<u>156</u>
Handling fees charge	\$ <u>21,567</u>	<u>19,526</u>
Management fees expense	\$ <u>1,056</u>	<u>1,636</u>

(v) Lease agreements

	<b>For the years ended December 31,</b>	<b>2018</b>	<b>2017</b>
<b><u>Lease revenue</u></b>			
Subsidiaries	\$	20,171	20,191
Associate		15,810	-
Total	\$	<u>35,981</u>	<u>20,191</u>
		<b>December 31, 2018</b>	<b>December 31, 2017</b>
<b><u>Guarantee deposits received</u></b>			
Subsidiaries	\$	4,246	4,106
Associate		3,811	-
Total	\$	<u>8,057</u>	<u>4,106</u>

(vi) Information technology service

The Company provided information technology service to subsidiaries, and the revenue of information technology service for the years ended December 31, 2018 and 2017 amounted to \$44,108 and \$27,291 respectively.

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(vii) Securities management, distribution, and management fees

The Company provided securities management service to subsidiaries and associate. The revenue from subsidiaries for the years ended December 31, 2018 and 2017 amounted to \$520 and \$478 and from associate amounted to \$122 and \$0, respectively.

(viii) Securities commission expense - introducing brokers

The Company delegated subsidiaries for introducing brokers. As of December 31, 2018 and 2017, securities commission expense payable amounted to \$228 and \$522 respectively. For the years ended December 31, 2018 and 2017, securities commission expenses amounted to \$4,721 and \$5,147 respectively.

(ix) Consulting fee

Subsidiaries agreed to provide investment information, training courses, and services of publishing non-periodicals. For the years ended December 31, 2018 and 2017, consulting fee expense amounted to \$86,100 for both years.

(x) Re-consigned handling fee

The Company delegated the second level subsidiaries for introducing brokers on foreign securities transactions. For the years ended December 31, 2018 and 2017, re-consigned handling fee are \$5,887 and \$6,120 respectively.

(xi) Insurance commission revenues

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

	For the years ended December 31,	
	2018	2017
<b><u>Commission revenues</u></b>		
Subsidiaries	\$ <u>11,905</u>	<u>13,626</u>
<b><u>Accounts receivable</u></b>		
Subsidiaries	\$ <u>2,020</u>	<u>1,169</u>

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(xii) Brokerage commissions

The brokerage commission received from the Juristic-person directors, funds issued by associates of the Company and other related parties engaging in securities and futures trading for the years ended December 31, 2018 and 2017 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Brokerage commissions</b>		
Juristic-person directors	\$ 288	340
Subsidiaries	53	12
Funds issued by associate	15,969	-
Others	10,270	13,209
Total	<u>\$ 26,580</u>	<u>13,561</u>
	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Re consigned handling commissions</b>		
Subsidiaries	\$ -	100
Funds issued by associate	4,879	-
Others	235	148
Total	<u>\$ 5,114</u>	<u>248</u>
	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Other commissions</b>		
Funds issued by associate	<u>\$ 639</u>	<u>-</u>

(xiii) Human resources, legal service income, trust service and other management service income:

The Company provided human resources , legal service, trust service and management service for subsidiaries and associate, service income amounted to \$636 and \$630 in years 2018 and 2017, respectively.

(xiv) Accrued receivables

The accrued receivables between the associates and the Company primarily were securities management service receivable. As of December 31, 2018, the accrued receivables amounted to \$10.



## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

(xv) Information technology service expense

Subsidiaries prepay the information technology maintenance fee for The Company, and for the years ended December 31, 2018 and 2017, the information technology service expense amounted to \$780. As of December 31, 2018 and 2017, information technology service expense payable amounted to \$0 and \$195, respectively.

(xvi) Disposal of financial assets

On January 16, 2018, the Company disposed all its shareholdings (941 thousand shares) in Reliance Securities Investment Trust Co., Ltd (which was recognized as financial assets at fair value through other comprehensive income - non-current) to a juristic-person director. The selling price and gains on disposal amounted to \$9,774 and \$7, respectively.

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

#### (8) Pledged assets:

The following assets were pledged as collateral or restricted in use as of December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017	The collateral use
Restricted assets - current	\$ 671,822	442,190	Bank borrowings, commercial paper, accounts settled, repurchase agreement
Restricted assets - non-current	-	94,875	Trust to a impartial third party (Note)
Trading securities and bonds purchased under resale agreements (par value)	29,343,321	49,018,159	Repurchase agreement
Property and equipment	3,506,196	3,510,390	Bank borrowings
Financial assets at fair value through profit or loss - non-current	185,109	186,015	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business investment
Investment property	1,358,103	1,383,346	Bank borrowings
Total	<u>\$ 35,064,551</u>	<u>54,634,975</u>	

Note: 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” ).As of December 31, 2017, the accumulated compensation expense was \$87,125 and the trust amount of the impartial third party was \$94,875.

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

**(9) Significant contingent liability and unrecognized contract commitment:**

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

	December 31, 2018		December 31, 2017	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities procured through margin purchase	528,296	\$ 5,282,960	715,087	7,150,870
Collateral for margin purchase	34,550	345,500	4,429	44,290
Collateral for short sales	6,150	61,500	5,063	50,630
Lending securities to customers through short sales	50,957	509,570	48,278	482,780

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

	December 31, 2018		December 31, 2017	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities borrowed from securities finance companies	1,074	\$ 10,740	1,005	10,050
Collateral for refinancing margin	53	530	15	150

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

	December 31, 2018	December 31, 2017
Promissory notes	<u>\$ 26,440,000</u>	<u>24,890,000</u>
Promissory notes (USD in thousands)	<u>USD 60,000</u>	<u>80,000</u>

- (d) As of December 31, 2018 and 2017, the market value of collaterals which received from customers on conducting borrowing and lending business with unrestricted purposes were \$3,848,765 and \$3,146,425 respectively.
- (e) Securities and Futures Investors Protection Center claims against the Company for compensation of \$2,004; due to the fact that the Company, being the underwriter of client's year 2002 cash capital increase case had provided false information on the contents disclosed in the prospectus. The case is under the trial of Taiwan Shilin District Court. According to the opinion from the attorney of the Company, the case had no impact to the Company.
- (f) The client, Mr. Wu, declared that a resigned employee of Da-Sing branch conducted transactions with Mr. Chen without his consent. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation for damages of \$2,192. According to the final judgment made by the Supreme Court in January, 2019, the Company shall not be held liable to the damages.

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

- (g) According to the documentation No. 0990030563 verdict of Financial Supervisory Commission (dated June 14, 2010), Taiwan International Securities Corporation (hereinafter known as “TISC”) is suspected to violate the “Regulations Governing Securities Firms” due to some employees selling private placed products of Genesis Growth Income Preferred Shares B1 issued by GVEC (Genesis Voyager Equity Corporation, Danny Pang as related party) privately. According to the understanding and inspection of TISC, some employees may have been selling the aforementioned product and the suspected sales amount is US\$15 million. Some investors instituted proceedings towards TISC and claimed damages amounting to US\$7,956,873 dollars (including claim amount US\$130,000 dollars towards Taiwan International Securities Investment Consulting Corp.). The damages claimed for amounted to US\$6,355,536, which was in favor of the Company, or the investors reached compromises to waive off the appeal rights. As of December 31, 2018, there is still one case that currently under the review of the Taiwan High court. Nevertheless, the Company had signed an agreement with the Unitech Printed Circuit Board Corp. and the other nine companies which were the original major shareholders of TISC on May 2, 2011, the date of merger with TISC. According to this agreement, the maximum claim damage compensation afford by the Company is \$173,000, thus the Company recognized this amount as other liabilities and the balance was \$48,034 as of December 31, 2018.
- (h) The Company provided the Letter of Comfort to the banks which loaned to its subsidiary CSC International Holdings Ltd. and CSC securities (HK) Ltd.
- (i) According to the Article 17 of Enforcement Rules of the Trust Enterprise Act, the balance sheet, income statement and list of trust properties of trust accounts were declared as follows:
- (i) Balance sheet of trust accounts

#### Balance Sheet of Trust Accounts

##### December 31, 2018 and 2017

Trust Assets	December 31, 2018	December 31, 2017	Trust Liabilities	December 31, 2018	December 31, 2017
Bank deposits	\$ 863,717	951,429	Accounts payable	\$ 230	328
Short-term investment			Trust capital	12,864,910	12,050,890
Funds	10,355,060	10,576,044	Accumulated Earnings or deficit	(1,066,242)	42,146
Stocks	351,841	283,224			
Securities lent	90,222	181,899			
Bonds	12,003	10,143			
Structured notes	12,224	10,027			
Accounts receivable	113,831	80,598			
<b>Total Assets</b>	<b>\$ 11,798,898</b>	<b>12,093,364</b>	<b>Total Liabilities</b>	<b>\$ 11,798,898</b>	<b>12,093,364</b>

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(ii) Income statement of trust accounts

<b>Income Statement of Trust Accounts</b>		
<b>For the years ended December 31, 2018 and 2017</b>		
	<u><b>2018</b></u>	<u><b>2017</b></u>
Revenue		
Interest revenue	\$ 5,686	4,988
Cash dividends revenue	480,749	-
Rental revenue	10,547	8,201
Realized investment gains	262,417	324,642
Unrealized investment gains	27,690	250,376
Unrealized currency exchange gains	882,532	18,453
Currency exchange gains	12,587,351	483,754
Other revenue	<u>709</u>	<u>-</u>
Subtotal	<u>14,257,681</u>	<u>1,090,414</u>
Expense		
Administrative fee	1,115	1,075
Commission expenses	75,544	83,923
Realized investment losses	266,352	84,223
Unrealized investment losses	1,808,804	321,081
Unrealized currency exchange losses	2,194,098	772,661
Supplementary insurance premium	76	-
Currency exchange losses	<u>11,760,193</u>	<u>98,547</u>
Subtotal	<u>16,106,182</u>	<u>1,361,510</u>
Net losses before tax	(1,848,501)	(271,096)
Income tax expense	<u>(327)</u>	<u>(271)</u>
Net losses after income tax	<u><u>\$ (1,848,828)</u></u>	<u><u>(271,367)</u></u>

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(iii) List of trust properties

**List of Trust Properties**

**December 31, 2018 and 2017**

<b>Investment items</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Bank deposits	\$ 863,717	951,429
Short-term investment		
Stocks	351,841	283,224
Securities lent	90,222	181,899
Structured Notes	12,224	10,027
Bonds	12,003	10,143
Funds	10,355,060	10,576,044
Accounts Receivable	<u>113,831</u>	<u>80,598</u>
Total	<u><u>\$ 11,798,898</u></u>	<u><u>12,093,364</u></u>

**(10) Significant Catastrophic Loss:None**

**(11) Significant Subsequent Events:**

The Company will change the business addresses to 11/F, No. 156, Section 3, Minsheng East Road, Songshan District, Taipei in 2019.

**(12) Other:None**

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

**(13) Other disclosures:**

(a) Information on significant transactions:

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

(i) Loans to others:

(In Thousands Dollars)

Number	Name of the company providing Loans to Others	Party to Transactions	Account Classification	Related party	Maximum Balance of the Period	Ending balance	Capital Employed	Range of interest rate	Type of Loans (Note)	Amount of Transactions	Purposes of the Borrowers	Allowance of Doubtful Accounts	Collateral		Limit on loans to a single business	Limit on the Amount of Loans
													Name	Value		
1	CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Account receivables - Related party	Yes	US 29,322 thousands	US 29,322 thousands	US 29,322 thousands	- %	2	-	Operations	-		-	US 53,380 thousand	US 53,380 thousand
2	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Ltd.	Other receivables - Related party	Yes	US 3,380 thousands	US 3,380 thousands	US 3,380 thousands	- %	2	-	Operations & repayment of financing	-		-	US 3,380 thousand	US 3,380 thousand
3	TIS Securities (HK) Ltd.	Taiwan International Capital (HK) Ltd.	Other receivables	Yes	US 1,463 thousands	US 1,463 thousands	US 1,463 thousands	- %	2	-	Repayment of financing	-		-	US 1,463 thousand	US 1,463 thousand
4	CSC Futures (HK) Ltd.	Klaw Trading Limited	Account receivables - Customer	No	27,422	42,656	14,320	5 %	2	-	Tradings	-		-	103,575	414,300
5	CSC Futures (HK) Ltd.	AAA Fintech Limited	Account receivables - Customer	No	60,938	85,313	-	5.4 %	2	-	Tradings	-		-	103,575	414,300
6	CSC Futures (HK) Ltd.	Future Leading Investment Pte. Ltd.	Account receivables - Customer	No	85,313	85,313	-	3.5 %	2	-	Tradings	-		-	103,575	414,300
7	CSC Futures (HK) Ltd.	Tettrion Capital Limited	Account receivables - Customer	No	-	6,671	-	- %	2	-	Tradings	-		-	103,575	414,300
8	CSC Futures (HK) Ltd.	Alpha Rnd Singapore Pte Ltd.	Account receivables - Customer	No	5,864	85,313	-	5.4 %	2	-	Tradings	-		-	103,575	414,300
9	CSC Futures (HK) Ltd.	Pinnacle Corp. Pte. Ltd.	Account receivables - Customer	No	3,047	-	-	4 %	2	-	Tradings	-		-	103,575	414,300

Note: Type of Loans

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

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

# CAPITAL SECURITIES CORPORATION

## Notes to the Financial Statements

(b) Information on reinvestment business:

(In Thousands of New Taiwan Dollars)

Ref. No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and number of FSC	Primary business operation	Original investment amount		Equity Ownership by company (note 3)			Operating income or loss of investee company during the period	Net income or loss of investee company during the period	Investment gain or loss recognized during the period	Cash dividend	Note
						Balance on December 31, 2018	Balance on December 31, 2017	Shares	Ratio	Book value					
0	Capital Investment Management Corp.	Taipei ,Taiwan, R.O.C.	February 16, 1990		Engaged in providing research, analysis and recommendations pertaining to securities investment, organize seminars and publish materials on securities investments.	72,515	72,515	7,000,000	100.00 %	106,690	82,000	10,522	10,522	10,990	Subsidiary
0	Capital Futures Corp.	Taipei ,Taiwan, R.O.C.	February 26, 1997	No. FSC-1050044467 dated November 15, 2016	Engaged in domestic and foreign futures business.	1,212,539	1,212,539	99,182,845	56.21 %	2,828,539	2,373,305	835,205	469,488	258,777	"
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 %	1,636,902	9,012	(6,343)	(6,343)	-	"
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 %	84,732	180,643	58,876	58,876	64,650	"
0	Capital Insurance Agency Corp.	Taipei ,Taiwan, R.O.C.	November 8, 2000		Manages personal insurance agent business.	7,400	7,400	740,000	100.00 %	40,757	66,851	1,356	1,356	2,146	"
0	Taiwan International Futures Corp. (Note 4)	Taipei ,Taiwan, R.O.C.	November 25, 1993		Completion of liquidation.	-	429,990	-	- %	-	-	-	173,048	-	"
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 %	347	413	(766)	(766)	-	"
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 %	12,799	-	(232)	(232)	-	"
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 %	854,906	3,716	(2,109)	(2,109)	-	"
0	Capital Investment Trust Corp.	Taipei ,Taiwan, R.O.C.	October 16, 1995		Engaged in security investment and discretionary investment services.	1,272,505	-	33,067,507	20.00 %	1,261,329	1,319,160	491,726	87,155	99,203	Associate
1	CSC Securities (HK) Ltd.	Hong Kong	May 3, 1994	No. FSC-90931 dated January 5, 1998	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong.	HK 128,000 thousands	HK 128,000 thousands	128,000,000	100.00 %	HK 160,384 thousands	HK 26,807 thousands	HK 2,332 thousands	-	-	Second-level subsidiary
2	TIS Securities (HK) Ltd. (Note 6)	Hong Kong	August 17, 1993	No. FSC-40912 dated November 4, 1993	Liquidation in progress.	HK 265,000 thousands	HK 265,000 thousands	265,000,000	100.00 %	HK (26,248) thousands	HK -	HK 107 thousands	-	-	"
3	Taiwan International Capital (HK) Ltd. (Note 6)	Hong Kong	July 16, 1997	No. FSC-110159	Liquidation in progress.	HK 2	HK 2	2	100.00 %	HK (66,157) thousands	HK -	HK (57) thousands	-	-	Third-level subsidiary
4	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 %	1,007,474	551,086	57,246	-	-	Second-level subsidiary
4	Capital International Technology Co., Ltd.	Taipei ,Taiwan, R.O.C.	December 29, 2014	No. FSC-1030038387 dated November 18, 2014	Management and consulting business. Information technology software	50,000	50,000	5,000,000	100.00 %	46,283	1,400	552	-	-	"
4	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 %	45,719	133,223	7,791	-	-	Associates

# CAPITAL SECURITIES CORPORATION

## Notes to the Financial Statements

Ref. No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and number of FSC	Primary business operation	Original investment amount		Equity Ownership by company (note 3)			Operating income or loss of investee company during the period	Net income or loss of investee company during the period	Investment gain or loss recognized during the period	Cash dividend	Note
						Balance on December 31, 2018	Balance on December 31, 2017	Shares	Ratio	Book value					
5	Capital Securities Nominee Ltd.	Hong Kong	April 7, 1995		Agency services.	HK 2	HK 2	2	100.00 %	HK -	HK -	HK -	-	-	Third-level subsidiary

Note 1: (0) Capital Securities Corp. (1) CSC International Holdings Ltd., (2) Taiwan International Securities (B.V.I) Corp. (3) TIS Securities (HK) Ltd. (4) Capital Futures Corp. (5) 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 acknowledged its documents for completion of liquidation on December 17, 2018. The entity was been permitted from the court approval of its completion of liquidation on February 12, 2019.

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.

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

(In Thousands of New Taiwan Dollars)

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

### (d) Information on investments in China:

#### (i) Investment in Mainland China and related information:

(In Thousands of New Taiwan Dollars)

Name of investee in Mainland China	Major Operations	Issued capital	Method of investment (Note 1)	Accumulated remittance as of January 1, 2018	Remittance of recoverable investment this period		Accumulated remittance as of December 31, 2018	Net gains (losses) of the investee	Direct or indirect Share holdings (%) by the Company	Investment gains (losses) recognized during this period (Note 2)	Ending Balance of Investment	Investment income remitted back as of December 31, 2018
					Remittance amount	Recoverable amount						
Capital True Partner Technology Co., Ltd.	Management, consulting and information service business	5,013	(C)	24,372	-	-	24,372	2,506	28.67%	785 B(2)	12,945	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	18,863	(C)	18,863	-	-	18,863	2,374	56.21%	1,334 B(2)	12,702	-

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

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

Note 2: Investment gains and losses recognized during the period

- It should be indicated if the investee was still in the incorporation arrangements and had not yet any profit during this period.
- Indicate the basis for investment gains and losses recognition in the number of one of the following three categories:
  - The financial statements that are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.
  - The financial statements that are audited and attested by R.O.C. parent company's CPA.
  - The financial statements that are provided by the investee without audited by CPA.

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



## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

(ii) Limitation on investment in Mainland China:

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

Note: The Company invests through subsidiaries, Capital International Technology Corp. to invest in Mainland China. According to the relevant rules to small and medium enterprises, the upper limit for investment in China is \$80,000.

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

According to article 4, no. 5 of the letter no. 10400414001 issued by Financial Supervisory Commission on November 19, 2015, the required supplementary disclosures of the Company's information on reinvestment in overseas businesses for the year ended December 31, 2018 are as follows:

(i) Balance sheet and income statement:

1) Balance sheet

Unit: US\$ thousands

Nature	Company CSC International Holdings Ltd. December 31, 2018	Taiwan International Securities (B.V.I) Corp. December 31, 2018
Current assets	11,546	10
Long-term investments	20,478	-
Property and premises	2,080	-
Other assets	19,395	3,380
Total assets	53,499	3,390
Current liabilities	57	28
Other liabilities	62	3,351
Total liabilities	119	3,379
Common stock	45,000	9,516
Retained earnings (Accumulated deficit)	8,617	(9,455)
Cumulative translation adjustments	(237)	(50)
Total stockholders' equity	53,380	11
Total liabilities and stockholders' equity	53,499	3,390

2) Income statement

Unit: US\$ thousands

Nature	Company CSC International Holdings Ltd. 2018	Taiwan International Securities (B.V.I) Corp. 2018
Operating revenue	298	14
Operating expense	(859)	(39)
Non-operating revenue	351	-
Non-operating expense	-	-
Income (Loss) before tax	(210)	(25)
Net income (loss)	(210)	(25)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(ii) Marketable securities held as of December 31, 2018

Unit: shares / US\$ thousands

Name of holding company	Securities types and name	Account classification	December 31, 2018	
			Shares	Book value
CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Long-term investments	128,000,000	\$ <u><u>20,478</u></u>
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Other liabilities	265,000,000	\$ <u><u>(3,351)</u></u>

(iii) Transactions of financial derivatives: None.

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

**(14) Segment information:**

Please refer to the consolidated financial statements of the Company as of and for the year ended December 31, 2018.

## Review of financial position, business performance and risk issues

### 7.1. Financial position (Consolidated)

Unit: NTD thousands

Item \ Year	2018	2017	Difference	
			Amount	%
Current assets	101,969,620	128,220,873	(26,251,253)	(20.47)
Property and equipment	5,340,960	4,966,752	374,208	7.53
Other current assets	10,079,327	8,298,693	1,780,634	21.46
Total assets	117,389,907	141,486,318	(24,096,411)	(17.03)
Current liabilities	80,738,838	106,463,149	(25,724,311)	(24.16)
Non-current liabilities	1,446,333	1,545,169	(98,836)	(6.40)
Total liabilities	82,185,171	108,008,318	(25,823,147)	(23.91)
Share capital	23,209,081	21,690,730	1,518,351	7.00
Capital reserves	2,852,299	2,852,299	0	0.00
Retained earnings	6,209,696	6,790,451	(580,755)	(8.55)
Other equity items	700,916	88,150	612,766	695.14
Non-controlling interests	2,232,744	2,056,370	176,374	8.58
Total stockholders' equity	35,204,736	33,478,000	1,726,736	5.16

**(Standalone)**

Item \ Year	2018	2017	Difference	
			Amount	%
Current assets	61,469,761	93,599,832	(32,130,071)	(34.33)
Property and equipment	4,577,214	4,231,972	345,242	8.16
Other current assets	15,381,441	13,311,599	2,069,842	15.55
Total assets	81,428,416	111,143,403	(29,714,987)	(26.74)
Current liabilities	47,025,844	78,368,174	(31,342,330)	(39.99)
Non-current liabilities	1,430,580	1,353,599	76,981	5.69
Total liabilities	48,456,424	79,721,773	(31,265,349)	(39.22)
Share capital	23,209,081	21,690,730	1,518,351	7.00
Capital reserves	2,852,299	2,852,299	0	0.00
Retained earnings	6,209,696	6,790,451	(580,755)	(8.55)
Other equity items	700,916	88,150	612,766	695.14
Total stockholders' equity	32,971,992	31,421,630	1,550,362	4.93

**Explanation to major variations:**

- (1) Current assets: Current assets reduced mainly because of lower investment in offshore bonds compared to the previous year.
- (2) Current liabilities: Current liabilities reduced mainly because of fewer repurchase agreements undertaken compared to the previous year.
- (3) Other equity items: Other equity items increased mainly because of higher unrecognized gains on financial assets measured at fair value through other comprehensive income compared to the previous year.

## 5.2. Financial performance:

### (Consolidated)

Unit: NTD thousands

Item \ Year	2018	2017	Difference	
			Amount	%
Income	7,638,645	9,244,897	(1,606,252)	(17.37)
Operating expense	6,465,477	6,493,356	(27,879)	(0.43)
Share of profit of associates and joint ventures	151,205	67,844	83,361	122.87
Other gains and losses	1,002,157	684,252	317,905	46.46
Pre-tax profit/loss	2,326,530	3,503,637	(1,177,107)	(33.60)
Net income/loss	1,777,510	3,215,395	(1,437,885)	(44.72)

### (Standalone)

Item \ Year	2018	2017	Difference	
			Amount	%
Income	4,922,660	6,621,232	(1,698,572)	(25.65)
Operating expense	4,303,491	4,356,598	(53,107)	(1.22)
Share of profit of associates and joint ventures	790,995	476,853	314,142	65.88
Other gains and losses	428,281	341,867	86,414	25.28
Pre-tax profit/loss	1,838,445	3,083,354	(1,244,909)	(40.38)
Net income/loss	1,408,865	2,893,600	(1,484,735)	(51.31)

### Explanation to major variations:

- (1) Income: Current year's income had decreased from the previous year mainly due to increased net loss from sale of securities.
- (2) Share of profit or loss of associates and joint ventures accounted for using the equity method: Increased from the previous year due to investment gains from newly added associated company - Capital Investment Trust Corp. and gains on liquidation of subsidiary - Jing Ding Co., Ltd.
- (3) Other gains and losses: The increase over the previous year was mainly attributed to gains from disposal of investment and shares held as collateral on security-backed lending that defaulted.
- (4) Pre-tax profit and net income: Pre-tax profit and net income reduced mainly due to increased net loss from sale of securities.

## 7.3 Cash flow

### 7.3.1 Liquidity analysis for 2018

Unit: NTD thousands

Cash and cash equivalents, beginning of the year (1)	Net cash flow from operating activities (2)	Cash outflow for the year (3)	Cash surplus (deficit) (1)+(2)-(3)	Leverage of cash deficits	
				Investment plans	Financing plans
2,113,161	9,613,919	9,172,758	2,554,322	-	-

### 7.3.2 Liquidity analysis for the last 2 years

Item \ Year	2018	2017	Variation %
Cash flow ratio	20.44	-	100.00
Cash flow adequacy ratio	190.52	91.81	107.52
Cash reinvestment ratio	26.02	-	100.00

#### Explanation to major variations:

Substantial reduction in bond investment position and securities-backed loan receivables caused net cash from operating activities to turn from outflow to an inflow. As a result, cash flow adequacy ratio increased from the previous year.

### 7.3.3 Liquidity analysis for the next year

Unit: NTD thousands

Cash and cash equivalents, beginning of the year	Net cash flow from operating activities for the year	Projected annual Cash outflow	Expected cash surplus (deficit)	Leverage of cash deficits	
				Investment plans	Financing plans
2,554,322	2,764,399	2,228,000	3,090,721	-	-

## 7.4. Impacts of major capital expenditures in the last year to financial performance: None.

## 7.5. Causes of profit or loss incurred on investments in the most recent year, and any improvements or investments planned for the next year

- (1) Capital Financial Group's investment strategies are consistent with the government's financial deregulations, and have been focused toward futures, brokerage, proprietary trading, underwriting, insurance agency, and venture capital. The Company follows the government's free economy and financial globalization policies. It places great emphasis on research and strives to become an allround security and financial service provider. The Company's current plans include: expanding the scope of wealth management service, development of high value-adding financial instruments, exploring fundraising and distribution channels local and

abroad, establishment of overseas offices, building strategic/marketing alliance, and offering cross-border investment services. All the above plans have been devised to maximize group profitability.

- (2) Causes of profit or loss incurred on investments: There had been no special occurrence that affected profitability of the Company's investments.
- (3) Investment plans for the coming year: The Company plans to invest in AppWorks Fund III Co., Ltd. and maintain a shareholding percentage of less than 5%. The Company aims to improve overall financial performance through this investment.

## **7.6 Risk management**

### **7.6.1 Impact of interest rate, exchange rate, and inflation on the Company's earnings, and responsive measures:**

1. Interest rate changes affect the Company's earnings mainly in the margin trading and bond trading segments (including government bonds, corporate bonds and repurchase agreements). The Company's interest rate risk exposure, in risk-equivalent terms, in 2018 was between NT\$1,384,626,000 and NT\$2,076,354,000, and averaged NT\$1,722,245,000. Exchange rate risk exposure in equivalent terms was between NT\$52,172,000 and NT\$101,788,000, and averaged NT\$65,844,000.
2. Future response measures: The Company manages interest rate risk on bond positions by following its risk management policy and operating processes. The Company also engages other financial institutions in interest rate swap agreements and utilizes futures and derivatives to hedge against risks. Following the commencement of international securities and foreign currency derivative services, exchange rate variation now has a larger impact on the Company's earnings than it used to. In order to mitigate adverse effects of interest rate and exchange rate variations, the Company will be exercising position control and applying dynamic hedge among other market practices.
3. Impacts of inflation on the Company's revenues and profitability are indirect and immaterial.

### **7.6.2 Policies on high-risk and highly leveraged investments, loans to third parties, endorsements/guarantees, and trading of derivatives; describe the main causes of any profits or losses incurred and future responsive measures**

1. The Company did not lend capital or offer endorsement or guarantee to any third party in the current year.
2. The Company trades derivatives only within the scope permitted by the authority and the board of directors. It uses stop-loss as a means of risk control for proprietary trading of index futures and options. The Company undertakes Delta hedge using stock or derivative, and hedges Gamma risk using warrants or options when issuing new warrants and structured instruments, and thereby keeping risk appetite within the safety range.
3. Future response measures: The Company will revise its derivative trading rules at times deemed appropriate, and adopt a market-neutral strategy to hedge exposures and manage deviations arising from the trade of derivatives.

**7.6.3 Future research and development plans and projected expenses:** The Company remains active in the development of high margin, high value-adding and problem-solving financial instruments, and will launch them at an appropriate time after permission is given by the authority. Research and development of new financial technologies have also been planned, and the Company expects to incur R&D expenditures at approximately NT\$20,000,000.

**7.6.4 Financial impacts and response measures in the event of changes in local and foreign policies and regulations:** None.

### 7.6.5 Financial impacts and responsive measures in the event of technological or industrial changes

1. Impacts: Advancement of Internet technology has changed the ways transactions are made and how services are delivered. This development has prompted securities firms to hire specialized IT talents and upgrade IT equipment to support the growth of electronic trading, and develop software that offers more value-adding services to customers over the Internet.
2. Response measures:
  - (1) Hire additional IT personnel and focus on the development of professional knowledge.
  - (2) Acquire new IT equipment.
  - (3) Constantly renew and develop new service software for customers.
  - (4) Conduct regular information security risk assessments and devise appropriate response measures.

### 7.6.6 Crisis management, impacts, and response measures in the event of a change in corporate image: None.

### 7.6.7 Expected benefits, risks and responsible measures in relation to mergers and acquisitions

1. The Company engages in mergers and acquisitions mainly for the purpose of expanding branch network. Doing so may bring higher market share and profitability to the Company's brokerage/margin trading service.
2. Response measures: All mergers and acquisitions will be subjected to due diligence assessment by relevant departments. Once merger/acquisition is completed, the Company will ensure proper integration of database by the IT Department and compliance of internal control policy by relevant departments to minimize risks.

### 7.6.8 Expected benefits, risks and response measures associated with plant expansions: Not applicable.

### 7.6.9 Risks and response measures associated with concentrated sales or purchases: Not applicable.

### 7.6.10 Impacts, risks and response measures following a major transfer of shareholding by directors, supervisors, or shareholders with more than 10% ownership interest: None.

### 7.6.11 Impacts, risks and response measures associated with a change of management: None.

### 7.6.12 Major litigation and non-contentious cases

Event	Brief of Facts	Litigants	Current progress	Litigation Start date	Amount of dispute (Unit: NTD/USD)
Civil	The Plaintiff claims that the prospectus prepared by ABIT Computer Corporation for the 2002 cash issue contained false information that misled investors and caused them to suffer losses. The Company, being the underwriter of that cash issue, was being held jointly responsible under Article 32 of the Securities and Exchange Act.	Plaintiff: Securities and Futures Investors Protection Center Defendant: ABIT Computer Corporation Capital Securities Corp. et al	The case is being reviewed by Taiwan Shilin District Court.	11.23.2006	2,003,697 (NTD)



Event	Brief of Facts	Litigants	Current progress	Litigation Start date	Amount of dispute (Unit: NTD/ USD)
Civil	16 customers of Taiwan International Securities Corp. including ○-Hua Lai accused Taiwan International Securities Corp. for illegal sale of GVEC products that caused them US\$1,930,000 in losses (the amount claimed during appeal of the third instance has been reduced to US\$703,919), and held Taiwan International Securities Corp. liable for compensation. Given the fact that Taiwan International Securities Corp. was dissolved after being merged by the Company, the litigation has since been assumed by the Company.	Plaintiff: 16 customers including ○-Hua Lai (currently only 9 remain, including ○-Rong Huang) Defendant: Capital Securities Corporation Taiwan International Securities Investment Consulting Corp., Ltd.	According the judgement of the first instance and the second instance, the court enter a judgement the Company did not liable for compensation. It has been confirmed that the Company is not liable to compensate for the losses of 7 customers including ○-Hua Lai. 9 other customers including ○-Rong Huang raised an appeal. The Supreme Court remands the case to the High Court. The High Court enter a judgement the Company and Taiwan International Securities Investment Consulting Corp., Ltd. shall compensate 8 customers including ○-Rong Huang for a total of US\$507,928. Appeals were raised by the Company, Taiwan International Securities Investment Consulting Corp., Ltd. and ○-Hua Cheng. The Supreme Court remands the case to the High Court again. The case is being reviewed by the High Court.	3.2.2010	703,919 (USD)
Criminal	Agent ○-Ping Chiang (dismissed) of the Company's Xisong Branch was found to have defraud customers by forging documents from the Company.	Plaintiff: Capital Securities Corporation Defendant: ○-Ping Chiang	Following an inquisition for trade documents by Yu ○○, a customer of Xisong Branch, the Company discovered that Xisong Branch agent ○-Ping Chiang had forged documents for a non-existent PGN in the Company's name and used them to defraud 15 Xisong Branch customers including Yu ○○. The offense has been reported to Taipei City Field Office, Investigation Bureau, Ministry of Justice.	12.18.2018	

### 7.6.13 Risk management policy

1. The Company's risk management policies are tailored to its operation focus and goals. The Company intends to pursue optimization of asset allocation and profits via setting loss limits for risk management control based on the following: (a) measurement of risk and return; (b) impact on the BIS ratio.
2. Risk management framework and responsibilities

Department	Responsibilities
(1) Board of Directors	<ol style="list-style-type: none"> <li>1. The highest decision-making authority with respect to risk management.</li> <li>2. Responsible for determining risk management policy and strategies.</li> <li>3. Approves the risk management system.</li> </ol>
(2) Risk Management Committee	<ol style="list-style-type: none"> <li>1. Approves the risk management system and risk management guidelines for various business activities.</li> <li>2. Resolves improvements of existing business practices.</li> <li>3. Allocates risky assets and evaluates business strategies.</li> <li>4. Approves new businesses and authorized transaction limits.</li> </ol>
(3) President	<ol style="list-style-type: none"> <li>1. Reports to the board of directors on: risks of current holding position, trade performance, and accomplishment of prescribed goals.</li> <li>2. Instructs business units to take necessary actions in response to abnormal market price movements (e.g. when holding position suffers losses in excess of limit).</li> </ol>
(4) Risk Management Department	<ol style="list-style-type: none"> <li>1. Assists in the design of risk management system.</li> <li>2. Assists in setting and assigning risk limits for various departments.</li> <li>3. Ensures proper execution of approved risk management guidelines.</li> <li>4. Presents comprehensive risk management reports to the President in a timely manner.</li> <li>5. Investigates the nature of transactions before they are executed by business units. Monitors holding position after transactions are completed.</li> <li>6. Adopts advanced risk assessment technology for financial instruments with quantifiable risks.</li> <li>7. Understand the risk quotas and use of the operating units.</li> <li>8. Investigates risk limits of various business units and monitors usage.</li> <li>9. Evaluates the Company's risk exposures and concentration.</li> <li>10. Examines the difference between actual and expected portfolio gains/losses.</li> <li>11. Validates the product pricing and valuation models used by business units.</li> <li>12. Other risk management-related affairs.</li> </ol>

Department	Responsibilities
(5) Business units (Subsidiaries)	<p>Mid-office risk controllers:</p> <ol style="list-style-type: none"> <li>1. Makes regular reports on risk exposure of the business unit (subsidiary).</li> <li>2. Ensures that risk management information is conveyed in a timely and accurate manner.</li> <li>3. Ensures that risk limits are properly executed by the business unit (subsidiary).</li> <li>4. Monitors risk exposure and reports limit breach, including actions taken by the business unit (subsidiary) in response to the breach.</li> <li>5. Ensures that the business unit (subsidiary) adopts consistent assumptions and basis for its risk assessment and valuation models.</li> <li>6. Ensures that internal control procedures are effectively executed by the business unit (subsidiary) in a manner that complies with laws and the risk management policy.</li> </ol> <p>Head of business unit (subsidiary's person-in-charge):</p> <ol style="list-style-type: none"> <li>1. Oversees all risk management-related affairs of the business unit (subsidiary). Analyzes and monitors business risks within the business unit (subsidiary), and takes appropriate responses.</li> <li>2. Supervises exchange of risk management information.</li> </ol>
(6) Auditing Department	<ol style="list-style-type: none"> <li>1. Investigates, on a regular basis, the adequacy of internal control practices adopted by business units in relation to trading activities.</li> <li>2. Reviews execution of risk management system within the Company, and makes accurate disclosures in the audit report. Any defects or findings discovered in an inspection must be addressed in the audit report and tracked for improvement. Follow-up reports are prepared on a regular basis to ensure that appropriate measures are undertaken by the relevant unit.</li> <li>3. Conducts monthly audit on business units and other departments to determine whether the risk management system is duly carried out, and analyzes the transaction cycle.</li> <li>4. Reviews laws that are relevant to the Company's financial and business activities, and conducts audit on how business units have complied with such laws.</li> </ol>
(7) Finance Department	<ol style="list-style-type: none"> <li>1. Performs bookkeeping or funding according to approved contracts and trade instructions.</li> <li>2. Produces memos for off-balance sheet transactions undertaken by the Company.</li> <li>3. Performs secondary valuation on existing holding positions by obtaining price information from a quotation system that is independent from the trading department.</li> <li>4. Performs timely bookkeeping and recognizes gains/losses for completed transactions.</li> <li>5. Makes announcements according to rules of the authority.</li> </ol>
(8) Settlement & Clearing Department	<ol style="list-style-type: none"> <li>1. Holds custody and files transaction contracts.</li> <li>2. Settles and clears traded instruments.</li> <li>3. Executes claim against collateral.</li> <li>4. Reports transaction contracts to relevant authorities.</li> <li>5. Confirms transaction details.</li> </ol>

Department	Responsibilities
(9) Compliance and Legal Division	<ol style="list-style-type: none"> <li>1. Consults legal advisors and reviews management policies.</li> <li>2. Reviews the rights, obligations, legitimacy and documentation of transaction contracts before they are signed with counterparties.</li> <li>3. Supervises legal and compliance affairs.</li> <li>4. Supervises business units in assessing impact of new regulations on the Company's businesses.</li> <li>5. Before the launch of any new product, service or business segment, the compliance officer is required to issue a signed opinion regarding compliance with laws and internal policies.</li> </ol>
(10) Information Tech. Department	Development and maintenance of the risk management information system.

### 3. Risk, Measurement and Management Process

Major risks that the Company faces include market risk, credit risk, liquidity risk, operational risk and legal risk. The Company's divisions send daily risk management report to the Chairman and President to realize latest risk position for decision execution and evaluation via risk management processes, such as risk recognition, evaluation, measurement and monitoring.

Tailored to various risks, the Company's risk measurement methods and hedging strategies are as follows:

#### 1. Market risk

The Company sets the transaction and risk limits of its businesses to control the BIS ratio and maximum losses. Regarding stock risks, the Company calculates daily VaR (Value at Risk) with a 99% confidence interval in a variance-covariance approach, and runs back-testing to ensure its suitability. For fixed-income securities, the Company adopts bp value and daily VaR with a 99% confidence interval to monitor positions risk. The Company adopts Delta and Gamma risk analyses, and also daily VaR with a 99% confidence interval, to control risks of derivative products. The Company disposes stocks according to the authority's regulations of margin maintenance ratio. The business units may utilize various hedging tools, such as futures, options and swaps that are approved by the authority and Board of Directors, to adjust VaR and enhance the capabilities of risk management.

#### 2. Credit risk

Based on the authority's credit checking requirements and rating data issued by credit rating agencies, the Company sets credit line limits for issuers and counterparties. The Company sets limits of margin trading according to the authority's regulations. Regarding derivative products, the Company calculates counterparty's daily credit exposure. If counterparty's credit exposure exceeds the limit, the Company will demand for qualified collateral or a decrease in positions. Regarding fixed-income position, the counterparty is required to be at or above a certain credit rating. Additionally, the Company monitors issuer's material information, fundraising activity and operation to determine its credit default probability. If the credit rating of fixed-income position is probably going to be lower than investment regulation, the business units are required to sell the position. If the business units have difficulties selling the position immediately due to liquidity problem, the Company shall recognize bad debt provision based on the defaulting probability.

#### 3. Liquidity risk

Liquidity risks include capital funding and liquidity of financial market. Regarding capital funding, the Company has diversified its financial institution counterparties with multiple fundraising channels. Based on demand for operational capital, the Company makes plans in advance and monitor daily capital use. Meanwhile, the Company makes analysis via special event scenario to respond to emergent demand for capital arising from systemic risks. Regarding liquidity risks of positions, the Company has set regulations in terms of issued amount, trading amount, counterparty, etc., and monitors market situation dynamically.

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4. Operational risk

The Auditing Department performs audits in regular cycles according to the operating procedures and control points outlined in the Internal Control System. All audit reports are acknowledged by the respective business unit with replies made before circulating to the President and Chairman. For any defects found, the business unit will be held responsible for making corrections while the Auditing Department is required to follow up on the improvements made. Besides, employee dishonesty insurance is mandatory to lower the probability of employee's intended negligence.

5. Legal risk

The Company's Compliance and Legal Division is in charge of legal risk, ensuring full legal compliance of the authority's regulations. Additionally, the Compliance and Legal Division conducts assessment of contract legality to protect the Company's rights. According to the current regulatory amendments, the Company also performs various employee trainings irregularly to enhance employee's legal compliance and lower the risk of violation.

**7.6.14 Other significant risks and response measures:** None.

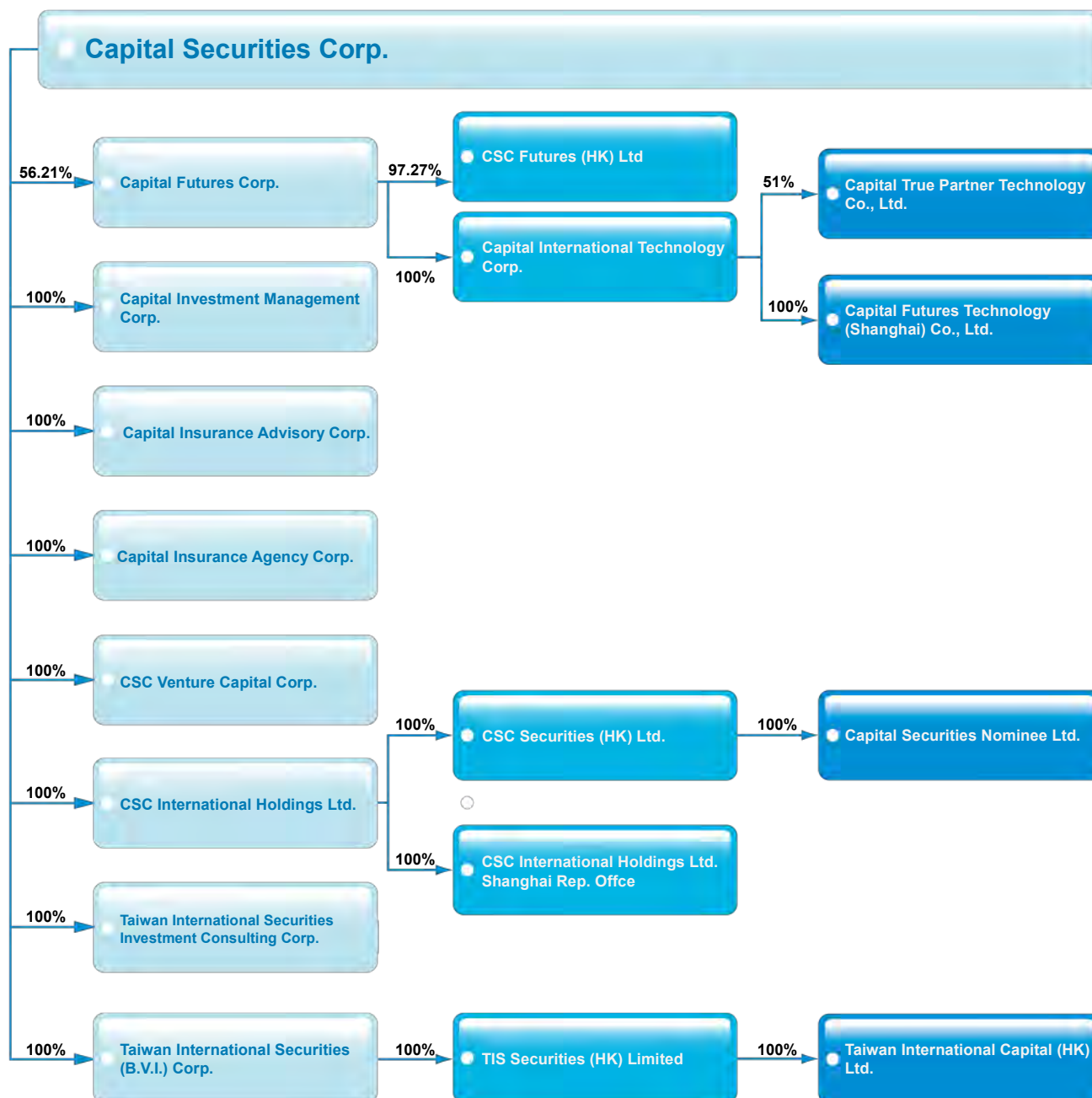
**7.7 Other important issues:** None.

## VIII. Special Remarks

### 8.1. Information of affiliated companies

#### Organizational chart of affiliates.

Data date: March 31, 2019



Note 1: Taiwan International Securities Investment Consulting Corp., TIS Securities (HK) Limited, and Taiwan International Capital (HK) Ltd are currently undergoing liquidation.

Note 2: Taiwan International Futures Corp. held a shareholder meeting on December 17, 2018 to resolve allocation of remaining properties. Liquidation was completed on February 12, 2019.

## Appendix 1 Profile of Affiliated Companies

Unit: \$

Company name	Date of establishment	Address	Issued capital	Main business activities or products
Capital Futures Corp.	2.26.1997	32F and B1, No. 97, Section 2, Dunhua South Road, Da'an District, Taipei City	NT\$ 1,764,375,840	Futures brokerage Proprietary futures trading Futures consultation service Futures management Futures introducing broker Securities investment consulting service Proprietary securities trader Leveraged trader
Capital International Technology Corp.	12.29.2014	32F, No. 97, Section 2, Dunhua South Road, Da'an District, Taipei City	NT\$ 50,000,000	Management consulting service Information and software service Data processing services Digital information supply service Retail sale of computing and business machinery equipment Retail sale of computer software All business items that are not prohibited or restricted by law, except those that are subject to special approval
Capital Investment Management Corp.	2.16.1990	11F-5, No. 156, Section 3, Minsheng East Road, Taipei City	NT\$ 70,000,000	Securities investment consulting service Fully fiduciary discretionary investment service
Capital Insurance Advisory Corp.	11.9.2000	14F, No. 156, Section 3, Minsheng East Road, Taipei City	NT\$ 5,000,000	Personal insurance broker Property insurance broker
Capital Insurance Agency Corp.	11.8.2000	14F, No. 156, Section 3, Minsheng East Road, Taipei City	NT\$ 7,400,000	Life insurance agency
CSC Venture Capital Corp.	1.12.2016	11F, No. 156, Section 3, Minsheng East Road, Taipei City	NT\$ 1,000,000,000	General investment, venture investment, investment consultancy, management consultancy, All business items that are not prohibited or restricted by law, except those that are subject to special approval
CSC International Holdings Ltd.	3.4.1996	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands	US\$ 45,000,000	Establishment or merger of legally licensed securities, futures, banking and related businesses at the place of domicile
CSC International Holdings Ltd. Shanghai Representative Office	11.27.1997	18F New Shanghai International Tower, 360 Pudong South Road, Shanghai City	-	Investigation of business, research of industrial technology and related information collection
CSC Securities (HK) Ltd.	5.3.1994	Rooms 3204-3207, 32F Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong	HK\$ 128,000,000	Securities brokerage, underwriting, proprietary trading, financing and other securities-related services permitted by the laws of Hong Kong
Capital Securities Nominees Ltd.	4.7.1995	Rooms 3204-3207, 32F Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong	HK\$ 2	Agency service
CSC Futures (HK) Ltd.	12.09.1998	Rooms 3204-3207, 32F Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong	HK\$ 220,000,000	Securities trading Futures trading

## VIII. Special Remarks

Company name	Date of establishment	Address	Issued capital		Main business activities or products
Capital True Partner Technology Co., Ltd.	8.20.2008	Units 408-410, 4F, No. 1, Jinxiu Road, Wuhou District, Chengdu City, Sichuan Province, China	CNY	1,000,000	Design, research and development of computer hardware, software and system; sale of proprietary technologies and products; offering of technical support and consultation (unless prohibited or restricted by state laws).
Capital Futures Technology (Shanghai) Co., Ltd.	10.14.2016	Building S, 6F, 360 Pudong South Road, Shanghai City, China	CNY	4,000,000	Wholesale, import and export of computer hardware, software and auxiliary equipment, electronic equipment, and parts and accessories to the above. (Excluding state-regulated goods; merchandises that involve quota and special authorization are requested according to state regulations). Offering of technical consultation/service, and consultation on business management.
Taiwan International Securities Investment Consulting Corp	3.3.1994	13F-1, No. 97, Songren Road, Taipei City	NT\$	10,000,000	(Liquidation in progress)
Taiwan International Securities (B.V.I.) Corp.	12.10.1996	Tropic Isle Building, P.O. BOX 438, Road Town, Tortola, British Virgin Islands	US\$	9,516,300	Long-term equity investment business
TIS Securities (HK) Limited.	8.17.1993	Rooms 3204-3207, 32F Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong	HK\$	265,000,000	(Liquidation in progress)
Taiwan International Capital (HK) Ltd.	07.16.1997	Rooms 3204-3207, 32F Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong	HK\$	2	(Liquidation in progress)

### Appendix 2 Common Shareholders Among Controlling and Controlled Companies

Unit: NTD thousands; shares; %

Presumed Reason	Name	Current shareholding		Date of establishment	Address	Issued capital	Primary business operation
		Shares Held	Shareholding percentage				

Not applicable

### Appendix 3 Directors, Supervisors, and President of Affiliated Companies

Unit: shares; % Data date: March 31, 2019

Company name	Title	Name or name of representative	Current shareholding	
			Shares Held	Shareholding percentage
Capital Futures Corp.	Corporate entity	Capital Securities Corp.	99,182,845	56.21%
	Corporate entity	Hong Ye Investment Co., Ltd.	1,760	0.001%
	Chairman	Capital Securities Corp. – Representative: SUN, TIEN-SHAN	656,162	0.37%
	Director	Capital Securities Corp. – Representative: LIU, CHING-TSUN	0	0



Company name	Title	Name or name of representative	Current shareholding	
			Shares Held	Shareholding percentage
	Director	Capital Securities Corp. – Representative: WANG,JIUNN-CHIH	0	0
	Director	Hong Ye Investment Co., Ltd. – Representative: LEE,YI-HUI	0	0
	Independent Director	SHEA,JIA-DONG	0	0
	Independent Director	CHEN,KUO-TAY	0	0
	Independent Director	CHUANG,CHIH-CHENG	0	0
	President	LEE,WEN-CHU	118,000	0.07%
Capital International Technology Corp.	Corporate entity	Capital Futures Corp.	5,000,000	100%
	Chairman	Capital Futures Corp. – Representative: SUN,TIEN-SHAN	0	0
	Director	Capital Futures Corp. - Representative: LEE,WEN-CHU	0	0
	Director	Capital Futures Corp. – Representative: CHEN,WEN-TSAY	0	0
	Supervisor	Capital Futures Corp. – Representative: LIN,LI-CHUAN	0	0
Capital Investment Management Corp.	Corporate entity	Capital Securities Corp.	7,000,000	100%
	Chairman	Capital Securities Corp. – Representative: TSAI,MING-YEN	0	0
	Director	Capital Securities Corp. – Representative: LIN,YEN-YU	0	0
	Director	Capital Securities Corp. – Representative: KUO,HSIN-LAN	0	0
	Supervisor	Capital Securities Corp. – Representative: LI,MEI-YU	0	0
Capital Insurance Advisory Corp.	Corporate entity	Capital Securities Corp.	500,000	100.00%
	Chairman	Capital Securities Corp. – Representative: CHIU,CHAO-CHIEN	0	0
	Director	Capital Securities Corp. - Representative: CHEN,MING-SHING	0	0
	Director	Capital Securities Corp. – Representative: ZHANG,PEI-WEN	0	0
	Supervisor	Capital Securities Corp. – Representative: TAN,TE-CHENG	0	0
	President	FANG,YA-JUNG	0	0
Capital Insurance Agency Corp.	Corporate entity	Capital Securities Corp.	740,000	100.00%
	Chairman	Capital Securities Corp. – Representative: CHIU,CHAO-CHIEN	0	0
	Director	Capital Securities Corp. - Representative: CHEN,MING-SHING	0	0
	Director	Capital Securities Corp. – Representative: ZHANG,PEI-WEN	0	0
	Supervisor	Capital Securities Corp. – Representative: TAN,TE-CHENG	0	0
	President	HSU,WEN-TUNG	0	0
CSC Venture Capital Corp.	Corporate entity	Capital Securities Corp.	100,000,000	100%
	Chairman	Capital Securities Corp. – Representative: WANG,JIUNN-CHIH	0	0

## VIII. Special Remarks

Company name	Title	Name or name of representative	Current shareholding	
			Shares Held	Shareholding percentage
	Director and President	Capital Securities Corp. – Representative: CHAO,YUNG-FEI	0	0
	Director	Capital Securities Corp. – Representative: HONG,YEONG-PEI	0	0
	Supervisor	Capital Securities Corp. – Representative: TAN,TE-CHENG	0	0
CSC International Holdings Ltd.	Corporate entity	Capital Securities Corp.	45,000,000	100.00%
	Director	Capital Securities Corp. - Representative: WANG,JIUNN-CHIH	0	0
	Director	Capital Securities Corp. - Representative: CHEN,MING-SHING	0	0
CSC Securities (HK) Ltd.	Corporate entity	CSC International Holdings Ltd.	128,000,000	100.00%
	Director	CSC International Holdings Ltd. - Representative: WANG,JIUNN-CHIH	0	0
	Director	CSC International Holdings Ltd. - Representative: CHEN,MING-SHING	0	0
	Director	CSC International Holdings Ltd. - Representative: CHANG,TUN-FU	0	0
Capital Securities Nominees Ltd.	Corporate entity	CSC Securities (HK) Ltd.	2	100.00%
	Director	CSC Securities (HK) Ltd. - Representative: CHANG,TUN-FU	0	0
	Director	CSC Securities (HK) Ltd. - Representative: CHEN,MING-SHING	0	0
CSC Futures (HK) Ltd.	Corporate entity	Capital Futures Corp.	214,000,000	97.27%
	Director	Capital Futures Corp. - Representative: WANG,JIUNN-CHIH	0	0
	Director	Capital Futures Corp. - Representative: CHEN,MING-SHING	0	0
	Director	Capital Futures Corp. - Representative: FANG,CHIH-HUNG	0	0
	Director	Capital Futures Corp. - Representative: SUN,TIEN-SHAN	0	0
	Director	Capital Futures Corp. - Representative: KAO,CHENG-YUNG	0	0
	Director	Capital Futures Corp. - Representative: LIANG,CHENG-CHUNG	0	0
Capital True Partner Technology Co., Ltd.	Corporate entity	Capital International Technology Corp.	510,000	51%
	Corporate entity	True Partner China Holding Limited	490,000	49%
	Chairman	Capital International Technology Corp. – Representative: SUN,TIEN-SHAN	0	0
	Director	Capital International Technology Corp. – Representative: LEE,WEN-CHU	0	0
	Director	True Partner China Holding Limited Representative: Ralph Paul Johan VAN PUT	0	0
	Director	True Partner China Holding Limited Representative: Tobias Benjamin Hekster	0	0
	Supervisor	Capital International Technology Corp. – Representative: CHEN,WEN-TSAY	0	0

Company name	Title	Name or name of representative	Current shareholding	
			Shares Held	Shareholding percentage
	Supervisor	True Partner China Holding Limited Representative: Remco Janssen	0	0
	President	STANLEY,DENG	0	0
Capital Futures Technology (Shanghai) Co., Ltd.	Corporate entity	Capital International Technology Corp.	4,000,000	100%
	Chairman	Capital International Technology Corp. – Representative: SUN,TIEN-SHAN	0	0
	Director	Capital International Technology Corp - Representative: MAO,JEN-HUA	0	0
	Director	Capital International Technology Corp. – Representative: LEE,WEN-CHU	0	0
	Supervisor	Capital International Technology Corp. – Representative: CHEN, WEN-TSAY	0	0
	President	HUNG,MING-NAN	0	0
Taiwan International Securities Investment Consulting Corp	Corporate entity	Capital Securities Corporation	999,200	99.92%
	Liquidator	TSAI,MING-YEN	100	0.01%
	Supervisor	Capital Securities Corp. – Representative: HUANG,YEN-HSIANG	0	0
Taiwan International Securities (B.V.I.) Corp.	Corporate entity	Capital Securities Corporation	9,516,300	100.00%
	Director	Capital Securities Corp. - Representative: CHEN,MING-SHING	0	0
TIS Securities (HK) Limited. (Liquidation in progress)	Corporate entity	Taiwan International Securities (B.V.I.) Corp.	265,000,000	100.00%
	Director	Taiwan International Securities (B.V.I.) Corp. - Representative: CHEN, MING-SHING	0	0
	Director	Taiwan International Securities (B.V.I.) Corp. - Representative: HUANG,SHAO-MEI	0	0
Taiwan International Capital (HK) Ltd. (Liquidation in progress)	Corporate entity	TIS Securities (HK) Limited.	2	100.00%
	Director	TIS Securities (HK) Limited - Representative: CHEN,MING-SHING	0	0

## VIII. Special Remarks

### Appendix 4 Operational Overview of Affiliated Companies

Unit: NTD thousands

Company name	Capital	Total asset	Total liabilities	Net worth	Operating revenues	Operating profit	Current period profit/loss (after-tax)	Earnings per share (\$) (after-tax)
Capital Futures Corp.	1,764,376	39,617,064	34,584,972	5,032,092	2,373,305	512,276	835,205	4.73
Capital International Technology Corp.	50,000	46,373	90	46,283	1,400	-3,106	552	0.11
Capital Investment Management Corp.	70,000	119,646	12,956	106,690	82,000	11,983	10,522	1.50
Capital Insurance Advisory Corp.	5,000	106,506	21,774	84,732	180,643	72,762	58,876	117.75
Capital Insurance Agency Corp.	7,400	44,839	4,082	40,757	66,851	1,951	1,356	1.83
CSC Venture Capital Corp.	1,000,000	856,921	2,015	854,906	3,716	(7,397)	(2,109)	(0.02)
CSC International Holdings Ltd. (Note 1)	1,379,925	1,640,562	3,660	1,636,902	9,012	(16,964)	(6,343)	(0.14)
CSC Securities (HK) Ltd. (Note 1)	498,048	1,758,546	1,134,491	624,055	103,582	(36,278)	9,011	0.07
Capital Securities Nominee Ltd. (Note 1)	-	-	-	-	-	-	-	-
CSC Futures (HK) Ltd.	862,631	5,011,003	3,975,254	1,035,749	551,086	17,935	57,246	0.26
Capital True Partner Technology Co., Ltd.	5,013	6,346	4,501	1,845	20,524	2,480	2,506	NA
Capital Futures Technology (Shanghai) Co., Ltd.	18,863	29,878	7,281	22,597	331	-4,770	2,374	NA
Taiwan International Securities Investment Consulting Corp., Ltd. (Note 2)	10,000	13,081	272	12,809	-	(264)	(232)	(0.23)
Taiwan International Securities (B.V.I.) Corp. (Note 1)	291,817	103,975	103,628	347	413	(771)	(766)	(2,554.50)
TIS Securities (HK) Limited (Note 1) (Note 3)	1,031,115	853	102,985	(102,132)	-	605	413	0.00
Taiwan International Capital (HK) Ltd. (Note 1) (Note 4)	-	-	257,417	(257,417)	-	(112)	(220)	(109,796.56)

Note 1: Capital Securities Corp. (the parent company) had adjusted and recognized net worth and profit and loss of its subsidiaries using the following exchange rates as at December 31, 2018:

Assets and liabilities: TWD/USD = 30.665/1; TWD/HKD = 3.891/1; TWD/CNY = 4.447/1.

Profit and loss: TWD/USD = 30.2375/1; TWD/HKD = 3.864/1; TWD/CNY = 4.519/1.

Note 2: During the annual general meeting of Chun Jin Co., Ltd. held on June 27, 2012, a resolution was made to dissolve the company. The entity is currently undergoing liquidation.

Note 3: During the board of directors meeting of TIS Securities (HK) Limited held on December 30, 2011, a resolution was made to dissolve the company.

Note 4: During the board of directors meeting of Taiwan International Capital (HK) Ltd held on December 30, 2011, a resolution was made to dissolve the company.

#### 8.2. Private placement of securities in the last year up till the publication date of this annual report: None.

#### 8.3. Holding or disposal of the company's shares by subsidiaries in the last year, up till the publication date of this annual report: None.

#### 8.4. Other supplementary information: Industry-specific KPI (Key Performance Indicator):

Capital adequacy ratio: 435% (December 31, 2018);  
431% (March 31, 2019)

## Occurrences of Significant Impact on Shareholders' Equity or Security Prices

**Any occurrences of events defined under Sub-paragraph 2, Paragraph 3, Article 36 of the Securities and Exchange Act in 2018 up till the publication date of this annual report that significantly impacted shareholders' equity or security prices:**

The Company's former President CHAO, YUNG-FEI was appointed Vice Chairman, and the board of directors made a resolution to hire Mr. Chia, Chung-Tao for the President position since October 12, 2018. These arrangements were approved by the Financial Supervisory Commission on December 11, 2018.

# Contact Information of Head Office, Branches and Affiliates

## Capital Securities Corp.

Head office:  
11F., No. 156, Sec. 3, Minsheng E. Rd., Songshan Dist., Taipei City 10596, Taiwan, R.O.C.  
TEL : 886-2-87898888 FAX : 886-2-87121219

## Brokerage Department

Address: 11F., No. 156, Sec. 3, Minsheng E. Rd., Songshan Dist., Taipei City 10596, Taiwan, R.O.C.  
TEL : 886-2-87898888 FAX : 886-2-87123522

## Investment Banking Department

Address: 11F., No. 156, Sec. 3, Minsheng E. Rd., Songshan Dist., Taipei City 10596, Taiwan, R.O.C.  
TEL : 886-2-87898888 FAX : 886-2-87123587

## Registrar Agency Department

Address: B2F., No.97, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 10601, Taiwan, R.O.C.  
TEL : 886-2-27035000 FAX : 886-2-27085000

## Fixed Income Department

Address: 11F., No. 156, Sec. 3, Minsheng E. Rd., Songshan Dist., Taipei City 10596, Taiwan, R.O.C.  
TEL : 886-2-87898888 FAX : 886-2-87123612

## Derivatives Department

Address: 11F., No. 156, Sec. 3, Minsheng E. Rd., Songshan Dist., Taipei City 10596, Taiwan, R.O.C.  
TEL : 886-2-87898888 FAX : 886-2-87123585

## Proprietary Trading Department

Address: 11F., No. 156, Sec. 3, Minsheng E. Rd., Songshan Dist., Taipei City 10596, Taiwan, R.O.C.  
TEL : 886-2-87898888 FAX : 886-2-87123575

## Wealth Management Department

Address: 11F., No. 156, Sec. 3, Minsheng E. Rd., Songshan Dist., Taipei City 10596, Taiwan, R.O.C.  
TEL : 886-2-87898888 FAX : 886-2-87121136

## Brokerage Division

Address: 14F.-3, No. 156, Sec. 3, Minsheng E. Rd., Songshan Dist., Taipei City 10596, Taiwan, R.O.C.  
TEL : 886-2-87808888 FAX : 886-2-87123796

## Zhongxiao Branch

Address: 15F., No.87, Sec. 4, Zhongxiao E. Rd., Da'an Dist., Taipei City 10690, Taiwan, R.O.C.  
TEL : 886-2-27771077 FAX : 886-2-27316236

## Dunnan Branch

Address: B1F.-2, No.97, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 10601, Taiwan, R.O.C.  
TEL : 886-2-27052888 FAX : 886-2-27017236

## Nanjing Branch

Address: 9F., No.71, Sec. 2, Nanjing E. Rd., Zhongshan Dist., Taipei City 10457, Taiwan, R.O.C.  
TEL : 886-2-25427088 FAX : 886-2-25716694

## Xisong Branch

Address: 3F., No.213, Sec. 5, Nanjing E. Rd., Songshan Dist., Taipei City 10569, Taiwan, R.O.C.  
TEL : 886-2- 27683388 FAX : 886-2- 27633252

## Guanqian Branch

Address: 5F., No.49, Guanqian Rd., Zhongzheng Dist., Taipei City 10047, Taiwan, R.O.C.  
TEL : 886-2- 23615678 FAX : 886-2- 23119140

## Guting Branch

Address: 1F., No.85, Sec. 2, Nanchang Rd., Zhongzheng Dist., Taipei City 10084, Taiwan, R.O.C.  
TEL : 886-2-23279288 FAX : 886-2-23567201

## Zhongshan Branch

Address: 2F., No.372, Linsen N. Rd., Zhongshan Dist., Taipei City 10446, Taiwan, R.O.C.  
TEL : 886-2-21002798 FAX : 886-2-21002780

**Shilin Branch**

Address: 1F., No.118-1, Zhongzheng Rd., Shilin Dist., Taipei City 11145, Taiwan, R.O.C.  
TEL : 886-2-28380567 FAX : 886-2-28312433

**Donghu Branch**

Address: 8F.-1, No.460, Sec. 5, Chenggong Rd., Neihu Dist., Taipei City 11490, Taiwan, R.O.C.  
TEL : 886-2-26333988 FAX : 886-2-26333987

**Tianmu Branch**

Address: 3F., No.18, Sec. 7, Zhongshan N. Rd., Shilin Dist., Taipei City 11152, Taiwan, R.O.C.  
TEL : 886-2-28767388 FAX : 886-2-28767377

**Neihu Branch**

Address: 6F., No.50, Sec. 4, Chenggong Rd., Neihu Dist., Taipei City 11489, Taiwan, R.O.C.  
TEL : 886-2-27911999 FAX : 886-2-27925974

**Taipei Branch**

Address: 4F., No.30, Sec. 1, Chongqing N. Rd., Datong Dist., Taipei City 10350, Taiwan, R.O.C.  
TEL : 886-2-25561133 FAX : 886-2-25551297

**Yanping Branch**

Address: 4F., No.96, Sec. 2, Yanping N. Rd., Datong Dist., Taipei City 10344, Taiwan, R.O.C.  
TEL : 886-2-25553888 FAX : 886-2-25580964

**Wanhua Branch**

Address: 2F., No. 31, Guilin Rd., Wanhua Dist., Taipei City 10849, Taiwan, R.O.C.  
TEL : 886-2- 23751399 FAX : 886-2- 23751998

**Songshan Branch**

Address: 11F., No.130, Sec. 4, Nanjing E. Rd., Songshan Dist., Taipei City 10553, Taiwan, R.O.C.  
TEL : 886-2-25708889 FAX : 886-2-25706776

**Da-an Branch**

Address: 2F., No.169, Sec. 4, Zhongxiao E. Rd., Da'an Dist., Taipei City 10690, Taiwan, R.O.C.  
TEL : 886-2-27730899 FAX : 886-2-87719629

**Da Hsing Branch**

Address: 6F., No.270, Sec. 4, Zhongxiao E. Rd., Da'an Dist., Taipei City 10694, Taiwan, R.O.C.  
TEL : 886-2-55585558 FAX : 886-2-27738180

**Yonghe Branch**

Address: 2F., No.353, Fuhe Rd., Yonghe Dist., New Taipei City 23450, Taiwan, R.O.C.  
TEL : 886-2-29207777 FAX : 886-2-29296363

**Banqiao Branch**

Address: 3F., No.216, Sec. 1, Sanmin Rd., Banqiao Dist., New Taipei City 22067, Taiwan, R.O.C.  
TEL : 886-2-89518089 FAX : 886-2-89518076

**Tucheng Branch**

Address: 1F., No.261, Sec. 1, Zhongyang Rd., Tucheng Dist., New Taipei City 23665, Taiwan, R.O.C.  
TEL : 886-2- 22625988 FAX : 886-2- 22610074

**Xindian Branch**

Address: 2F.-5, No.262, Sec. 2, Beixin Rd., Xindian Dist., New Taipei City 23143, Taiwan, R.O.C.  
TEL : 886-2-29121818 FAX : 886-2-29113568

**Xinzhuang Branch**

Address: 2F., No.160, Sec. 2, Zhonghua Rd., Xinzhuang Dist., New Taipei City 24246, Taiwan, R.O.C.  
TEL : 886-2-89918899 FAX : 886-2-89914587

**Danfong Branch**

Address: 1F., No.16, Fuguo Rd., Xinzhuang Dist., New Taipei City 24267, Taiwan, R.O.C.  
TEL : 886-2-29082388 FAX : 886-2-29082333

# Contact Information of Head Office, Branches and Affiliates

## Nan sanchong Branch

Address: 1F., No.97, Zhengyi S. Rd., Sanchong Dist., New Taipei City 24142, Taiwan, R.O.C.  
TEL : 886-2-29734388 FAX : 886-2-29734998

## Haishan Branch

Address: 3F.-1, No.30-2, Dongmen St., Banqiao Dist., New Taipei City 22055, Taiwan, R.O.C.  
TEL : 886-2-29699977 FAX : 886-2-29696300

## Keelung Branch

Address: 8F., No.255, Ren 2nd Rd., Ren'ai Dist., Keelung City 20048, Taiwan, R.O.C.  
TEL : 886-2-24221212 FAX : 886-2-24262444

## Taoyuan Branch

Address: 4F., No.32, Sec. 1, Chenggong Rd., Taoyuan Dist., Taoyuan City 33043, Taiwan, R.O.C.  
TEL : 886-3-3377555 FAX : 886-3-3373003

## Zhongli Branch

Address: 3F., No.88, Zhongshan Rd., Zhongli Dist., Taoyuan City 32041, Taiwan, R.O.C.  
TEL : 886-3-4278699 FAX : 886-3-4278611

## Hsinchu Branch

Address: 8F., No.307, Beida Rd., North Dist., Hsinchu City 30044, Taiwan, R.O.C.  
TEL : 886-3-5237777 FAX : 886-3-5235555

## Jingguo Branch

Address: 3F., No.62, Sec. 2, Jingguo Rd., North Dist., Hsinchu City 30051, Taiwan, R.O.C.  
TEL : 886-3-5317777 FAX : 886-3-5327799

## Zhunan Branch

Address: 5F., No.87, Minzu St., Zhunan Township, Miaoli County 35041, Taiwan, R.O.C.  
TEL : 886-37-478345 FAX : 886-37-465010

## Taichung Branch

Address: 1F., No.40, Zhongming S. Rd., West Dist., Taichung City 40361, Taiwan, R.O.C.  
TEL : 886-4-23200088 FAX : 886-4-23230317

## Jiancheng Branch

Address: 2F., No.735, Jiancheng Rd., East Dist., Taichung City 40150, Taiwan, R.O.C.  
TEL : 886-4-22830099 FAX : 886-4-22830055

## Minquan Branch

Address: 4F., No.91, Minquan Rd., West Dist., Taichung City 40341, Taiwan, R.O.C.  
TEL : 886-4-22208822 FAX : 886-4-22204208

## Chongde Branch

Address: B1F.-1, No.416, Sec. 2, Chongde Rd., Beitun Dist., Taichung City 40653, Taiwan, R.O.C.  
TEL : 886-4-22468899 FAX : 886-4-22462783

## Zhonggang Branch

Address: 1F., No.369, Sec. 2, Daren Rd., Wuqi Dist., Taichung City 43542, Taiwan, R.O.C.  
TEL : 886-4-26577599 FAX : 886-4-26574837

## Dajia Branch

Address: 2F., No.295, Jiangong Rd., Dajia Dist., Taichung City 43745, Taiwan, R.O.C.  
TEL : 886-4-26882828 FAX : 886-4-26882882

## Tanzi Branch

Address: No.418, Xinghua 1st Rd., Tanzi Dist., Taichung City 42757, Taiwan, R.O.C.  
TEL : 886-4-25319898 FAX : 886-4-25315779

## Changhua Branch

Address: 6F., No.279, Minsheng Rd., Changhua City, Changhua County 50045, Taiwan, R.O.C.  
TEL : 886-4-7250888 FAX : 886-4-7251366



**Chiayi Branch**

Address: 1F., No.87, Chuiyang Rd., East Dist., Chiayi City  
60043, Taiwan, R.O.C.  
TEL : 886-5-2258666 FAX : 886-5-2246978

**Tainan Branch**

Address: 3F., No.76, Sec. 2, Minsheng Rd., West Central Dist.,  
Tainan City 70054, Taiwan, R.O.C.  
TEL : 886-6-2252588 FAX : 886-6-2252388

**Dungmen Branch**

Address: 4F., No.97, Sec. 1, Beimen Rd., West Central Dist.,  
Tainan City 70044, Taiwan, R.O.C.  
TEL : 886-6-2290077 FAX : 886-6-2295611

**Kaiyuan Branch**

Address: 3F., No.280, Kaiyuan Rd., North Dist., Tainan City  
70456, Taiwan, R.O.C.  
TEL : 886-6-2348899 FAX : 886-6-2348800

**Kaohsiung Branch**

Address: 1F., No.165, Hedong Rd., Qianjin Dist., Kaohsiung  
City 80144, Taiwan, R.O.C.  
TEL : 886-7-2150077 FAX : 886-7-2151414

**Sanmin Branch**

Address: 1F., No.80, Dachang 2nd Rd., Sanmin Dist.,  
Kaohsiung City 80780, Taiwan, R.O.C.  
TEL : 886-7-3952588 FAX : 886-7-3869191

**Gausheng Branch**

Address: 1F., No.505, Zhongshan 2nd Rd., Qianjin Dist.,  
Kaohsiung City 80146, Taiwan, R.O.C.  
TEL : 886-7-2615211 FAX : 886-7-2110089

**North Kaohsiung Branch**

Address: 3F., No.317, Minghua Rd., Gushan Dist., Kaohsiung  
City 80453, Taiwan, R.O.C.  
TEL : 886-7-5559933 FAX : 886-7-5597000

**Fengshan Branch**

Address: 1F., No.8, Yongfeng Rd., Qianzhen Dist., Kaohsiung  
City 80643, Taiwan, R.O.C.  
TEL : 886-7-7169788 FAX : 886-7-7168559

**Rueifeng Branch**

Address: 2F., No.174, Sanduo 1st Rd., Lingya Dist.,  
Kaohsiung City 80282, Taiwan, R.O.C.  
TEL : 886-7-7211828 FAX : 886-7-7110238

**Pingtung Branch**

Address: 3F., No.9, Yongfu Rd., Pingtung City, Pingtung  
County 90075, Taiwan, R.O.C.  
TEL : 886-8-7339602 FAX : 886-8-7339280

**Yilan Branch**

Address: 5F., No.50, Jiucheng S. Rd., Yilan City, Yilan County  
26043, Taiwan, R.O.C.  
TEL : 886-3-9331999 FAX : 886-3-9328274

**Capital Securities Corp. Offshore Securities Unit**

Address: 11F.-6, No. 156, Sec. 3, Minsheng E. Rd., Songshan  
Dist., Taipei City 10596, Taiwan, R.O.C.  
TEL : 886-2-8789888 FAX : 886-2-87123536

**Capital Futures Corp.**

Address: B1F., No.97, Sec. 2, Dunhua S. Rd., Da'an Dist.,  
Taipei City 10601, Taiwan, R.O.C.  
TEL : 886-2-27002888 FAX : 886-2-27059777

# Contact Information of Head Office, Branches and Affiliates

## Capital International Technology Corp.

Address: 32F., No.97, Sec. 2, Dunhua S. Rd., Da'an Dist.,  
Taipei City 10682, Taiwan, R.O.C.  
TEL : 886-2-27061077

## Capital True Partner Technology Co., Ltd.

Address: Room 408-410, 4F, Poly Center Tower C, No.1,  
Jinxiu Road, Wuhou District, Chengdu, P.R. China  
TEL : (8628)6555-2888 FAX : (8628)6555-2999

## Capital Futures Technology (Shanghai) Co., Ltd.

Address: 6S New Shanghai International Tower, No. 360  
Pudong Road(S), Shanghai, P.R.China  
TEL : (8621)6882-5928

## Capital Investment Management Corp.

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