

Capital Securities Corporation  
Stock Code: 6005  
Printed on Friday, April 24, 2020  
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>

# **CAPITAL 2019**

## **ANNUAL REPORT 2019 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

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## ■ Auditors in the most recent year

KPMG  
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## ■ Corporate Website

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

## ■ Overseas Securities Exchange

N/A

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# I. Letter to Shareholders

Dear Shareholders:

In consideration of the negative impact brought by the US-China trade war in 2019, the global economy was alerted constantly. The International Monetary Fund (IMF) and World Bank issued many reports indicating the regressive economic momentum. In Europe, Africa, Central Asia, India and China, the economic growth momentum became sluggish or the original order was changed. As a result, the global economic fundamentals became weak in 2019. The global stock market continued to rally. The DJIA and S&P indexes hit record highs successively. Even European stocks with weak economic fundamentals rallied by 24% throughout the year, and the UK stock market, which was in the middle of the Brexit storm, also rallied by 12%. The stock market's strong performance set the bullish tone. Other financial market's performances were also very outstanding. The European and US bonds markets rallied. The property markets in Europe and the U.S.A. kept booming. The gold price increased by 18% and international crude oil price increased by 25% throughout the year.

The reasons why the economic fundamentals were not growing simultaneously with the financial market may be categorized into the following three major factors:

1. The domestic demand momentum was strong in the U.S.A. and Europe, and the unemployment rate came to the historically lowest in the U.S.A. The basic fundamentals were good, such as the substantial stable growth of salary. As a result, the domestic demand grew in the U.S.A. In 2019. The US consumption power rebounded to the high-growth level during the 1990s. The property market boomed in various big cities and Silicon Valley in the U.S.A.
2. The global central banks continued to cut the interest rate and maintained monetary easing, in hopes of stimulating the willingness to invest and produce to prevent the economic growth momentum from declining. Particularly, the Fed cut the interest rate three times as preventive measures in 2019. Such unexpected monetary easing repeatedly and effectively rescued the US stock market that fluctuated at a high level.
3. The global industrial structure was re-organized again. The Philadelphia Semiconductor Index rallied by 60% in 2019, marking the fourth-largest annual rally. The global semiconductor companies' stock prices surged, reflecting the technology industry's structure upgrading, upcoming 5G age, and the extension of US-China Trade Ware in the high-tech area. For example, the reasons why TSMC's stock price surged included its excellent corporate governance, profitability and R&D strength. Facing substantially higher barriers in terms of global semiconductor capital expenditure, the leading semiconductor suppliers found that the cooperative model for wafer foundry was more time-efficient and generated lower risk than the IDM. In other words, the IDM model was less effective than the development model of a strategic alliance. Meanwhile, as of the second half of 2019, such philosophy was also reflected in the TFT-LCD Industry.

The past economic growth drove the stock market's rally. The monetary policy tended to control hot money flows. In the current capital market, poor economic figures will inevitably lead the central bank to adopt monetary easing policies, resulting in the market expectation and positive interpretation in the financial market. The phenomenon that the financial market surges while the economic figures are poor seems ironic but actually implies that long-term deviations from economic fundamentals cause the concerns over asset bubble.

In 2019, the TAIEX increased by 2,270 points or 23.3%. The total market capitalization of listed companies was NT\$36.5 trillion at the end of the year, increasing by NT\$7.1 trillion from the end of 2018. Among the other things, the market capitalization of the semiconductor industry grew the most, increasing by 50% approximately. In consideration of TSMC's outstanding performance, Taiwan stocks' high yields, the effect produced by order transfer due to the US-China trade war, repatriation of overseas funds, and return of Taiwanese businessmen to invest in Taiwan, Taiwan's economy and stock market were considered "going through a maze and finding its way out".

In the management environment which was fluctuating drastically, the Company's management team still upheld the stable management philosophy, and maintained the Company's operating performance by weighing risk and profit evenly. In 2019, the Company's overall pre-tax profits were NT\$2,818,748 thousand, and the net profit after tax was NT\$2,566,823 thousand, ranking fourth among domestic securities firms.

The business operations in 2019 were as follows:

- I. Brokerage:** The centralized trading market share was 3.77% for the whole year, and the over-the-counter market share was 5.17%. The overall market share was 4.08%. The business scale ranked the fifth among all securities firms and the first among independent securities firms.
- II. Investment Banking:** In 2019, we underwrote the listing of Team Group Inc., at the primary market, and the SPOs of Laster Tech (CB2), Laster Tech, TaiSol (CB2), De Licacy and Syngen Biotech at the secondary market. The underwriting team is experienced and has been commissioned to complete domestic and foreign cases of different scales and types.
- III. Derivatives Products:** The call (put) warrants issued by the Company in 2019 amounted to NT\$44.851 billion in total, and the number of warrants issued was 3,668. The issued amount and number of issuances ranked the third in the market. The Company's annual issuance amount of structured products was NT\$11.275 billion.
- IV. Fixed Income:** In 2019, the Company participated in the bidding for issuance of nine domestic ordinary corporate bonds, accounting for 11.54% of the market share and ranking the fourth among all securities firms. The Company's cumulative amount of public bidding for domestic ordinary corporate bonds reached NT\$26.750 billion, accounting for 9.14% of the market share and ranking the third among all securities firms. The large-sale corporate bond cases underwritten by the Company included well-known domestic companies such as Taiwan Power, Chailease, Far EasTone Telecommunications, Uni-President, Yang Ming Marine Transport, Formosa Petrochemical Corporation, Chang Chun Group and Hon Hai Precision Industry Co., Ltd.

Capital Securities takes the vision of "providing high value-added services that exceed customer expectations and becoming the partner for long-term customer growth". Indebted to all employees' efforts, the Company won several awards in 2019:

- I. The "Best Digital Innovation Award" for Non-Financial Holdings Company of Excellence Magazine's "2019 Excellent Financial Securities Service Review".
- II. The "Best Wealth Growth Award" of Business Today's 2019 Wealth Management Bank and Securities Firm Review.
- III. The "Best Sales Team Award" and "Best Promoting Philanthropy Award" of the Wealth Magazine's Wealth Management Awards.
- IV. The "Outstanding Achievements in Corporate Social Responsibility" of the 15th-term SFI Awards.
- V. Continuously selected as a constituent of FTSE4Good TIP Taiwan ESG Index.
- VI. Won the first place of API Promotion Award in the "e-Order Placement Competition" organized by TWSE.
- VII. Won the "2019 Happy Business Awards - Service Industry Poll" organized by 1111 Job Bank, for the highest happiness of the enterprise employees in the category of "Investment & Wealth Management".

The Company's brand value is "Capital Care". It has long assumed the role of a corporate citizen and organized the following charity activities in 2019:

- I. Capital Group's blood donation charity activities "Love from Capital for Charity".
- II. Worked with the New Taipei City Welfare Association for the Blind to provide the employees with massage services every week.
- III. The Company also promoted the "Capital loves to Read" to care the education in rural areas. The Company's employees served as the volunteers to pair up with elementary school students to pair-read story books. Meanwhile, the Company invited the New Taipei City Dacheng Elementary School and Gueishan Elementary School students to visit the STUDIO GHIBLI LAYOUT DESIGNS outside the schools, in order to enable these children to experience the world-renowned animation manuscripts in a close distance. The Company also invited the faculty and students of Nantou County Xiufeng Elementary School to visit Natural Way Six Arts Culture Center and National Museum of Natural Science in the downtown of Taichung City to guide the children to enhance their knowledge and also experience a different city's presence.
- IV. In order to promote rural education in Taiwan and mitigate the divide between rural and urban resources, the Company donated to a total of 9 elementary schools.

Looking forward to the global economic and trading development in 2020, we see "Risk and Opportunity Co-exists":

First of all, for the economic cycle in the U.S.A., the National Bureau of Economic Research (NBER) recorded that the economic expansion period starting from June 2009 until now has broken the record since the statistics for GDP were generated in the U.S.A. in 1854. The previous expansion period was from March 1991 to March 2001. Such long-term prosperity could reverse downward at any time. Notwithstanding, Trump's reelection campaign slogan for 2020, "Make America Great Again", implies the idea of a Big Government. The financial market performance is taken into account by the policy. Certain internal oppositions against the continued interest rate cuts emerged in the central banks of the U.S.A. And Europe. Notwithstanding, given the concern over sluggish economic growth caused by the spread of COVID-19 globally, the Fed consecutively cut the interest rate twice in March 2020 by 0.5% and 1% respectively. Meanwhile, it released the US\$700 billion quantitative easing program. The subsequent effect thereof shall be followed up. If the US stock market can keep attracting additional funds globally, the US economy may maintain its prosperity. Nevertheless, if the stock market is corrected and it is still impossible to change the US stock market decline with the aid from monetary policy and financial policy, it is necessary to note that the US stock market's long-term bullish run might come to a turning point.

Secondly, the US-China trade war entered the 2nd stage. In the middle of January 2020, China and U.S.A. signed the 1st-stage trading agreement, under which the U.S.A. agreed to cut the custom duty on the Chinese goods equivalent to US\$120 billion, namely the first part of the US\$300 billion tariffs, by 50%, and the custom duty rate became 7.5%; China agreed to increase the procurement of goods and services from the U.S.A. to US\$200 billion, promised to engage in the intellectual property right protection lest Chinese Government and enterprises should force the US-based companies to transfer technology to their adverse parties, and promote the access to financial market to enable the US-based companies engaged in banking, insurance, asset management and other financial services to expand their market in China. The 1st-stage trade agreement between China and the U.S.A. is primarily intended to prevent the conflict between both parties from expanding while such agreement actually produces limited substantial effects. Considering that the presidential election will take place in the U.S.A. at the end of 2020, Trump will transform the trade problem between China and the U.S.A. into the support by the voters in the central and western areas of the U.S.A. through his campaign for the election. Therefore, it is expected that the U.S.A. will not reach the 2nd-stage trading agreement with China until the election ends in the U.S.A. In other words, the US-China trade war will still be an important event affecting economy in 2020.

Thirdly, the global manufacturing industry's domains were re-organized. The GDP weights are primarily driven by consumption, but not highly rely on the manufacturing industry. In recent years, Trump has kept claiming that the "manufacturing industry returns back to the United States", in order to reduce the unemployed and seek votes in the U.S.A. and render the impact on the structure of the global economic and industrial framework for division of labor. China's position as the world factory and production base will be shaken accordingly. The strong intervention by the U.S.A. resulted in the continuous decline of investment in China by the global suppliers, and the suppliers have successively considered engaging in production in the U.S.A. or the South East Asia countries with demographic and development dividends instead.

Fourthly, the asset prices were ballooning. The main commodity prices, except the oil price, stay at the historically highest positions. The future increase in the price must rely on the steady upward fluctuations in the various markets. If abnormal price hikes keep taking place, there might be the sign for an asset bubble. The bubble of assets for the

past several decades caused severe damage to the financial market. The "Butterfly Effect" in the financial market is identified as one of the main sources of risk. For example, in the stock market, the sharp drop of the index or stock price might be caused by the decline of individual markets or business operations. Notwithstanding, after the global financial markets are highly linked with each other, multiple potential factors and their influence cannot be ignored. For example, the rumors about China's reduction of the U.S. debts held by China might cause liquidation of more long positions of the U.S. stocks, the sluggish GDP growth and demand decline in China, which will directly affect the decline of the crude oil and raw material futures markets, et al. All of these would cause the chain effects to the global financial markets.

At last, the outbreak of COVID-19 in China at the beginning of 2020 caused the significant variables to the future economic development of China. For Taiwan-based enterprises, the investment in China will decline continuously, while the effect of order transfer or repatriation of fund by Taiwanese businessman for investment in Taiwan will keep expanding. In the past, in consideration of the incentives, such as more overseas investment opportunities and tax mitigation, Taiwan's high-asset groups' massive capital was used to being deposited overseas. Notwithstanding, such change helps develop the wealth management business. Following the spread of COVID-19 all over the world, countries in Europe, the U.S.A. and Asia have successively imposed orders to close cities and countries and issued emergency orders to restrict people's movement and various economic activities. Notwithstanding, the restriction on the movement of people and goods might cause impact to the future production, transport and supply chain. The international crude oil price drops sharply due to the shrinking demand and thereby shakes the confidence in the capital market.

Domestically, TAIEX will adopt the continuous trading system as of March 2020 in order to be in line with the trading model applied in the international stock markets, for the purpose of globalization. Therefore, the frequently trading foreign institutional investors are expected to be attracted and invest in Taiwan's stock market. Meanwhile, FSC plans to adopt the intraday odd-lot trading system in the second half of 2020 to activate the odd-lot market. Therefore, young investors are expected to be attracted to participate in the capital market and accumulate investment experience. The aforementioned new trading systems are helpful to boost the trading momentum for TAIEX.

Furthermore, in consideration of the sufficient domestic capital and the considerable high-asset customer base, the Company has reserved a niche for developing the wealth management business. Besides, the global capital and industrial layout are under adjustment and thereby Taiwanese businessmen's willingness to repatriate their capital is increased accordingly. Therefore, at the end of 2019, FSC issued the "New Wealth Management Program", hoping to lift the laws and regulations to permit more diversified financial products and services in terms of the "High-Asset Customers' Wealth Management Business", "Diversified Financial Products and Investment Channels" and "Development of Financial Institutions' Scope of Business", so as to expand the scale of wealth management business in Taiwan and upgrade the domestic financial institutions' competitiveness.

In consideration of said economic condition and policy orientation, in 2020, the Company's operational planning and business development strategies are as following:

- I. Continue to promote the separate account ledger business to increase the source of interest income, and also control the customers' cash flows to boost the wealth management business.
- II. Maximize the channel value, practice customer classification, continue to develop professional investors, and improve its own ability to design wealth management products; provide customized products per the customers' attributes, become the first selection of customers for wealth management business, and upgrade customers' asset management scale stably.
- III. In response to the continuous trading system, enhance the contents and speed of services to customers.
- IV. Expand the sub-brokerage business scale and prepare for the sub-brokerage financing business.
- V. Improve the investment bank's business, form the close cooperation between corporate banking business and the Company's venture capital, and control the business opportunities for private placement of equity.
- VI. Operate the individual stocks in response to the research resources to prevent resources from being dispersed; take chance to create the high-dividend fine-quality stocks to stabilize the long-term profit basis.
- VII. Pay attention to the trend of changes in interest rates of foreign currencies and NTD, take the chance to adjust the bond asset ratio, and stabilize the profit gained from trading and interest income.
- VIII. Maintain the leading brand in the warrant market, and strengthen the issuance of diversified financial derivatives to diversify earnings.
- IX. Evaluate and centralize clearing operations, optimize operational processes, and enhance operational risk management.
- X. Strengthen business cooperation with the Company's futures, securities investment trust, venture capital, investment consulting and insurance agent to exert the consolidated effect for the Group's business.

In the future, the uncertain factors, including the outbreak of COVID-19, US-China trade war, US Presidential Election, geopolitical conflict in the Middle East, and interest cuts by various countries' central banks, the financial markets are likely to suffer impact continuously and, therefore, fluctuate drastically. Notwithstanding, the Company will continue to uphold its sound 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 create high returns to shareholders.

Alex Jiunn-Chin Wang  
Chairman  
Capital Securities Corporation



I. Establishment and registration date: June 21, 1988

II. Paid-in capital: NT\$21.709 billion

III. Company history:

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

The Company continues to prosper, be indebted to all employees and shareholders. In 1989, the Company's paid-in capital was 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 firm, and started its 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 Hongtai 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 arranged capital increase from surplus, capital reserve and employee bonuses and increased the paid-in capital to NT\$13.643 billion. In 2005, the Company's shares were formally listed on the Taiwan Stock Exchange. Since 2006, the Company has been expanding its scale and increases capital. In 2008, the paid-in capital increased to NT\$16.268 billion. In 2009, the Company cancelled NT\$160 million of treasury shares and decreased the paid-in capital to NT\$16.108 billion. In 2010, the Company completed the merger with Antey Securities Finance Co., Ltd., acquired shares of Taiwan International Securities Co., Ltd., and increased the paid-in capital to NT\$23.057 billion. In 2011, the Company merged with Taiwan International Securities Co., Ltd., conducted a capital increase out of earnings and the paid-in capital increased to NT\$23.691 billion. In 2015 and 2016, the Company repurchased treasury stock and decreased capital by 500 million respectively, and the paid-in capital was deducted to NT\$22.691 billion. In 2017, the Company repurchased treasury stock and decreased capital by 1 billion, and the paid-in capital was deducted to NT\$21.691 billion. In 2018, the Company arranged capital increase from surplus and increased the paid-in capital to NT\$23.209 billion. In 2019, the Company repurchased treasury stock and decreased capital by 1.5 billion, and the paid-in capital was deducted to NT\$21.709 billion.

The quality of the services the Company provides has been well received by investors, and won awards from competent authorities and organizations.

In 2016, the Chairman, Chun-Chih Wang, won the "Excellent Businessman of 2016" awarded 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 Shanghai Representative Office won the first place in Thomson Reuters StarMine's "Media Industry Stock Selection Capability" in the Asia Pacific region in 2016, and Capital Investment Management won the 3rd place in Thomson Reuters StarMine's "Auto Industry Stock Selection Capability" in the Asia Pacific region in 2016.

In 2017, the Company won the "Best Non-Financial Holding Brand Image Award" in Excellence Magazine's "2017 Excellent Financial Securities Service Review", the "Best Wealth Management Team Award" of the Wealth Magazine's Wealth Management Awards, 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 the Excellence Magazine's "Best Warrant Award" of Non-Financial Holdings; the Business Today's "Best Information Technology Service Award" and "Most Trusted Security Award" in "2018 Wealth Management Bank and Securities Firm Review"; the "Best Sales Team Award" and "Best Philanthropy Award" of the Wealth Magazine's Wealth Management Awards.

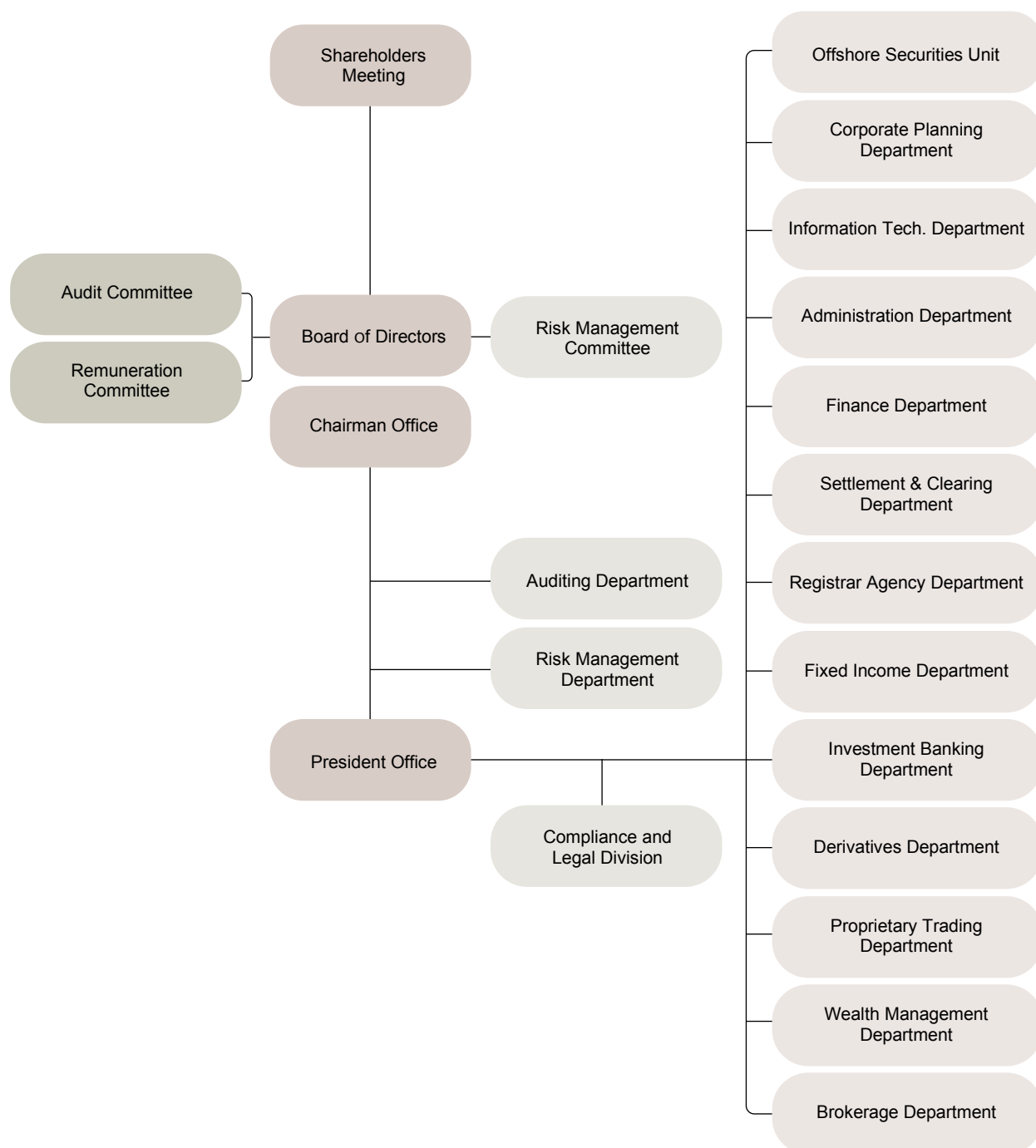
In 2019, the Company won the second place of the StarMine Analyst Awards for Computer & Communications Equipment Sector from Refinitiv in Asia, the Excellence Magazine's "Best Digital Innovation Award" of Non-Financial Holdings, the Business Today's "Best Wealth Growth Award" in "2019 Wealth Management Bank and Securities Firm Review", "Best Sales Team Award" and "Best Philanthropy Award" of the Wealth Magazine's Wealth Management Awards, and the "Outstanding Achievements in Corporate Social Responsibility" of the 15th-term SFI Awards.

Looking forward to 2020, the Company will adopt the concept of technology finance to optimize the service quality and operating performance of each business location, and fully meet the needs of the investing public to become an all-around securities firm that combines humanity and digital services. The Company will continue upholding the belief that priority should be given to the interests of the people, and continue providing financial services with high added-values that exceed the expectations of customers.

# III. Corporate Governance Report

## 1. Organization chart

### Capital Securities Corporation





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

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

Title	Nationality or place of registration	Name	Gender	Date of election (start of office)	Service term	Date of first election (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			Remarks (Note 2)
							No. of shares	% of shares held	No. of shares	% of shares held	No. of shares	% of shares held	No. of shares	% of shares held			Title	Name	Relation	
Chairman	Republic of China	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUN-CHIH	Male	2019.06.24	3 years	2013.06.25 2012.09.03	8,040,015 55,750	0.35% 0.00%	8,040,015 55,750	0.37% 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 ErTie Commercial Bank Co., Ltd. - President ErTie Securities (HK) Ltd. - Director Shanghai Securities 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 Securities (Shanghai) Co., Ltd. - Director CSC Venture Capital Corp. - Chairman	N/A	N/A	N/A	
Director	Republic of China	Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN	Male	2019.06.24	3 years	2013.06.25 1994.01.01	8,040,015 0	0.35% 0.00%	8,040,015 0	0.37% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	M.P.A. University of San Francisco, USA Capital Securities Corp. - Vice Chairman Capital Securities Corp. - Chairman	Capital Futures Corp. - Director	N/A	N/A	N/A	
Director	Republic of China	Yin Feng Enterprise Co., Ltd. Representative: CHANG, CHIH-MING	Male	2019.06.24	3 years	2013.06.25 2011.10.27	8,040,015 0	0.35% 0.00%	8,040,015 0	0.37% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	Vocational High School Fu Tai Construction Corp. - Chairman Collins Co., Ltd. - Supervisor	Yu Chun Enterprise Co., Ltd. - Chairman Fu Tai Construction Corp. - Chairman Chuan Yi Investment Co., Ltd. - Chairman Chuan Yi Investment Co., Ltd. - Chairman Financial Information Corp. - Chairman Tsai Chang Corp. - Chairman Hong Tai Construction Co., Ltd. - Chairman Chuan Yi Investment Co., Ltd. - Director Chuan Chen Co., Ltd. - Supervisor Chao Long Investment Co., Ltd. - Supervisor Yu Bao Enterprise Co., Ltd. - Supervisor Run Hsing Enterprise Co., Ltd. - Supervisor Ta Fa Investment Co., Ltd. - Supervisor	N/A	N/A	N/A	
Director	Republic of China	Hong Lung Enterprise Co., Ltd. Representative: CHIA, CHUNG-TAO	Male	2019.06.24	3 years	2016.06.27 2019.06.24	50,871,268 60,000	2.19% 0.00%	50,871,268 60,000	2.34% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	EMBA, National Chengchi University Capital Securities Corp. - Executive Vice President and IT Supervisor Capital Futures Corp. - General Manager Capital Futures Corp. - Vice Chairman Capital True Partner Technology Corp. - Director Capital True Partner Technology (Shanghai) Co., Ltd. - Director	Capital Securities Corp. - General Manager CSC Venture Capital Corp. - Director	N/A	N/A	N/A	
Director	Republic of China	Hong Lung Enterprise Co., Ltd. Representative: TUNG, YUH-CHYI	Male	2019.06.24	3 years	2016.06.27 2010.06.15	50,871,268 168,331	2.19% 0.00%	50,871,268 91,381	2.34% 0.00%	0 5,151	0.00% 0.00%	0 0	0.00% 0.00%	University General Manager Agricultural Credit Guarantee Fund - General Manager ErTie Securities Finance Company - Chairman Shanghai Association of the Republic of China - Secretary General Capital Securities Corp. - Supervisor	N/A	N/A	N/A	N/A	

March 31, 2020

Title	Nationality or place of registration	Name	Gender	Date of appointment (start of office)	Service term	Date of first appointment (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			Remarks (Note 2)
							No. of shares	% of shares held	No. of shares	% of shares held	No. of shares	% of shares held	No. of shares	% of shares held			Title	Name	Relation	
Director	Republic of China	Hung Lung Enterprise Co., Ltd. Representative: TSAI I-CHING	Male	2019.06.24	3 years	2016.06.27 2012.03.05	50,871,288 0	2.19% 0.00%	50,871,288 0	2.34% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	LL.M., Soochow University The Chinese Commercial and Industrial Coordination Secretary-General The Chinese Commercial & Industrial Service Co., Ltd.-Supervisor General Federation of Commerce – Deputy Secretary-General	Taiwan Federation of Commerce – Secretary-General	N/A	N/A	N/A	
Director	Republic of China	Kwang Hsing Industrial Co., Ltd. Representative: TING HSUEH-WEN	Male	2019.06.24	3 years	2001.04.03 2018.03.08	9,910,253 0	0.42% 0.00%	9,910,253 0	0.46% 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 KYMCO Capital Fund I Co., Ltd. - Director Kwang Yang Motor Co., Ltd. - Director Ionec Inc. - Director Capital Investment Trust Corp. - Director	N/A	N/A	N/A	
Director	Republic of China	Tai He Real Estate Management Co., Ltd. Representative: HUNG TSUNG-YEN	Male	2019.06.24	3 years	2019.06.24 2019.06.24	1,885,766 0	0.08% 0.00%	1,885,766 0	0.08% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	Department of Law, Fu Jen Catholic University Run Hsiang Enterprise Co., Ltd. -General Counsel	Shang Wei Investment Co., Ltd. - Director Hwa Yi Investment Co., Ltd. - Supervisor Hong Co Venture Capital Co., Ltd. - Director	N/A	N/A	N/A	
Independent Director	Republic of China	SHEA JIA-DONG	Male	2019.06.24	3 years	2016.06.27	0 0	0.00%	0 0	0.00%	0 0	0.00%	0 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 Lawyer at Law Office of China – Chairman Taiwan Academy of Banking and Finance - Chairman	N/A	N/A	N/A	N/A	
Independent Director	Republic of China	LEE SHEN-YI	Male	2019.06.24	3 years	2019.06.24	0 0	0.00%	0 0	0.00%	0 0	0.00%	0 0	0.00%	Ph.D. of Law, Chinese Culture University Office of Taiwan Business Bank Co., Ltd. Officer of Ministry of Economic Affairs Officer of Auditing Division, Ministry of Finance Attorney of Chien Yen Law Offices Honorary Managing Director of Chien Yen Law Offices Member of Fair Trade Commission, Executive Yuan 2nd and 3rd member of the Control Yuan Adjunct Associate Professor of Chengchi University and Chinese Culture University	National Policy Advisor to the President Taiwan New Economy Foundation - Vice Chairman WIN Semiconductors Corp. – Independent Director Chinese Culture University - Supervisor Nan Ya Plastics Corp. – Director Capital Futures Corp. – Remuneration Committee member Taiyuan International Airport Service Co., Ltd. – Supervisor East-Tender optoelectronics Corp. - Director	N/A	N/A	N/A	
Independent Director	Republic of China	SU, PING-CHANG	Male	2019.06.24	3 years	2019.06.24	0 0	0.00%	0 0	0.00%	0 0	0.00%	0 0	0.00%	Master in Accounting, Changchih University Senior Auditor of Deloitte & Touche Accountant, Managing Director of Howarth Chien Hsing CPAs	Genex (TW) CPAs - Director General Jian Fu Technology Inc. - Chairman Kalia Industry Co., Ltd. - Supervisor Nan Ho Industry Co., Ltd. - Supervisor	N/A	N/A	N/A	

Note 1: The date of first appointment as a director or independent director of the Company.

Note 2: Where the Chairman and the President or anyone holding an equivalent position (the top manager) of the Company are the same person or related in a spousal relationship or within the first degree of kinship, information concerning the reasons, reasonableness, necessity and actions taken in response (such as an increase in the number of independent directors, or the requirement that there must be over half of directors who are not also employees or managers) shall be described.

Table 1: Major shareholders of corporate shareholders

March 31, 2020

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%
	Cheng Da Investment Co., Ltd.	4.04%
	Fu Ding Investment Co., Ltd.	3.73%
Hung Lung Enterprise Co., Ltd.	Chuan Yi Construction Co., Ltd.	14.64%
	Financial Information Corp.	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 Corp.	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%
Kwang Hsing Industrial Co., Ltd.	Kwang Yang Motor Co., Ltd.	100%
Tai He Real Estate Management Co., Ltd.	Financial Information Corp.	19.61%
	Hung Lung Enterprise Co., Ltd.	18.75%
	Min Huei Enterprise Co., Ltd.	18.75%
	Cai Jiang Enterprise Co., Ltd.	15.14%
	Sheng Hsiang Enterprise Co., Ltd.	15.14%
	Chung Lung Technology Co., Ltd.	12.50%

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

Note 2: Names and shareholding ratios of the major shareholders (whose shareholding ratios are in the top 10) of the corporate shareholder. If any of its major shareholders is a corporation, Table 2 below shall be filled out.

If the corporate shareholder is not a company, the aforementioned names and shareholding ratios of shareholders that shall be disclosed are replaced with the names of its funders or contributors and their funding or contributing ratios.

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

March 31, 2020

Corporate name (Note 1)	Major shareholders of the corporation (Note 2)	
Chuan Yi Investment Co., Ltd.	Chao Lung Investment Co., Ltd.	28.62%
	Tai Hsiang Investment Co., Ltd.	21.74%
	Tai Fa Investment Co., Ltd.	11.76%
	Tai He Investment Co., Ltd.	11.59%
	Wang Hsing Enterprise Co., Ltd.	6.33%
	Chuan Yi Construction Co., Ltd.	5.98%
	Yu Chun Enterprise Co., Ltd.	4.57%
	Chen Huei Enterprise Co., Ltd.	3.44%
	Hung Lung Enterprise Co., Ltd.	3.35%
	Han Bao Enterprise Co., Ltd.	2.60%
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 Real Estate 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.	9.19%
	Hong Tai Construction Co., Ltd.	2.44%
	Bao Zuo Investment Co., Ltd.	2.28%
	Tai Sheng Investment Co., Ltd.	2.28%
	Fu Tai Construction Corp.	2.22%
	Tai Chun Enterprise Co., Ltd.	2.19%
	Wang Hsing Enterprise Co., Ltd.	2.15%
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%

Corporate name (Note 1)	Major shareholders of the corporation (Note 2)	
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.	14.78%
	Tai Chun Enterprise Co., Ltd.	1.93%
	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.	11.59%
	Yin Feng Enterprise Co., Ltd.	3.26%
	Han Bao Enterprise Co., Ltd.	3.26%
	Hong Sheng Enterprise Co., Ltd.	3.26%
	Fu Tai Construction Corp.	3.23%
Chen Huei Enterprise Co., Ltd.	Hong Tai Construction Co., Ltd.	0.44%
	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%
Bao Qing Investment Co., Ltd.	Tai Sheng Investment Co., Ltd.	4.54%
	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 Corp.	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%

Corporate name (Note 1)	Major shareholders of the corporation (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.	19.07%
	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%
	Feng Yang Investment Co., Ltd.	0.46%
	Bao Sheng Investment Co., Ltd.	0.46%
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 Corp.	5.80%
	Tai He Investment Co., Ltd.	5.21%
	Tai Chun Enterprise Co., Ltd.	4.28%
Chuan Yi Construction Co., Ltd.	Run Hsiang Enterprise Co., Ltd.	4.27%
	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.	10.32%
	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%
Financial Information Corp.	Bao Zuo Investment Co., Ltd.	3.31%
	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%



Corporate name (Note 1)	Major shareholders of the corporation (Note 2)
Hong Yuan Construction Co., Ltd.	Tai Chun Investment Co., Ltd. 13.16%
	Chuan Yi Investment Co., Ltd. 13.16%
	Hong Ye Investment Co., Ltd. 13.16%
	Bao Qing Investment Co., Ltd. 12.00%
	Feng Yang Investment Co., Ltd. 11.47%
	Tai Lian Investment Co., Ltd. 10.53%
	Cheng Da Investment Co., Ltd. 7.89%
	Bao Sheng Investment Co., Ltd. 5.53%
	Tai Jian Investment Co., Ltd. 5.26%
	Tai Ye Enterprise Co., Ltd. 2.95%
Yu Bao Enterprise Co., Ltd.	Tai Chun Investment Co., Ltd. 13.25%
	Lian Mao Investment Co., Ltd. 12.29%
	Wei Wang Investment Co., Ltd. 12.29%
	Chuan Yi Investment Co., Ltd. 10.46%
	Chuan Yi Construction Co., Ltd. 10.31%
	Cheng Da Investment Co., Ltd. 8.38%
	Hong Ye Investment Co., Ltd. 6.99%
	Feng Yang Investment Co., Ltd. 5.44%
	Bao Zuo Investment Co., Ltd. 4.90%
	Fu Ding Investment Co., Ltd. 4.20%
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%
Fu Tai Construction Corp.	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%

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

Corporate name (Note 1)	Major shareholders of the corporation (Note 2)	
Min Huei Enterprise Co., Ltd.	Lian Mao Investment Co., Ltd.	16.54%
	Wei Wang Investment Co., Ltd.	14.75%
	Hong Chang Enterprise Co., Ltd.	13.66%
	Sheng Hsiang Enterprise Co., Ltd.	10.11%
	Tai Chun Investment Co., Ltd.	10.02%
	Tai Chun Enterprise Co., Ltd.	8.48%
	Han Bao Enterprise Co., Ltd.	8.47%
	Chen Huei Enterprise Co., Ltd.	6.42%
	Yu Bao Enterprise Co., Ltd.	5.80%
	Run Hsiang Enterprise Co., Ltd.	4.76%
Cai Jiang Enterprise Co., Ltd.	Bao Qing Investment Co., Ltd.	18.83%
	Bao Sheng Investment Co., Ltd.	18.83%
	Sheng Hsiang Enterprise Co., Ltd.	18.01%
	Hong Chang Enterprise Co., Ltd.	18.00%
	Tai Sheng Investment Co., Ltd.	9.59%
	Bao Zuo Investment Co., Ltd.	8.11%
	Hong Yong Construction Co., Ltd.	3.35%
	Tai Lian Investment Co., Ltd.	2.34%
	Hong Tai Construction Co., Ltd.	2.31%
	Wei Wang Investment Co., Ltd.	0.56%
Sheng Hsiang Enterprise Co., Ltd.	Bao Sheng Investment Co., Ltd.	27.14%
	Hong Ye Investment Co., Ltd.	15.32%
	Cheng Da Investment Co., Ltd.	15.32%
	Chen Huei Enterprise Co., Ltd.	11.32%
	Bao Qing Investment Co., Ltd.	6.56%
	Hong Tai Construction Co., Ltd.	5.90%
	Feng Yang Investment Co., Ltd.	5.09%
	Lian Mao Investment Co., Ltd.	5.08%
	Wei Wang Investment Co., Ltd.	4.90%
	Run Hsiang Enterprise Co., Ltd.	1.76%
Chung Lung Technology Co., Ltd.	Cai Jiang Enterprise Co., Ltd.	23.12%
	Hong Chang Enterprise Co., Ltd.	23.12%
	Sheng Hsiang Enterprise Co., Ltd.	23.12%
	Financial Information Corp.	21.85%
	Hung Lung Enterprise Co., Ltd.	8.79%

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

Note 2: Names and shareholding ratios of the major shareholders (whose shareholding ratios are in the top 10) of the corporation.

If the corporate shareholder is not a company, the aforementioned names and shareholding ratios of shareholders that shall be disclosed are replaced with the names of its funders or contributors and their funding or contributing ratios.

## (1) Information of directors and supervisors (2)

March 31, 2020

Criteria  Name	Having more than 5 years' work experience and the following qualifications			Independence (Note 1)												Number of positions as Independent Director in other public companies
	Lecturer (or above) of commerce, law, finance, accounting, or any subject relevant to the Company's operations in a public or private tertiary institution	Certified judge, attorney, lawyer, accountant, or holder of professional qualification relevant to the Company's operations	Commercial, legal, financial, accounting or other work experiences relevant to business operations as require to perform the assigned duties	1	2	3	4	5	6	7	8	9	10	11	12	
Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	✓		✓			✓	✓	✓	✓	✓	✓	✓	✓	✓		N/A
Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN			✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓		N/A
Yin Feng Enterprise Co., Ltd. Representative: CHANG, CHIH-MING			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		N/A
Hung Lung Enterprise Co., Ltd. Representative: CHIA, CHUNG-TAO			✓			✓	✓	✓	✓	✓	✓	✓	✓	✓		N/A
Hung Lung Enterprise Co., Ltd. Representative: KUO, YUH-CHYI			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		N/A
Hung Lung Enterprise Co., Ltd. Representative: TSAI, I-CHING			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		N/A
Kwang Hsing Industrial Co., Ltd. Representative: TING, HSUEH-WEN			✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓		N/A
Tai He Real Estate Management Co., Ltd. Representative: HUNG, TSUNG-YEN			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		N/A
SHEA, JIA-DONG	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	N/A
LEE, SHEN-YI	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1 company
SU, PING-CHANG		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	N/A

Note 1: A director or supervisor is required to mark a "✓" in the blank below the number of any of the following requirements which he/she has satisfied during the two years before being elected and during his/her term of office.

- (1) The director or supervisor is not an employee of the Company or any of its affiliates.
- (2) The director or supervisor is not a director or supervisor of the Company or any of its affiliates (except for an independent director of the Company, its parent or subsidiary or any subsidiary of the same parent appointed pursuant to the Act or any local laws and regulations).
- (3) The director or supervisor is not a natural-person shareholder who holds shares, together with those held by his/her spouse or minor children or held in the name of another person, in an aggregate amount of at least 1% of the total shares issued by the Company or is one of the top-10 shareholders of the Company.
- (4) The director or supervisor is not a spouse, relative within the second degree of kinship or lineal relative within the third degree of kinship, of any manager under (1) or any of the persons under (2) and (3).
- (5) The director or supervisor is not a director, supervisor or employee of any corporate shareholder that directly holds at least 5% of the total shares issued by the Company, is one of the top-5 shareholders of the Company or has appointed a representative as a director or supervisor of the Company pursuant to Article 27, Paragraph 1 or 2 of the Company Act (except for an independent director of the Company, its parent or subsidiary, or any subsidiary of its parent appointed pursuant to the Company Act or local laws and regulations).
- (6) The director or supervisor is not a director, supervisor or employee of any other company where more than half of its directors or voting shares are controlled by the same person (except for an independent director of the Company, its parent or subsidiary, or any subsidiary of its parent appointed pursuant to the Company Act or local laws and regulations).
- (7) The director or supervisor is not a director, supervisor or employee of any other company or institution who also serves as or is in a spousal relationship with the Chairman, President or anyone holding an equivalent position of the Company (except for an independent director of the Company, its parent or subsidiary, or any subsidiary of its parent appointed pursuant to the Company Act or local laws and regulations).
- (8) The director or supervisor is not a director, supervisor, manager or shareholder holding at least 5% of the shares of any company or institution which has engaged in financial or business dealings with the Company (except where the company or institution holds at least 20% and no more than 50% of the total shares issued by the Company and is an independent director of the Company, its parent or subsidiary, or any subsidiary of its parent appointed pursuant to the Company Act or local laws and regulations).
- (9) The director or supervisor is not an owner, partner, director, supervisor or manager, or a spouse thereof, of any professional, sole proprietorship, partnership, company or institution that engages in commercial, legal, financial and accounting services and which has conducted audit for the Company or any of its affiliates or has received a total amount of compensation not exceeding NT\$500,000 during the most recent two years, except for any member of any remuneration committee, public purchase review committee or special committee for mergers and acquisitions which performs its duties pursuant to the Securities and Exchange Act, Business Mergers And Acquisitions Act or other applicable laws and regulations.
- (10) The director or supervisor was or is not in a spousal relationship nor a relative within the second degree of kinship.
- (11) None of the circumstances under Article 30 of the Company Act applies to the director or supervisor.
- (12) The director or supervisor is not elected as a government agency or juristic person or a representative thereof under Article 27 of the Company Act.

## (2) President, executive vice presidents, senior vice presidents, department heads &amp; branch heads

March 31, 2020

Title	Nationality	Name	Gender	Date of appointment (start of office)	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		
					No. of shares	% of shares held	No. of shares	% of shares held	No. of shares	% of shares held			Title	Name	Relation
President	Republic of China	CHIA, CHUNG-TAO	Male	2018/10/17	80,000	0.00%	0	0.00%	0	0.00%	EMBA, National Chengchi University	CSC Venture Capital Corp. - Director			
Senior Vice President	Republic of China	LIN, JING-HUA	Female	2007/01/01	262,798	0.01%	0	0.00%	0	0.00%	Master of Commerce, University of Washington	CSC International Holdings Ltd. Shanghai Representative Office - Representative			
Vice President	Republic of China	LAI, AI-WEN	Female	2015/01/01	21	0.00%	0	0.00%	0	0.00%	Department of Law, Soochow University				
Senior Vice President	Republic of China	CHANG, TUN-FU	Male	2011/05/02	147,197	0.00%	0	0.00%	0	0.00%	Department of Economics, National Taiwan University	CSC Securities (HK) - Director Capital Securities Nominee - Director			
Executive Vice President	Republic of China	CHEN, MING-SHING	Male	2018/10/01	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			
Senior Vice President	Republic of China	XIE, XIU-YING	Female	2013/05/02	0	0.00%	0	0.00%	0	0.00%	EMBA, NTU-Fudan Overseas EMBA Program, National Taiwan University				
Executive Vice President	Republic of China	HUANG, CHI-MING	Male	2012/06/01	321,139	0.01%	0	0.00%	0	0.00%	EMBA, National Chengchi University				
Senior Vice President	Republic of China	LIN, SHU-CHUAN	Female	2013/09/01	7,361	0.00%	0	0.00%	0	0.00%	EMBA, National Chengchi University				
Executive Vice President	Republic of China	FANG, CHIH-HUNG	Male	2018/04/01	0	0.00%	0	0.00%	0	0.00%	MBA, The City University of New York	CSC Futures (HK) - Director			
Executive Vice President	Republic of China	ZHANG, PEI-WEN	Female	2013/09/01	0	0.00%	0	0.00%	0	0.00%	Department of Banking and Insurance, Ming Chuan University	Capital Insurance Advisory - Director Capital Insurance Agency - Director			
Senior Vice President	Republic of China	WANG, YA-FANG	Female	2010/04/01	0	0.00%	0	0.00%	0	0.00%	Department of Business Administration, Tamkang University				
Senior Vice President	Republic of China	LIN, BO-WEI	Male	2014/04/01	0	0.00%	0	0.00%	0	0.00%	Master of Industrial Management, National Taiwan University of Science and Technology				
Senior Vice President	Republic of China	CHANG, LI-FEN	Female	2017/04/01	0	0.00%	0	0.00%	0	0.00%	Graduate Institute of Society, National Chengchi University				
Executive Vice President	Republic of China	QIU, JIAN-HUA	Male	2019/06/01	75,329	0.00%	0	0.00%	0	0.00%	Department of Statistics, National Chung Hsing University				

Title	Nationality	Name	Gender	Date of appointment (start of office)	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		
					No. of shares	% of shares held	No. of shares	% of shares held	No. of shares	% of shares held			Title	Name	Relation
Senior Vice President	Republic of China	WU, YUN-WEN	Male	2014/04/01	0	0.00%	1,487	0.00%	0	0.00%	Department of Industrial Engineering, Feng Chia University				
Senior Vice President	Republic of China	LIU, SHU-RU	Female	2013/05/10	22,470	0.00%	0	0.00%	0	0.00%	Department of Information Management, National Central University				
Executive Vice President	Republic of China	TAN, TE-CHENG	Male	2008/11/01	82,484	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			
Senior Vice President	Republic of China	HOU, LE-PING	Female	2000/07/01	588,524	0.02%	0	0.00%	0	0.00%	MBA, Armstrong University				
Senior Vice President	Republic of China	XIE, HUI-YA	Female	2019/04/01	5,435	0.00%	0	0.00%	0	0.00%	Master of Finance, Syracuse University				
Senior Vice President	Republic of China	LIN, CHAO-HSU	Male	2019/08/01	1,000	0.00%	0	0.00%	0	0.00%	Department of Public Finance, National Chengchi University				
Senior Vice President	Republic of China	YAO, MING-QING	Male	2015/04/01	0	0.00%	0	0.00%	0	0.00%	Master of Accounting, National Chung Cheng University				
Senior Executive Vice President	Republic of China	YANG, JIE-BIN	Male	2002/11/01	609	0.00%	0	0.00%	0	0.00%	Master of Finance, University of London				
Senior Vice President	Republic of China	XU, TSUI-YUN	Female	2016/04/01	3,323	0.00%	0	0.00%	0	0.00%	Master of Finance, Chaoyang University of Technology				
Senior Vice President	Republic of China	KAN, KAI-CHUNG	Male	2019/07/03	0	0.00%	0	0.00%	0	0.00%	Master of Finance, University of Illinois				
Executive Vice President	Republic of China	ZHANG, JIA-WEN	Female	2018/04/01	85,353	0.00%	0	0.00%	0	0.00%	MBA, Tarleton State University	CSC Venture Capital Corp. - Director			
Senior Vice President	Republic of China	CHIU, TSAN-HSI	Male	2017/04/01	0	0.00%	0	0.00%	0	0.00%	Master of Finance, Baruch College, City University of New York				
Senior Vice President	Republic of China	CHEN, YI-REN	Male	2015/04/01	700	0.00%	0	0.00%	0	0.00%	MBA, Baruch College, City University of New York				
Senior Vice President	Republic of China	YE, YI-LING	Female	2015/04/01	605	0.00%	0	0.00%	0	0.00%	Department of Finance, National Taiwan University				
Executive Vice President	Republic of China	LAI, JUN-FU	Male	2018/04/01	26,138	0.00%	0	0.00%	0	0.00%	Department of Electronic Engineering, Tunghan University				
Senior Vice President	Republic of China	TSENG, MEI-LING	Female	2019/04/01	0	0.00%	0	0.00%	0	0.00%	Department of Law, Chinese Culture University				
Executive Vice President	Republic of China	LIN, YAN-FEN	Male	2014/04/01	0	0.00%	0	0.00%	0	0.00%	MBA, Drexel University				
Senior Vice President	Republic of China	CHEN, PEI-QI	Female	2008/04/08	1,541	0.00%	0	0.00%	0	0.00%	Master of International Business Administration, University of St. Thomas - Minnesota				
Senior Vice President	Republic of China	ZHANG, JING-YAO	Male	2017/04/01	0	0.00%	0	0.00%	0	0.00%	Master of Finance, TamKang University				
Executive Vice President	Republic of China	WANG, JUAN-HUI	Female	2019/04/01	8,235	0.00%	0	0.00%	0	0.00%	EMBA, Postgraduate Institute of				



Title	Nationality	Name	Gender	Date of appointment (start of office)	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		
					No. of shares	% of shares held	No. of shares	% of shares held	No. of shares	% of shares held			Title	Name	Relation
											International Commerce, Tamkang University				
Senior Vice President	Republic of China	YE, YU-ZHEN	Female	2018/04/01	692	0.00%	0	0.00%	0	0.00%	Department of Law, Soochow University				
Senior Vice President	Republic of China	ZHENG, SHU-FEN	Female	2000/08/25	258,855	0.01%	0	0.00%	0	0.00%	Department of Economics, Tunghai University				
Executive Vice President	Republic of China	MA, JIA-HUAN	Male	2009/09/01	540,000	0.01%	0	0.00%	0	0.00%	EMBA, National Chengchi University				
Senior Vice President	Republic of China	ZHENG, YU-LING	Female	2003/06/19	447,038	0.02%	0	0.00%	0	0.00%	EMBA, National Tsing Hua University				
Senior Vice President	Republic of China	HUANG, ZHI-HUA	Female	2014/04/01	291,876	0.01%	0	0.00%	0	0.00%	Department of International Trade, Tamkang University				
Senior Vice President	Republic of China	WENG, HE-MING	Male	2002/04/24	469	0.00%	0	0.00%	0	0.00%	EMBA, National Chengchi University				
Senior Vice President	Republic of China	ZHANG, XUE-HE	Male	2019/04/01	11,225	0.00%	0	0.00%	0	0.00%	Department of Political Study, Fu Hsing Kang College				
Senior Vice President	Republic of China	ZHU, DE-REN	Male	2019/04/01	5,105	0.00%	0	0.00%	0	0.00%	Master of Business Administration, Tamkang University				
Senior Vice President	Republic of China	LI, MU-XIAN	Male	2011/05/02	0	0.00%	0	0.00%	0	0.00%	Department of Law, Fu Jen Catholic University				
Senior Vice President	Republic of China	ZHAO, FENG-RONG	Male	2011/05/02	0	0.00%	0	0.00%	0	0.00%	Master of Economics, University of California				
Vice President	Republic of China	WU, HONG-ZHI	Male	2003/05/01	0	0.00%	0	0.00%	0	0.00%	Department of Mechanical Engineering, Nanya Institute of Technology				
Vice President	Republic of China	ZHANG, TIAN-MU	Male	2003/07/28	526	0.00%	0	0.00%	0	0.00%	Department of Tourism Management, Chinese Culture University				
Assistant Vice President	Republic of China	WU, CHEN-MING	Male	2016/10/01	0	0.00%	0	0.00%	0	0.00%	Master of Finance, National Yunlin University of Science and Technology				
Assistant Vice President	Republic of China	YEN, CHIA-YUEH	Female	2016/04/01	0	0.00%	0	0.00%	0	0.00%	Master of Applied Economics, National Taiwan Ocean University				
Vice President	Republic of China	YANG, ZHI-KAI	Male	2011/07/01	0	0.00%	0	0.00%	0	0.00%	Department of Electrical Engineering, Cheng Shiu University				
Vice President	Republic of China	WEI, YU-MEI	Female	2015/06/01	0	0.00%	0	0.00%	0	0.00%	Department of Land Economics, National Chengchi University				
Assistant Vice President	Republic of China	LIN, AN-TSE	Male	2019/04/01	0	0.00%	0	0.00%	0	0.00%	Department of Business Administration, Fu Jen Catholic University				
Vice President	Republic of China	ZHAO, ZHI-MING	Male	2003/07/28	6,861	0.00%	0	0.00%	0	0.00%	Department of Mechanical Engineering, Tatung University				
Assistant Vice President	Republic of China	ZHANG, REN-FANG	Male	2013/09/01	0	0.00%	0	0.00%	0	0.00%	Master of Business Administration, National				

Title	Nationality	Name	Gender	Date of appointment (start of office)	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		
					No. of shares	% of shares held	No. of shares	% of shares held	No. of shares	% of shares held			Title	Name	Relation
											Kaohsiung First University of Science and Technology				
Vice President	Republic of China	LI, XIANG-JUN	Male	2004/04/20	0	0.00%	0	0.00%	0	0.00%	Department of Banking and Finance, Tamkang University				
Vice President	Republic of China	MA, SHAO-HONG	Female	2015/04/01	0	0.00%	0	0.00%	0	0.00%	MBA, Chung Yuan Christian University				
Vice President	Republic of China	CHEN, LI-ZHUN	Female	2002/07/11	334,456	0.01%	1,015	0.00%	0	0.00%	EMBA, Fu Jen Catholic University				
Vice President	Republic of China	WANG, WAN-QI	Female	2014/02/05	0	0.00%	0	0.00%	0	0.00%	Department of Finance, Southern Taiwan University of Science and Technology				
Vice President	Republic of China	YU, XIAO-MEI	Female	2002/10/07	0	0.00%	0	0.00%	0	0.00%	Department of Tourism Management, Chinese Culture University				
Assistant Vice President	Republic of China	HSU, CHIH-HUI	Female	2019/10/01	0	0.00%	0	0.00%	0	0.00%	Department of Political Science, Chinese Culture University				
Vice President	Republic of China	PENG, GUI-CONG	Male	2000/01/24	0	0.00%	0	0.00%	0	0.00%	Department of Business Administration, Tatung Institute of Technology				
Assistant Vice President	Republic of China	WU, ZHENG-HAN	Male	2015/08/01	0	0.00%	0	0.00%	0	0.00%	Department of Finance, Hsuan Chuang University				
Assistant Vice President	Republic of China	ZHANG, ZHE-MING	Male	2017/10/01	0	0.00%	0	0.00%	0	0.00%	Department of Information Engineering, University of Sydney				
Assistant Vice President	Republic of China	LIN, JING-ZHI	Male	2015/08/01	0	0.00%	8	0.00%	0	0.00%	Department of International Trade, Takming University of Science and Technology				
Vice President	Republic of China	CHEN, XUAN-ZHI	Male	2008/05/17	0	0.00%	0	0.00%	0	0.00%	EMBA, Yu Da University of Science and Technology				
Assistant Vice President	Republic of China	YANG, YAN-QIU	Female	2013/09/01	12,169	0.00%	1,393	0.00%	0	0.00%	Department of Accounting, National Taichung University				
Assistant Vice President	Republic of China	YANG, KUN-LONG	Male	2015/02/01	0	0.00%	0	0.00%	0	0.00%	Department of Psychology, Chung Yuan Christian University				
Vice President	Republic of China	CAO, HOU-SHENG	Male	2004/08/02	0	0.00%	0	0.00%	0	0.00%	Master of Labour Research, National Chengchi University				
Vice President	Republic of China	LIN, JIANG-HE	Male	2013/09/01	11,573	0.00%	599	0.00%	0	0.00%	Department of Statistics, Tamkang University				
Vice President	Republic of China	XU, LI-FEN	Female	2003/03/31	502	0.00%	0	0.00%	0	0.00%	Department of Business Administration, Chihlee Institute of Technology				
Vice President	Republic of China	CAI, QING-FEN	Female	2006/11/15	8,787	0.00%	0	0.00%	0	0.00%	Master of Finance, On-job Master Program, National Taiwan University				
Vice President	Republic of China	SU, RUI-YI	Female	2011/09/01	239	0.00%	0	0.00%	0	0.00%	Department of English, Tamkang University				

Title	Nationality	Name	Gender	Date of appointment (start of office)	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		
					No. of shares	% of shares held	No. of shares	% of shares held	No. of shares	% of shares held			Title	Name	Relation
Vice President	Republic of China	LIN, HUI-JING	Female	2000/11/25	36,631	0.00%	0	0.00%	0	0.00%	Department of Textile Engineering, National Taipei Institute of Technology				
Assistant Vice President	Republic of China	WU, CHEN-YI	Male	2016/09/01	0	0.00%	0	0.00%	0	0.00%	EMBA, National Taipei College of Business School of Open Education				
Vice President	Republic of China	CHEN, MEI-RU	Female	2014/07/19	0	0.00%	0	0.00%	0	0.00%	Department of Accounting and Statistics, I-Lan Commercial Vocational Senior High School				
Assistant Vice President	Republic of China	WU, ZHI-WEI	Male	2018/04/01	0	0.00%	0	0.00%	0	0.00%	Master of Applied Economics, National Taiwan Ocean University				
Vice President	Republic of China	HUANG, XIU-YU	Female	2001/08/10	42,599	0.00%	0	0.00%	0	0.00%	Department of Economics, Fu Jen Catholic University				
Assistant Vice President	Republic of China	WU, QING-YAN	Male	2018/04/01	0	0.00%	0	0.00%	0	0.00%	Master of Information Management, Shu-Te University				
Vice President	Republic of China	TANG, WEN-JI	Female	2011/05/02	0	0.00%	0	0.00%	0	0.00%	Department of International Trade, Fu Jen Catholic University				
Assistant Vice President	Republic of China	HUANG, CHONG-JIE	Male	2018/08/01	0	0.00%	0	0.00%	0	0.00%	Department of Finance, Tunghai University				
Vice President	Republic of China	LIN, JING-WEN	Male	2011/06/28	0	0.00%	0	0.00%	0	0.00%	Department of Business Administration, National Taipei College of Business				
Vice President	Republic of China	KAI, SHI-HUA	Male	2011/05/02	0	0.00%	0	0.00%	0	0.00%	Department of Statistics, Tunghai University				
Vice President	Republic of China	CHEN, ZHI-SHAN	Male	2014/03/03	0	0.00%	0	0.00%	0	0.00%	Department of Business Administration, Ming Chuan University				
Assistant Vice President	Republic of China	HUANG, MIAO-YIN	Female	2017/06/02	459	0.00%	0	0.00%	0	0.00%	Department of Accounting and Statistics, Overseas Chinese University				
Vice President	Republic of China	HAI, YAN	Female	2011/09/01	0	0.00%	0	0.00%	0	0.00%	Department of Banking & Insurance, Feng Chia University				
Assistant Vice President	Republic of China	LI, CHIH-CHIANG	Male	2019/04/01	0	0.00%	0	0.00%	0	0.00%	Department of Statistics, National Chengchi University				
Assistant Vice President	Republic of China	PENG, XIAN-HE	Male	2017/05/13	0	0.00%	0	0.00%	0	0.00%	Master of Finance, Institute of Finance and Information, National Kaohsiung University of Science and Technology				
Vice President	Republic of China	CHEN, ZHENG-YANG	Male	2014/10/01	0	0.00%	0	0.00%	0	0.00%	Master of Business Administration, Feng Chia University				
Vice President	Republic of China	HUANG, YI-LIAN	Female	2015/08/03	0	0.00%	0	0.00%	0	0.00%	Department of Business Administration, Feng Chia University				

Title	Nationality	Name	Gender	Date of appointment (start of office)	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		
					No. of shares	% of shares held	No. of shares	% of shares held	No. of shares	% of shares held			Title	Name	Relation
Vice President	Republic of China	XU, JUN-YANG	Male	2007/10/15	0	0.00%	0	0.00%	0	0.00%	Department of Tourism Management, Chinese Culture University				
Vice President	Republic of China	ZHENG, YU-CHANG	Male	2003/06/23	1,082	0.00%	0	0.00%	0	0.00%	Department of Applied Mathematics, Chung Yuan Christian University				
Vice President	Republic of China	RUAN, YUAN-JUN	Male	2017/02/01	0	0.00%	0	0.00%	0	0.00%	Department of Nutritional Science, Fu Jen Catholic University				
Vice President	Republic of China	DENG, XUE-REN	Male	2015/01/07	0	0.00%	0	0.00%	0	0.00%	MBA, Central Missouri State University				
Senior Vice President	Republic of China	PAN, HUI-MEI	Female	1999/08/01	28,540	0.00%	0	0.00%	0	0.00%	MBA, University of South Carolina				
Assistant Vice President	Republic of China	LIN, CHIA-HAN	Male	2019/08/01	0	0.00%	0	0.00%	0	0.00%	MBA, Baruch College, City University of New York				

### 3. Remuneration for directors, supervisors, president and vice presidents in the most recent year:

#### (1) Remuneration for directors (including independent directors), supervisors, president and vice presidents, names of the managers distributing employee remuneration, and the status of distribution

##### 1. Remuneration for directors and independent directors (names and methods of remuneration are disclosed individually)

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		Remuneration from investment businesses or interests 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	Cash amount	Shares	Cash amount	Shares	The Company	All companies included in the consolidated			
Chairman	Yin Feng Enterprise Co., Ltd. Representative: WANG, JUN-CHIH	11,185	11,185	0	0	12,599	12,599	1,028	1,083	0.97%	0.97%	0	0	0	0	0	0	0	0	0	0	0.97%	0.97%	N/A
Director	Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN	0	0	0	0	4,199	4,199	130	285	0.17%	0.17%	0	0	0	0	0	0	0	0	0	0	0.17%	0.17%	N/A
Director	Yin Feng Enterprise Co., Ltd. Representative: CHANG, CHIH-MING (Note 2)	0	0	0	0	2,197	2,197	81	81	0.09%	0.09%	0	0	0	0	0	0	0	0	0	0	0.09%	0.09%	N/A

1.

Specify the policy, system, standards and structure for payment of remuneration to independent directors, and describe the relevance of the amount of paid remuneration to factors including the responsibility assumed, risk and time invested.

2.

Remuneration other than as disclosed in the table above and received by the directors during the most recent year for services provided to the companies in the financial statements (e.g., signing as a non-employee advisor L.D.

1. Specify the policy, system, standards and structure for payment of remuneration to independent directors, and describe the relevance of the amount of paid remuneration to factors including the responsibility assumed, risk and time invested.

2. Remuneration other than as disclosed in the table above and received by the directors during the most recent year for services provided to the companies in the financial statements (e.g., acting as a non-employee advisor): 0.

##### 2. Remuneration for directors and independent directors (names and methods are disclosed on a consolidated basis with the corresponding brackets)

NTD thousands

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		Remuneration from investment businesses or interests 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	Cash amount	Shares	Cash amount	Shares	The Company	All companies included in the consolidated					
Director	Director	Kwang Hsing Industrial Co., Ltd. Representative: TING, HSUEH-WEN																									
	Director	San He Industrial Co., Ltd. Representative: CHU, HAI-YING (Note 3)																									
	Director	Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIH-MING (Note 4)																									
	Director	Tai Chun Enterprise Co., Ltd. Representative: TSAI, I-CHING (Note 5)																									
	Vice Chairman	Tai Chun Enterprise Co., Ltd. Representative: CHAO, YUNG-FEI (Note 6)	3,364	3,364	52	52	23,000	23,000	1,236	1,236	1.08%	1.08%	0	0	0	0	0	0	0	0	1.08%	1.08%					N/A
	Director	Hung Lung Enterprise Co., Ltd. Representative: KUO, YUH-CHYI																									
	Director	Hung Lung Enterprise Co., Ltd. Representative: TSAI, I-CHING (Note 7)																									
	Director	Hung Lung Enterprise Co., Ltd. Representative: CHIA, CHUNG-TAO (Note 8)																									
	Director	Tai He Real Estate Management Co., Ltd. Representative: HUNG, TSUNG-YEN (Note 9)																									
Independent Director	Independent Director	HWANG, JYH-DEAN (Note 10)																									
	Independent Director	SHEA, JIA-DOING																									
	Independent Director	LIN, HSIN-HUI (Note 11)	1,800	2,280	0	0	12,599	13,391	580	670	0.58%	0.64%	0	0	0	0	0	0	0	0	0.58%	0.64%					N/A
	Independent Director	LEE, SHEN-YI (Note 12)																									
	Independent Director	SU, PING-CHANG (Note 13)																									
<p>1. Specify the policy, system, standards and structure for payment of remuneration to independent directors, and describe the relevance of the amount of paid remuneration to factors including the responsibility assumed, risk and time invested. Based on the market and industrial pay level, the remuneration paid to the independent directors of the Company is in principle on the general level in the industry. It also takes into account the personal performance of each independent director, the degree of his/her participation in and contribution to the operations of the Company and the responsibility assumed by him/her, the status of achievement of the Company's operational objectives and the financial condition of the Company in order to assess the reasonableness of the relevance between the overall operating performance and future risks on personal and company levels. The remuneration for independent directors has been reviewed by the Remuneration Committee and approved by the Board of Directors. The Remuneration Committee regularly assesses the remuneration for independent directors and reviews, wherever appropriate, the remuneration system depending on the actual operating status and applicable laws and regulations to achieve sustainable management of the Company and balanced risk control.</p>																											

1. Specify the policy, system, standards and structure for payment of remuneration to independent directors, and describe the relevance of the amount of paid remuneration to factors including the responsibility assumed, risk and time invested. Based on the market and industrial pay level, the remuneration paid to the independent directors of the Company is in principle on the general level in the industry. It also takes into account the personal performance of each independent director, the degree of his/her participation in and contribution to the operations of the Company and the responsibility assumed by him/her, the status of achievement of the Company's operational objectives and the financial condition of the Company in order to assess the reasonableness of the relevance between the overall operating performance and future risks on personal and company levels. The remuneration for independent directors has been reviewed by the Remuneration Committee and approved by the Board of Directors. The Remuneration Committee regularly assesses the remuneration for independent directors and reviews, whenever appropriate, the remuneration system depending on the actual operating status and applicable laws and regulations to achieve sustainable management of the Company and balanced risk control.

2. Remuneration other than as disclosed in the table above and received by the directors during the most recent year for services provided to the companies in the financial statements (e.g., acting as a non-employee advisor): 0.

Note 1: Remuneration paid to the driver was NT\$1,369,000

Note 2: Took office on 2019/6/24

Note 3: Left office on 2019/6/23

Note 4: Left office on 2019/6/23

Note 5: Left office on 2019/6/23

Note 6: Left office on 2019/6/23

Note 7: Took office on 2019/6/24

Note 8: Took office on 2019/6/24

Note 9: Took office on 2019/6/24

Note 10: Left office on 2019/6/23

Note 11: Left office on 2019/6/23

Note 12: Took office on 2019/6/24

Note 13: Took office on 2019/6/24

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
Less than NT\$1,000,000	-	-	-	-
NT\$1,000,000 (included) ~ NT\$2,000,000 (not included)	-	-	-	-
NT\$2,000,000 (included) ~ NT\$3,500,000 (not included)	San He Industrial Co., Ltd., Representative(s): CHU, HAI-YING Yin Feng Enterprise Co., Ltd., Representative(s): CHANG, CHIH-MING Tai Chun Enterprise Co., Ltd., Representative(s): CHANG, CHIH-MING Tai Chun Enterprise Co., Ltd., Representative(s): TSAI, I-CHING Hung Lung Enterprise Co., Ltd., Representative(s): TSAI, I-CHING Hung Lung Enterprise Co., Ltd., Representative(s): CHIA, CHUNG-TAO Tai He Real Estate Management Co., Ltd., Representative(s): HUNG, TSUNG-YEN, HWANG, JYH-DEAN, LEE, SHEN-YI, LIN, HSIN-HUI, SU, PING-CHANG	San He Industrial Co., Ltd., Representative(s): CHU, HAI-YING Yin Feng Enterprise Co., Ltd., Representative(s): CHANG, CHIH-MING Tai Chun Enterprise Co., Ltd., Representative(s): CHANG, CHIH-MING Tai Chun Enterprise Co., Ltd., Representative(s): TSAI, I-CHING Hung Lung Enterprise Co., Ltd., Representative(s): TSAI, I-CHING Hung Lung Enterprise Co., Ltd., Representative(s): CHIA, CHUNG-TAO Tai He Real Estate Management Co., Ltd., Representative(s): HUNG, TSUNG-YEN, HWANG, JYH-DEAN, LEE, SHEN-YI, LIN, HSIN-HUI, SU, PING-CHANG	San He Industrial Co., Ltd., Representative(s): CHU, HAI-YING Yin Feng Enterprise Co., Ltd., Representative(s): CHANG, CHIH-MING Tai Chun Enterprise Co., Ltd., Representative(s): CHANG, CHIH-MING Tai Chun Enterprise Co., Ltd., Representative(s): TSAI, I-CHING Hung Lung Enterprise Co., Ltd., Representative(s): TSAI, I-CHING Hung Lung Enterprise Co., Ltd., Representative(s): CHIA, CHUNG-TAO Tai He Real Estate Management Co., Ltd., Representative(s): HUNG, TSUNG-YEN, HWANG, JYH-DEAN, LEE, SHEN-YI, LIN, HSIN-HUI, SU, PING-CHANG	San He Industrial Co., Ltd., Representative(s): CHU, HAI-YING Yin Feng Enterprise Co., Ltd., Representative(s): CHANG, CHIH-MING Tai Chun Enterprise Co., Ltd., Representative(s): CHANG, CHIH-MING Tai Chun Enterprise Co., Ltd., Representative(s): TSAI, I-CHING Hung Lung Enterprise Co., Ltd., Representative(s): TSAI, I-CHING Hung Lung Enterprise Co., Ltd., Representative(s): CHIA, CHUNG-TAO Tai He Real Estate Management Co., Ltd., Representative(s): HUNG, TSUNG-YEN, HWANG, JYH-DEAN, LEE, SHEN-YI, LIN, HSIN-HUI, SU, PING-CHANG
NT\$3,500,000 (included) ~ NT\$5,000,000 (not included)	Kwang Hsing Industrial Co., Ltd., Representative(s): TING, HSUEH-WEN Yin Feng Enterprise Co., Ltd., Representative(s): LIU, CHING-TSUN Hung Lung Enterprise Co., Ltd., Representative(s): KUO, YUH-CHYI, SHEA, JIA-DONG	Kwang Hsing Industrial Co., Ltd., Representative(s): TING, HSUEH-WEN Yin Feng Enterprise Co., Ltd., Representative(s): LIU, CHING-TSUN Hung Lung Enterprise Co., Ltd., Representative(s): KUO, YUH-CHYI, SHEA, JIA-DONG	Kwang Hsing Industrial Co., Ltd., Representative(s): TING, HSUEH-WEN Yin Feng Enterprise Co., Ltd., Representative(s): LIU, CHING-TSUN Hung Lung Enterprise Co., Ltd., Representative(s): KUO, YUH-CHYI, SHEA, JIA-DONG	Kwang Hsing Industrial Co., Ltd., Representative(s): TING, HSUEH-WEN Yin Feng Enterprise Co., Ltd., Representative(s): LIU, CHING-TSUN Hung Lung Enterprise Co., Ltd., Representative(s): KUO, YUH-CHYI, SHEA, JIA-DONG
NT\$5,000,000 (included) ~ NT\$10,000,000 (not included)	Tai Chun Enterprise Co., Ltd. Representative(s): CHAO, YUNG-FEI	Tai Chun Enterprise Co., Ltd. Representative(s): CHAO, YUNG-FEI, SHEA, JIA-DONG	Tai Chun Enterprise Co., Ltd. Representative(s): CHAO, YUNG-FEI	Tai Chun Enterprise Co., Ltd. Representative(s): CHAO, YUNG-FEI, SHEA, JIA-DONG
NT\$10,000,000 (included) ~ NT\$15,000,000 (not included)	-	-	-	-
NT\$15,000,000 (included) ~ NT\$30,000,000 (not included)	Yin Feng Enterprise Co., Ltd. Representative(s): WANG, JIUNN-CHIH	Yin Feng Enterprise Co., Ltd. Representative(s): WANG, JIUNN-CHIH	Yin Feng Enterprise Co., Ltd. Representative(s): WANG, JIUNN-CHIH	Yin Feng Enterprise Co., Ltd. Representative(s): WANG, JIUNN-CHIH
NT\$30,000,000 (included) ~ NT\$50,000,000 (not included)	-	-	-	-
NT\$50,000,000 (included) ~ NT\$100,000,000 (not included)	-	-	-	-
NT\$100,000,000 or more	-	-	-	-
Total	11	11	11	11



### 3. Remuneration for president and vice presidents (names and methods are disclosed on a consolidated basis with the corresponding brackets)

Title	Name	Salary (A)		Pension (B)		Bonus and special allowance (C)		Employee remuneration (D)				The sum of A, B, C and D as a percentage of net income after tax (%)		Remuneration from reinvestment businesses or parents 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	Cash amount	Shares			
CSO	WANG, JIUNN-CHIH	32,076	32,076	1,296	1,296	26,712	26,712	3,782	0	3,782	0	2.49%	2.49%	N/A
CIO	CHAO, YUNG-FEI (Note 2)													
President	CHIA, CHUNG-TAO													
Executive Vice President	CHEN, MING-SHING													
Executive Vice President	HUANG, CHI-MING													
Executive Vice President	FANG, CHIH-HUNG													
Executive Vice President	ZHANG, PEI-WEN													
Executive Vice President	QIU, JIAN-HUA (Note 3)													
Executive Vice President	TAN, TE-CHENG													
Senior Executive Vice President	YANG, JIE-BIN													
Executive Vice President	ZHANG, JIA-WEN													
Executive Vice President	LAI, JUN-FU													
Executive Vice President	LIN, YAN-FEN													
Executive Vice President	WANG, JUAN-HUI (Note 4)													
Executive Vice President	MA, JIA-HUAN													
Executive Vice President	WENG, CHIN-NENG (Note 5)													

Note 1: Remuneration paid to the driver was NT\$604,000

Note 2: Left office on 2019/6/24

Note 3: Took office on 2019/6/1

Note 4: Took office on 2019/4/1

Note 5: Retired on 2019/3/26

#### Remuneration bracket table

Range of remunerations to the President and Executive Vice Presidents	Sum of the first 4 items (A+B+C+D)	
	The Company	All companies included in the consolidated statements E
Less than NT\$1,000,000	WANG, JIUNN-CHIH, CHAO, YUNG-FEI	WANG, JIUNN-CHIH, CHAO, YUNG-FEI
NT\$1,000,000 (included) ~ NT\$2,000,000 (not included)	WENG, CHIN-NENG	WENG, CHIN-NENG
NT\$2,000,000 (included) ~ NT\$3,500,000 (not included)	QIU, JIAN-HUA, WANG, JUAN-HUI	QIU, JIAN-HUA, WANG, JUAN-HUI
NT\$3,500,000 (included) ~ NT\$5,000,000 (not included)	CHEN, MING-SHING, HUANG, CHI-MING, FANG, CHIH-HUNG, ZHANG, PEI-WEN, TAN, TE-CHENG, ZHANG, JIA-WEN, LAI, JUN-FU	CHEN, MING-SHING, HUANG, CHI-MING, FANG, CHIH-HUNG, ZHANG, PEI-WEN, TAN, TE-CHENG, ZHANG, JIA-WEN, LAI, JUN-FU
NT\$5,000,000 (included) ~ NT\$10,000,000 (not included)	CHIA, CHUNG-TAO, YANG, JIE-BIN, LIN, YAN-FEN, MA, JIA-HUAN	CHIA, CHUNG-TAO, YANG, JIE-BIN, LIN, YAN-FEN, MA, JIA-HUAN
NT\$10,000,000 (included) ~ NT\$15,000,000 (not included)	-	-
NT\$15,000,000 (included) ~ NT\$30,000,000 (not included)	-	-
NT\$30,000,000 (included) ~ NT\$50,000,000 (not included)	-	-
NT\$50,000,000 (included) ~ NT\$100,000,000 (not included)	-	-
NT\$100,000,000 or more	-	-
Total	16	16

## 4. Names of the managers distributing employee remuneration, and the status of distribution

March 31, 2020

	Title	Name	Shares amount	Cash amount	Total	Total amount as a percentage of net income after tax (%)
Managers	CSO	WANG, JIUNN-CHIH	0	26,205	26,205	1.02%
	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, QIU, JIAN-HUA, TAN, TE-CHENG, ZHANG, JIA-WEN, LAI, JUN-FU, LIN, YAN-FEN, WANG, JUAN-HUI, MA, JIA-HUAN				
	Senior Vice President	CHANG, TUN-FU, PAN, HUI-MEI				
	Senior Vice President	LIN, JING-HUA, LIN, SHU-CHUAN, WANG, YA-FANG, WU, YUN-WEN, HOU, LE-PING, YAO, MING-QING, CHEN, DING-YUAN, XU, TSUI-YUN, CHEN, PEI-QI, ZHENG, SHU-FEN, ZHENG, YU-LING				
	Senior Vice President	XIE, XIU-YING, LIN, BO-WEI, CHANG, LI-FEN, LIU, SHU-RU, XIE, HUI-YA, LIN, CHAO-HSU, KAN, KAI-CHUNG, CHIU, TSAN-HSI, CHEN, YI-REN, YE, YI-LING, TSENG, MEI-LING, ZHANG, JING-YAO, YE, YU-ZHEN, HUANG, ZHI-HUA, WENG, HE-MING, ZHANG, XUE-HE, ZHU, DE-REN, LI, MU-XIAN, ZHAO, FENG-RONG				
	Vice President	LAI, AI-WEN, WU, HONG-ZHI, ZHANG, TIAN-MU, YANG, ZHI-KAI, WEI, YU-MEI, ZHAO, ZHI-MING, ZHANG, REN-FANG, LI, XIANG-JUN, MA, SHAO-HONG, CHEN, LI-ZHUN, WANG, WAN-QI, YU, XIAO-MEI, PENG, GUI-CONG, CHEN, XUAN-ZHI, CAO, HOU-SHENG, LIN, JIANG-HE, XU, LI-FEN, CAI, QING-FEN, SU, RUI-YI, LIN, HUI-JING, CHEN, MEI-RU, HUANG, XIU-YU, TANG, WEN-JI, LIN, JING-WEN, KAI, SHI-HUA, CHEN, ZHI-SHAN, HAI, YAN, CHEN, ZHENG-YANG, HUANG, YI-LIAN, XU, JUN-YANG, ZHENG, YU-CHANG, RUAN, YUAN-JUN, DENG, XUE-REN				
	Assistant Vice President	WU, CHEN-MING, YEN, CHIA-YUEH, WU, ZHENG-HAN, LIN, JING-ZHI, YANG, YAN-QIU, LIN, CHIA-HAN, LIN, AN-TSE, HSU, CHIH-HUI, ZHANG, ZHE-MING, YANG, KUN-LONG, WU, CHEN-YI, WU, ZHI-WEI, WU, QING-YAN, HUANG, CHONG-JIE, HUANG, MIAO-YIN, LI, CHIH-CHIANG, PENG, XIAN-HE				

## (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:

The total amounts of the remuneration paid by the Company to directors, the President and vice presidents in 2018 and 2019 accounted respectively for the following percentages of net income after tax:

- (1) The total amount of remuneration, travel allowance and attendance fee paid to the Company's directors in 2018 accounted for 4.31% of the annual net income after tax. The total amount of remuneration paid to the President and vice presidents in 2018 accounted for 6.88% of the annual net income after tax.
- (2) The total amount of remuneration, travel allowance and attendance fee paid to the Company's directors in 2019 accounted for 2.88% of the annual net income after tax. The total amount of remuneration paid to the President and vice presidents in 2019 accounted for 2.49% of the annual net income after tax.
- (3) To continue expanding the size and increasing the profitability of the Company, the remuneration for the directors and supervisors of the Company is subject to the Articles of Incorporation. For the President and vice presidents, the remuneration includes monthly salaries and their shares in the overall operating results based on the operating performance of the departments.

## 4. Corporate governance

### (1) Functionality of board of directors

The attendance and presence of each director during the most recent year (the Board of Directors held three meetings during 2019.01.01~2019.05.13, and seven meetings during 2019.06.24~2020.03.31) are as follows:

Title	Name	Actual attendance (presence) A	Proxy attendance	Actual attendance (presence) rate (%) [A/Number of Board of Directors meetings during the term of office] (Note)	Remarks
Chairman	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	10	0	100%	Re-elected Date of election: 2019.06.24
Director	Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN	9	1	90%	Re-elected Date of election: 2019.06.24
Director	Yin Feng Enterprise Co., Ltd. Representative: CHANG, CHIH-MING	7	0	100%	Newly elected Date of election: 2019.06.24
Director (President)	Hung Lung Enterprise Co., Ltd. Representative: CHIA, CHUNG-TAO	7	0	100%	Newly elected Date of election: 2019.06.24
Director	Hung Lung Enterprise Co., Ltd. Representative: KUO, YUH-CHYI	10	0	100%	Re-elected Date of election: 2019.06.24
Director	Hung Lung Enterprise Co., Ltd. Representative: TSAI, I-CHING	7	0	100%	Newly elected Date of election: 2019.06.24
Director	Kwang Hsing Industrial Co., Ltd. Representative: TING, HSUEH-WEN	5	4	50%	Re-elected Date of election: 2019.06.24
Director	Tai He Real Estate Management Co., Ltd. Representative: HUNG, TSUNG-YEN	6	1	85.7%	Newly elected Date of election: 2019.06.24
Independent Director	SHEA, JIA-DONG	10	0	100%	Re-elected Date of election: 2019.06.24
Independent Director	LEE, SHEN-YI	7	0	100%	Newly elected Date of election: 2019.06.24
Independent Director	SU, PING-CHANG	7	0	100%	Newly elected Date of election: 2019.06.24
Former Director	Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIH-MING	3	0	100%	Former Date of election: 2019.06.24
Former Director	Tai Chun Enterprise Co., Ltd. Representative: CHAO, YUNG-FEI	3	0	100%	Former Date of election: 2019.06.24
Former Director	Tai Chun Enterprise Co., Ltd. Representative: TSAI, I-CHING	3	0	100%	Former Date of election: 2019.06.24
Former Director	San He Industrial Co., Ltd. Representative: CHU, HAI-YING	3	0	100%	Former Date of election: 2019.06.24
Former Independent Director	LIN, HSIN-HUI	3	0	100%	Former Date of election: 2019.06.24
Former Independent Director	HWANG, JYH-DEAN	3	0	100%	Former Date of election: 2019.06.24

Note: Where any election of directors has been held before the end of the year, both new and former directors shall be named. Each director shall be indicated as former, newly elected or re-elected in the remarks column, with the date of election thereof specified. The actual attendance (presence) rate (%) is calculated based on the number of Board of Directors meetings during the term of office and the actual attendance (presence).

Other relevant information:

1. Where any of the following circumstances occurs to any meeting of the Board of Directors, the date, term and proposal of the meeting as well as the opinions of all the independent directors and actions taken by the Company on the opinions shall be specified:

- (1) The matters referred to in Article 14-3 of the Securities and Exchange Act.
- (2) In addition to the matters mentioned above, any resolution of the Board of Directors for which dissent or reservation has been expressed by any independent director and where such dissent or reservation has been recorded in the minutes or any written statement.

- 17th meeting, 10th Board of Directors (2019.03.29)

1. Proposal: Ratification of amendment to the "Internal Control System" and the "Rules for Implementation of Internal Audits" of the Company.

Description: To proceed according to "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets," Tai-Zheng-Fu-Zi No. 1070023227 dated November 30, 2018 and Bao-Jie-Ji-Zi 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. Proposal: Amendment of certain clauses of the "Procedures for the Acquisition or Disposal of Assets" of the Company.

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 Jin-Guan-Zheng-Fa-Zi 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.)

3. Proposal: Application by the Company for foreign exchange spot transactions associated with the securities business.

Description: It is proposed that the Company apply to the Central Bank of the Republic of China for foreign exchange spot transactions associated with the securities business. That is, an application will be submitted to the Central Bank of the Republic of China for approval of the Company becoming a "foreign exchange securities firm".

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

- 18th meeting, 10th Board of Directors (2019.05.13)

1. Proposal: Amendment to the "Regulations Governing the Transactions of Derivatives" of the Company.

Description: The "Procedures for the Acquisition or Disposal of Assets" has followed the amendment by the Financial Supervisory Commission to exclude transactions of derivatives linked to specific types of business. The amendment was adopted on March 29, 2019 by the 17th meeting of the 10th Board of Directors, and the "Regulations Governing the Transactions of Derivatives" is therefore simultaneously amended.

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

2. Proposal: Amendment to the "Procedures for Endorsements/Guarantees" of the Company.

Description: It is proposed to amend the "" pursuant to Order Jin-Guan-Zheng-Shen-Zi No. 1080304826, dated March 7, 2019, from the Financial Supervisory Commission.

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

- 2nd meeting, 11th Board of Directors (2019.08.29)

1. Proposal: Ratification of amendment to the "Internal Control System" and the "Rules for Implementation of Internal Audits" of the Company.

Description: The proposal is in accordance with the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets", Letter Tai-Zheng-Fu-Zi No. 1080006710 dated April 26, 2019, Letter Tai-Zheng-Fu-Zi No. 1080008517 dated May 23, 2019, Letter Tai-Qi-Fu-Zi No. 10800016781 dated June 6, 2019 and Letter Tai-Zheng-Fu-Zi No. 1080011659 dated July 10, 2019.

Resolution: Following consultation by the chairperson with all the directors, the proposal was adopted without objection to approve ratification. (All Independent Directors' Comments: Passed without objection.)

2. Proposal: Change in the accounting manager of the Company.

Description: Manager XIE of the Accounting Office under the Finance Department retired on August 1, 2019, and the vacancy was filled by manager LIN of Accounting Sections 1 and 2 of the Accounting Office.

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

- 4th meeting, 11th Board of Directors (2019.11.11)

1. Proposal: Ratification of amendment to the "Internal Control System" and the "Rules for Implementation of Internal Audits" of the Company.

Description: The proposal is in accordance with the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets" and Letter Tai-Zheng-Fu-Zi No. 1080502440 dated September 11, 2019.

Resolution: Following consultation by the chairperson with all the directors, the proposal was adopted without objection to approve ratification. (All Independent Directors' Comments: Passed without objection.)

2. Proposal: Assessment by the Company on the independence of CPAs in 2019.

Description: The Company has prepared an independence assessment form in accordance with Article 47 of the Certified Public Accountant Act and the contents of Bulletin No. 10 "Integrity, Impartiality, Objectivity and Independence" of the Norm of Professional Ethics for Certified Public Accountants of the Republic of China. In addition, a statement of the CPAs and a draft of the assessment on independence of the CPAs have been obtained. It has been assessed that both Certified Public Accountants, Feng-Hui Lee and Tan-Tan Chung 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.)

3. Proposal: Professional fees for the CPAs of the Company in 2020.

Description: The amount of professional fees in the current year is the same as that in the previous year.

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

4. Proposal: It is proposed to repurchase the shares of the Company in accordance with Article 28-2 of the Securities and Exchange Act and Article 2 of the "Regulations Governing Share Repurchase by Exchange-Listed and OTC-Listed Companies".

Description: (1) Purpose of share repurchase: To maintain the Company's credibility and shareholders' equity.

(2) The Company may legally repurchase a maximum of 232,090,810 shares, with the amount repurchased not exceeding NT\$9,861,897,342.

(3) The period for repurchase is between November 12, 2019 and January 11, 2020.

(4) The number of shares to be repurchased is 150,000,000, with a total amount not exceeding NT\$1,800,000,000.

(5) The prices for the planned repurchase range from NT\$8.5 to NT\$12 per share.

(6) Method of repurchase: Repurchase from the centralized exchange market.

(7) The shares to be repurchased account for only 6.46% of the shares issued by the Company, and the maximum amount required for the share repurchase only represents 1.57% of the current assets of the Company. Therefore, the financial condition of the Company and the maintenance of capital thereof will not be affected.

(8) Number of shares of the Company held: 0.

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

5. Proposal: Amendment to the accounting system of the Company.

Description: It is proposed to amend the accounting system of the Company in accordance with the International Financial Reporting Standards (IFRS) and the Regulations Governing the Preparation of Financial Reports by Securities Firms, as amended.

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

• 5th meeting, 11th Board of Directors (2020.01.21)

1. Proposal: The 11th repurchase by the Company of the treasury stock for write-off and capital reduction.

Description: Pursuant to the resolution of the Board of Directors on November 11, 2019, the Company completed repurchase of the treasury stock on January 2, 2020. 150,000,000 shares were repurchased for a total amount of NT\$1,604,386,481 at an average price of NT\$10.7 per share. It is proposed to write off all of the aforementioned 150,000,000 shares, as required, and set the record date of capital reduction on January 31, 2020.

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

2. Proposal: Participation in purchase of the shares of Capital Futures, the reinvestment enterprise of the Company, for cash capital increase.

Description: The Company plans to, as an original shareholder and based on its current shareholding percentage of 56.21%, purchase 15,290,242 shares of Capital Futures. Where the total amount of shares payable to Capital Futures for cash capital increase has not been paid up by the end date of the payment period, the Company plans to purchase 4,592,927 shares through specific persons. In total, the Company plans to purchase 19,883,169 shares for an amount of NT\$0.716 billion, calculated with a tentative issue price of NT\$36 per share.

Resolution: Upon consultation by the chairperson with all directors, this proposal has been adopted with no objection raised. The Chairman has been authorized to make the purchase at the actual issue price per share within the limit of a maximum of 19,883,169 shares. (All Independent Directors' Comments: Passed without objection.)



- 6th meeting, 11th Board of Directors (2020.03.26)
  1. Proposal: Ratification of amendment to the “Internal Control System” and the “Rules for Implementation of Internal Audits” of the Company.  
 Description: The proposal is in accordance with the “Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets”, Letter Tai-Zheng-Zhi-Li Zi No. 1080008378 dated May 23, 2019, Letter Tai-Zheng-Shang-I-Zi No. 1081805654 dated December 9, 2019, Letter Zhong-Zheng-Shang-Ye-Er-Zi No. 1090500268 dated December 25, 2019 and Letter Tai-Zheng-Fu-Zi No. 1090500268 dated February 10, 2020.  
 Resolution: The case was consulted by all the directors without objection. (All Independent Directors' Comments: Passed without objection.)
  2. Proposal: Amendment to the "Procedures for the Acquisition or Disposal of Assets" of the Company.  
 Description: Amendment of certain clauses of the "Procedures for the Acquisition or Disposal of Assets" of the Company in accordance with the “Standards for the Internal Control Systems of Securities Firms” of TWSE.  
 Resolution: The case was consulted by all the directors without objection. (All Independent Directors' Comments: Passed without objection.)
- 2. With respect to the status of recusal of any director with an interest in any proposal, the name of the director, title of the proposal, reasons for recusal, and participation in the voting shall be described.
  - 16th meeting, 10th Board of Directors (2019.01.28)
    1. Proposal: Approval of the results of performance appraisal for officers at the level of manager or higher in 2018.  
 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).
    2. Proposal: Approval of distribution of year-end bonuses to officers at the level of manager or higher in 2018.  
 Reason for avoidance and the vote outcome: Chairman WANG, JIUNN-CHIH and Vice Chairman CHAO, YUNG-FEI were among those receiving the distributed bonuses and 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 Director LIU, CHING-TSUN).
    3. Proposal: Application to the competent authority for approval of securities and futures transactions between CSC Securities (HK) Ltd., the Company's overseas reinvestment enterprise, and individuals, corporations, organizations, other institutions or branches thereof established in third areas.  
 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. This proposal (the

chairperson, Chairman WANG, JIUNN-CHIH, recused himself, and Vice Chairman CHAO, YUNG-FEI acted on his behalf) was adopted without any objection upon consultation by the chairperson with the directors present.

4. Proposal: Distribution of special bonuses.

Reason for avoidance and the vote outcome: Chairman WANG, JIUNN-CHIH and Vice Chairman CHAO, YUNG-FEI were among those receiving the distributed bonuses and 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 the director LIU, CHING-TSUN) The remaining directors were consulted and passed without objection.

• 17th meeting, 10th Board of Directors (2019.03.29)

1. Proposal: Issuance of a Letter of Comfort for the capital required for business expansion of the 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. This proposal (the chairperson, Chairman WANG, JIUNN-CHIH, recused himself, and Vice Chairman CHAO, YUNG-FEI acted on his behalf) was adopted without any objection upon consultation by the chairperson with the directors present.

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. This proposal (the chairperson, Chairman WANG, JIUNN-CHIH, recused himself, and Vice Chairman CHAO, YUNG-FEI acted on his behalf) was adopted without any objection upon consultation by the chairperson with the directors present.

3. Proposal: CSC Securities (HK) Ltd., the Company's overseas reinvestment enterprise, plans to continue to apply to its parent CSC International Holdings Ltd. for short-term financing of an amount of US\$10,000,000.

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 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. This proposal (the chairperson, Chairman WANG, JIUNN-CHIH, recused himself, and Vice Chairman

CHAO, YUNG-FEI acted on his behalf) was adopted without any objection upon consultation by the chairperson with the directors present.

- 18th meeting, 10th Board of Directors (2019.05.13)

1. Proposal: Distribution of the remuneration for employees (in cash) in 2018.

Reason for avoidance and the vote outcome: Chairman WANG, JIUNN-CHIH and Vice Chairman CHAO, YUNG-FEI were among those receiving the distributed bonuses and had avoided involvement in this case due to status as stakeholders. This proposal (the chairperson, Chairman WANG, JIUNN-CHIH, recused himself, and director CHANG, CHIH-MING acted on his behalf) was adopted without any objection upon consultation by the chairperson with the directors present.

2. Proposal: List of candidates for directors (including independent directors) nominated by the 2019 annual shareholders' meeting.

Reason for avoidance and the vote outcome: The nominees on the list were reviewed on a one-by-one basis. Chairman WANG, JIUNN-CHIH, director LIU, CHING-TSUN, director CHANG, CHIH-MING, President CHIA, CHUNG-TAO, director KUO, YUH-CHYI, director TSAI, I-CHING, director TING, HSUEH-WEN and independent director SHEA, JIA-DONG who were nominated as candidates recused themselves during the review of their personal qualifications. Chairman WANG, JIUNN-CHIH attended on behalf of Director LIU, CHING-TSUN, and director TING, HSUEH-WEN was on leave and therefore did not participate in the discussion and voting over this proposal. This proposal (the chairperson, Chairman WANG, JIUNN-CHIH, recused himself, and Vice Chairman CHAO, YUNG-FEI acted on his behalf) was adopted without any objection upon consultation by the chairperson with the directors present.

3. Proposal: Lifting of non-compete restrictions on directors.

Reason for avoidance and the vote outcome: The nominees on the list were reviewed on a one-by-one basis. Chairman WANG, JIUNN-CHIH, director LIU, CHING-TSUN, director TING, HSUEH-WEN and independent director SHEA, JIA-DONG who were nominated as candidates recused themselves during the review of their concurrent positions. Chairman WANG, JIUNN-CHIH attended on behalf of Director LIU, CHING-TSUN, and director TING, HSUEH-WEN was on leave and therefore did not participate in the discussion and voting over this proposal. This proposal (the chairperson, Chairman WANG, JIUNN-CHIH, recused himself, and Vice Chairman CHAO, YUNG-FEI acted on his behalf) was adopted without any objection upon consultation by the chairperson with the directors present.

- 1st special meeting, 11th Board of Directors (2019.06.24)

1. Proposal: Recommendations for the engagement of and attendance fees for members of the 4th Remuneration Committee of the Company.

Reason for avoidance and the vote outcome: Independent directors LEE, SHEN-YI and SU, PING-CHANG were recommended for engagement as members of the 4th Remuneration Committee and had avoided involvement in this case due to status as stakeholders. This proposal was adopted without objection upon consultation by the chairperson with the remaining directors present.

2. Proposal: New appointment of the representative of the corporate director CSC Venture Capital Corp., the Company's reinvestment enterprise, and for the President.

Reason for avoidance and the vote outcome: Director/President CHIA, CHUNG-TAO was recommended for new appointment of the representative of the corporate director CSC Venture Capital Corp. and had avoided involvement in this case due to status as a stakeholder. This proposal was adopted without objection upon consultation by the chairperson with the remaining directors present.

- 1st meeting, 11th Board of Directors (2019.07.25)

1. 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. This proposal (the chairperson, Chairman WANG, JIUNN-CHIH, recused himself, and director SHEA, JIA-DONG acted on his behalf) was adopted without any objection upon consultation by the chairperson with the directors present.

- 2nd meeting, 11th Board of Directors (2019.08.29)

1. Proposal: Approval of distribution of holiday bonuses to officers at the level of manager or higher in the first half of 2019.

Reason for avoidance and the vote outcome: Chairman WANG, JIUNN-CHIH and director/President CHIA, CHUNG-TAO were among those receiving the distributed bonuses and 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 the director LIU, CHING-TSUN) The remaining directors were consulted and passed without objection.

- 3rd meeting, 11th Board of Directors (2019.09.26)

1. 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.

- 4th meeting, 11th Board of Directors (2019.11.11)

1. Proposal: Capital Futures Corp., the reinvestment enterprise of the Company, plans to issue 34,000,000 common shares for cash capital increase.

Reason for avoidance and the vote outcome: Chairman WANG, JIUNN-CHIH and director LIU, CHING-TSUN were the representatives of Capital Securities Corporation, a corporate director of Capital Futures Corp. Independent director SHEA, JIA-DONG was an independent director of Capital Futures Corp and had avoided involvement in this case due to status as stakeholders. This proposal (the chairperson, Chairman WANG, JIUNN-CHIH, recused himself, and director CHANG, CHIH-MING acted on his behalf) was adopted without any objection upon consultation by the chairperson with the directors present.

- 5th meeting, 11th Board of Directors (2020.01.21)

1. Proposal: Approval of the results of performance appraisal for officers at the level of manager or higher in 2019.

Reason for avoidance and the vote outcome: Chairman WANG, JIUNN-CHIH and director/President CHIA, CHUNG-TAO were among those undergoing the performance appraisal and had avoided involvement in this case due to status as stakeholders. This proposal was received and acknowledged (the chairperson, Chairman WANG, JIUNN-CHIH, recused himself, and director SHEA, JIA-DONG acted on his behalf).

2. Proposal: Approval of distribution of year-end bonuses to officers at the level of manager or higher in 2019.

Reason for avoidance and the vote outcome: Chairman WANG, JIUNN-CHIH and director/President CHIA, CHUNG-TAO were among those receiving the distributed bonuses and had avoided involvement in this case due to status as stakeholders. This proposal (the chairperson, Chairman WANG, JIUNN-CHIH, recused himself, and director SHEA, JIA-DONG acted on his behalf) was adopted for approval without any objection upon consultation by the chairperson with the directors present.

3. Proposal: Issuance of a Letter of Comfort for the capital required for the business of the 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. This proposal (the

chairperson, Chairman WANG, JIUNN-CHIH, recused himself, and director SHEA, JIA-DONG acted on his behalf) was adopted without any objection upon consultation by the chairperson with the directors present.

4. Proposal: Participation in purchase of the shares of Capital Futures, the reinvestment enterprise of the Company, for cash capital increase.

Reason for avoidance and the vote outcome: Chairman WANG, JIUNN-CHIH and director LIU, CHING-TSUN were the representatives of Capital Securities Corp., a corporate director of Capital Futures Corp and had avoided involvement in this case due to status as stakeholders. This proposal (the chairperson, Chairman WANG, JIUNN-CHIH, recused himself, and director CHANG, CHIH-MING acted on his behalf) was adopted without any objection upon consultation by the chairperson with the directors present. The Chairman has been authorized to make the purchase at the actual issue price per share within the limit of a maximum of 19,883,169 shares.

- 6th meeting, 11th Board of Directors (2020.03.26)

1. Proposal: Issuance of a Letter of Comfort for the capital required for business expansion of the 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.

2. Proposal: Issuance of a Letter of Comfort for the capital required for the business of the 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.

3. Proposal: CSC Securities (HK) Ltd., the Company's overseas reinvestment enterprise, plans to continue to apply to its parent CSC International Holdings Ltd. for short-term financing of an amount of US\$10,000,000.

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.

4. Proposal: List of candidates nominated by the Company for the independent directors of Capital Futures Corp., to be submitted to its 2020 annual shareholders' meeting.

Reason for avoidance and the vote outcome: Chairman WANG, JIUNN-CHIH and director LIU, CHING-TSUN were the representatives of Capital Securities Corp., a corporate director of Capital Futures Corp and had avoided involvement in this case due to status as stakeholders. This proposal (the chairperson, Chairman WANG, JIUNN-CHIH, recused himself, and director CHANG, CHIH-MING acted on his behalf) was adopted without any objection upon consultation by the chairperson with the directors present.

3. The objectives for enhancement of the functions of the Board of Directors (e.g., establishment of an Audit Committee, improvement of information transparency, etc.) during the current and most recent years and evaluation of the implementation of such objectives.
  1. To enhance the functions of the Board of Directors, the Company has established functional committees under the Board of Directors including the Remuneration Committee, Risk Management Committee and Audit Committee. In line with the international trend in corporate governance and the requirements of the competent authority, the Company will continue strengthening the structure and operations of the Board of Directors in relation to the aspect of corporate governance in order for the Board of Directors to fully perform its professional and independent functions.
  2. To implement corporate governance and enhance the functions of the Board of Directors and functional committees, the 6th meeting of the 11th Board of Directors held on March 26, 2020 adopted the "Regulations for Appraisal of the Performance of the Board of Directors and Functional Committees". Starting from 2020, an appraisal of the performance of the Board of Directors will be conducted annually.



## (2) Functionality of the Audit Committee

The Audit Committee held nine meetings (A) during the most recent year (2019.01.01~2020.03.31). The attendance of the independent directors is as follows:

Title	Name	Actual attendance (B)	Proxy attendance	Attendance rate (%) (B/A) (Note)	Remarks
Independent Director	SHEA, JIA-DONG	9	0	100%	Re-elected Date of election: 2019.06.24
Independent Director	LEE, SHEN-YI	6	0	100%	Newly elected Date of election: 2019.06.24
Independent Director	SU, PING-CHANG	6	0	100%	Newly elected Date of election: 2019.06.24
Former Independent Director	LIN, HSIN-HUI	3	0	100%	Former Date of election: 2019.06.24
Former Independent Director	HWANG, JYH-DEAN	3	0	100%	Former Date of election: 2019.06.24

Note: Where any election of independent directors has been held before the end of the year, both new and former independent directors shall be named. Each independent director shall be indicated as former, newly elected or re-elected in the remarks column, with the date of election thereof specified. The actual attendance rate (%) is calculated based on the number of Audit Committee meetings during the term of office and the actual attendance.

Other relevant information:

- Where any of the following circumstances occurs during the operation of the Audit Committee, the date, term and proposal of the relevant Board of Directors meeting as well as the resolution of the Audit Committee and actions taken by the Company on the opinions of the Audit Committee shall be specified.

- The matters referred to in Article 14-5 of the Securities and Exchange Act.
- In addition to the matters mentioned above, any resolution approved by more than two-thirds of all the directors but not approved by the Audit Committee.

- 13th meeting, 1st Audit Committee on 2019.03.18 (17th meeting, 10th Board of Directors on 2019.03.29)

- Proposal: Ratification of amendment to the "Internal Control System" and the "Rules for Implementation of Internal Audits" of the Company.

Description: To proceed according to "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets," Tai-Zheng-Fu-Zi No. 1070023227 dated November 30, 2018 and Bao-Jie-Ji-Zi 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.

- Proposal: The "Statement on the Internal Control System" of the Company for 2018.

Description: In 2018, the relevant departments completed self-assessments at the overall and operational levels. According to the result of assessment, the whole internal control system was effective. Where disciplinary actions were imposed by the competent authority in 2018 not due to material deficiencies in the internal control system, the format of the 2018 "Statement on the Internal Control System" would "state that the design and implementation of the internal control system are effective, and declare compliance with all the relevant laws and regulations".

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

3. Proposal: The individual and consolidated financial statements for 2018 have been prepared by the Company and audited by Feng-Hui Lee and Tan-Tan Chung, CPAs from KPMG Taiwan, with issuance of an audit report.

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.

4. Proposal: Amendment of certain clauses of the "Procedures for the Acquisition or Disposal of Assets" of the Company.

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 Jin-Guan-Zheng-Fa-Zi 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.

- 14th meeting, 1st Audit Committee on 2019.04.29 (18th meeting, 10th Board of Directors on 2019.05.13)

1. Proposal: Amendment to the "Procedures for Endorsements/Guarantees" of the Company.

Description: It is proposed to amend the "" pursuant to Order Jin-Guan-Zheng-Shen-Zi No. 1080304826, dated March 7, 2019, from the Financial Supervisory Commission.

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

- 1st meeting, 2nd Audit Committee on 2019.08.14 (2nd meeting, 11th Board of Directors on 2019.08.29)

1. Proposal: Ratification of amendment to the "Internal Control System" and the "Rules for Implementation of Internal Audits" of the Company.

Description: The proposal is in accordance with the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets", Letter Tai-Zheng-Fu-Zi No. 1080006710 dated April 26, 2019, Letter Tai-Zheng-Fu-Zi No. 1080008517 dated May 23, 2019, Letter Tai-Qi-Fu-Zi No. 10800016781 dated June 6, 2019 and Letter Tai-Zheng-Fu-Zi No. 1080011659 dated July 10, 2019.

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

2. Proposal: Change in the accounting manager of the Company.

Description: Manager XIE of the Accounting Office under the Finance Department retired on August 1, 2019, and the vacancy was filled by manager LIN of Accounting Sections 1 and 2 of the Accounting Office.

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

3. Proposal: The individual and consolidated financial statements for Q2 of 2019 (January-June 2019) have been prepared by the Company and audited by Feng-Hui Lee and Tan-Tan Chung, CPAs from KPMG Taiwan, with issuance of an audit report with unqualified opinions.

Resolution: Vice President TAN, TE-CHENG of the Finance Department will report the financial figures, and then the CPAs will give additional explanations and have a discussion with the committee members. Following the departure of auxiliary meeting participants, the motion was unanimously passed without objection from members of the committee.

- 3rd meeting, 2nd Audit Committee on 2019.10.28 (4th meeting, 11th Board of Directors on 2019.11.11)

1. Proposal: Ratification of amendment to the “Internal Control System” and the “Rules for Implementation of Internal Audits” of the Company.

Description: The proposal is in accordance with the “Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets” and Letter Tai-Zheng-Fu-Zi No. 1080502440 dated September 11, 2019.

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

2. Proposal: Assessment by the Company on the independence of CPAs in 2019.

Description: The Company has prepared an independence assessment form in accordance with Article 47 of the Certified Public Accountant Act and the contents of Bulletin No. 10 “Integrity, Impartiality, Objectivity and Independence” of the Norm of Professional Ethics for Certified Public Accountants of the Republic of China. In addition, a statement of the CPAs and a draft of the assessment on independence of the CPAs have been obtained. It has been assessed that both Certified Public Accountants, Feng-Hui Lee and Tan-Tan Chung 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.

3. Proposal: Professional fees for the CPAs of the Company in 2020.

Description: The amount of professional fees in the current year is the same as that in the previous year.

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

4. Proposal: It is proposed to repurchase the shares of the Company in accordance with Article 28 of the Securities and Exchange Act and Article 2 of the “Regulations Governing Share Repurchase by Exchange-Listed and OTC-Listed Companies”.

Description:

- (1) Purpose of share repurchase: To maintain the Company's credibility and shareholders' equity.
- (2) The Company may legally repurchase a maximum of 232,090,810 shares, with the amount repurchased not exceeding NT\$9,055,984,631.
- (3) The period for repurchase is between November 12, 2019 and January 11, 2020.
- (4) The number of shares to be repurchased is 150,000,000, with a total amount not exceeding NT\$1,800,000,000.
- (5) The prices for the planned repurchase range from NT\$8.5 to NT\$12 per share.
- (6) Method of repurchase: Repurchase from the centralized exchange market.
- (7) The shares to be repurchased account for only 6.46% of the shares issued by the Company, and the maximum amount required for the share repurchase only represents 2.59% of the current assets of the Company. Therefore, the financial condition of the Company and the maintenance of capital thereof will not be affected.
- (8) Number of shares of the Company held: 0.
- (9) The maximum amount for repurchase in (2), the percentage the amount represents of the current assets and the financial information specified in the statement by the Board of Directors will be subject to necessary adjustment in accordance with the consolidated financial statements for Q3 of 2019, as audited by the CPAs.

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

5. Proposal: Amendment to the accounting system of the Company.

Description: It is proposed to amend the accounting system of the Company in accordance with the International Financial Reporting Standards (IFRS) and the Regulations Governing the Preparation of Financial Reports by Securities Firms, as amended.

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

- 4th meeting, 2nd Audit Committee on 2020.01.15 (5th meeting, 11th Board of Directors on 2020.01.21)

1. Proposal: Participation in purchase of the shares of Capital Futures, the reinvestment enterprise of the Company, for cash capital increase.

Description: The Company plans to, as an original shareholder and based on its current shareholding percentage of 56.21%, purchase 15,290,242 shares of Capital Futures. Where the total amount of shares payable to Capital Futures for cash capital increase has not been paid up by the end date of the payment period, the Company plans to purchase 4,592,927 shares through specific persons. In total, the Company plans to purchase 19,883,169 shares for an amount of NT\$0.716 billion, calculated with a tentative issue price of NT\$36 per share.

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

- 5th meeting, 2nd Audit Committee on 2020.03.17 (6th meeting, 11th Board of Directors on 2020.03.26)

1. Proposal: Ratification of amendment to the "Internal Control System" and the "Rules for Implementation of Internal Audits" of the Company.

Description: The proposal is in accordance with the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets", Letter Tai-Zheng-Zhi-Li Zi No. 1080008378 dated May 23, 2019, Letter Tai-Zheng-Shang-I-Zi No. 1081805654 dated December 9, 2019, Letter Zhong-Zheng-Shang-Ye-Er-Zi No. 1090500268 dated December 25, 2019 and Letter Tai-Zheng-Fu-Zi No. 1090500268 dated February 10, 2020.

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

2. Proposal: The "Statement on the Internal Control System" of the Company for 2019.

Description: In 2019, the relevant departments completed self-assessments at the overall and operational levels. According to the result of assessment, the whole internal control system was effective. Where disciplinary actions were imposed by the competent authority in 2019 not due to material deficiencies in the internal control system, the format of the 2019 "Statement on the Internal Control System" would "state that the design and implementation of the internal control system are effective, and declare compliance with all the relevant laws and regulations".

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

3. Proposal: The individual and consolidated financial statements for 2019 have been prepared by the Company and audited by Feng-Hui Lee and Tan-Tan Chung, CPAs from KPMG Taiwan, with issuance of an audit report with unqualified opinions.

Resolution: Vice President TAN, TE-CHENG of the Finance Department will report the financial figures, and then the CPAs will give additional explanations and have a discussion with the committee members. Following the departure of auxiliary meeting participants, the motion was unanimously passed without objection from members of the committee.

4. Proposal: Amendment to the "Procedures for the Acquisition or Disposal of Assets" of the Company.

Description: Amendment of certain clauses of the "Procedures for the Acquisition or Disposal of Assets" of the Company in accordance with the "Standards for the Internal Control Systems of Securities Firms" of TWSE.

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

2. With respect to the status of recusal of any independent director with an interest in any proposal, the name of the independent director, title of the proposal, reasons for recusal, and participation in the voting shall be described.
  - At the Audit Committee meetings held during 2019.01.01~2020.03.31, there wasn't any proposal involving the interest of any independent director.
3. Communications of independent directors with the chief internal auditor and CPAs (including important matters, methods and results with respect to communication of the Company's financial and business conditions).
  1. Each month, the Company will prepare a written report regarding the deficiencies found by the audit in the previous month and the follow-up to improvement of such deficiencies and submit it to the independent directors for examination. The independent directors will give instructions for further explanation/presentation of the report or provide other suggestions.
  2. The chief internal auditor of the Company will convene meeting of the Audit Committee at least quarterly to give explanation to the independent directors regarding the auditing activities and results and the follow-up thereto.
  3. The Company will convene meetings of the Board of Directors at least quarterly, with the independent directors and chief internal auditor attending such meetings. The chief internal auditor will present a report at each meeting of the Board of Directors regarding the internal auditing activities and results and the follow-up thereto.
  4. During review of the semi-annual and annual financial reports, the CPAs will attend the Audit Committee meeting to give explanation and have adequate discussion with the independent directors regarding the process of auditing the Company's financial statements, matters within the scope and updates to the relevant laws and regulations. The CPAs will also attend the Board of Directors meeting to give explanation to the directors.
  5. If necessary, the chief internal auditor, CPAs and independent directors may directly communicate with each other, and the channels for communication have remained open and unimpeded.
  6. For the subjects and summaries of communications among the independent directors, chief internal auditor and CPAs and the actions taken by the Company in response for implementation, please visit the website of the Company.

(3) Status of corporate governance, differences with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies, and reasons thereof.

Assessment criteria	Status of operation			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
1. Has your company established and disclosed its corporate governance best practice principles pursuant to the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies?	✓		The Company has established the "Corporate Governance Best Practice Principles", which are disclosed on the Company's website, the internal site and the MOPS.	N/A
2. Shareholding structure and shareholder's equity				
(1) Does your company have an internal procedure and act accordingly for handling shareholders' suggestions, questions, disputes, and lawsuits?	✓		(1) The Company has established the "Regulations for the Handling of Business Disputes" and "Regulations for Fair Treatment of Customers". The business units have established regulations or requirements for the protection of customers' rights and interests, the standard operations of business personnel, the use of customer information, confidentiality and the reporting and processing of customers' opinions. Additionally, the Company has appointed spokespersons and set up contacts for investor relations and stock services, and there is a section of "Investor Relation" on the Company's website. There are also a Customer Service Center and an Office for Compliance and Legal Affairs responsible for contacting and communicating with the stakeholders and handling all relevant suggestions, questions, disputes and lawsuits.	N/A
(2) Does your company have lists of the major shareholders who actually control the company and the persons who have ultimate control of the major shareholders?	✓		(2) The Company keeps track of shareholders and their shareholding positions by monitoring the shareholder registry and monthly holding reports. The lists of major shareholders whose directors are corporate shareholders and those whose major shareholders are corporations are disclosed on pp. 9-15, and the shareholders whose shareholding ratios are in the top 10 are disclosed on p. 75.	N/A
(3) Does your company have a firewall mechanism in place to control the risks between the company and its affiliates?	✓		(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) Does your company have internal regulations to prohibit insiders of the company from using undisclosed information in the market to trade securities?	✓		(4) The Company has established the "Procedures for Ethical Management and Guidelines for Conduct", "Regulations for the Processing of Material Internal Information" and "Regulations for the Management of Accounts Opened by Insiders for Trading of Securities and Futures" to regulate the use of undisclosed information in the market by insiders for trading of securities.	N/A
3. Composition and responsibilities of the Board of Directors				
(1) Does your company have and implement a policy of diversification for the composition of the Board of Directors?	✓		(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. In order to improve corporate governance and strengthen the functions and	N/A



Assessment criteria	Status of operation			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
			independence of the independent directors, the Company has adopted strict standards and regulations stipulating that no director shall serve for more than three consecutive terms, and there has not been any director serving for more than three consecutive terms. The professional knowledge possessed by the members of the Board of Directors include business management, international business, information/technology, banking, securities, financial management and law studies. The members come from diverse backgrounds, including senior academics and people with rich experience in the relevant industries. Such backgrounds are beneficial for enhancing the overall development strategy and operating performance of the Company. Board members' information is disclosed in page 7-8.	
(2) Does your company voluntarily establish other functional committees similar to the Remuneration Committee and Audit Committee set up pursuant to the relevant laws and regulations?	✓		(2) The Company currently has Remuneration Committee, Audit Committee, Risk Management Committee, Integrity Committee, and Human Resource Review Committee in place.	N/A
(3) Does your company have regulations and methods for evaluating the performance of the Board of Directors and conduct regular performance evaluation every year? Does your company submit the results of the performance evaluation to the Board of Directors? Are the results used as the basis for the remuneration and nomination for re-election of individual directors?	✓		(3) At the 6th meeting of the 11th Board of Directors held on March 26, 2020, the Company adopted the "Regulations for Appraisal of the Performance of the Board of Directors and Functional Committees". Such appraisal will start from this year (2020), and its result will be submitted as a report to the Board of Directors by the end of Q1 of the next year (2021).	N/A
(4) Does your company assess the independence of the CPAs on a regular basis?	✓		(4) The Company has prepared an independence assessment form in accordance with Article 47 of the Certified Public Accountant Act and the contents of Bulletin No. 10 "Integrity, Impartiality, Objectivity and Independence" of the Norm of Professional Ethics for Certified Public Accountants of the Republic of China. The form is used to evaluate the independence, professionalism and competence of the CPAs and to assess whether they are related to or have business or financial interests with the Company. In addition, a statement of the CPAs and a draft of the assessment on independence of the CPAs have been obtained. The Company conducts an assessment on the independence of the CPAs at the meetings of the Audit Committee and Board of Directors held in Q4 of each year. The assessment in 2019 concluded that Feng-Hui Lee and Tan-Tan Chung, the CPAs from KPMG Taiwan, met the criteria for assessment of independence and were competent to serve as the CPAs of the Company for financial and tax certification. For the resolutions of the Board of Directors regarding assessment on the independence of the CPAs, please see p. 29.	N/A



Assessment criteria	Status of operation			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
4. Does your TWSE/TPEX-listed company designate competent and an appropriate number of corporate governance personnel along with a chief corporate governance officer responsible for related matters (including, but not limited to, providing information required by directors and supervisors to perform their duties, assisting directors and supervisors in compliance, handling matters related to the Board of Directors and shareholders' meetings and preparing minutes of the Board of Directors and shareholders' meetings)?	✓		At the 18th meeting of the 10th Board of Directors held on May 13, 2019, a resolution was adopted for the manager of the Planning Office to act as the chief corporate governance officer. A Corporate Governance Section has been established under the Planning Office with an appropriate number of competent personnel to, in accordance with the law, manage affairs relating to the Board of Directors and shareholders' meeting, produce minutes of the Board of Directors and shareholders' meeting, help directors take office and receive continuing education, provide directors with the information required for business, assist directors in compliance, carry out ethical management and prepare CSR reports. The purposes are to promote corporate governance, enhance the functions of the Board of Directors and build a culture of corporate governance.	N/A
5. Does your company establish channels for communication with stakeholders (including but not limited to shareholders, employees, customers, and suppliers), design special web pages for the stakeholders on the website, and appropriately respond to important CSR issues which the stakeholders are concerned with?	✓		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. Does your company engage any professional registrar to deal with matters related to the shareholders' meeting?	✓		Capital Securities Corporation is an integrated securities service provider, and has a Registrar Agency Department to handle shareholder meeting affairs.	N/A
7. Disclosure of information				
(1) Does your company have a website to disclose the financial and corporate governance information of the company?	✓		(1) Financial, business and corporate governance information has been disclosed on the Company's website and is updated regularly to keep investors informed.	N/A
(2) Does your company adopt other information disclosing methods (such as setting up an English website, designating a person for collection and disclosure of information, implementing a spokesperson system, and publishing the process of investor conferences on the website)?	✓		(2) 1. The Company has made an English version of its website that is accessible from the home page. 2. The relevant departments are in charge of the collection and disclosure of the Company's information. 3. The Company has appointed spokespersons and set up a section for investor relations, and has disclosed the contact persons and methods on its website to provide convenient channels of communication for investors. 4. The information and video recording files of the investor conferences held by the Company are disclosed on its website.	N/A
(3) Does your company publish and file the annual financial report within two months after the end of a fiscal year? Does your company publish and file the Q1, Q2 and Q3 financial reports and monthly operating performance before the required time limit?		✓	(3) In accordance with the "Securities and Exchange Act" and "Regulations Governing Securities Firms", the Company publish and file the annual financial report, the financial statements of Q1-Q3 and the monthly operating results.	The Company has been in compliance with the "Securities and Exchange Act" and "Regulations Governing Securities Firms".

Assessment criteria	Status of operation			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
8. Does your company have additional important information that is helpful to understand the operation of corporate governance (including but not limited to the interests and care of employees, investor relationship, supplier relationship, rights of stakeholders, continuing education of directors and supervisors, implementation of risk management policies and measurement criteria, implementation of customer policies, and purchase by the Company of liability insurance for directors and supervisors)?	✓		<p>(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.</p> <p>(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 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 relationship: The Company has required its suppliers to meet the requirements of corporate governance and ensure their operations are in compliance with the applicable laws and regulations. They are also required to fulfill CSR jointly. If any supplier is involved in any violation of the CSR policy that has significant environmental and social impact, the Company may terminate or cancel the contractual terms at any time, and the supplier may not claim any compensation from the Company.</p> <p>(5) Continuing education of directors: Detailed information regarding continuing education of the directors of the Company is disclosed on p. 66.</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 the resolution adopted by the Board of Directors regarding the purchase of liability insurance for all directors, please see p. 62.</p>	N/A

Assessment criteria	Status of operation			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
9. On the basis of the result of corporate governance evaluation released by TWSE's Corporate Governance Center in the most recent year, please describe the matters to which improvements have been made. Regarding the matters to which improvements have yet to be made, please list those which have been selected as priorities and the measures to be taken. In 2019, 1,600 TWSE/TPEX-listed companies participated in corporate governance evaluation. According to the result of evaluation, the Company was ranked in the top 6% to 20% among the companies evaluated. The Company has been committed to protecting the rights and interests of shareholders, fair treatment of shareholders, strengthening the structure and functions of the Board of Directors, improving information transparency and fulfilling CSR. Currently, the Company prioritizes the strengthening of the structure and functions of the Board of Directors, while reviewing the categories where it failed to receive any score and finding measures for improvement.				

#### (4) Disclose the composition, responsibilities, and functioning of remuneration committee, if available:

##### 1. Information of the members of the Remuneration Committee - Professional qualifications and independence

Member status (Note 1)	Criteria Name	Having more than 5 years' work experience and the following qualifications			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	9	10		
Independent Director	LEE, SHEN-YI		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	
Independent Director	SU, PING-CHANG		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Other	YEN, CHIEN-SAN		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent Director	HWANG, JYH-DEAN	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	Left office on 2019.6.23
Other	CHUANG, CHIH-CHENG		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	

Note 1: The member type shall be specified as a director, an independent director or other.

Note 2: A member is required to mark a "V" in the blank below the number of any of the following requirements which he/she has satisfied during the two years before being elected and during his/her term of office.

- (1) The member is not an employee of the Company or any of its affiliates.
- (2) The member is not a director or supervisor of the Company or any of its affiliates (except for an independent director of the Company, its parent or subsidiary or any subsidiary of the same parent appointed pursuant to the Act or any local laws and regulations).
- (3) The member is not a natural-person shareholder who holds shares, together with those held by his/her spouse or minor children or held in the name of another person, in an aggregate amount of at least 1% of the total shares issued by the Company or is one of the top-10 shareholders of the Company.
- (4) The member is not a spouse, relative within the second degree of kinship or lineal relative within the third degree of kinship, of any manager under (1) or any of the persons under (2) and (3).
- (5) The member is not a director, supervisor or employee of any corporate shareholder that directly holds at least 5% of the total shares issued by the Company, is one of the top-5 shareholders of the Company or has appointed a representative as a director or supervisor of the Company pursuant to Article 27, Paragraph 1 or 2 of the Company Act (except for an independent director of the Company, its parent or subsidiary, or any subsidiary of its parent appointed pursuant to the Company Act or local laws and regulations).
- (6) The member is not a director, supervisor or employee of any other company where more than half of its directors or voting shares are controlled by the same person (except for an independent director of the Company, its parent or subsidiary, or any subsidiary of its parent appointed pursuant to the Company Act or local laws and regulations).
- (7) The member is not a director, supervisor or employee of any other company or institution who also serves as or is in a spousal relationship with the Chairman, President or anyone holding an equivalent position of the Company (except for an independent director of the Company, its parent or subsidiary, or any subsidiary of its parent appointed pursuant to the Company Act or local laws and regulations).
- (8) The member is not a director, supervisor, manager or shareholder holding at least 5% of the shares of any company or institution which has engaged in financial or business dealings with the Company (except where the company or institution holds at least 20% and no more than 50% of the total shares issued by the Company and is an independent director of the Company, its parent or subsidiary, or any subsidiary of its parent appointed pursuant to the Company Act or local laws and regulations).
- (9) The member is not an owner, partner, director, supervisor or manager, or a spouse thereof, of any professional, sole proprietorship, partnership, company or institution that engages in commercial, legal, financial and accounting services and which has conducted audit for the Company or any of its affiliates or has received a total amount of compensation not exceeding NT\$500,000 during the most recent two years, except for any member of any remuneration committee, public purchase review committee or special committee for mergers and acquisitions which performs its duties pursuant to the Securities and Exchange Act, Business Mergers And Acquisitions Act or other applicable laws and regulations.
- (10) None of the circumstances under Article 30 of the Company Act applies to the member.

## 2. Information on the operation of the Remuneration Committee

1. The Remuneration Committee of the Company is composed of three members.

2. Term of members:

- (1) The term of members of the 3rd Remuneration Committee: June 27, 2016 - June 23, 2019.  
Three (A) meetings of the 3rd Remuneration Committee were held during the most recent year (2019.1.1~2019.6.23), and the qualifications and attendance of the members are as follows:

Title	Name	Actual attendance (B)	Proxy attendance	Attendance rate (%) (B/A)	Remarks
Convener	HWANG, JYH-DEAN	3	0	100%	
Committee member	CHUANG, CHIH-CHENG	3	0	100%	
Committee member	YEN, CHIEN-SAN	3	0	100%	

- (2) The term of members of the 4th Remuneration Committee: June 24, 2019 - June 23, 2022. Six (A) meetings of the 4th Remuneration Committee were held during the most recent year (2019.6.24~2019.12.31), and the qualifications and attendance of the members are as follows:

Title	Name	Actual attendance (B)	Proxy attendance	Attendance rate (%) (B/A)	Remarks
Convener	LEE, SHEN-YI	6	0	100%	
Committee member	SU, PING-CHANG	6	0	100%	
Committee member	YEN, CHIEN-SAN	6	0	100%	

(3) Other relevant information:

1. If the Board of Directors does not adopt or revise the suggestions of the Remuneration Committee, the decision must indicate the date of Board of Directors meeting, term, contents of the proposal, Board of Directors resolution and how we handle the Committee's opinions(if the amount of remuneration adopted by the Board of Directors is higher than that suggested by the Committee, the differences and reasons must be indicated): None.
2. In the event that any member of the Remuneration Committee has expressed dissent or reservation over the Committee's decisions, and that the dissent or reservation has been recorded or delivered in writing, the decision shall indicate the date of the Committee's meeting, term, contents of the proposal, opinions of all the members, and how the opinions of a member is handled: None.

3. Scope of responsibilities of the Remuneration Committee:

- (1) Formulation and regular review of the policies, systems, standards and structures of the performance evaluation of and remuneration for directors and managers.
- (2) Regular evaluation and establishment of the remuneration for directors and managers.

## (5) Fulfillment of social responsibilities

Status of fulfillment of CSR, differences with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies, and reasons thereof.

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. Does your company conduct assessment on the risks of the environmental, social and corporate governance issues related to the operations of the company based on the materiality principle? Does your company formulate any risk management policy or strategy? (Note 3)	V		The Company has conducted assessment on the risks of the environmental, social and corporate governance issues related to the operations of the Company, and has formulated the relevant risk management policy or strategy.	N/A
2. Does your company set up any dedicated (or designate any existing) unit for the task of CSR promotion? Does the Board of Directors of your company authorize the management to handle relevant matters and report to the Board?	V		On March 27, 2015, the Board of Directors adopted the proposal to designate the Planning Office as the unit responsible for promoting CSR and authorized the President to be the person in charge of promoting CSR activities. The responsibility of the Planning Office for CSR mainly focuses on assistance in implementing CSR. In addition to establishing/amending CSR-related regulations, the Planning Office compiles and prepares a CSR report for the Company each year, submits the schedule of annual CSR activities and the status of implementation of the plans for the previous year to the Board of Directors, and presents a report in this regard at the annual shareholders' meeting. 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.	N/A
3. Environmental issues				
(1) Does your company have an environmental management system suitable for the industrial characteristics of the company?	V		(1) The Company is a financial and securities firm, not a manufacturing company. As there has been no environmental pollution, ISO 14001 or any similar environmental management system is not applicable.	N/A
(2) Does your company put efforts into enhancing the efficiency of resource usage? Does your company use recycled materials which have a low impact on the environmental load?	V		(2) The Company is a financial and securities firm with low pollution. It has not manufactured any product for sales, nor has it sold any product packaging material that has been demanded to be recalled. 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. Both sides of paper are used for photocopies, and a recycling shelf has been set up next to each copying machine to reduce the use of paper. All toner cartridges used will be returned to the original manufacturers for recycling. Eco-friendly toner powder is used to prevent pollution. Recycling bins have been placed on each floor for sorting of resources to reduce pollution and resource waste to achieve sustainable use of resources.	N/A
(3) Does your company assess the current and future risks and opportunities which climate change potentially brings to the company? Does your company take measures in response to climate-related issues?	V		(3) The Company has taken measures to assess the current and future risks and opportunities which climate change potentially brings, and has followed the government policy for energy saving and environmental protection to gradually replace energy-consuming equipment. Through the use of energy-efficient devices, regular self-inspection and irregular promotion of policies, the Company aims to lessen the impact of climate change to its operating activities.	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)	
(4) Does your company make statistics of the greenhouse gas emissions, water consumption and total waste weight during the previous two years? Does your company formulate policies for energy saving and carbon reduction, reduction of greenhouse gas emissions, reduction of water consumption or management of other waste?	V		(4) The Company conducts greenhouse gas inventories on an annual basis. In 2020, CO2 emissions generated by the use of water, electricity and fuels have amounted to approximately 2.968 million kgs, a decrease of 11.2% from the previous year.	N/A
4. Social issues				
(1) Does your company have management policies and procedures in accordance with relevant regulations and international human rights conventions?	V		(1) The labor terms agreed to by the Company with its employees regarding wages, days off, leave, retirement and compensation for occupational injuries have all met the requirements of the "Labor Standards Act" in order to protect the rights and interests of employees, ensure employee management and promote harmonious labor relations. In accordance with the "Act of Gender Equality in Employment", the Company has established the "Regulations on Complaints and Punishments for Measures to Prevent Sexual Harassment at Workplace". The Company has stipulated in the "Work Rules" that all employees must be covered by labor insurance and the National Health Insurance. Subsidies for the premiums thereof will be provided by the Company in accordance with the applicable laws and regulations. The Company's policies regarding the recruitment, selection and employment of job applicants or the assignment, placement, performance appraisal, promotion, training and remuneration of employees do not discriminate on the basis of gender, sexual orientation, age, race or religion.	N/A
(2) Does your company establish and implement reasonable employee benefit measures (including remuneration, leave and other benefits)? Is the operating performance or result properly reflected in the remuneration for employees?	V		(2) The Company has established the Work Rules and other relevant personnel regulations and systems, whose scope includes minimum wages, working hours, leave, pension payments, labor and health insurance benefits and compensation for occupational injuries. They are all in compliance with the relevant requirements under the Labor Standards Act. The Company has established an Employee Welfare Committee. Elected by the employees, the Committee is in charge of all welfare-related affairs. The Company's remuneration policy is based on personal merits, degree of contribution to the Company and work performance, and is positively related to the operating performance of the Company.	N/A
(3) Does your company provide a safe and healthy work environment to its employees? Does your company regularly provide its employees with safety and health education?	V		(3) The Company offers a clean environment to its employees, who are also provided with safety protection equipment required for their safety and health. Moreover, the Company regularly inspects the work environment, organizes health examination for its employees and invites doctors from the Cathay General Hospital to provide health consultation services on site.	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)													
			<table><tr><th>Implemented measures</th><th>Item</th><th>Description</th></tr><tr><td rowspan="3">Employee Health</td><td rowspan="2">Insurance and welfare</td><td>(1) Measures mandated by law 1. Labor and health insurance. 2. The "Regulations on Complaints and Punishments for Measures to Prevent Sexual Harassment at Workplace" has been established. 3. "Employee lactation rooms" have been set up. 4. Regular health examinations have been organized for employees. 5. Doctors have been engaged to provide regular consultation services, including health education, health promotion and health guidance for employees, at the Company's Head Office. (2) 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. Free massage services have been provided to the employees of the Head Office. 4. Health lectures such as "Low Salt Diet for Office Workers" and "Yoga for Office Workers" have been organized to raise the awareness of physical fitness among the employees. 5. The "Regulations for Management of the Establishment of Recreational and Charitable Clubs and Their Funding" has been established to encourage the employees to get into the habit of participating in sports and charitable activities. 6. The Company has been certified as an "iSports Corporation" by the Sports Administration, Ministry of Education.</td></tr><tr><td>(1) The Company has established the "Measures for Prevention of Smoking Hazards". (2) The Company acquired "Badge of Accredited Healthy Workplace" from Health Promotion Administration, Ministry of Health and Welfare (3) The Company acquired "Certification for Voluntary Public Indoor Air Quality Management" from Taipei City Department of Environmental Protection.</td></tr><tr><td rowspan="2">Safety of work environment</td><td>Safety certification</td><td>The Company has received the ISO22301 certification for business continuity management. The primary purpose of the certification is to ensure that the Company will be able to minimize damage in any sudden event of emergency to maintain personnel safety, compliance, customers' rights and interests, the Company's goodwill and security of the Company's assets, and to make sure the important business activities of the Group can gradually resume within the target recovery time to maintain operations.</td></tr><tr><td>Certification for personal information</td><td>The Company is the first financial institution to obtain international certification for personal information management with respect to securities, futures, and insurance brokerage/agency services. It shows that the Personal Information Management System (PIMS) adopted by the Company offers effective protection and management of personal information, and complies with all requirements of the Personal Information Protection Act to protect the rights of information owners, while at the same time minimize possible impacts from event of attack. It represents the Company's</td></tr></table>	Implemented measures	Item	Description	Employee Health	Insurance and welfare	(1) Measures mandated by law 1. Labor and health insurance. 2. The "Regulations on Complaints and Punishments for Measures to Prevent Sexual Harassment at Workplace" has been established. 3. "Employee lactation rooms" have been set up. 4. Regular health examinations have been organized for employees. 5. Doctors have been engaged to provide regular consultation services, including health education, health promotion and health guidance for employees, at the Company's Head Office. (2) 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. Free massage services have been provided to the employees of the Head Office. 4. Health lectures such as "Low Salt Diet for Office Workers" and "Yoga for Office Workers" have been organized to raise the awareness of physical fitness among the employees. 5. The "Regulations for Management of the Establishment of Recreational and Charitable Clubs and Their Funding" has been established to encourage the employees to get into the habit of participating in sports and charitable activities. 6. The Company has been certified as an "iSports Corporation" by the Sports Administration, Ministry of Education.	(1) The Company has established the "Measures for Prevention of Smoking Hazards". (2) The Company acquired "Badge of Accredited Healthy Workplace" from Health Promotion Administration, Ministry of Health and Welfare (3) The Company acquired "Certification for Voluntary Public Indoor Air Quality Management" from Taipei City Department of Environmental Protection.	Safety of work environment	Safety certification	The Company has received the ISO22301 certification for business continuity management. The primary purpose of the certification is to ensure that the Company will be able to minimize damage in any sudden event of emergency to maintain personnel safety, compliance, customers' rights and interests, the Company's goodwill and security of the Company's assets, and to make sure the important business activities of the Group can gradually resume within the target recovery time to maintain operations.	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	
Implemented measures	Item	Description														
Employee Health	Insurance and welfare	(1) Measures mandated by law 1. Labor and health insurance. 2. The "Regulations on Complaints and Punishments for Measures to Prevent Sexual Harassment at Workplace" has been established. 3. "Employee lactation rooms" have been set up. 4. Regular health examinations have been organized for employees. 5. Doctors have been engaged to provide regular consultation services, including health education, health promotion and health guidance for employees, at the Company's Head Office. (2) 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. Free massage services have been provided to the employees of the Head Office. 4. Health lectures such as "Low Salt Diet for Office Workers" and "Yoga for Office Workers" have been organized to raise the awareness of physical fitness among the employees. 5. The "Regulations for Management of the Establishment of Recreational and Charitable Clubs and Their Funding" has been established to encourage the employees to get into the habit of participating in sports and charitable activities. 6. The Company has been certified as an "iSports Corporation" by the Sports Administration, Ministry of Education.														
		(1) The Company has established the "Measures for Prevention of Smoking Hazards". (2) The Company acquired "Badge of Accredited Healthy Workplace" from Health Promotion Administration, Ministry of Health and Welfare (3) The Company acquired "Certification for Voluntary Public Indoor Air Quality Management" from Taipei City Department of Environmental Protection.														
	Safety of work environment	Safety certification	The Company has received the ISO22301 certification for business continuity management. The primary purpose of the certification is to ensure that the Company will be able to minimize damage in any sudden event of emergency to maintain personnel safety, compliance, customers' rights and interests, the Company's goodwill and security of the Company's assets, and to make sure the important business activities of the Group can gradually resume within the target recovery time to maintain operations.													
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														

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) Does your company have effective programs for development and training regarding employees' career skills?	V			commitment to continually manage and improve its personal information management system.	
			Workers' safety	The Company has complied with the "Occupational Safety and Health Act" by appointing an OSH Officer, a team of first aid officers, and organizing training according to the Worker Safety Education Principles The Company has 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.	
			Fire safety	1. Fire drills have been held on a regular basis. 2. In accordance with the Fire Services Act and its Enforcement Rules, a fire safety manager has been appointed. The manager has regularly attended seminars and recurrent training sessions.	
			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 accident liability insurance.	
			(4) The Company has the following programs for development and training regarding employees' career skills: 1. To cultivate all kinds of professional talents, the Company has designed comprehensive training programs based on the different career stages and organizational development needs of employees at all levels to provide timely and diverse learning channels for the employees in order to achieve win-win benefits from the development of organizational talents and personal careers. 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 2007, the Capital Financial Academy was founded as the cradle of managers trained internally by the Company. 2. Intensive training of business personnel has been organized through video conferencing and broadcasting across the country to enhance their professional competences and skills. Also, in order to improve learning performance, various e-learning and training courses have been designed by using electronic systems that allow the employees to learn and grow at any time and any place. 3. To encourage the employees to acquire financial certificates, the Company has established regulations concerning incentives for professional exams and subsidies for the application fees of certification exams.		N/A

Assessment criteria	Compliance (Note 1)			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description (Note 2)	
(5) Does your company conform to the relevant regulations and international standards with respect to customer health and safety, customer privacy, marketing and labeling for products and services? Does your company establish the relevant consumer rights protection policies and complaint procedures?	V		(5) The Company regularly applies for fire safety inspections as required on an annual basis to verify that all fire safety equipment meets the requirements, and has purchased public accident insurance for its offices to ensure customers' safety. With respect to customer privacy, the Company has been the first financial institution to introduce and pass the BSI (British Standards Institution) certification, and the Company has received international standard certifications including the BS10012 for personal information management (PIMS for personal data protection). For personal data protection, the Company has established comprehensive mechanisms and measures for management and control, and has strictly complied with them and required the employees to implement the established management mechanisms to ensure customer privacy. In accordance with the Financial Consumer Protection Act, Article 6 of the Regulations should govern the Advertising and Business Solicitation and Business Promotion Activities Conducted by Financial Services, and the Regulations of the Taiwan Securities Association for Management of the Advertising, Business Solicitation and Business Promotion Activities Conducted by Its Members, the Company has established the Regulations Governing Preparation, Distribution and Publication of the Promotional Materials for Advertising, Business Solicitation and Business Promotion Activities as well as the Regulations for the Handling of Business Disputes. The Company has been in compliance with the said regulations.	N/A
(6) Does your company establish any supplier management policy that requires suppliers to comply with regulations concerning environmental protection, occupational safety and health or labor rights? What's the status of its implementation?	V		(6) In selecting its suppliers, the Company requires them to pay attention to the following: (i) Human rights; (ii) Social impact; (iii) Environmental protection: Suppliers must comply with all applicable environmental laws and regulations, ensure safe discharge of waste, exhaust gas and sewage, use as few non-renewable resources as possible, use all resources with high efficiency, and reduce environmental impact; (iv) Personnel safety and health: Suppliers must provide their employees with safe work environment, appropriate training and protection against dangerous machine equipment, and they must comply with the laws and regulations related to worker health and safety. If the contract signed with any supplier has included a provision stating that the Company may terminate or cancel the contract in the event of violation of the CSR policy by the supplier, the supplier may not claim compensation from the Company.	N/A
5. Does your company use internationally accepted standards or guidelines for preparation of reports as reference in preparing the CSR report and other reports disclosing non-financial information of the company? Do the aforementioned reports receive assurance or guarantee opinions from any third-party verifying agency?			The Company has prepared the said reports in accordance with TWSE's "Rules Governing the Preparation and Filing of Corporate Social Responsibility Reports by TWSE Listed Companies" and the guiding policy and framework and the standard of core disclosures under GRI 2016. The reports have not been externally verified.	N/A
6. In the event the company has established its own CSR principles in accordance with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies, please describe the differences between the actual implementation of CSR and the company's own CSR principles: The Board of Directors of the Company adopted the Corporate Social Responsibility Best Practice Principles on January 28, 2015, and all relevant activities have complied with the Principles.				
7. Other important information useful for understanding the status of CSR implementation:				

Assessment criteria	Compliance (Note 1)			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description (Note 2)	
In 2015, the Company began to release annual CSR reports on a regular basis. 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.				

Note 1: Where the status of operation is "Yes", please describe the important policies, strategies and measures adopted and the status of their implementation. Where the status of operation is "No", please explain the reasons and describe the plans for adopting relevant policies, strategies and measures in the future.

Note 2: Where the company has prepared any CSR report, the status of operation may instead indicate the method of access to the CSR report and the index page numbers.

Note 3: The materiality principle means those environmental, social and corporate governance issues that have material impact to the investors and other stakeholders of the company.

## (6) Integrity performance

Status of implementation of ethical management, differences with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, and reasons thereof.

Assessment criteria	Status of operation			Deviation and causes of deviation from Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies
	Yes	No	Summary description	
1. Establishment of ethical management policies and programs				
(1) Does your company establish ethical management policies adopted by the Board of Directors? Does your company clearly specify, in its regulations and external documents, the ethical management policies and practice and the commitment of the Board of Directors and the management to rigorous and thorough implementation of those policies?	V		(1) At the 5th special meeting of the 8th Board of Directors (2012.03.29), the Company adopted the "Ethical Corporate Management Best Practice Principles" and "Procedures for Ethical Management and Guidelines for Conduct". The Board of Directors and the senior management have been actively fulfilling the commitments of the ethical management policy, and they have signed a statement of compliance with the ethical management policy and thoroughly implemented the policy in internal management and business 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 your company establish a risk assessment mechanism against unethical conduct to analyze and assess, on a regular basis, operating activities within its business scope which are at a higher risk of involving unethical conduct, and accordingly establish programs to prevent unethical conduct? Do such programs include at least measures to prevent the acts specified under Article 7, Paragraph 2 of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies"?	V		(2) The Company has established a mechanism to assess the risks of unethical conduct, and has prepared the "Unethical Conduct Self-Assessment Form" for regular analysis and assessment. With regard to operating activities within the business scope that are at a higher risk of involving unethical conduct, they are specifically subject to the relevant regulations.	N/A
(3) Does your company specify, in the programs for prevention of unethical conduct, the operational procedures, code of conduct, punishment for violations and complaint systems? Have such programs been implemented and regularly reviewed and revised?	V		(3) The Company's "Procedures for Ethical Management and Guidelines for Conduct" includes requirements and procedures for handling all kinds of unethical conduct, incorporates ethical management into the policies for employee performance appraisal and human resources, and establishes clear and effective systems for rewards, punishments and complaints. Where the unethical conduct is severe, the employee engaging in such conduct will be dismissed pursuant to the applicable laws or regulations or the Company's personnel regulations. The Ethical Management Committee of the Company regularly assesses whether the prevention measures taken for the purpose of implementing ethical management are effective, and evaluates compliance with ethical management in the relevant operating procedures. The relevant requirements are reviewed and revised in line with changes in internal and external laws and regulations.	N/A
2. Implementation of ethical management				
(1) Does your company assess the past records of the counterparties regarding ethics? Do contracts between the company and the counterparties	V		(1) In signing a contract with any counterparty, the Company will ensure full understanding of the status of ethical management conducted by the counterparty and specifies in the contract	N/A

Assessment criteria	Status of operation			Deviation and causes of deviation from Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
expressly include provisions governing ethical conduct?			that where any party is discovered to be engaged in unethical conduct in business activities, the other party may terminate or cancel the contract unconditionally at any time.	
(2) Does your company have a special unit as subordinate to the Board of Directors for the implementation of corporate ethical management? Does the unit regularly report (at least annually) to the Board of Directors regarding the ethical management policies and unethical conduct prevention programs and the supervision and implementation thereof?	V		(2) The Company has set up an Ethical Management Committee responsible for establishing, supervising and implementing ethical management policies and prevention programs. The Committee meets at least annually to review the performance of ethical management and submit a report in this regard 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 has actively raising the awareness among its employees of operating activities within the business scope that are at a higher risk of involving unethical conduct. The Company has also organized courses on ethical management and designed a system of post-course tests, which must be passes by the employees to complete the courses. In 2019, online courses of 11 different subjects (including awareness of financial laws and regulations, awareness of the Financial Consumer Protection Act/Regulations for Fair Treatment of Customers, awareness of CSR, awareness of the laws and regulations concerning ethical management, awareness of the laws and regulations concerning activities prohibited for persons engaging in financial services, and introduction to the whistleblowing system) were organized, and 14,781 persons participated in training, at a total of 200,020 man-hours.	N/A
(3) Does your company have policies against conflicts of interest and provide proper channels through which explanations may be given? Has the company implemented them?	V		(3) The Company has established the "Procedures for Ethical Management and Guidelines for Conduct" and "Regulations for Prevention of Conflicts of Interest in Concurrent Activities Carried Out by Business Personnel on an Engaged Basis". When a director of the Company or the juristic person represented thereby has a stake in any proposal at a meeting and where the stake would prejudice the interests of the Company, that director may state opinions and respond to questions at the meeting, may not participate in the discussion or vote on that proposal, and shall recuse himself/herself. The relevant circumstances will be recorded in the minutes of the meeting. If any employee conducting business discovers that a potential conflict of interest exists involving himself/herself or any of his/her stakeholders obtaining improper benefits, the employee shall report the relevant circumstances to both the departmental manager and the dedicated unit of the Company, and the departmental manager shall provide proper instructions.	N/A

Assessment criteria	Status of operation			Deviation and causes of deviation from Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
(4) Does your company establish effective systems for accounting and internal control to ensure the implementation of ethical management? Do the company's internal auditing units formulate relevant audit plans based on the results of assessment on the risks of unethical conduct and accordingly audit the compliance with the unethical conduct prevention programs? Or are audits conducted by commissioned CPAs?	V		(4) In accordance with the "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", the Company has designed and established the "accounting system" and "internal control system". Based on the internal control system, the internal auditing unit formulates auditing plans for regular audits.	N/A
(5) Does your company regularly hold internal and external education and training sessions regarding ethical management?	V		(5) The Company organizes integrity training on a regular basis. Employees are required to pass a post-course exam to be considered of having completed the course. In 2019, online courses of 11 different subjects (including awareness of financial laws and regulations, awareness of the Financial Consumer Protection Act/Regulations for Fair Treatment of Customers, awareness of CSR, awareness of the laws and regulations concerning ethical management, awareness of the laws and regulations concerning activities prohibited for persons engaging in financial services, and introduction to the whistleblowing system) were organized, and 14,781 persons participated in training, at a total of 200,020 man-hours.	N/A
3. Functioning of the whistleblowing system				
(1) Does your company have concrete systems for whistleblowing and rewards? Does your company have convenient channels in place for whistleblowing and has it appointed appropriate personnel to deal with the persons who are the subject of whistleblowing?	V		(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) Does your company establish standard operating procedures for investigation of matters reported by whistleblowers, measures to be taken following the conclusion of investigation and relevant mechanisms for confidentiality?	V		(2) According to the Company's "Regulations for Implementation of the Whistleblowing System", any person discovering a likelihood of any crime, fraud or violation of law in the Company may submit a whistleblowing report. 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. Where a report has been found to be true by investigation, the person accused in the report shall be immediately required to cease the actions concerned, and the relevant departments shall propose measures for review and improvement. Where any material violation or any likelihood of damage to the Company is involved, it shall be reported to the Audit Committee, and compensation for damage will be claimed through legal proceedings if necessary to protect the reputation, rights and interests of the Company. The Company shall maintain confidentiality of the identity information of any whistleblower, Where the	N/A



Assessment criteria	Status of operation			Deviation and causes of deviation from Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary description	
(3) Does your company take any measures to protect whistleblowers from improper treatment as a result of their whistleblowing?	V		principle of confidentiality is violated and such violation is found to be true by investigation, it shall be referred to the Personnel Inquiry Committee for review and processed in accordance with the relevant work rules of the Company.  (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. Strengthening disclosure of information Does your company disclose the contents of its ethical management principles and outcome of implementation on its website and the Market Observation Post System?	V		The "Ethical Corporate Management Best Practice Principles" and "Procedures for Ethical Management and Guidelines for Conduct" are disclosed on the Company's internal and external websites and the MOPS. The status of implementation of ethical management is also disclosed thereon.	N/A
5. In the event your company has established its own ethical management best practice principles in accordance with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, please describe the differences between the implementation of ethical management and the company's own ethical management best practice principles: 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 important information helpful for understanding the implementation of your company's ethical management: (such as review and amendment of the company's own ethical management best practice principles) In accordance with the requirements of the competent authority, the Company has reviewed or revised the regulations related to ethical management, which have been approved by the Board of Directors and disclosed on the Company's website, the MOPS and internal sites to enable investors and employees to understand the ethical management policies of the Company.				

(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. MOPS/Corporate Governance.
2. The Capital Group ([www.capital.com.tw](http://www.capital.com.tw))/About Capital/Corporate Governance.

(8) Other important information helpful for increasing understanding of your company's corporate governance may be disclosed along with the above information: None.

## (9) Internal Control Systems

### 1. Statement of Internal Control System:

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

Date: March 26, 2020

Based on the result of self-assessment of the Company's internal control system in 2019, we hereby state the following:

1. We acknowledge that the Board of Directors and managers are responsible for the establishment, implementation and maintenance of the internal control system. We have 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. Any internal control system has its inherent limitations. No matter how well an internal control system is designed, it can only provide reasonable assurance regarding the achievement of the above three objectives. Moreover, the effectiveness of an internal control system may be altered as a result of changes in the environment and circumstances. However, the internal control system of the Company features a self-monitoring mechanism that rectifies any deficiencies immediately upon discovery.
3. We determine the effectiveness of the design and implementation of our internal control system by using the items specified in the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets" (hereinafter the "Regulations") for determination of the effectiveness of an internal control system. The aforementioned items in the "Regulations" divide an internal control system into five components based on the processes of management and control: 1. control environment, 2. risk assessment, 3. control activities, 4. information and communication, and 5. monitoring. Each major element is further broken down into several subelements. Please refer to the "Regulations" for more details.
4. We have used the aforementioned items to assess the effectiveness of the design and implementation of our internal control system.
5. Based on the result of the assessment, we determined that until December 31, 2019, the design and implementation of our internal control system (including supervision and management of subsidiaries) had been effective regarding (i) the operating performance and degree of achievement of the efficiency targets, (ii) reliable, timely and transparent reporting, and (iii) compliance with the relevant requirements, laws and regulations, thus providing reasonable assurance that the above objectives can be achieved.
6. This Statement is to be part of the main contents of our annual reports and prospectuses, and released 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 Statement was adopted by the Board of Directors meeting on March 26, 2020. All 11 directors present approved the contents of this Statement, and none of them expressed dissent. This information is declared as an addition.

Capital Securities Corporation

Chairman: WANG, JIUNN-CHIH

President: CHIA, CHUNG-TAO



The block contains two sets of handwritten signatures in black ink, each accompanied by a red square seal. The top signature is '王清智' (Wang JIUNN-CHIH) and the bottom signature is '蔡中道' (Chia CHUNG-TAO). The red seals are traditional Chinese seals.

2. If review of the internal control system has been conducted by engaged CPAs, the CPAs' review report must be disclosed: No CPA has been engaged in the current year to review the internal control system.

(10) During the most recent year as of the date on which the annual report was printed, did the company or its internal personnel receive punishment in accordance with the law? Did the company's internal personnel receive punishment for violating the requirements of the internal control system? Please describe any defect found during the same period and its status of improvement

1. Letters of Disciplinary Action Jin-Guan-Zheng-Quan-Zi No. 1080318710, No. 10803187101 and No. 10803187102, dated January 15, 2019 from the TPEX and dated July 2, 2019 from the Financial Supervisory Commission:

The Xisong Branch of the Company and its business personnel violated Article 18 of the Regulations Governing Responsible Persons and Associated Persons of Securities Firms, Article 25 of the "Taipei Exchange Rules Governing Securities Trading on the TPEX", the Standards for the Internal Control Systems of Securities Firms and Paragraph 2, Article 2 of the Regulations Governing Securities Firms. The Company was subject to an amount of NT\$200,000 as liquidated damages and corrective actions. The branch manager was suspended from conducting business for one month, and the aforementioned agent was dismissed from his position, the person in charge was suspended from conducting business for one month, and the other personnel were referred to the Company for disciplinary actions.

Status of improvement:

The internal control system has been reviewed with addition of a remedial mechanism, and personnel training has been enhanced to strengthen legal compliance and ensure implementation of the internal control system.

2. Letter of Disciplinary Action Tai-Zheng-Fu-Zi No. 1080503050, dated November 5, 2019, from the TWSE, and Letter of Disciplinary Action Jin-Guan-Zheng-Quan-Zi No. 1080335623, dated November 28, 2019, from the Financial Supervisory Commission:

The Hsinchu Branch of the Company and its business personnel violated Article 18 of the Regulations Governing Responsible Persons and Associated Persons of Securities Firms, the "Operating Rules of the Taiwan Stock Exchange Corporation", the Standards for the Internal Control Systems of Securities Firms and Paragraph 2, Article 2 of the Regulations Governing Securities Firms. The Company was subject to an amount of NT\$50,000 as liquidated damages and requirements for care and improvement. The agent was suspended from conducting business for five months.

Status of improvement:

The internal control system has been reviewed, with remedial measures taken and the management mechanism adjusted based on the risks of the case. Personnel training has been enhanced to strengthen legal compliance and ensure implementation of the internal control system.

(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. Important resolutions of the Board of Directors and their implementation

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

1. 17th meeting, 10th Board of Directors (2019.03.29)

1. Proposal: Recommendations on the remuneration for employees and directors of the Company in 2018.

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

Implementation: Upon consultation by the chairperson with all directors, this proposal has been adopted with no objection raised. The remuneration was

distributed as required and submitted to the 2019 annual shareholders' meeting for reporting.

2. 1st meeting, 11th Board of Directors (2019.07.25)

1. Proposal: Liability insurance for directors, supervisors and essential employees in 2019.

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

Implementation: Upon consultation by the chairperson with all directors, this proposal has been adopted with no objection raised. Renewal of insurance was completed, with the insurance term starting from September 1, 2019 and ending on September 1, 2020.

3. 5th meeting, 11th Board of Directors (2020.01.21)

1. Proposal: The 11th repurchase by the Company of the treasury stock for write-off and capital reduction.

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

Implementation: Implementation was completed on January 2, 2020. The Company repurchased 150,000,000 shares for a total amount of NT\$1,604,386,481 at an average price of NT\$10.7 per share. It is proposed to write off all of the aforementioned 150,000,000 shares, as required, and set the record date of capital reduction on January 31, 2020.

4. 6th meeting, 11th Board of Directors (2020.03.26)

1. Proposal: Recommendations on the remuneration for employees and directors of the Company in 2019.

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

Implementation: Upon consultation by the chairperson with all directors, this proposal has been adopted with no objection raised, and will be submitted to the 2020 annual shareholders' meeting for reporting.

2. Proposal: Recommendations for distribution of the profits in 2019.

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

Implementation: Upon consultation by the chairperson with all directors, this proposal has been adopted with no objection raised, and will be submitted to the 2020 annual shareholders' meeting for ratification.

2. Resolutions of the shareholders' meeting (annual shareholders' meeting on June 24, 2019) and their implementation:

Item		Proposal	Resolution	Execution
Approved items	No. 1	Ratification of the 2018 business report and financial statements of the Company.	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	Ratification of the proposal for distribution of the profits in 2018.	A statutory majority voted in favor, and the proposal was approved as proposed.	Distribution was completed pursuant to the resolution of the annual shareholders' meeting, and the cash dividend per share was NT\$0.4 (record date: August 18, 2019; date of dividend distribution: September 12, 2019).
Discussion items	No. 1	Discussion of the proposal for amendment to the "Articles of Incorporation".	A statutory majority voted in favor, and the proposal was approved as proposed.	The change was approved on July 29, 2019 by the Ministry of Economic Affairs for registration, and was announced on the Company's website.
	No. 2	Discussion of the proposal of amendment to the "Procedures for the Acquisition or Disposal of Assets".	A statutory majority voted in favor, and the proposal was approved as proposed.	The amendment was announced on the Company's website, and the amended "Procedures for the Acquisition or Disposal of Assets" came into force.

	No. 3	Discussion of the proposal for amendment to the "Procedures for Endorsements/Guarantees".	A statutory majority voted in favor, and the proposal was approved as proposed.	The amendment was announced on the Company's website, and the amended "Procedures for Endorsements/Guarantees" came into force.
	No. 4	Discussion of the proposal for amendment to the "Regulations Governing the Transactions of Derivatives".	A statutory majority voted in favor, and the proposal was approved as proposed.	The amendment was announced on the Company's website, and the amended "Regulations Governing the Transactions of Derivatives" came into force.
Elections	Proposal	Election of the 11th Board of Directors.	<p>Result of election:</p> <p>Director: Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH Number of voting rights received: 1,858,742,454 share rights</p> <p>Director: Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN Number of voting rights received: 1,800,736,683 share rights</p> <p>Director: Yin Feng Enterprise Co., Ltd. Representative: CHANG, CHIH-MING Number of voting rights received: 1,794,013,529 share rights</p> <p>Director: Kwang Hsing Industrial Co., Ltd. Representative: TING, HSUEH-WEN Number of voting rights received: 1,793,893,281 share rights</p> <p>Director: Hung Lung Enterprise Co., Ltd. Representative: CHIA, CHUNG-TAO Number of voting rights received: 1,772,309,350 share rights</p> <p>Director: Hung Lung Enterprise Co., Ltd. Representative: KUO, YUH-CHYI Number of voting rights received: 1,662,887,128 share rights</p> <p>Director: Hung Lung Enterprise Co., Ltd. Representative: TSAI, I-CHING Number of voting rights received: 1,662,747,577 share rights</p> <p>Director: Tai He Real Estate Management Co., Ltd. Number of voting rights received: 1,644,947,004 share rights</p> <p>Independent director: SHEA, JIA-DONG Number of voting rights received: 1,638,756,770 share rights</p> <p>Independent director: LEE, SHEN-YI Number of voting rights received: 1,638,040,519 share rights</p> <p>Independent director: SU, PING-CHANG Number of voting rights received: 1,636,604,936 share rights</p>	<p>After the election by the annual shareholders' meeting on June 24, 2019, the elected directors took office, with material information published on the MOPS. The change was approved on July 29, 2019 by the Ministry of Economic Affairs for registration, and was announced on the Company's website.</p> <p>The 11th Board of Directors consists of 11 members (including 3 independent directors) who will serve for a three-year term from June 24, 2019 to June 23, 2022.</p>
Other proposals	Proposal	Removal of restrictions against competing business involvements by the Company's directors.	A statutory majority voted in favor, and the proposal was approved as proposed.	Pursuant to the resolution, material informaton was published on the MOPS on June 24, 2019.

- (12) In the event that any director or supervisor expressed a dissenting opinion regarding any of the important resolutions adopted by the Board of Directors during the most recent year as of the date on which the annual report was printed, and that the opinion was recorded or delivered in writing, please describe its main contents: None.
- (13) Resignation of relevant personnel in the last year, up till the publication date of this annual report

March 31, 2020

Title	Name	Date Onboard	Date Departed	Reasons For Resignation Or Discharge
	N/A			

Note: The relevant personnel means the Chairman, President, accounting manager, financial manager, chief internal auditor, chief corporate governance officer and R&D manager.

- (14) Managers, directors and supervisors of the Company and their participation in continuing education and training related to corporate governance:

## 1. Manager:

Title	Name	Course start time	Course end time	Organizer	Hours	Course Name
President	CHIA, CHUNG-TAO	2019/07/11	2019/07/11	Corporate Operation Association of the Republic of China	3	Opportunities and Strategies for the Consolidation of Companies in Taiwan Amid the US-China Trade War
		2019/07/17	2019/07/17	Corporate Operation Association of the Republic of China	3	Legal Issues in the Listing, Mergers, Acquisitions and Delisting of Companies: The Case of Biotech Companies
		2019/07/18	2019/07/18	Corporate Operation Association of the Republic of China	3	Defense Against Non-consensual Acquisition and Responsibilities of the Person-in-charge
		2019/11/19	2019/11/19	Taiwan Securities Association	3	Entrusted with the purchase and sale of foreign securities laws and professional ethics
Executive Vice President	CHEN, CHING-SHING	2019/06/18	2019/06/18	Securities and Futures Institute	3	New Standards and Trends in Corporate Governance: What Directors and Supervisors Should Know in 2019
		2019/06/26	2019/06/26	Securities and Futures Institute	3	Corporate Governance and Functioning of the Board of Directors
		2019/08/15	2019/08/15	Securities and Futures Institute	3	[Analysis of Precautions Against and Types of Financial Crises for Businesses] Advanced Seminar on Practices of Directors, Supervisors (Including Independent Ones) and Chief Corporate Governance Officers
		2019/11/14	2019/11/14	Securities and Futures Institute	3	[Analysis of Financial Information and Decision Making for Businesses] Advanced Seminar on Practices of Directors and Supervisors (Including Independent Ones)
		2019/11/26	2019/11/26	Taiwan Academy of Banking and Finance	3	Seminar on Corporate Governance (51st)
Vice President	LAI, AI-WEN	2019/10/14	2019/10/15	Taiwan Securities Association	6	On-the-job Training for Personnel and Managers Dedicated to Preventing Money Laundering and Countering the Financing of Terrorism
		2019/10/28	2019/10/29	Taiwan Securities Association	6	On-the-job Training for Personnel and Managers Dedicated to Preventing Money Laundering and Countering the Financing of Terrorism
		2019/11/28	2019/11/28	Taiwan Stock Exchange Corporation	3	On-the-job Training for Personnel (Including Managers) Responsible for Compliance with Laws and Regulations Governing Securities and Futures Firms
		2019/11/29	2019/11/29	Taiwan Securities Association	3	Seminar on the Evaluation of Fair Treatment of Customers
		2019/11/29	2019/11/29	Taiwan Securities Association	3	Forum on the Compliance of Securities Firms with Anti-Money Laundering and Counter-Terrorism Financing Laws
Executive Vice President	HUANG, CHI-MING	2019/03/25	2019/03/25	Taiwan Stock Exchange Corporation	4	2019 Seminar on Awareness of the Standards and Requirements of the Internal Control System
		2019/08/14	2019/08/14	Trust Association of R.O.C	6	Trust Supervisors On-the-job Training
Senior Vice President	LIN, SHU-CHUAN	2019/02/21	2019/02/21	Taiwan Stock Exchange Corporation	2	Seminar on ETN Awareness
		2019/03/19	2019/03/19	Taiwan Stock Exchange Corporation	4	2019 Seminar on Awareness of the Standards and Requirements of the Internal Control System
		2019/05/17	2019/05/17	Computer Audit Association	6	Practices in Fraud Investigation
		2019/05/24	2019/05/24	Taiwan Financial Services Roundtable	3	Seminar on Analysis of Criminal Money Flows and Types of Abnormal Transactions
		2019/05/28	2019/05/28	Taiwan Securities Association	2	Seminar on the CRA Model Practices for the Procedures of Management and Assessment of Compliance Risks of Securities Firms
		2019/05/30	2019/05/30	KPMG	3	Seminar on the Prevention of International Financial Crimes - Anti-Money Laundering, Counter-Terrorism Financing and Anti-Proliferation of Weapons
		2019/09/17	2019/09/17	TEH Group Hong Kong	7	C-Integrity Taipei Series: International Conference on Prevention of Money Laundering and Financial Crimes



Title	Name	Course start time	Course end time	Organizer	Hours	Course Name
		2019/10/02	2019/10/02	Taiwan Securities Association	8	On-job Training of Securities Specialists
		2019/11/22	2019/11/22	Securities and Futures Institute	2	Seminar on the Current Situation and Trend in the Development of Financial Technologies
		2019/11/29	2019/11/29	Taiwan Securities Association	3	Seminar on the Evaluation of Fair Treatment of Customers
		2019/11/29	2019/11/29	Taiwan Securities Association	3	Forum on the Compliance of Securities Firms with Anti-Money Laundering and Counter-Terrorism Financing Laws
		2019/12/19	2019/12/19	Taiwan Financial Research and Development Foundation	6	On-job Training of Foreign Currency Derivatives
Executive Vice President	FANG, CHIH-HUNG	2019/04/23	2019/04/23	Taiwan Futures Exchange	2	Seminar on Awareness of the Dynamic Price Branding Mechanism and Risk Control System for TAIEX Options
		2019/08/14	2019/08/14	Trust Association of R.O.C	6	Trust Supervisors On-the-job Training
		2019/10/02	2019/10/02	Taiwan Securities Association	8	On-job Training of Securities Specialists
		2019/11/06	2019/11/06	Chinese National Futures Association	3.5	2019 Taipei International Futures Forum - Future Trends and Prospects of FinTech in the Derivatives Market
Executive Vice President	TAN, TE-CHENG	2019/03/20	2019/03/20	Taiwan Securities Association	3	Courses for Continuing Education of the Accounting Managers of Securities Firms, January-June 2019
		2019/06/19	2019/06/19	Taiwan Securities Association	3	Courses for Continuing Education of the Accounting Managers of Securities Firms, January-June 2019
		2019/08/21	2019/08/21	Taiwan Securities Association	3	Courses for Continuing Education of the Accounting Managers of Securities Exchanges, July-December 2019
		2019/11/20	2019/11/20	Taiwan Securities Association	3	Courses for Continuing Education of the Accounting Managers of Securities Exchanges, July-December 2019
Senior Vice President	HOU, LE-PING	2019/04/15	2019/04/15	Taiwan Securities Association	3	Courses for Continuing Education of the Accounting Managers of Securities Issuers, Firms and Exchanges, January-June 2019
		2019/04/27	2019/04/28	Taiwan Securities Association	12.5	Courses for Qualification and Training of Personnel Conducting Foreign Exchange Spot Transactions
		2019/05/15	2019/05/15	Taiwan Securities Association	3	Courses for Continuing Education of the Accounting Managers of Securities Issuers, Firms and Exchanges, January-June 2019
		2019/09/18	2019/09/18	Taiwan Securities Association	3	Courses for Continuing Education of the Accounting Managers of Securities Exchanges, July-December 2019
		2019/11/20	2019/11/20	Taiwan Securities Association	3	Courses for Continuing Education of the Accounting Managers of Securities Exchanges, July-December 2019
Senior Vice President	YAO, MING-QING	2019/10/02	2019/10/02	Taiwan Securities Association	8	On-job Training of Securities Specialists
Senior Vice President	YANG, JIE-BIN	2019/10/02	2019/10/02	Taiwan Securities Association	8	On-job Training of Securities Specialists
Senior Vice President	XU, TSUI-YUN	2019/10/19	2019/10/19	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
Executive Vice President	ZHANG, JIA-WEN	2019/04/23	2019/04/23	Chinese Association for Valuation of Intangible Assets and Businesses	3	Applications of Taxation and Valuation in Mergers and Acquisitions
		2019/06/14	2019/08/17	Taiwan Capital Management Corp.	39	Common Courses on Venture Capital
		2019/10/02	2019/10/02	Taiwan Securities Association	8	On-job Training of Securities Specialists
		2019/01/22	2019/01/22	Capital Securities Corporation	3	Analysis of the IFRS15 Standard for Recognition of Revenue from Contracts with Customers
		2019/04/18	2019/04/18	Capital Securities Corporation	1.5	Impact of the Economic Substance Laws in Tax Havens and Possible Strategies Adopted by Taiwanese Multinational Business Groups in Response
		2019/05/16	2019/05/16	Capital Securities Corporation	1.5	Analysis of Tax Issues and Practices in the Return of the Capital of Taiwanese Businesses to Taiwan
		2019/06/20	2019/06/20	Capital Securities Corporation	1.5	Understanding non-financial factors in investment decisions
Executive Vice President	LIN, YAN-FEN	2019/11/24	2019/11/24	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
Senior Vice President	CHEN, PEI-QI	2019/11/24	2019/11/24	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
Executive Vice President	WANG, JUAN-HUI	2019/08/12	2019/08/12	Securities and Futures Institute	6	On-the-job Training for Personnel and Managers Dedicated to Preventing Money Laundering and Countering the Financing of Terrorism
		2019/08/14	2019/08/14	Bankers Association of the Republic of China, Trust Association of R.O.C.	6	Seminar on "International Trends and Current Situation in the Development of Wealth Management and Trust Service"
		2019/08/30	2019/08/30	Securities and Futures Institute	6	On-the-job Training for Personnel and Managers Dedicated to Preventing Money Laundering and Countering the Financing of Terrorism
		2019/10/02	2019/10/02	Taiwan Securities Association	8	On-job Training of Securities Specialists
		2019/10/27	2019/10/27	Taiwan Securities Association	6	On-job Training of Foreign Currency Derivatives
Senior Vice President	ZHENG, SHU-FEN	2019/08/14	2019/08/14	Bankers Association of the Republic of China, Trust Association of R.O.C.	7.5	Seminar on "International Trends and Current Situation in the Development of Wealth Management and Trust Service"
		2019/09/25	2019/09/25	Trust Association of R.O.C	6	Trust Supervisors On-the-job Training
		2019/10/02	2019/10/02	Taiwan Securities Association	8	On-job Training of Securities Specialists
Executive Vice President	MA, JIA-HUAN	2019/05/22	2019/05/22	Taiwan Academy of Banking and Finance	12	On-the-job Training for Trust Administrators



## 2. Directors and supervisors:

Title	Name	Date	Organizer	Course Name	Training hours
Chairman	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	1080918	Association of Taiwan Listed Companies	Seminar for Leaders of the East - Urban Governance and Corporate Governance	2
		1081015	Association of Taiwan Listed Companies	Seminar for Leaders of the East - Industrial Trends Amid the US-China Trade War	2
		1081121	Securities and Futures Institute	On the Responsibilities of Directors and Supervisors for Unlawful Activities in the Securities Market	3
Director	Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN	1080904	Taiwan Securities Association	Analysis of Strategies and Cases of Business Crisis Management	3
Director	Hung Lung Enterprise Co., Ltd. Representative: CHIA, CHUNG-TAO	1080626	Taiwan Institute of Directors (TWIoD)	2019 Annual Forum of TWIoD - A+ Business X Shareholders' Value	4
		1080711	Corporate Operation Association of the Republic of China	Opportunities and Strategies for the Consolidation of Companies in Taiwan Amid the US-China Trade War	3
		1080717	Corporate Operation Association of the Republic of China	Legal Issues in the Listing, Mergers, Acquisitions and Delisting of Companies: The Case of Biotech Companies	3
		1080718	Corporate Operation Association of the Republic of China	Defense Against Non-consensual Acquisition and Responsibilities of the Person-in-charge	3
Director	Hung Lung Enterprise Co., Ltd. Representative: KUO, YUH-CHYI	1080415	Taiwan Securities Association	Strategies of Companies in Response to the Global Trend Against Tax Avoidance	3
		1080515	Taiwan Securities Association	How to Analyze Important Information of Business Operations from Financial Reports	3
		1080517	Corporate Operation Association of the Republic of China	Corporate Governance and Functioning of the Board of Directors	3
		1080520	Corporate Operation Association of the Republic of China	Corporate Governance and Functioning of the Shareholders' Meeting	3
		1080522	Corporate Operation Association of the Republic of China	Corporate Governance and the Duty of Care, Duty of Fiduciary and Conflict of Interests of Directors	3
		1080603	Corporate Operation Association of the Republic of China	Corporate Governance and Practices in the Functioning of Independent Directors and Audit Committees	3
		1080619	Taiwan Securities Association	Directors and Supervisors, Transfer of Equity Interests of Accounting Supervisors and Tax Planning Practice	3
		1080703	Corporate Operation Association of the Republic of China	Introduction to the New Version of Corporate Governance Blueprint in Taiwan and Corporate Governance Measures Relating to Business Mergers and Acquisitions	3
		1080711	Corporate Operation Association of the Republic of China	Opportunities and Strategies for the Consolidation of Companies in Taiwan Amid the US-China Trade War	3
		1080717	Corporate Operation Association of the Republic of China	Legal Issues in the Listing, Mergers, Acquisitions and Delisting of Companies: The Case of Biotech Companies	3
		1080718	Corporate Operation Association of the Republic of China	Defense Against Non-consensual Acquisition and Responsibilities of the Person-in-charge	3
		1081105	Securities and Futures Institute	International and Domestic Development of the Fight against Tax Avoidance: How Enterprises Should Respond	3
		1081106	Taiwan Stock Exchange Corporation	Seminar on Effective Performance of the Functions of Directors	3
		1081112	Securities and Futures Institute	How Directors and Supervisors Should Supervise Companies in Detection and Prevention of Fraud, Implementation of Whistleblowing Systems and Enhancement of Corporate Governance	3
Director	Hung Lung Enterprise Co., Ltd. Representative: TSAI, I-CHING	1081209	Corporate Operation Association of the Republic of China	Legislation and Practices Relating to Financial Technologies and Innovations	3
		1081212	Corporate Operation Association of the Republic of China	Practices and Cases of Financial and Financial Supervisory Technologies	3
Director	Tai He Real Estate Management Co., Ltd. Representative: HUNG, TSUNG-YEN	1081029 ~ 1081030	Securities and Futures Institute	Seminar on Practices of Directors, Supervisors (Including Independent Ones) and Chief Corporate Governance Officers	12
Independent Director	SHEA, JIA-DONG	1080412	Taiwan Corporate Governance Association	The Last Line of Defense for Corporate Governance - Liability Insurance for Directors and Supervisors	3
		1080426	Taiwan Corporate Governance Association	Impact of Corporate Governance, Internal Control and the Responsibilities of Directors and Supervisors on the Latest Amendment of the Company Act	3
Independent Director	LEE, SHEN-YI	1081115	Securities and Futures Institute	How to Avoid Violation of the Securities and Exchange Act: On Financial Statement Fraud and Insider Trading	3
		1081122	Dharma Drum Mountain Humanities and Social Improvement Foundation	Corporate Social Responsibility Series: "Innovation of Business Values - On the MOD and 5G of Chunghwa Telecom"	3
Independent Director	SU, PING-CHANG	1080716	Trust Association of R.O.C	Seminar on the Charitable Trust Best Practice Principles	3
		1081024	CPA Association of R.O.C. (Taiwan)	Application of Internal Control Systems in Anti-Money Laundering and Counter-Terrorism Financing	3
		1081101	Taiwan Stock Exchange Corporation	Seminar on Effective Performance of the Functions of Directors	3
		1081204	CPA Association of R.O.C. (Taiwan)	The Latest Laws and Practices in Taxation During the Second Half of 2019	7
		1081217	Institute of Internal Auditors - Chinese Taiwan	Practices and Management in Audits of Fraud Risks	6
		1081223	CPA Association of R.O.C. (Taiwan)	Instructions on Opinions of Reasonableness and Re-audit Valuation Reports	3
		1081225	CPA Association of R.O.C. (Taiwan)	Accounting Issues in the Financial and Tax Affairs of Foundations	3

## (15) Qualification of personnel associated with financial transparency

Name of certification	Audit Office (27 persons)	Finance Department (39 persons)	Risk Management Department (6 persons)
Securities specialist	8	10	1
Senior securities specialist	25	13	5
Margin trading and short sale	14	2	1
Securities lending	2		
Futures specialist	22	5	3
Securities investment trust and consulting professional	14	7	
Laws and regulations (including self-regulating rules) concerning securities investment trust and consulting	1	2	
Bill finance specialist	4	1	
Life insurance representative	14	3	1
Investment-linked insurance representative	8	1	
Non-life insurance representative	10	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	14	5	1
Trust manager	1		1
Trust laws	1	1	
Structured instrument specialist	1		1
Bookkeeper		3	
First-time internal auditor seminar	7		
Bank internal control and internal audit	1	1	
Advanced securities capital adequacy ratio calculation and reporting personnel	11	17	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		11	1
Proficiency test for junior foreign exchange specialist		1	
Certified Anti-Money Laundering Specialist (CAMS)	1		
AML and CTF Specialist Exam	2		
AML and CTF 12-hour courses	4		
AML and CTF 24-hour courses	4		
Total	203	91	27

## 5. Disclosure of CPAs' remuneration

### (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

Fee category		Audit remuneration	Non-audit remuneration	Total
Amount range				
1	Less than NT\$2,000,000		V	
2	NT\$2,000,000 (included)~NT\$4,000,000			
3	NT\$4,000,000 (included)~NT\$6,000,000	V		V
4	NT\$6,000,000 (included)~NT\$8,000,000			
5	NT\$8,000,000 (included)~NT\$10,000,000			
6	NT\$10,000,000 or more			

Note: In 2019, the Company paid NT\$60,000 as non-audit professional fees to the CPAs, the firms of the CPAs and the companies affiliated thereto. (Professional fees for issuance of ETN opinions and re-audit of the salary information checklists for full-time employees not serving in managerial positions)

- (2) The amount of non-audit professional fees paid to the CPAs, the firms of the CPAs and the companies affiliated thereto is at least 25% of that of audit professional fees: None.
- (3) The accounting firm has been changed, and the amount of audit professional fees paid during the year when the change occurs is lower than that paid during the previous year: None.
- (4) The amount of audit professional fees is reduced by at least 15% in comparison with the previous year: None.

6. Change of CPA: None.

7. Disclosure of any of the Company's Chairman, President, or managers responsible for financial or accounting affairs being employed by the auditor's firm: None.

## 8. Changes in the shares held by directors, supervisors, managers and major shareholders

Title	Name	2019		As of April 24 of the current year	
		No. of increase (decrease) in shares held	No. of increase (decrease) in shares pledged	No. of increase (decrease) in shares held	No. of increase (decrease) in shares pledged
Chairman	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	0	0	0	0
Director	Yin Feng Enterprise Co., Ltd. Representative: CHANG, CHIH-MING	0	0	0	0
Director	Hung Lung Enterprise Co., Ltd. Representative: KUO, YUH- CHYI	0	0	0	0
Director	Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING- TSUN	0	0	0	0
Director	Hung Lung Enterprise Co., Ltd. Representative: CHIA, CHUNG-TAO	0	0	0	0
Director	Kwang Hsing Industrial Co., Ltd. Representative: TING, HSUEH-WEN	0	0	0	0
Director	Hung Lung Enterprise Co., Ltd. Representative: TSAI, I-CHING	0	0	0	0
Director	Tai He Real Estate Management Co., Ltd. Representative: HUNG, TSUNG-YEN	0	0	0	0
Independent Director	SHEA, JIA-DONG	0	0	0	0
Independent Director	LEE, SHEN-YI	0	0	0	0
Independent Director	SU, PING-CHANG	0	0	0	0
Chairman	WANG, JIUNN-CHIH	0	0	0	0
President	CHIA, CHUNG-TAO	80,000	0	0	0
Executive Vice President	MA, JIA- HUAN	93,000	0	340,000	0
Executive Vice President	YANG, JIE-BIN	0	0	0	0
Executive Vice President	TAN, TE-CHENG	0	0	60,000	0
Executive Vice President	HUANG, CHI-MING	0	0	0	0
Executive Vice President	ZHANG, PEI-WEN	0	0	0	0

Title	Name	2019		As of April 24 of the current year	
		No. of increase (decrease) in shares held	No. of increase (decrease) in shares pledged	No. of increase (decrease) in shares held	No. of increase (decrease) in shares pledged
Executive Vice President	LIN, YAN-FEN	0	0	0	0
Executive Vice President	ZHANG, JIA-WEN	0	0	85,000	0
Executive Vice President	LAI, JUN-FU	0	0	0	0
Executive Vice President	FANG, CHIH-HUNG	0	0	0	0
Executive Vice President	CHEN, MING-SHING	0	0	0	0
Executive Vice President	QIU, JIAN-HUA	0	0	0	0
Executive Vice President	WANG, JUAN-HUI	0	0	0	0
Senior Vice President	ZHENG, YU-LING	0	0	0	0
Senior Vice President	CHANG, TUN-FU	0	0	0	0
Senior Vice President	WENG, HE-MING	0	0	0	0
Senior Vice President	CHEN, PEI-QI	0	0	0	0
Senior Vice President	WANG, YA- FANG	0	0	0	0
Senior Vice President	HOU, LE-PING	0	0	0	0
Senior Vice President	PAN, HUI-MEI	5,000	0	0	0
Senior Vice President	LI, MU-XIAN	0	0	0	0
Senior Vice President	LIN, JING-HUA	0	0	0	0
Senior Vice President	ZHENG, SHU-FEN	0	0	0	0
Senior Vice President	XIE, XIU-YING	0	0	0	0
Senior Vice President	LIN, SHU-CHUAN	0	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	0	0	0	0

Title	Name	2019		As of April 24 of the current year	
		No. of increase (decrease) in shares held	No. of increase (decrease) in shares pledged	No. of increase (decrease) in shares held	No. of increase (decrease) in shares pledged
Senior Vice President	WU, YUN-WEN	0	0	0	0
Senior Vice President	LIU, SHU-RU	0	0	0	0
Senior Vice President	CHEN, YI-REN	0	0	0	0
Senior Vice President	YE, YI-LING	0	0	0	0
Senior Vice President	YAO, MING-QING	0	0	0	0
Senior Vice President	XU, TSUI-YUN	0	0	0	0
Senior Vice President	CHANG, 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	0	0	0	0
Senior Vice President	TSENG, MEI-LING	0	0	0	0
Senior Vice President	KAN, KAI-CHUNG	0	0	0	0
Senior Vice President	LIN, CHAO-HSU	0	0	1,000	0
Senior Vice President	XIE, HUI-YA	0	0	0	0
Senior Vice President	ZHANG, XUE-HE	0	0	0	0
Senior Vice President	ZHU, DE-REN	(9,000)	0	0	0
Assistant Vice President	CHEN, LI-ZHUN	0	0	0	0
Assistant Vice President	TANG, WEN-JI	0	0	0	0
Assistant Vice President	LIN, JING-WEN	0	0	0	0
Assistant Vice President	KAI, SHI-HUA	0	0	0	0
Assistant Vice President	LIN, HUI-JING	0	0	0	0
Assistant Vice President	YANG, ZHI-KAI	0	0	0	0

Title	Name	2019		As of April 24 of the current year	
		No. of increase (decrease) in shares held	No. of increase (decrease) in shares pledged	No. of increase (decrease) in shares held	No. of increase (decrease) in shares pledged
Assistant Vice President	HAI, YAN	0	0	0	0
Assistant Vice President	SU, RUI-YI	0	0	0	0
Assistant Vice President	PENG, GUI-CONG	0	0	0	0
Assistant Vice President	HUANG, XIU-YU	0	0	0	0
Assistant Vice President	YU, XIAO-MEI	0	0	0	0
Assistant Vice President	XU, LI-FEN	(12,000)	0	0	0
Assistant Vice President	WU, HONG-ZHI	0	0	0	0
Assistant Vice President	ZHENG, YU-CHANG	0	0	0	0
Assistant Vice President	ZHANG, TIAN-MU	0	0	0	0
Assistant Vice President	ZHAO, ZHI-MING	0	0	0	0
Assistant Vice President	WEI, WEN-JIN	0	0	0	0
Assistant Vice President	LI, XIANG-JUN	0	0	0	0
Assistant Vice President	CAO, HOU-SHENG	0	0	0	0
Assistant Vice President	CAI, QING-FEN	0	0	0	0
Assistant Vice President	XU, JUN-YANG	0	0	0	0
Assistant Vice President	CHEN, XUAN-ZHI	0	0	0	0
Assistant Vice President	LIN, JIANG-HE	0	0	0	0
Assistant Vice President	YANG, YAN-QIU	0	0	0	0
Assistant Vice President	ZHANG, REN-FANG	0	0	0	0
Assistant Vice President	WANG, WAN-QI	0	0	0	0
Assistant Vice President	CHEN, ZHI-SHAN	0	0	0	0
Assistant Vice President	CHEN, MEI-RU	0	0	0	0



Title	Name	2019		As of April 24 of the current year	
		No. of increase (decrease) in shares held	No. of increase (decrease) in shares pledged	No. of increase (decrease) in shares held	No. of increase (decrease) in shares pledged
Assistant Vice President	CHEN, ZHENG-YANG	0	0	0	0
Assistant Vice President	LAI, AI-WEN	0	0	0	0
Assistant Vice President	DENG, XUE-REN	0	0	0	0
Assistant Vice President	YANG, KUN-LONG	0	0	0	0
Assistant Vice President	MA, SHAO-HONG	0	0	0	0
Assistant Vice President	WEI, YU-MEI	0	0	0	0
Assistant Vice President	LIN, JING-ZHI	0	0	0	0
Assistant Vice President	WU, ZHENG-HAN	0	0	0	0
Assistant Vice President	HUANG, YI-LIAN	0	0	0	0
Assistant Vice President	YEN, HSIU-RONG	0	0	0	0
Assistant Vice President	WU, CHEN-YI	0	0	0	0
Assistant Vice President	WU, CHEN-MING	0	0	0	0
Assistant Vice President	RUAN, YUAN-JUN	0	0	0	0
Assistant Vice President	PENG, XIAN-HE	0	0	0	0
Assistant Vice President	HUANG, MIAO-YIN	0	0	0	0
Assistant Vice President	ZHANG, ZHE-MING	0	0	0	0
Assistant Vice President	WU, ZHI-WEI	0	0	0	0
Assistant Vice President	WU, QING-YAN	0	0	0	0
Assistant Vice President	HUANG, CHONG-JIE	0	0	0	0
Assistant Vice President	LIN, AN-TSE	0	0	0	0
Assistant Vice President	LI, CHIH-CHIANG	0	0	0	0

Title	Name	2019		As of April 24 of the current year	
		No. of increase (decrease) in shares held	No. of increase (decrease) in shares pledged	No. of increase (decrease) in shares held	No. of increase (decrease) in shares pledged
Assistant Vice President	LIN, CHIA-HAN	0	0	0	0
Assistant Vice President	HSU, CHIH-HUI	0	0	0	0

Note 1: Shareholders who hold more than 10% of the Company's shares shall be indicated as major shareholders and shown separately.

Note 2: Under which case, was the relative person of the transfer or pledge of shares a related person, the table below shall be filled out.

## 9. Information on the relationships among the shareholders whose shareholding ratios are in the top 10

Unit: Share (%)  
As of April 24, 2020

Name	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.		Remarks
	No. of shares	% of shares held	No. of shares	% of shares held	No. of shares	% of shares held	Name	Relation	
Hontai Life Insurance Co., Ltd. Representative: LU, HUAN-I	89,702,749	4.13%	0	0.00%	0	0.00%	—	—	—
Fu Ding Investment Co., Ltd. Representative: LIAO, CHIEN-HUNG	76,405,643	3.52%	0	0.00%	0	0.00%	—	—	—
Bao Zuo Investment Co., Ltd. Representative: LIAO, CHIEN-HUNG	75,871,574	3.50%	0	0.00%	0	0.00%	—	—	—
Bao Sheng Investment Co., Ltd. Representative: HSIEH, YU-TING	72,313,817	3.33%	0	0.00%	0	0.00%	—	—	—
Tai Sheng Investment Co., Ltd. Representative: WANG, CHUN-FU	71,454,831	3.29%	0	0.00%	0	0.00%	—	—	—
Hong Chia Investment Co., Ltd. Representative: HSIEH, YU-TING	64,689,914	2.98%	0	0.00%	0	0.00%	—	—	—
Min Huei Enterprise Co., Ltd. Representative: WANG, HUI-CHIN	61,245,459	2.82%	0	0.00%	0	0.00%	—	—	—
Bao Qing Investment Co., Ltd. Representative: YANG, SHU-HUI	60,338,725	2.78%	0	0.00%	0	0.00%	—	—	—
Hung Lung Enterprise Co., Ltd. Representative: LIAO, CHIEN-HUNG	50,871,288	2.34%	0	0.00%	0	0.00%	—	—	—
Tai Lian Investment Co., Ltd. Representative: LIN, HSIN-I	42,699,377	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.

(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.

(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.

10. 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: Share (%)

Date: March 31, 2020

Reinvestment business (Note 1)	Held by the Company		Held by Directors, Supervisors, managers, and directly or indirectly controlled enterprises		Aggregate ownership interest	
	No. of shares	Shareholding percentage	No. of shares	Shareholding percentage	No. of shares	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 (Note 2)	119,370,014	56.72%	306,259	0.15%	119,676,273	56.87%
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 Corp.	100,000,000	100.00%	—	—	100,000,000	100.00%
Taiwan International Securities (B.V.I.) Corp.	300	100.00%	—	—	300	100.00%
Taiwan International Securities Investment Consulting Corp.	999,200	99.92%	—	—	999,200	99.92%
Capital Investment Trust Corp.	33,067,507	20.00%	—	—	33,067,507	20.00%

Note 1: Long-term equity investment by the Company using the equity method.

Note 2: The shares include the accounts acquired by the Company from underwriting and recognized as sales of securities. The number of shares underwritten was 304,000.

## 1. Capital and shares

### (1) Source of capital and share category:

#### 1. Sources of share capital

Unit: thousand shares / NT\$ thousands

Year/ month	Issued price (NTD)	Authorized capital		Paid-up capital		Remarks		
		No. of shares	Amount	No. of shares	Amount	Sources of share capital	Paid in properties other than cash	Other
2011.06	10	3,000,000	30,000,000	2,334,062	23,340,621	New shares totaling NT\$283,395,000 were issued for merger	N/A	Note 1
2011.10	10	3,000,000	30,000,000	2,369,073	23,690,730	Earnings used for capital increase: NT\$350,109,000	N/A	Note 2
2015.11	10	3,000,000	30,000,000	2,319,073	23,190,730	Reduced share capital by NT\$500,000,000	N/A	Note 3
2016.02	10	3,000,000	30,000,000	2,269,073	22,690,730	Reduced share capital by NT\$500,000,000	N/A	Note 4
2017.02	10	3,000,000	30,000,000	2,169,073	21,690,730	Reduced share capital by NT\$1,000,000,000	N/A	Note 5
2018.09	10	3,000,000	30,000,000	2,320,908	23,209,081	Capitalization of retained earnings totaling NT\$1,518,351,000	N/A	Note 6
2020.02	10	3,000,000	30,000,000	2,170,908	21,709,081	Capital reduced by NT\$1,500,000,000	N/A	Note 7

Note 1: Date of approval by the competent authority and document no.: Jin-Guan-Zheng-Quan-Zi No. 1000009983, dated March 18, 2011.

Note 2: Date of approval by the competent authority and document no.: Jin-Guan-Zheng-Quan-Zi No. 1000031788, dated July 11, 2011.

Note 3: Date of approval by the competent authority and document no.: Jin-Guan-Zheng-Jiao-Zi No. 1040045464, dated November 10, 2015.

Note 4: Date of approval by the competent authority and document no.: Jin-Guan-Zheng-Jiao-Zi No. 1050001350, dated January 14, 2016.

Note 5: Date of approval by the competent authority and document no.: Jin-Guan-Zheng-Jiao-Zi No. 1060001490, dated January 13, 2017.

Note 6: Filed to the Securities and Futures Bureau, Financial Supervisory Commission and became effective on July 12, 2018, approved by Letter Jing-Shou-Shang-Zi No. 10701117580, dated September 25, 2018, from the Ministry of Economic Affairs.

Note 7: Date of approval by the competent authority and document no.: Approved by Letters Jin-Guan-Zheng-Jiao-Zi No. 1090300266, dated January 9, 2020, and Jing-Shou-Shang-Zi No. 10901022470, dated February 21, 2020, from the Ministry of Economic Affairs.

#### 2. Share category

Unit: thousand shares

Share category	Authorized capital			Remarks
	Outstanding shares (listed)	Unissued shares	Total	
Registered common shares	2,170,908	829,092	3,000,000	-

#### 3. Information on general declaration systems: N/A.

### (2) Shareholder Structure

April 24, 2020

Shareholder Structure Quantity	Government Agencies	Financial Institutions	Other Institutional Investors	Domestic Natural Persons	Foreign Institutions & Individuals	Total
Number of shareholders	4	8	326	86,194	297	86,829
No. of shares held	6,953,397	148,876,313	969,367,339	648,114,635	397,596,413	2,170,908,097
Shareholding percentage	0.32%	6.86%	44.65%	29.86%	18.31%	100.00%

Note: The first TWSE (TPEX) listed companies and emerging companies shall disclose the percentages of their shares held by Mainland capital. Mainland capital means, according to Article 3 of the Regulations Governing Approval of Investments in Taiwan by Individuals from the Mainland Area, individuals, corporations, organizations or other institutions in the Mainland area or companies in third areas where they have made investments.

## (3) Shareholding Distribution Status

(Par value per share: NT\$10) April 24, 2020

Class of Shareholding	Number of Shareholders	No. of shares held	Shareholding percentage
1 ~ 999	47,157	8,456,784	0.39%
1,000 ~ 5,000	22,476	51,494,255	2.37%
5,001 ~ 10,000	7,080	49,671,224	2.29%
10,001 ~ 15,000	3,262	39,211,738	1.81%
15,001 ~ 20,000	1,458	25,727,235	1.19%
20,001 ~ 30,000	1,886	45,539,383	2.10%
30,001 ~ 40,000	857	29,629,782	1.37%
40,001 ~ 50,000	525	23,634,554	1.09%
50,001 ~ 100,000	1,020	71,366,714	3.29%
100,001 ~ 200,000	550	75,400,616	3.47%
200,001 ~ 400,000	251	70,533,082	3.25%
400,001 ~ 600,000	84	41,099,619	1.89%
600,001 ~ 800,000	39	26,296,307	1.21%
800,001 ~ 1,000,000	39	35,276,187	1.62%
1,000,001 or over (based on Company's self-classification)	145	1,577,570,617	72.66%
Total	86,829	2,170,908,097	100.00%

## Preferred shares

(Par value per share: NT\$ ) (Month) (Day), (Year)

Class of Shareholding	Number of Shareholders	No. of shares held	Shareholding percentage
Classified based on the actual conditions	-	-	-
Total	-	-	-

## (4) List of Major Shareholders

Shares	No. of shares held	Shareholding percentage
Name of major shareholder		
Hontai Life Insurance Co., Ltd.	89,702,749	4.13%
Fu Ding Investment Co., Ltd.	76,405,643	3.52%
Bao Zuo Investment Co., Ltd.	75,871,574	3.50%
Bao Sheng Investment Co., Ltd.	72,313,817	3.33%
Tai Sheng Investment Co., Ltd.	71,454,831	3.29%
Hong Chia Investment Co., Ltd.	64,689,914	2.98%
Min Huei Enterprise Co., Ltd.	61,245,459	2.82%
Bao Qing Investment Co., Ltd.	60,338,725	2.78%
Hung Lung Enterprise Co., Ltd.	50,871,288	2.34%
Tai Lian Investment Co., Ltd.	42,699,377	1.97%

- (5) The market price, net value, earnings and dividends per share and other relevant information during the most recent two years and as of March 31 of the current year (2020):

Year		2018	2019	As of March 31 of the current year (2020) (Note 8)
Item				
Market price per share (Note 1)	Highest	12.30	11.25	10.90
	Lowest	8.86	8.67	7.79
	Average	10.68	9.43	9.43
Net value per share (Note 2)	Before distribution	14.21	15.64	--
	After distribution	14.29	--	--
Earnings per-share	Weighted average no. of shares (1,000s of shares)	2,320,908	2,314,284	2,170,908
	Earnings per share (Note 3)	0.61	1.11	--
Dividend per-share	Cash dividend	0.4	--	--
	Stock dividend	From earnings	--	--
		From capital surplus	--	--
	Accumulated unpaid dividend (Note 4)		0	--
Investment return analysis	PE (Note 5)	17.51	8.50	--
	PD (Note 6)	26.70	--	--
	Cash dividend yield (Note 7)	3.75%	--	--

\* Where earnings or capital reserves have been used to increase capital for distribution of shares, information regarding the market prices and cash dividends adjusted retroactively based on the number of shares distributed shall be disclosed.

Note 1: The highest and lowest market prices of common shares for each year shall be indicated, and the average market price of each year shall be calculated based on the annual trading value and volume.

Note 2: Please specify the status of distribution as decided by a resolution of the shareholders' meeting next year based on the number of shares already distributed at the end of the year.

Note 3: Where retroactive adjustment is required due to distribution of bonus shares, the EPS before and after adjustment shall be indicated.

Note 4: Where the conditions for issuance of equity securities stipulate that undistributed dividends in the current year may be accumulated to be distributed in a subsequent year with earnings, the unpaid dividends accumulated until the current year shall be disclosed.

Note 5: PE = Average closing price per share of the current year / EPS

Note 6: PD = Average closing price per share of the current year / Cash dividend per share

Note 7: Cash dividend yield = Cash dividend per share / Average closing price per share of the current year

Note 8: The fields of net value per share and EPS shall indicate the information audited (examined) by the CPAs during the most recent quarter until the date of printing of the annual report. Other fields shall indicate the information of the current year until the date of printing of the annual report.

## (6) Dividend policy and execution

### 1. Dividend policies stated by the 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 Board of Directors submits a proposal for distribution of earnings to the shareholders' meeting for a resolution to be adopted for distribution of dividends to shareholders. The amount of the above-mentioned distributable balance minus the retained earnings may not be less than 10% of the distributable balance. Types of dividends: According to the capital budget plan of the Company, stock dividends are distributed to retain the funds required, and the remaining portion will be distributed in cash, with the amount of cash dividends not less than 10%.

### 2. Dividend distribution proposed at the current shareholders' meeting:

For the distribution of earnings in 2019, it is proposed to distribute a total of NT\$1,736,726,478 of cash dividends (cash dividend per share: NT\$0.80) to shareholders. The cash dividends will be distributed in whole dollars (rounded down 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.

(7) The impact of the stock grants proposed at the current shareholders' meeting to the operating performance and EPS of the Company: None.

(8) Employee/director/supervisor remuneration:

1. Percentage or scope of the remuneration for employees, directors and supervisors, as stated by 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. Any proposal for distribution of the remuneration for employees and directors shall be submitted to the shareholders' meeting for reporting.

Where the Company still has any accumulated loss, an amount shall be retained for make-up, and then the remuneration for employees and directors may be appropriated based on the aforesaid percentage.

2. The current estimation basis of remuneration for employees, directors and supervisors, calculation basis for number of shares distributed as remuneration for employees, and methods for the accounting of the difference between actually distributed and estimated amounts:
  - (1) The current estimation basis of remuneration for employees, directors and supervisors, calculation basis for number of shares distributed as stock dividends: According to the Articles of Incorporation, where there is any profit in a year, 0.6%~2% of it shall be appropriated as remuneration for employees, and no more than 3% of its shall be appropriated as remuneration for directors. If there is accumulated deficit, specific amount shall be retained to cover. The estimation of the remuneration for employees and directors in 2019 is based on the Company's net value before tax during the period prior to deduction of the remuneration for employees and directors, multiplied by the percentage specified by the Articles of Incorporation for distribution of the remuneration for employees and directors.
  - (2) Calculation basis for number of shares distributed as remuneration for employees: Based on the closing price on the day before the date of resolution of the shareholders' meeting, and taking into account the effect of ex-rights and ex-dividends.
  - (3) Accounting treatment for any difference between the amount actually distributed and the estimated amount: If there is any change after the date of adoption and publication of the financial report in the next year, it will be treated as a change in accounting estimation, and the effect of the change will be recognized as income of the next year.
3. Distribution of remuneration, as adopted by the Board of Directors:
  - (1) The remuneration for employees and directors will be distributed in cash or shares. (in cash or in shares) and expenses previously recognized:
 

On March 26, 2020, the Board of Directors adopted a resolution to distribute NT\$27,026,717 as remuneration for employees and NT\$45,335,138 as remuneration for directors. 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 (2019)	Estimated amount recognized as expense of the year (A)	Amount to be distributed as per the resolution of the Board of Directors (B)	Difference (A - B)	Cause and treatment of difference
Employee remuneration - stock	0	0	0	-
Employee remuneration - cash	32,756,250	27,026,717	5,729,533	Difference has occurred due to estimation of self-closing income, and it will be adjusted as a change in accounting estimation under the 2020 income.
Remuneration for directors	54,593,750	45,335,138	9,258,612	

(2) The percentage the amount of employee remuneration distributed in shares accounts for in the sum of the profit after tax in the current individual financial report and the total employee remuneration: 0% (dividends for the employees of the Company are all distributed in cash).

4. Actual distribution of the remuneration for employees and directors (including the number of shares distributed, amount and share price) in the previous year (2018). Where there is any difference with the recognized remuneration for employees, directors and supervisors, the amount of difference, reasons and treatment shall be described:

Item (2018)	Estimated amount recognized as expense of the year (A)	Amount to be distributed as per the resolution of the Board of Directors (B)	Difference (A - B)	Cause and treatment of difference
Employee remuneration - cash	20,970,750	14,586,628	6,384,122	Difference has occurred due to estimation of self-closing income, and it will be adjusted as a change in accounting estimation under the 2019 income.
Remuneration for directors	34,951,250	24,247,902	10,703,348	

(9) Status of stock repurchase by the Company during the most recent year and until the date of printing of the annual report:

(1) Status of stock repurchase by the Company (completed)

As of April 24, 2020

Term of repurchase	11th
Purpose of repurchase	To maintain the Company's credibility and shareholders' equity.
Period of repurchase	November 12, 2019 - January 11, 2020
Price range for repurchase	NT\$8.5~NT\$12
Type and number of shares repurchased	150,000,000 common shares
Amount of shares repurchased	NT\$1,604,386,481
Percentage of shares repurchased in the shares expected to be repurchased (%)	100%
No. of shares written off and assigned	150,000,000
Accumulated number of the Company's shares held	0
Percentage of the accumulated number of the Company's shares held in the total number of shares issued (%)	0%

(2) Status of stock repurchase by the Company (under implementation): None.

2. Status of corporate bonds: None.

3. Status of preferred stock: None.

4. Status of overseas depositary receipts: None.

5. Status of employee stock option certificates: None.

6. Status of employee restricted stock: None.

7. Status of new share issuance in connection with mergers and acquisitions: None.

8. Status of financing plans and implementation: None.

## 1. Business activities

### (1) Scope of business

#### (1) Primary operating 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) Percentages of operating revenues during the most recent 3 years

Unit: NTD thousands

Year	2017		2018		2019	
Product category	Amount	%	Amount	%	Amount	%
Brokerage	3,584,085	54	3,828,016	78	3,331,720	57
Proprietary trading	2,729,602	41	810,967	16	2,184,733	37
Underwriting	307,545	5	283,678	6	369,509	6
Total	6,621,232	100	4,922,661	100	5,885,962	100

#### (3) The current products (commodities) or services of the Company and their important usage or 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. Providing brokerage services, selling wealth management services and operating and managing branches.
Wealth Management Department	Planning for wealth management services, asset allocation, management, use and disposal of trust property, and planning, implementation and receipt of trust services.
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	Trading securities in own capacity in the centralized exchange market and over-the-counter market, regulating market supplies and demands as a proprietary trader, and playing the role of a market generator in coordination with the underwriters. Trading and operating domestic and foreign futures and options. Using the Company's own funds for, if permitted by law, investment in commodities in overseas spot and futures markets depending on the international economic conditions and changes in the stock and foreign exchange markets.
Fixed Income Department	Managing domestic and foreign bonds, short-term financing of bond derivatives, conditional trading of bonds, and providing quick and concrete consulting services to customers regarding information on bond investment.

Derivatives Department	Issuance and trading of derivatives, and offering of investment and advisory services on derivatives.
Registrar Agency Department	Agency of stock affairs for TWSE/TPEX-listed, public and non-public companies.

(4) Planning for development of new products (services)

1. Adopting the segment marketing strategy for promotion in combination with digital platforms, providing rating services based on customer attributes for precision marketing, and steadily increasing the scale of management of customer assets.
2. Continuing to promote the service of "One Account for All", increasing the sources of interest income, keeping track of customers' cash flows, and enhancing wealth management services.
3. Enhancing the ability to design financial commodities on its own, and providing customized commodities based on customer attributes to become the first choice for customers in financial management.
4. Actively developing the Hong Kong platform and sub-brokerage services to get closer to customer demands for trading in overseas securities markets including Hong Kong and US stocks, and making preparations for sub-brokerage financing services to increase the income from sub-brokerage and Hong Kong.
5. In response to the continuous trading system, enhance the contents and speed of services to customers.
6. Introducing innovative financial commodities or services with innovative ideas in a safe environment for experiment of financial technologies, and applying for entry into the financial regulatory sandbox.

(2) Industry overview:

1. Current status and development of the industry:

An overview of the overall securities market in 2019 (see the table below) shows that the trading volumes of shares and call (put) warrants have decreased from the previous year. The trading volume of the centralized exchange market was down by 9.66%, while that of the OTC market dropped 6.34%. Overall, the total trading volume of stock and bond commodities decreased 7.54%.

Securities Market Trade Volume in the Last 3 Years

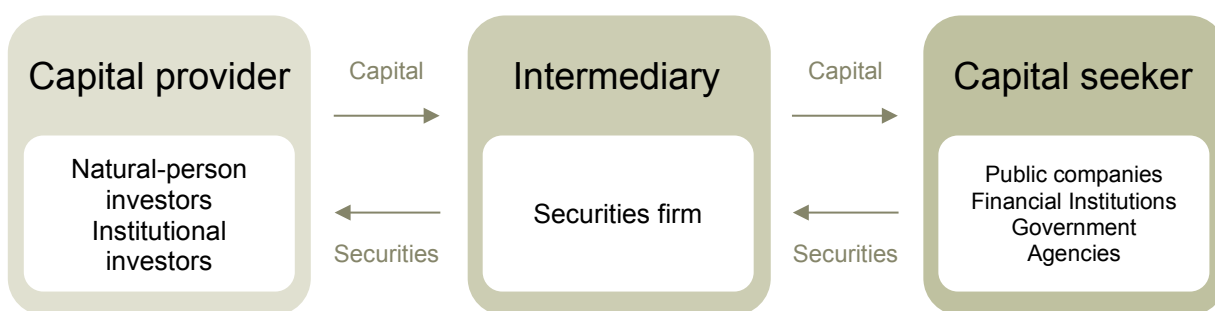
Unit: NTD billions

Year	2017	2018	2019	Increase/ Decrease in 2019
• TWSE-listed				
Shares	23,972.24	29,608.87	26,464.63	-3,144.24
ETF	1,231.73	1,834.05	2,080.52	246.47
Beneficiary securities	4.26	4.22	10.02	5.8
Call (Put) warrants	584.47	712.55	497.09	-215.46
TDR + ETN	6.18	2.68	4.39	1.71
Subtotal	25,798.88	32,162.37	29,056.65	-3,105.72
• TPEX-listed				
Shares	7,683.50	8,145.50	7,607.50	-538.00
Call (Put) warrants	226.50	211.70	145.40	-66.30
ETF	68.10	316.80	854.00	537.20
Bond	45,815.30	48,217.50	44,677.10	-3,540.40
Subtotal	53,793.40	56,891.50	53,284.00	-3,607.50
Total	79,592.28	89,053.87	82,340.65	-6,713.22
Excluding bonds	33,776.98	40,836.37	37,663.55	-3,172.82

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 competent authority has actively adopted more open policies for continuous trading and new wealth management to help and encourage the financial industry to move toward internationalization and enhance its product innovation capability. The competent authority has also required the financial industry to strengthen corporate governance and risk control, pay more attention to the protection, rights and interests of consumers, and adopt the idea of “innovative and solid” to enhance the structures of financial institutions and improve the competitiveness of the securities industry. The securities industry has used its own advantages in business management or niches in regional development to effectively exercise its capabilities in asset allocation and risk control to create differentiated competitive advantages and transform into an operating model that generates profit.

## 2. The relationship between the upstream, midstream and downstream in the industry:



## 3. Development trends and competition of products:

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. In addition to multiple types of commodities including spot trades, futures and overseas investments, convenient trading platforms have been launched as a response to the system of continuous trading to provide effective investment strategy APIs for customers. The aim is to satisfy customer demands with more diverse and preferential securities services. Furthermore, social media has been used to enhance interaction with customers and develop new business channels.

### (2) Underwriting:

In 2019, the Company undertook the initial listing of Team Group Inc. In the secondary market, the Company completed numerous cases of SPO capital raising including CB and cash capital increase for Laster Tech Corporation Ltd., CB for TaiSol Electronics Co., Ltd., cash capital increase for De Licacy Industrial Co., Ltd. and cash capital increase for Syngen Biotech. With rich experience, the team undertaking such cases have been engaged to complete cases of different scales and types.

In 2019, the total number of TWSE/TPEX-listed companies grew to 1,717 from 1,694 in 2018, up 23 from the previous year. The market value of TWSE/TPEX-listed companies increased to NT\$39.85 trillion from NT\$32.14 trillion, up NT\$7.71 trillion from the previous year. In 2019, there were 144 cases of public offering by TWSE/TPEX-listed companies, an increase of 14 cases from 130 cases in 2018.

The stock market is the window of economy. In order to expand the size of the capital market and encourage foreign businesses to become TWSE/TPEX-listed in Taiwan, in particular to motivate outstanding Taiwanese businesses to return and become listed, the government has provided a number of preferential measures to strengthen the foundation for future economic development in Taiwan. The underwriting segment will continue to play its role as the facilitator of direct finance.

## (3) Derivatives:

2019 saw heavy fluctuations in the stock market, a shrinking warrant market and significant reduction in the trading volume of market warrants. The first ETN of the Company was listed in April 2019. In the future, new products will be developed based on market demands to keep the leading position of the Company 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.

The Company will deepen its brand identity and build its professional image in wealth management for high-end customers. The Company has strengthened KYC to gain deeper understanding of customers and provided services for customer differentiation through the analysis and management of big data. The Company has also categorized commodities into different types corresponding to different customer bases under hierarchical management for selection and allocation and planning for commodity suitability. In 2020, the Company will launch products linked to NT dollar funds with a participation rate of 300% and without capital guarantee. The Company will also enhance digital, online, mobile and facilitated financial management services to provide the value-added services of data mining and personalized classification with financial and technological innovations to deepen investment in customers. 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.

## (3) Technological research and development

## 1. R&amp;D expenses during the most recent 3 years

Year	Amount (1,000s of NT\$)
2017	57,958
2018	60,788
2019	60,360
2020 (estimated)	75,688

## 2. R&amp;D results during the most recent year, and the direction of future development

New financial product development

With respect to call (put) warrants in 2019, the amount of premium for warrant listing was NT\$44.851 billion, and the number of warrants issued was 3,668, with the amount and number of issue ranked 3rd in the market. The annual amount of structured products issued was NT\$11.275 billion. The first ETN of the Company was listed in April 2019, and in 2020 the Company is expected to launch products linked to NT dollar funds with a participation rate of 300% and without capital guarantee. In the future, with the easing of legal restrictions and demands in the market, the Company will be committed to the R&D of trading strategies and valuation models in order to design more diverse and customized new financial commodities for investors, and to provide an excellent and stable environment of market making for warrants to enhance the quality of market making.

Financial Innovation Trends and Innovative Marketing Technology

Committed to the mission of “public interest”, the Company has made contributions to the capital market and put efforts into the development of smart finance. Following the idea of “innovation first, customer first”, the Company has worked hard to protect the wealth of every customer and create bigger values. In 2016, the smart financial robot GOODi developed by the Company won the “Award for Top 100 Innovative Products” at the 2016 IT Month, and the Company has since received three invention patents and three utility model patents. At the same time, the Company is a securities firm that has passed the review by the Financial Supervisory Commission of tax credits for financial R&D investment for three consecutive years.

Since 2018, the smart financial robot GOODi has gradually included the functions of securities ordering and fund trading to allow the customers to send push notification of or set



important messages via GOODi. Such messages directly become the basis for actual transactions to enrich the customers' life with smart finance. In 2019, the Company continued to develop AI, text mining and deep learning with big data and extend the application services of the smart financial robot. The Company has developed smart ordering, cloud strategies and optimization of user experience, and has kept its efforts in providing the customers with globalized asset allocation services and exclusive smart finance services.

The waves of Bank 4.0 and Fintech have impacted the traditionally conservative and stable financial industry. Under the current trading system, there are time differences for the customers between the "trade" and "settlement" of different financial commodities. In line with the trend in the development of financial technology, the Company has actively adopted innovative business models. In November 2019, the "Asset Transformation T+0 Contract" submitted by the Company received approval from the Financial Supervisory Commission to enter the experiment on financial regulatory sandbox, which is expected to last one year. In the future, the Company is expected to provide the customers with a new business service model of "T+0 days" for asset transformation to significantly reduce the time differences between capital flows, help the customers transform their assets rapidly and seize investment opportunities, increase market trade volume and enhance market liquidity.

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. With frequent occurrence of financial information security incidents, the development of fintech must advance in tandem with information security. The Company has continued to maintain the certifications of ISO27001 for international standard information security, ISO22301 for business continuity management, ISO20000 for information service management and BS10012 for external verification of personal data protection. In addition, the Company has kept strengthening its capability in information security protection to safeguard the rights and interests of the customers.

#### (4) Long-term and short-term business plans:

##### 1. Short-term business development plan:

- (1) Increasing income from service fees for commodity sales, reducing the degree of fluctuation of income from the positions held to profit, and maintaining stable profit.
- (2) Using digital platforms to provide rating services based on customer attributes for precision marketing, and steadily increasing the scale of management of customer assets.
- (3) Combining securities, sub-brokerage, trust, derivatives and bonds to make it easy and convenient for the customers to engage in settlement, facilitate the use of funds and improve investment efficiency.
- (4) Actively developing the existing Hong Kong platform and sub-brokerage services to get closer to customer demands for trading in overseas securities markets including Hong Kong and US stocks, and increasing the income from sub-brokerage and Hong Kong.
- (5) 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.
- (6) Centralize clearing operations, optimize operational processes, and enhance operational risk management.

- (7) Strengthen business cooperation with the Company's futures, securities investment management, venture capital and securities investment consulting to exert their synergy.
- 2. Long-term business development plan:
  - (1) Becoming the best investment bank and wealth management institution in Asia.
  - (2) Cultivating the capability for R&D of new products and services to become the most innovative and professional financial institution.
  - (3) Actively assessing the possibility of establishing overseas subsidiaries based on the economic development in overseas regions.

## 2. Market and sales overview

### (1) Market analysis

TAIEX closed at 11997 points, and the index was up 2270 points or 23.3% in 2019. At the end of 2019, the market capitalization of the Taiwan stock in the centralized market was NT\$36.5 trillion, an increase of NT\$7.1 trillion from the end of 2018, with the market capitalization of the semiconductor industry showing the highest growth. The TPEx Index closed at 149.36 points, and the annual index was up 25.82 points or 20.9%.

In 2019, the performance of the Taiwan stock was in line with that of the international stock market: Even though the global economy continued to show warning signs, and despite issuance by the IMF and World Bank of multiple reports indicating a decline in the economic momentum, stock markets worldwide continued to rise. In the case of US stocks, Dow Jones and S&P 500 indexes kept reaching record highs. Strong growth in the US economy and hyper capital conditions supported the global financial market in 2019.

However, at the end of 2019, COVID-19 appeared in China. During Q1 of 2020, the pandemic spread to Europe and the US. As a result, the global economic prospect has turned conservative, causing a sharp fall in the global capital market.

In March 2020, the Central Bank in Taiwan revised down the estimated economic growth rate of 2020 to 1.92%.

In 2019, the main features of the economy in Taiwan included:

#### 1. Gains and losses for Taiwan amid the US-China trade war

Since the second half of 2018, expansion of the impact of the US-China trade war has caused manufacturers to turn conservative, and the benefits of the huge production bases operated by Taiwanese businesses in China have been re-evaluated. Slowdown in growth of the exports from major countries has affected the Taiwanese economy.

The trade war has brought the effect of order transfer for certain industries. The export of some technology products during the first 3 quarters of 2019 grew steadily, and the return of production bases to Taiwan boosted private investment. During the first 3 quarters of 2019, the economy of Taiwan grew on a quarterly basis. Nevertheless, most manufacturers in Taiwan have continued to consider the US-China trade war as the most unfavorable factor, especially for traditional industries such as the textile, petrochemical and steel industries.

#### 2. The US economy and rise of the Internet, and the economy is stable externally but cool internally

In 2019, the US economic growth reached its peak, and export from Taiwan was hot. In particular, in the two major IT supply chains of semiconductors and mobile phones, Taiwanese electronic manufacturers were important participants. For instance, when Apple launched a new mobile phone, it required the full support from technology companies including TSMC, Largan Precision and Foxconn.

For domestic demands, the continuous expansion of the web service sector has heavily impacted the demands for catering and real estate services. As a result, store buildings in the prime areas of the cities have been left unused, and private spending has generally been conservative, thus inhibiting the market of domestic demands.

In 2019, due to the outstanding performance of TSMC, the high yields of the Taiwan stocks, the effect of order transfer caused by the US-China trade war, backflow of overseas capital and return of Taiwanese businesses for investment, the economy and stock market in Taiwan were "making a turnaround". The five features in the development of the Taiwan stock:

The level of rise in TAIEX reached a 10-year record. At the end of the year, the market value of TWSE/TPEX-listed companies totaled to NT\$39.87 trillion, a historical high.

In December, the stock price of TSMC reached a historical high of NT\$345, with the annual stock price up 46% in 2019. Its shares became the core stock held by international capital investing in the Taiwan stocks. At the end of the year, the weight of TSMC in TAIEX increased to 23.6%, a significant rise from 20.0% at the end of 2018. As a result, TSMC was considered the “guardian” of the Taiwan stocks.

In 2019, foreign investors added NT\$244.1 billion to the Taiwan stock, a record high since 2016. The annual amount overbought for investment trust funds was NT\$11.2 billion, and the amount overbought for securities proprietary traders was NT\$52.4 billion. Both reached 10-year highs. Foreign investments have affected the performance of the index and blue chips, while domestic investments have focused on growth

At the end of 2019, the financing balance that represents the willingness of retail investors to make investment was NT\$145.4 billion, while the annual increase of 2019 was NT\$19 billion or 15%. Part of the reason why the increase rate was lower than the index was that the index fluctuated at its high, and therefore ordinary investors were relatively conservative, making it difficult for the financing balance to increase steadily.

Electronic stock has remained the mainstream of the Taiwan stocks: As the technology industry in Taiwan is an important part of the global supply chain, technology stock has gradually become a feature of the Taiwan stock. The market capitalization of the technology stock accounts for around 60% of the Taiwan stock, but its percentage in daily trading exceeds 70%. The market valuation of the technology stock has become closer to that of the US high-tech stocks.

Key changes in the Taiwan stock in 2020 include:

#### 1. Performance of the US stock

In February 2020, the US stock fell sharply, with more than 20% drops in all major indexes from the peak. As a result, the bull market turned into a bear market, while the average period of bear market in the past was approximately 12 to 18 months. This indicated heavy pressure on the US stock for correction in 2020, affecting the global stock market at the same time.

When the global financial market falls, the demand for capital hedge causes an increase in the demand for US dollars and Japanese yen, and the performance of the USD index is closely connected with the foreign investment positions in the emerging markets. If the USD index continues to rise, pressure on foreign capital to reduce investment in the Taiwan stock will be heavy.

After the pandemic ends, consumer spending is expected to return to normal and drive global demands, and companies including Apple, Microsoft and Amazon are expected to remain in their leading positions. Furthermore, the unique status of the US dollar, the performance of the US economy and the ability of the stock market to rebound are likely to be the focus in the second half of the year. The overall demand in 2020 may decline compared with 2019, but is expected to return to the normal level in 2021.

#### 2. Multiple effects of the US-China trade war

US-China interaction is still the focus of the global economy. Both sides reached a first-phase trade agreement in January 2020, but this does not mean that China is really willing to accept all the trade terms and restrictions of the US. US President Donald Trump has continued to propose for a second-phase negotiation. Since the subjects involve core disputes and tough issues including the industrial subsidies and government-owned enterprises in China, and because the COVID-19 pandemic has raised tension between the two countries, it is generally expected that the trade negotiation will be slower, or that it is just an election tool, with limited progress before the US presidential election.

Huawei will be the focus of the second-phase negotiation between the US and China. The issues of global 5G leadership and the amount of technologies in Huawei's products not only concern whether China can make unilateral concession, but also have an impact to the momentum for future growth of US manufacturers of semiconductor parts and components as well as to the prospect of 5G supply chain operations in Taiwan.

#### 3. Trend in NT dollars

When the NTD surpasses NT\$30 and shows a trend of appreciation, hot money around the world flows in to purchase blue chips and pushes up the index. Subsequently, the rise of the index gradually stagnates. Each wave of peak in the Taiwan stock is close to the NTD peak, indicating

strong effect of the foreign hot money. In contrast, once the NTD falls from the peak, the foreign hot money gains profit at a pace faster than that for the original purchase of shares.

In addition, significant appreciation of the NTD against the USD is not favorable for exporters to receive income from foreign exchange. The technology industry may post huge exchange losses, such as assembly OEMs and the PCB group. Significant depreciation of the NTD means heavier pressure on foreign capital to sell investments and heavy fluctuation in the financial market. Therefore, a stable currency value is favorable to the stock market.

#### 4. Uncertainty in China

The COVID-19 pandemic has caused the largest impact to worker's health, transportation, stability of materials and logistics management in labor-intensive industries. Once China has effectively kept the pandemic under control, it is expected to launch an aggressive "financial easing policy", and the policy benefits will be properly reflected in the stock market.

Diverse opinions on the degree of influence of China on the global economy: the most optimistic and conservative commentators will never reach consensus. A balanced view is that Q1 is a low season for the technology industry, and that demands will gradually return to growth from Q2. However, the status of China as "the world's factory" has substantially changed after the US-China trade war, and many international major manufacturers have begun to transfer or diversify their production bases or adjust the production supply chains.

#### 5. Government-owned banks' intervention in stocks and interest rate cut by the Central Bank

Since 2009, government intervention in the stock market has been a common occurrence throughout the world. The main forces of the government in Taiwan to support the stock market are the four major funds, government-owned banks and the National Financial Stabilization Fund. Another supporting force is the life insurance funds. The government hopes the life insurance investment funds can significantly increase their percentage of investment in the Taiwan stock. Therefore, when the stock market crashes, the life insurance funds go against the trend to purchase more shares featuring high cash dividends and adopt a trading strategy for long-term holding for cash dividends.

In March 2020, the Board of Directors and Supervisors of the Central Bank in Taiwan decided to lower the discount rate to 1.125%, a historic low below 1.25% during the financial crisis in 2008. After adjustment, the discount rate, the interest rate on accommodation with collateral and the interest rate on short-term accommodation of the Central Bank were 1.125%, 1.5% and 3.375% respectively.

#### 6. The US\$2 trillion stimulus package in the US

In March 2020, the US Fed significantly lowered the interest rate for a second time, with the base interest rate at 0-0.25%. It also announced the implementation of unlimited QE. At the end of March, President Trump released the "US\$2 trillion stimulus package", the largest economic bailout program ever in the US history. Its size far exceeded the emergency stabilization package of US\$850 billion announced by the US government in October 2008 during the financial crisis.

For the US presidential election in November 2020, the biggest uncertainty for Trump's re-election is whether the pandemic will destroy the US economy. As a result, since March 2020, Trump has changed his attitude to actively face the pandemic, and the QE policy has provided emergency bailout. Once the pandemic has stabilized, most newly added funds will flow into the financial system rather than actual investment activities.

### 1. Territories for sales and provision of the primary products and services

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 the primary business in 2019:

Ranking	Brokerage volume		Financing balance (2019)	
	Securities firm	Market share	Securities firm	Market share
1	Yuanta	12.46%	Yuanta	15.39%
2	KGI	8.46%	KGI	7.17%
3	Fubon	5.56%	Sinopac	6.56%
4	Sinopac	4.80%	Fubon	5.99%
5	Capital	4.08%	Capital	5.80%
6	Masterlink	3.82%	Mega	5.54%
7	JihSun	3.56%	Masterlink	5.34%
8	Hua Nan	3.36%	JihSun	4.98%
9	Mega	3.32%	President	4.89%
10	President	3.25%	Hua Nan	4.52%

Source: TWSE, TPEx and financial figures from the final accounts of securities firms

### 3. Market supply and demand in the future

#### (1) Demand

In 2020, ultra-low interest rates will prevail throughout the world, becoming an important advantage for investment and the financial market. The financial policies, infrastructure and high-tech growth (e.g., 5G) are factors favorable to investment.

At the end of March 2020, the continuous trading system was implemented in line with the main markets worldwide. Foreign capital and corporations have shown more interest in investing in Taiwanese stocks, and the performance of the stock market in Taiwan is expected to become increasingly related to the international financial market.

#### (2) Supply

In response to the emergence of e-finance, digital capabilities including e-marketing and social networks have been turned into core competitiveness, and new technologies and innovative business models have been used to provide comprehensive investment and financial services to the customers.

### 4. Favorable and unfavorable factors for future development

#### Opportunities:

- (1) Balanced development of brokerage, corporate finance, new financial commodities and financing services.
- (2) Introduction of strategies for e-finance and financial specialists to reduce dependence on securities brokerage services.
- (3) Comprehensive and quality services for research and investment recommendations.

#### Threats:

- (1) Heavy pressure for the training of professional talents in securities investment and the related human resources.
- (2) Fierce competition over the prices of brokerage services.
- (3) Expanded degree of market fluctuations and reduced profitability of investment have inhibited the willingness to make investment.

#### Strategies in response:



All departments will develop on a balanced and stable basis. Additionally, the Company will use financial technologies and artificial intelligence (AI) to help develop new business opportunities in the future. The Company will also integrate the resources in the securities service systems and implement the plans and management policies and objectives for growth, with the expectation to enhance profitability.

The Company will continue to diversify and globalize, and shall actively collaborate with foreign investors or other large-size financial institutions. Meanwhile, the Company will search for merger and acquisition opportunities as a means to grow and improve competitiveness and profitability.

(2) Important uses and manufacturing processes of the main products: N/A.

(3) Status of supply of the main raw materials: N/A.

(4) List of customers for sales and purchases during the most recent two years: N/A.

(5) Production value of the most recent two years: N/A.

(6) Sales value of the most recent two years: N/A.

### 3. Employee information

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

March 31, 2020

Year		2018	2019	As of March 31, 2020 (Note)
Employee count		1,818	1,839	1,833
Average age		47.95	45.05	45.15
Average years of service		12.97	12.83	12.98
Academic Qualification	Doctoral Degree	0.17%	0.11%	0.11%
	Masters Degree	10.51%	10.17%	10.42%
	Bachelor Degree	69.40%	70.47%	70.21%
	Senior high school	19.86%	19.20%	19.21%
	Below senior high school	0.06%	0.05%	0.05%

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

### 4. Contribution to environmental protection:

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

### 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:

Measures for employee welfare: In 1990, the Company registered with the competent authority to establish the Employee Welfare Committee to provide a number of preferential benefits to the employees including subsidies for marriage, funerals, celebrations, club activities and travel. Overall, there are still adequate funds for the benefits to be provided as planned.

Employee education and training: To cultivate talents and improve operational and management performance, the Company has actively organized all kinds of training including: training of new employees, professional

training, training of managers, training for growth of managers and invitation of experts and academics to give lectures at the Company. In 2007, the Capital Financial Academy was founded as the cradle of managers trained internally by the Company.

In 2019, the total expense for employee training was \$6,732,000, and a total of 3,066 persons participated in external professional training sessions, with an average training rate of 167%, while the total number of internal training sessions was 130. Intensive training of business personnel has been organized through video conferencing and broadcasting across the country to enhance their professional competences and skills. Also, in order to improve learning performance, various e-learning and training courses have been designed by using electronic systems that allow the employees to learn and grow at any time and any place.

**Retirement system:** To take care of the employees' life in retirement, the Company has established the Regulations Governing Retirement of Employees. Also, in order to build long-term and harmonious labor relations, the Company set up the Employee Pension Fund Management Committee in November 1994. Since the Labor Standards Act became applicable in April 1998, designated accounts have been opened at the Bank of Taiwan in the name of the Workers' Pension Reserve Fund Supervisory Committee. Any employee who has met the criteria under the regulations for employee retirement may apply for such an account. Since the Labor Pension Act came into effect in July 2005, the Company has respected each employee's free will to choose application of the new pension system, and has allocated 6% of the employee's wage to his/her personal pension account on a monthly basis.

**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 labor relations in the Company are harmonious. There wasn't any violation of the Labor Standards Act in 2019.

## 6. Major contracts: None.



## 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	<p>(1) Measures mandated by law</p> <ol style="list-style-type: none"> <li>1. Labor and health insurance.</li> <li>2. The "Regulations on Complaints and Punishments for Measures to Prevent Sexual Harassment at Workplace" has been established.</li> <li>3. "Employee lactation rooms" have been set up.</li> <li>4. Regular health examinations have been organized for employees.</li> <li>5. Doctors have been engaged to provide regular consultation services, including health education, health promotion and health guidance for employees, at the Company's Head Office.</li> </ol> <p>(2) Measures provided above legal requirements</p> <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. Free massage services have been provided to the employees of the Head Office.</li> <li>4. Health lectures such as "Low Salt Diet for Office Workers" and "Yoga for Office Workers" have been organized to raise the awareness of physical fitness among the employees.</li> <li>5. The "Regulations for Management of the Establishment of Recreational and Charitable Clubs and Their Funding" has been established to encourage the employees to get into the habit of participating in sports and charitable activities.</li> <li>6. The Company has been certified as an "iSports Corporation" by the Sports Administration, Ministry of Education.</li> </ol>
	Environmental health	<p>(1) The Company has established the "Measures for Prevention of Smoking Hazards".</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>
Safety of work environment	Safety certification	The Company has received the ISO22301 certification for business continuity management. The primary purpose of the certification is to ensure that the Company will be able to minimize damage in any sudden event of emergency to maintain personnel safety, compliance, customers' rights and interests, the Company's goodwill and security of the Company's assets, and to make sure the important business activities of the Group can gradually resume within the target recovery time to maintain operations.
	Certification for personal information	The Company is the first financial institution to obtain international certification for personal information management with respect to securities, futures, and insurance brokerage/agency services. It shows that the Personal Information Management System (PIMS) adopted by the Company offers effective protection and management of personal information, and complies with all requirements of the Personal Information Protection Act to protect the rights of information owners, while at the same time minimize possible impacts from event of attack. It represents the Company's commitment to continually manage and improve its personal information management system.
	Workers' safety	The Company has complied with the "Occupational Safety and Health Act" by appointing an OSH Officer, a team of first aid officers, and organizing training according to the Worker Safety Education Principles. The Company has 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.
	Fire safety	<ol style="list-style-type: none"> <li>1. Fire drills have been held on a regular basis.</li> <li>2. In accordance with the Fire Services Act and its Enforcement Rules, a fire safety manager has been appointed. The manager has regularly attended seminars and recurrent training sessions.</li> </ol>
	Safety assurance	<p>All of the Company's business premises and branches are covered by the following insurance</p> <ol style="list-style-type: none"> <li>1. Commercial fire insurance;</li> <li>2. Electronic equipment insurance;</li> <li>3. Public accident liability insurance.</li> </ol>

## 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 provide high value-added products and services and build and maintain long-term relationships with the customers to help them achieve their objectives.
2. Our interaction and transactions with the customers are in accordance with the highest ethical and safety standards. Our retention of the customers' data is subject to strict restrictions to ensure the use of such data is in compliance with the law. 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 will never allow conflicts between personal interests and the interests of the Company or customers, or any likelihood of such conflicts.
4. We may not disclose any information or data which we have become aware of in the course of duties to others, or hold securities or engage in transactions of securities in the name of any individual or on behalf of others.
5. During our service at the Company or after we have left our jobs, we will: (1) never disclose business secrets (including but not limited to technologies, program systems, customer data, trading strategies, operating information, personnel or organizational information, information in financial and accounting books, strategic plans and other information) which we are in charge of or aware of to be used by ourselves or others, and never illegally use any information yet to be made public (also referred to as "insider information"); (2) attempt to gain unlawful benefits for ourselves or others by taking advantage of our business.
6. We integrate risk management and the laws and regulations into the business process control system and are in strict compliance with it.
7. We submit reports regarding the status and facts of business on a timely and accurate basis, and we do our best to ensure maximum benefits for the Company.
8. We understand that we are handling and using the shareholders' assets, and that we shall treat the property of the Company as our own property and carefully handle and use it.
9. We will not misuse the Company's network and e-mails for non-business purposes, such as viewing, disseminating and saving erotic literature and images and other defaming 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 will strictly comply with the applicable laws and regulations by not using e-mails, electronic bulletin boards or the Internet system (including but not limited to personal blogs or web forums) to engage in activities of improper business marketing, improper competition not involving service fees, determination or suggestions for the future transaction prices of individual contracts, or provision of suggestions for trading strategies.
11. We shall maintain the accuracy and integrity of the information, reports, records and data owned, used and managed by the Capital Group, and we may not engage in any improper removal or transmission of them.

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 will not unilaterally make any external statements. Only the spokespersons appointed by the Company may give comments to the media on behalf of the Company.
13. We will never permit or allow our relatives to accept gifts, services, loans or special treatment from any persons (including customers, suppliers or other persons) for the purpose of exchanging for current or future relationship with the Company.
14. When we become aware of actions that are in violation of legal requirements or the Company's work rules, we will promptly report such alleged violations to the appropriate personnel including the direct supervisors, human resources units or auditing units.

## VI. Financial Summary

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

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

Unit: NTD thousands

Year Item		Financial information for the latest 5 years (Note 1)									
		Consolidated					Standalone				
		2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
Current assets		116,002,501	101,969,620	128,220,873	94,506,013	79,591,301	73,984,497	61,469,761	93,599,832	65,616,894	58,594,636
Property, plant and equipment		3,025,605	5,340,960	4,966,752	5,129,823	5,177,406	2,339,571	4,577,214	4,231,972	4,389,956	4,535,525
Intangible assets		3,609,740	3,621,070	3,628,174	3,612,248	3,627,517	3,527,506	3,543,038	3,544,235	3,532,620	3,550,988
Other assets		10,532,567	6,458,257	4,670,519	4,796,129	4,914,967	15,567,056	11,838,403	9,767,364	9,467,444	8,510,170
Total assets		133,170,413	117,389,907	141,486,318	108,044,213	93,311,191	95,418,630	81,428,416	111,143,403	83,006,914	75,191,319
Current liabilities	Before dividend	94,684,661	80,738,838	106,463,149	75,399,960	59,982,074	59,239,075	47,025,844	78,368,174	51,991,187	43,403,662
	After dividend	(Note 2)	81,667,201	106,896,964	76,202,518	61,093,919	(Note 2)	47,954,207	78,801,989	52,793,745	44,515,507
Non-current liabilities		2,269,623	1,446,333	1,545,169	1,799,975	1,801,450	2,186,915	1,430,580	1,353,599	1,495,179	1,497,057
Total liabilities	Before dividend	96,954,284	82,185,171	108,008,318	77,199,935	61,783,524	61,425,990	48,456,424	79,721,773	53,486,366	44,900,719
	After dividend	(Note 2)	83,113,534	108,442,133	78,002,493	62,895,369	(Note 2)	49,384,787	80,155,588	54,288,924	46,012,564
Equity attributable to parent company shareholders		33,992,640	32,971,992	31,421,630	29,520,548	30,290,600	-	-	-	-	-
Share capital		23,209,081	23,209,081	21,690,730	22,690,730	23,190,730	23,209,081	23,209,081	21,690,730	22,690,730	23,190,730
Capital reserves		2,852,299	2,852,299	2,852,299	2,750,972	2,742,807	2,852,299	2,852,299	2,852,299	2,750,972	2,742,807
Retained earnings	Before dividend	7,927,126	6,209,696	6,790,451	4,763,521	4,697,083	7,927,126	6,209,696	6,790,451	4,763,521	4,697,083
	After dividend	(Note 2)	5,281,333	4,838,285	3,960,963	3,585,238	(Note 2)	5,281,333	4,838,285	3,960,963	3,585,238
Other equity items		1,578,134	700,916	88,150	150,373	129,135	1,578,134	700,916	88,150	150,373	129,135
Treasury stocks		(1,574,000)	-	-	(835,048)	(469,155)	(1,574,000)	-	-	(835,048)	(469,155)
Non-controlling interests		2,223,489	2,232,744	2,056,370	1,323,730	1,237,067	-	-	-	-	-
Total equity	Before dividend	36,216,129	35,204,736	33,478,000	30,844,278	31,527,667	33,992,640	32,971,992	31,421,630	29,520,548	30,290,600
	After dividend	(Note 2)	34,276,373	33,044,185	30,041,720	30,415,822	(Note 2)	32,043,629	30,987,815	28,717,990	29,178,755

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

Note 2: appropriation of 2019 earnings had yet to be resolved in a shareholder meeting.

## (2) Summary income statement (consolidated and standalone)

Unit: NTD thousands

Item \ Year	Financial information for the last 5 years (Note)									
	Consolidated					Standalone				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
Operating revenues	7,796,951	7,638,645	9,244,897	6,437,645	6,564,157	5,885,962	4,922,660	6,621,232	4,241,538	5,003,528
Gross profit	6,227,871	5,695,441	7,237,386	5,091,449	5,601,522	5,094,599	4,003,138	5,807,603	3,829,131	4,643,604
Operating profit	1,993,246	1,173,168	2,751,541	1,110,568	1,364,740	1,780,192	619,169	2,264,634	702,923	1,179,123
Non-operating revenues and expenses	1,234,851	1,153,362	752,096	561,665	669,295	1,038,556	1,219,276	818,720	665,171	605,223
Pre-tax profit	3,228,097	2,326,530	3,503,637	1,672,233	2,034,035	2,818,748	1,838,445	3,083,354	1,368,094	1,784,346
Net income from continuing operations	2,829,234	1,777,510	3,215,395	1,406,497	1,728,358	2,566,823	1,408,865	2,893,600	1,196,756	1,549,327
Loss from discontinued operations	0	0	0	0	0	0	0	0	0	0
Net income	2,829,234	1,777,510	3,215,395	1,406,497	1,728,358	2,566,823	1,408,865	2,893,600	1,196,756	1,549,327
Other comprehensive income/loss for the current period (net, after-tax)	947,213	(442,188)	(139,233)	4,196	5,573	956,188	(451,114)	(65,893)	2,765	2,345
Total comprehensive income (loss) in current period	3,776,447	1,335,322	3,076,162	1,410,693	1,733,931	3,523,011	957,751	2,827,707	1,199,521	1,551,672
Net income attributable to parent company shareholders	2,566,823	1,408,865	2,893,600	1,196,756	1,549,327	-	-	-	-	-
Net income attributable to non-controlling shareholders	262,411	368,645	321,795	209,741	179,031	-	-	-	-	-
Comprehensive income attributable to parent company shareholders	3,523,011	957,751	2,827,707	1,199,521	1,551,672	-	-	-	-	-
Comprehensive income attributable to non-controlling shareholders	253,436	377,571	248,455	211,172	182,259	-	-	-	-	-
Earnings per share	1.11	0.61	1.25	0.49	0.61	1.11	0.61	1.25	0.49	0.61

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

## (3) Names of financial statement auditors in the last 5 years and audit opinions

Year	Name of CPAs	Audit opinion
2015	Feng Hui Lee, Fu-Wei Chen	Unqualified opinion
2016	Feng Hui Lee, Tan Tan Chung (Note)	Unqualified opinion
2017	Feng Hui Lee, Tan Tan Chung	Unqualified opinion
2018	Feng Hui Lee, Tan Tan Chung	Unqualified opinion
2019	Feng Hui Lee, Tan Tan Chung	Unqualified opinion

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

## 2. Financial analysis for the previous 5 years

## (1) Financial analysis (consolidated and standalone)

Analysis		Financial analysis for the latest 5 years (Note 1)									
		Consolidated					Standalone				
		2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
Financial structure (%)	Debt to assets ratio	72.80	70.01	76.34	71.45	66.21	64.38	59.51	71.73	64.44	59.72
	Long-term capital to property, plants and equipment	1,272.00	686.23	705.15	636.36	643.74	1,546.42	751.61	774.47	706.52	700.86
Solvency (%)	Current ratio	122.51	126.30	120.44	125.34	132.69	124.89	130.71	119.44	126.21	135.00
	Quick ratio	122.48	126.25	120.40	125.27	132.63	124.85	130.68	119.41	126.16	134.96
Profitability	Return on assets (%)	2.26	1.37	2.58	1.40	1.95	2.90	1.46	2.98	1.51	2.14
	Return on equity (%)	7.92	5.18	10.00	4.51	5.42	7.67	4.38	9.50	4.00	5.05
	As a percentage of paid up capital (%)	Operating profit	8.59	5.05	12.69	4.89	5.88	7.67	2.67	10.44	3.10
	Pre-tax profit	13.91	10.02	16.15	7.37	8.77	12.15	7.92	14.22	6.03	7.69
	Net profit margin (%)	36.29	23.27	34.78	21.85	26.33	43.61	28.62	43.70	28.22	30.96
	Earnings per share (NT\$)	1.11	0.61	1.25	0.49	0.61	1.11	0.61	1.25	0.49	0.61
Cash flow (%)	Cash flow ratio	1.04	12.93	-	0.76	9.97	0.45	20.44	-	-	14.83
	Cash flow adequacy ratio	233.88	228.37	111.99	134.18	509.72	198.78	190.52	91.81	118.20	538.41
	Cash flow reinvestment ratio	-	25.97	-	-	13.00	-	26.02	-	-	15.28
Special Purpose Ratio (%)	Total liabilities to net worth	267.71	233.45	322.62	250.29	195.97	180.70	146.96	253.72	181.18	148.23
	Fixed assets to total assets	3.00	5.50	4.25	5.66	6.85	3.21	6.70	4.57	6.26	7.42
	Underwritten securities to quick asset ratio	0.76	1.43	1.19	0.59	0.48	1.09	2.10	1.71	0.83	0.62
	Margin trading balance to net worth ratio	33.60	28.40	44.47	38.66	48.07	35.12	29.60	45.81	39.17	47.20
	Short-sell balance to net worth ratio	14.21	13.98	14.12	11.90	13.54	15.14	14.92	15.04	12.43	14.09

## (2) Variations exceeding 20% in the last 2 years:

1. The increase of long term capital to property, plant and equipment ratio and the decrease of fixed assets to total assets ratio were mainly due to the increase of transferred in land of investment property from the land of property, plant and equipment.
2. The increase of return on total assets, return on equity, operating income to paid in capital ratio, pre tax income to paid in capital ratio, net margin and earnings per share was mainly due to the net gains on sale of trading securities, resulting in increase of operating income, pre tax income and net income.
3. Substantial increase in receivable for securities provided as collateral, accounts receivable, and amounts held for each customer in the account caused decreased cash inflow from operating activities. As a result, cash flow adequacy ratio and cash reinvestment ratio decreased compared to the previous year.
4. The increase of debt to net worth ratio was mainly due to increase of short term borrowings, bonds sold under repurchase agreements, customer equity of separate account ledger in settlement account, and account payables.
5. The decrease of underwriting securities to quick assets ratio was due to the decrease of underwriting securities.

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 / 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

3. Audit Committee's review of the latest financial reports: See page 101
4. Consolidated financial statements for the most recent years: See page 102
5. Standalone financial statements for the most recent years: See page 216
6. Financial distress encountered by the Company and affiliates for the most recent years, up till the publication date of this annual report, with descriptions on impacts to the Company's financial position: None.



## Capital Securities Corporation Audit Committee's Review Report

The Board of Directors has prepared the Company's 2019 Business Report, Financial Statements (including Consolidated Financial Statements) and Earnings Distribution Proposal. The Financial Statements have been audited by KPMG, which has been issued an unqualified opinion.

The aforementioned Business Report, Financial Statements (including Consolidated Financial Statements), and Earnings Distribution Proposal have been reviewed and determined to be fairly presented as stated by the Audit Committee members. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, we hereby submit this report.

Submitted by

2020 General Shareholders' Meeting of Capital Securities Corporation

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

March 26, 2020

## **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, 2019 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 26, 2020



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 statements of financial position as of December 31, 2019 and 2018, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and cash flows for the years ended December 31, 2019 and 2018, 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, 2019 and 2018 and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2019 and 2018 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, 2019. 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(v)(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(i)(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 0.98% and 1.07% of consolidated total assets as of December 31, 2019 and 2018, respectively, and the recognized share of profits under using equity method constituted 4.12% and 3.75% of consolidated net income before income tax for the years ended December 31, 2019 and 2018, respectively.



The Group has prepared its parent-company-only financial statements as of and for the years ended December 31, 2019 and 2018, 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 26, 2020

#### **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, 2019 and 2018**

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

	<b>Assets</b>	<b>December 31, 2019</b>		<b>December 31, 2018</b>	
		<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
110000	<b>Current assets:</b>				
111100	Cash and cash equivalents (note 6(a))	\$ 8,323,636	6	7,993,419	7
112000	Financial assets at fair value through profit or loss - current (notes 6(b) and 8)	31,003,268	24	31,060,874	26
113200	Financial assets at fair value through other comprehensive income- current (note 6(b))	15,982,702	12	10,865,929	9
114030	Receivable for securities provided as collateral (notes 6(c) and 8)	12,166,194	9	9,994,568	9
114040	Refinancing margin	91,153	-	39,614	-
114050	Refinancing collateral receivable	137,339	-	34,419	-
114060	Receivable of securities business money lending	1,996,204	2	1,949,105	2
114070	Customers' margin account (note 6(d))	34,803,719	26	33,275,630	29
114080	Receivable - futures margin	2	-	1	-
114090	Collateral for securities borrowed	344,523	-	454,200	-
114100	Security borrowing margin	315,958	-	412,148	-
114110	Notes receivable	22,401	-	17,181	-
114130	Accounts receivable (note 6(c))	6,488,246	5	4,607,173	4
114150	Prepayments	33,609	-	37,751	-
114170	Other receivables	178,684	-	95,994	-
114300	Leverage contract trading - customers' margin account	308,543	-	228,564	-
114600	Current income tax assets	27,957	-	26,609	-
119000	Other current assets	753,210	1	849,472	1
119095	Amounts held for each customer in the account (note 6(m))	3,025,153	2	26,969	-
		<u>116,002,501</u>	<u>87</u>	<u>101,969,620</u>	<u>87</u>
120000	<b>Non-current assets:</b>				
122000	Financial assets at fair value through profit or loss - non-current (notes 6(b) and 8)	180,467	-	185,109	-
123200	Financial assets at fair value through other comprehensive income- non-current (note 6(b))	2,464,932	2	1,911,577	2
124100	Investments accounted for under equity method (note 6(e))	1,471,573	1	1,432,537	1
125000	Property and equipment (notes 6(f) and 8)	3,025,605	2	5,340,960	5
125800	Right-of-use assets (notes 6(g))	955,250	1	-	-
126000	Investment property (notes 6(h) and 8)	3,796,990	3	1,374,014	1
127000	Intangible assets (note 6(i))	3,609,740	3	3,621,070	3
128000	Deferred income tax assets (notes 6(r))	107,846	-	115,770	-
129000	Other non-current assets	1,555,509	1	1,439,250	1
		<u>17,167,912</u>	<u>13</u>	<u>15,420,287</u>	<u>13</u>
<b>Total assets</b>		<u>\$ 133,170,413</u>	<u>100</u>	<u>117,389,907</u>	<u>100</u>

See accompanying notes to consolidated financial statements.



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

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**December 31, 2019 and 2018**

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

		December 31, 2019		December 31, 2018	
		Amount	%	Amount	%
210000	<b>Liabilities and Equity</b>				
211100	<b>Current liabilities:</b>				
212000	Short-term borrowings (note 6(j))	\$ 6,631,002	5	3,873,506	3
214010	Financial liabilities at fair value through profit or loss - current (note 6(k))	1,459,094	1	1,202,215	1
214040	Bonds sold under repurchase agreements (note 6(l))	31,847,531	24	28,032,524	24
214050	Guarantee deposited for short sales	2,390,464	2	2,316,744	2
214070	Proceeds payable from short sales	2,755,405	2	2,603,315	2
214080	Securities lending refundable deposits	336,713	-	644,843	1
214090	Futures traders' equity (note 6(d))	34,747,531	26	33,158,826	28
214100	Equity for each customer in the account (note 6(m))	3,025,153	2	26,969	-
214110	Leverage contract trading - customers' equity	308,590	-	225,899	-
214130	Notes payable	-	-	481	-
214150	Accounts payable (note 6(n))	6,236,058	5	3,857,893	4
214160	Advance receipts	60,867	-	37,089	-
214170	Receipts under custody	114,442	-	120,325	-
214200	Other payables	662,217	1	765,572	1
214600	Other financial liabilities - current (note 6(w))	3,579,951	3	3,357,887	3
215100	Current income tax liabilities	269,795	-	452,432	-
216000	Provisions - current (note 6(q))	52,566	-	50,666	-
216000	Current lease liabilities (note 6(p))	193,565	-	-	-
219000	Other current liabilities	13,717	-	11,652	-
		<u>94,684,661</u>	<u>71</u>	<u>80,738,838</u>	<u>69</u>
220000	<b>Non-Current liabilities:</b>				
224200	Other financial liabilities - non-current (note 6(w))	349,518	-	310,032	-
226000	Non-current lease liabilities (note 6(p))	819,040	1	-	-
228000	Deferred income tax liabilities (note 6(r))	463,963	-	478,035	-
229000	Other non-current liabilities (note 6(q))	637,102	1	658,266	1
		<u>2,269,623</u>	<u>2</u>	<u>1,446,333</u>	<u>1</u>
	<b>Total liabilities</b>	<u>96,954,284</u>	<u>73</u>	<u>82,185,171</u>	<u>70</u>
	<b>Equity attributable to shareholders of the parent:</b>				
301010	Common stock (note 6(s))	23,209,081	17	23,209,081	20
302000	Capital surplus (note 6(s))	2,852,299	2	2,852,299	2
304000	Retained earnings:				
304010	Legal reserve	1,658,360	1	1,519,635	1
304020	Special reserve	3,587,197	3	3,302,811	3
304040	Unappropriated earnings (note 6(s))	2,681,569	2	1,387,250	1
305120	Exchange differences on translation of foreign operations	(118,543)	-	(41,068)	-
305140	Unrealized gains (losses) on financial assets at fair value through other comprehensive income	1,696,677	1	741,984	1
305500	Treasury shares (note 6(s))	(1,574,000)	(1)	-	-
	<b>Total equity attributable to the parent company</b>	<u>33,992,640</u>	<u>25</u>	<u>32,971,992</u>	<u>28</u>
306000	<b>Non-controlling interests</b>	<u>2,223,489</u>	<u>2</u>	<u>2,232,744</u>	<u>2</u>
	<b>Total equity</b>	<u>36,216,129</u>	<u>27</u>	<u>35,204,736</u>	<u>30</u>
	<b>Total liabilities and equity</b>	<u>\$ 133,170,413</u>	<u>100</u>	<u>117,389,907</u>	<u>100</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 Comprehensive Income

For the years ended December 31, 2019 and 2018

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

		2019		2018	
		Amount	%	Amount	%
<b>Income:</b>					
401000	Brokerage commissions (note 6(u))	\$ 3,819,193	49	4,460,877	58
402000	Revenues from securities business money lending	96	-	264	-
403000	Revenue from securities lending	195,605	3	137,401	2
404000	Underwriting commissions (note 6(u))	82,881	1	92,602	1
406000	Commissions on wealth management business	104,054	1	107,619	2
410000	Net gains (losses) on sale of trading securities (note 6(u))	1,017,956	13	(1,473,896)	(19)
421100	Securities management, distribution, and management fees	143,183	2	140,394	2
421200	Interest revenue (note 6(u))	1,558,281	20	1,978,434	26
421300	Dividend revenue	239,509	3	247,080	3
421500	Net gains (losses) on measurement of trading securities at fair value through profit or loss(note 6(u))	968,422	12	(601,871)	(8)
421600	Net gains (losses) on covering of borrowed securities and bonds with resale agreements	76,491	1	177,866	2
421610	Net gains (losses) on measurement of borrowed securities and bonds with resale agreements	(89,531)	(1)	45,706	1
421750	Realized gains (losses) from investments in debt instruments at fair value through other comprehensive income	259,754	3	(386,551)	(5)
422000	Net gains (losses) from exchange traded notes (note 6(w))	(67)	-	-	-
422200	Net gains (losses) on stock warrants issued (note 6(u) and (w))	37,086	-	1,683,041	22
424100	Futures commission revenues (note 6(u))	209,879	3	453,195	6
424400	Net gains (losses) on derivative instruments - futures (note 6(w))	(661,537)	(8)	476,053	6
424500	Net gains (losses) on derivative instruments - OTC (note 6(w))	(305,945)	(4)	112,452	2
424800	Management fee revenues	476	-	323	-
424900	Consultancy fee revenue	16,126	-	29,695	-
425300	Impairment losses and reversal gains (note 6(v))	3,790	-	(64,837)	(1)
428000	Other operating revenues	121,249	2	22,798	-
		<u>7,796,951</u>	<u>100</u>	<u>7,638,645</u>	<u>100</u>
<b>Expenses:</b>					
501000	Brokerage fees	452,539	6	557,399	7
502000	Brokerage and clearing fees - proprietary trading	14,999	-	19,616	-
503000	Clearing and exchange fees - refinancing	2,275	-	2,127	-
504000	Clearing and exchange fees - underwriting	1,049	-	1,093	-
521200	Financial costs	642,796	8	714,798	10
521640	Loss from securities borrowing transactions	193	-	-	-
524100	Futures commission expense (note 6(u))	301,737	4	468,227	6
524300	Cleaning and settlement expenses	149,055	2	173,218	2
528000	Other operating expenditure	4,437	-	6,726	-
531000	Employee benefits expenses (note 6(u))	2,464,159	32	2,581,484	34
532000	Depreciation and amortization expense (note 6(u))	423,962	5	207,465	3
533000	Other operating expenses (note 6(u))	1,346,504	17	1,733,324	23
		<u>5,803,705</u>	<u>74</u>	<u>6,465,477</u>	<u>85</u>
<b>Other income (expenses):</b>					
601000	Share of profits of associates and joint ventures accounted for using equity method (note 6(c))	192,631	2	151,205	2
602000	Other gains and losses (note 6(u))	1,042,220	13	1,002,157	13
		<u>1,234,851</u>	<u>15</u>	<u>1,153,362</u>	<u>15</u>
902001	<b>Net income before income tax</b>	3,228,097	41	2,326,530	30
701000	<b>Less: Income tax expenses (note 6(r))</b>	398,863	5	549,020	7
	<b>Net income</b>	<u>2,829,234</u>	<u>36</u>	<u>1,777,510</u>	<u>23</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	53,757	1	(43,421)	(1)
805540	Unrealized gains (losses) from investments in equity instruments at fair value through other comprehensive income	543,023	7	(248,859)	(3)
805550	Share of other comprehensive income of associates and joint ventures accounted for using equity method	6,164	-	872	-
805599	Less: 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>602,944</u>	<u>8</u>	<u>(291,408)</u>	<u>(4)</u>
805600	<b>Components that may be reclassified to profit or loss in subsequent periods:</b>				
805610	Exchange differences on translation of foreign operations	(93,621)	(1)	90,803	1
805615	Unrealized gains (losses) from investments in debt instruments at fair value through other comprehensive income	430,568	5	(222,349)	(3)
805699	Less: Income tax related to components of other comprehensive income (note 6(r))	(7,322)	-	19,234	-
	<b>Subtotal of items that may be subsequently reclassified into profit or loss</b>	<u>344,269</u>	<u>4</u>	<u>(150,780)</u>	<u>(2)</u>
805000	<b>Other comprehensive income, net</b>	<u>947,213</u>	<u>12</u>	<u>(442,188)</u>	<u>(6)</u>
902006	<b>Total comprehensive income</b>	<u>\$ 3,776,447</u>	<u>48</u>	<u>1,335,322</u>	<u>17</u>
	<b>Net income attributable to:</b>				
913100	Shareholders of the parent	\$ 2,566,823	33	1,408,865	18
913200	Non-controlling interests	262,411	3	368,645	5
		<u>\$ 2,829,234</u>	<u>36</u>	<u>1,777,510</u>	<u>23</u>
<b>Total comprehensive income attributable to:</b>					
914100	Shareholders of the parent	\$ 3,523,011	45	957,751	12
914200	Non-controlling interests	253,436	3	377,571	5
		<u>\$ 3,776,447</u>	<u>48</u>	<u>1,335,322</u>	<u>17</u>
975000	<b>Basic earnings per share (note 6(t))</b>	<u>\$ 1.11</u>		<u>0.61</u>	
985000	<b>Diluted earnings per share (note 6(t))</b>	<u>\$ 1.11</u>		<u>0.61</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, 2019 and 2018**

**(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 measured at fair value through other comprehensive income	Unrealized gains (losses) on financial assets available for sale	Treasury shares	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, 2018	\$ 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
Appropriations of prior year's earnings: (note 6(s))												
Legal reserve	-	-	289,360	-	(289,360)	-	-	-	-	-	-	-
Special reserve	-	-	-	593,188	(593,188)	-	-	-	-	-	-	-
Cash dividends of ordinary shares	-	-	-	-	(433,815)	-	-	-	-	(433,815)	(201,584)	(635,399)
Stock dividends of ordinary shares	1,518,351	-	-	-	(1,518,351)	-	-	-	-	-	-	-
Disposal of investments in equity instruments designated 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
Net income for the year ended December 31, 2019	-	-	-	-	2,566,823	-	-	-	-	2,566,823	262,411	2,829,234
Other comprehensive income	-	-	-	-	54,190	(77,475)	979,473	-	-	956,188	(8,975)	947,213
Total comprehensive income	-	-	-	-	2,621,013	(77,475)	979,473	-	-	3,523,011	253,436	3,776,447
Appropriations of prior year's earnings: (note 6(s))												
Legal reserve	-	-	138,725	-	(138,725)	-	-	-	-	-	-	-
Special reserve	-	-	-	284,386	(284,386)	-	-	-	-	-	-	-
Cash dividends of ordinary shares	-	-	-	-	(928,363)	-	-	-	-	(928,363)	(262,691)	(1,191,054)
Purchase of treasury shares	-	-	-	-	-	-	-	-	(1,574,000)	(1,574,000)	-	(1,574,000)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	24,780	-	(24,780)	-	-	-	-	-
Balance at December 31, 2019	\$ 23,209,081	2,852,299	1,658,360	3,587,197	2,681,569	(118,543)	1,696,677	-	(1,574,000)	33,992,640	2,223,489	36,216,129

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, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	2019	2018
<b>Cash flows from operating activities:</b>		
Net income before tax	\$ 3,228,097	2,326,530
<b>Adjustments:</b>		
Income and expenses items:		
Depreciation expense	389,552	173,545
Amortization expense	34,410	33,920
Impairment loss (reversal gains)	(3,790)	64,837
Net losses (gains) on financial assets or liabilities at fair value through profit or loss	(878,891)	556,165
Interest expense	642,796	714,798
Interest revenue (including financial revenue)	(2,127,648)	(2,368,257)
Dividend revenue	(304,957)	(296,631)
Cash dividend received from investments under equity method	159,431	165,999
Share of profits of associates and joint ventures accounted for using equity method	(192,631)	(151,205)
Losses (gains) on disposal and retirement of property and equipment	(13,801)	122
Gains on disposal of investments under equity method	-	(69,645)
Net losses (gains) on non-operating financial instruments at fair value through profit or loss	(28,906)	13,052
Gains on lease modification	(2)	-
<b>Subtotal of income of non-cash activities</b>	<b>(2,324,437)</b>	<b>(1,163,300)</b>
<b>Changes in operating assets and liabilities:</b>		
Decrease in financial assets at fair value through profit or loss	971,176	3,101,586
Decrease (increase) in financial assets at fair value through other comprehensive income	(4,583,290)	21,632,321
Decrease (increase) in receivable for securities provided as collateral	(2,168,255)	4,873,250
Decrease (increase) in refinancing margin	(51,539)	6,481
Decrease (increase) in receivable on refinancing collateral	(102,920)	4,469
Increase in receivable of securities business money lending	(47,099)	(416,874)
Increase in customers' margin account	(1,528,089)	(5,972,918)
Decrease (increase) in margin receivable of futures trading	2,388	(33,370)
Decrease in collateral for securities borrowed	109,677	460,143
Decrease in security borrowing margin	96,190	519,720
Decrease (increase) in notes receivable	(5,220)	4,630
Decrease (increase) in accounts receivable	(1,898,351)	2,036,879
Decrease (increase) in prepayments	4,097	(6,110)
Increase in other receivables	(87,148)	(38,630)
Increase in leverage contract trading - customers' margin account	(79,979)	(77,024)
Decrease (increase) in other current assets	(2,901,922)	84,071
Decrease (increase) in guarantee deposited for business operations	(57,303)	50,763
Decrease in settlement fund	9,287	5,589
Decrease (increase) in refundable deposits	6,090	(2,650)
Decrease (increase) in other non-current assets	(74,400)	91,681
Increase (decrease) in financial liabilities at fair value through profit or loss	255,771	(1,700,978)
Increase (decrease) in bonds sold under repurchase agreements	3,815,007	(19,023,788)
Increase in guarantee deposited for short sales	73,720	90,480
Increase in proceeds payable from short sales	152,090	102,462
Decrease in securities lending refundable deposits	(308,130)	(545,434)
Increase in futures traders' equity	1,588,705	5,890,600
Increase in equity for each customer in the account	2,998,184	13,490
Increase in leverage contract trading - customers' equity	82,691	73,059
Decrease in notes payable	(481)	(398)
Increase (decrease) in accounts payable	2,359,985	(1,902,319)
Increase (decrease) in advance receipts	23,778	(18,455)
Decrease in receipts under custody	(5,883)	(225,698)
Decrease in other payable	(111,016)	(228,608)
Increase in other current liabilities	2,065	4,926
Increase (decrease) in other financial liabilities - current	222,064	(1,152,096)
Increase in provision - current	7,092	1,540
Increase in other financial liabilities - non-current	39,486	43,995
Increase (decrease) in other non-current liabilities	29,568	(185,129)
<b>Total changes in assets and liabilities from operating activities</b>	<b>(1,161,914)</b>	<b>7,561,656</b>
<b>Total cash generated from operation</b>	<b>(3,486,351)</b>	<b>6,398,356</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, 2019 and 2018**

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

	<b>2019</b>	<b>2018</b>
Cash generated from operating activities	\$ (258,254)	8,724,886
Interest received	2,152,518	2,443,078
Dividends received	302,510	296,636
Interest paid	(626,356)	(735,367)
Income taxes paid	(581,801)	(286,767)
<b>Net Cash flows provided by operating activities</b>	<u>988,617</u>	<u>10,442,466</u>
<b>Cash flows from investing activities:</b>		
Acquisition of financial assets at fair value through other comprehensive income	(134,384)	(288,030)
Proceeds from disposal of financial assets at fair value through other comprehensive income	12,632	9,767
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	6,800	1,085
Acquisition of investments accounted for using equity method	-	(1,272,505)
Increase in deferred debits	(728)	(912)
Acquisition of property and equipment	(299,752)	(123,026)
Proceeds from disposal of property and equipment	14,608	-
Acquisition of intangible assets	(19,812)	(26,773)
Proceeds from disposal of intangible assets	-	1,932
<b>Net cash flows used in investing activities</b>	<u>(420,636)</u>	<u>(1,698,462)</u>
<b>Cash flows from financing activities:</b>		
Increase (decrease) in short-term borrowings	2,757,496	(3,208,192)
Decrease in commercial papers payable	-	(4,099,184)
Payment of lease liabilities	(138,908)	-
Cash dividends paid	(1,191,054)	(635,399)
Purchase of treasury shares	(1,574,000)	-
<b>Net cash flows used in financing activities</b>	<u>(146,466)</u>	<u>(7,942,775)</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>(91,298)</u>	<u>88,113</u>
<b>Increase in cash and cash equivalents</b>	<u>330,217</u>	<u>889,342</u>
<b>Cash and cash equivalents, beginning of period</b>	<u>7,993,419</u>	<u>7,104,077</u>
<b>Cash and cash equivalents, end of period</b>	<u><u>\$ 8,323,636</u></u>	<u><u>7,993,419</u></u>

See accompanying notes to consolidated financial statements.

(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, 2019 and 2018**

**(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 11/F, No. 156, Section 3, Minsheng East Road, Songshan District, Taipei, Taiwan, R.O.C. As of December 31, 2019, the composition of the consolidated financial statements includes the Company and the subsidiaries (the “Group”). As of December 31, 2019, except for the Head Office, the Company has established an Offshore Securities Unit branch and 51 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 issue by the board of directors on March 26, 2020.

(Continued)

**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, 2019.

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
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.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in opening balance on January 1, 2019. The details of the changes in accounting policies are disclosed below,

- 1) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 4(p).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

- 2) As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities on balance sheet.

(Continued)



## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The Group decided to apply recognition exemptions to short-term leases of office equipment and leases of transportation equipment.

- Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Group applied this approach to its largest property leases; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other lease.

In addition, the Group used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

#### 3) As a lessor

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. The Group accounted for its leases in accordance with IFRS 16 from the date of initial application.

#### 4) Impacts on financial statements

On transition to IFRS 16, the Group recognised additional \$1,070,869 of both right-of-use assets and lease liabilities. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.36%.

(Continued)

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of financial position at the date of initial application disclosed as follows:

	<b>January 1, 2019</b>
Operating lease commitment at December 31, 2018 as disclosed in the Group's consolidated financial statements	\$ 1,068,369
Recognition exemption for:	
short-term leases	(3,642)
leases of low -value assets	(2,174)
Extension and termination options reasonably certain to be exercised	<u>57,616</u>
	<u>1,120,169</u>
Discounted using the incremental borrowing rate at January 1, 2019	<u>1,070,869</u>
Lease liabilities recognized at January 1, 2019	<u><u>\$ 1,070,869</u></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, 2020 in accordance with Rule No. 1080323028 issued by the FSC on July 29, 2019:

<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 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform"	January 1, 2020
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

The Group assesses that the adoption of the abovementioned standards would not have any material impact on its consolidated 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 International Accounting Standards Board (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 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 "Classification of Liabilities as Current or Non-current"	January 1, 2022

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

(Continued)

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

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

The significant accounting policies presented in the consolidated financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the consolidated financial statements.

**(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” (hereinafter referred to as “the Regulations”), and the IFRSs, IASs, 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 consolidated financial statements has been prepared on a historical cost basis except for the following material items of balance sheet:

- 1) Financial assets at fair value through profit or loss are measured at fair value (including derivative instruments);
- 2) Financial assets at fair value through other comprehensive income are measured at fair value;
- 3) The defined benefit liabilities (assets) are measured at fair value of plan assets less the present value of the defined benefit obligation, limited as explained in Note 4(r).

**(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.

(Continued)

## 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 statements are as follows:

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership		Note
			December 31, 2019	December 31, 2018	
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, 2019, 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, 2019, 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. As of December 31, 2019, the paid-in capitals amounted to \$1,764,376.
"	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, 2019, 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, 2019, 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, 2019, 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, 2019, 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, 2019, 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, 2019, 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	Liquidation in progress	100.00 %	100.00 %	Liquidation in progress.
TIS Securities (HK) Limited	Taiwan International Capital (HK) Ltd.	Liquidation in progress	100.00 %	100.00 %	"

(Continued)

## 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, 2019	December 31, 2018	
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, 2019 and 2018, both of the total assets constituted 0.04% of the Group's total assets. For the year ended December 31, 2019 and 2018, the operation revenue were merely 1.15% and 0.88% 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, 2019 and 2018, both of the total assets constituted 0.09% of the Group's total assets. For the year ended December 31, 2019 and 2018, the operation revenue were merely 2.34% and 2.36% 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 into the respective functional currencies at exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date.

Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of transaction.

Exchange differences are generally recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

- 1) An investment in equity securities designated as at fair value through other comprehensive income;
- 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 hedges are effective.

(Continued)

## **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 into the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated into the presentation currency at the average rate. Foreign currency differences are recognized in other comprehensive income.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, exchange differences 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.

(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.

(Continued)

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### (g) Financial instruments

Account receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a account receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A account receivable without a significant financing component is initially measured at the transaction price.

#### (i) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

On initial recognition, a financial asset is classified as measured at: amortized cost; Fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

##### 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.

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, 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.

(Continued)



## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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.

Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

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.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

#### 4) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses (ECL) 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 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.

(Continued)

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

12-month ECLs are the portion of ECLs that result from default events are possible 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.

(Continued)

## 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 charge to profit or loss and is recognized in other comprehensive income instead of reducing the carrying amount of the asset.

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. For individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is 2 years past due based on historical experience of recoveries of similar assets. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written 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

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

#### (ii) Financial liabilities and equity instruments

##### 1) Classification of debt or equity

Debt and equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

##### 2) Equity instrument

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

##### 3) Treasury shares

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is recognized in capital surplus or retained earnings (if the capital surplus is not sufficient to be written down).

(Continued)

## **CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

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

#### **4) Financial liabilities**

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

#### **5) Derecognition of financial liabilities**

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

#### **6) Offsetting of financial assets and liabilities**

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

#### **(iii) Derivative financial instruments**

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally 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.

(Continued)

## **CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

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

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.

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.

(Continued)

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

On the settlement date with physical delivery, the fair value of the acquired securities are stated at cost. The difference between fair value and the cost of the delivered securities are recognized as gains (losses) on sale of securities.

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

7) Forward rate agreement

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

8) Futures contracts and options

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

9) Stock warrants

Issuance of stock warrants 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.

(Continued)

## **CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

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

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

(i) Bonds with resell and repurchase agreements

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

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

(j) Customers’ margin accounts and futures 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.

(Continued)



## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

Gains and losses resulting from transactions between the Group and an associate are recognized only to the extent of unrelated Group's interests in the associate.

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

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate. 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, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(Continued)

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Any gain or loss on disposal of an item of property and equipment is recognized in profit or loss.

(ii) Reclassification to investment property

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

(iii) Subsequent cost

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iv) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight line basis over the estimated useful lives of each component of an item of property and equipment.

Land is not depreciated.

The estimated useful lives 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 property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition, and subsequently at cost, less accumulated depreciation and accumulated impairment losses. Depreciation expense is calculated based on the depreciation method, useful life, and residual value which are the same as those adopted for property and equipment.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount) is recognized in profit or loss.

(Continued)

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

Rental income from investment property is recognized as other revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

(o) Intangible assets

(i) Recognition and measurement

Goodwill arising on the acquisition of subsidiaries is measured at cost, less accumulated impairment losses.

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

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

(iii) Amortization

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

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(p) Leases

Applicable from January 1, 2019

(i) Identifying a lease

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

(Continued)

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- the customer has the right to direct the use of the asset throughout the period of use only if either:
  - 1) the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
  - 2) the relevant decisions about how and for what purpose the asset is used are predetermined and:
    - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
    - the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

#### (ii) Lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

(Continued)

## **CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

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

The lease liability is measured at amortized cost using the effective interest method and is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change in the lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset, or
- there is a change of its assessment on whether it will exercise an extension or termination option; or
- there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases of office equipment and transportation equipment etc. that have a lease term of 12 months or less and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

#### **(iii) Lessor**

When the Group acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

#### **Applicable before January 1, 2019**

##### **(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.

(Continued)

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(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

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than deferred tax assets and assets arising from employee benefits) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash-generating Units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(r) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

(Continued)

## **CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

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

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to 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. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

#### **(iii) Termination benefits**

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

#### **(iv) Short-term employee benefits**

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid 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 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.

(Continued)



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

(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 taxes comprise current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

- (i) Temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
- (ii) Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) Taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) The Group has a legally enforceable right to set off current tax assets against current tax liabilities; and

(Continued)

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- (ii) The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

- 1) The same taxable entity; or
- 2) Different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

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.

- (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.

(Continued)

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

(y) Treasury stocks

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

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

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

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

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

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:

(a) The fair value of financial instrument:

The fair value of non-active market or non-quoted financial instruments is determined by evaluation method. In this case, fair value is assessed from observable data or patterns of similar financial instruments. If there are no market observables, the fair value of financial instruments is assessed using appropriate assumptions. When using the evaluation model to determine fair value, all models must be calibrated to ensure that the output reflects actual data and market prices. The model uses only observable data as much as possible; however, for the part of credit risk (risk of itself and the counterparty), the Company must estimate the fluctuation and correlation for the fair value of financial assets. For sensitivity analysis of financial instruments, please refer to note 6 (v).

(b) 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.

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

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

**(a) Cash and cash equivalents**

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Cash	\$ <u>2,781</u>	<u>2,796</u>
Bank deposits		
Checking accounts	38,143	31,226
Demand deposits	581,921	735,856
Foreign currency deposits	<u>1,219,527</u>	<u>1,080,614</u>
Subtotal	<u>1,839,591</u>	<u>1,847,696</u>
Cash equivalents		
Time deposits	5,286,174	4,122,157
Futures margin - excess margin	1,184,098	1,998,273
Commercial papers	<u>10,992</u>	<u>22,497</u>
Subtotal	<u>6,481,264</u>	<u>6,142,927</u>
Total	<b><u>\$ 8,323,636</u></b>	<b><u>7,993,419</u></b>

**(b) Financial assets**

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

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
<b>Open-ended funds and money-market instruments</b>		
Open-ended funds and money-market instruments	\$ 251,541	305,950
Valuation adjustment	<u>15,091</u>	<u>(8,129)</u>
Subtotal	<u>266,632</u>	<u>297,821</u>
<b>Securities invested by securities broker</b>		
Securities invested by securities broker	146,849	74,553
Valuation adjustment	<u>(1,589)</u>	<u>(7,283)</u>
Subtotal	<u>145,260</u>	<u>67,270</u>

(Continued)

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

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
<b>Trading securities - proprietary trading</b>		
Listed stocks	\$ 1,810,032	1,324,802
Listed funds	796,400	852,293
OTC stocks	387,666	306,931
OTC funds	200,580	83,480
Emerging market stocks	532,189	498,304
Emerging market funds	-	12,414
Convertible corporate bonds	889,088	496,130
Government bonds	3,317,485	6,511,541
Corporate bonds	7,641,557	9,652,271
International bonds	4,536,910	4,079,947
Financial debentures	200,000	300,000
Foreign stocks	519,279	219,070
Overseas bonds	233,297	302,675
Other	<u>300</u>	<u>257</u>
	21,064,783	24,640,115
Valuation adjustment	<u>165,577</u>	<u>(256,660)</u>
Subtotal	<u>21,230,360</u>	<u>24,383,455</u>
<b>Trading securities - underwriting:</b>		
Listed stocks	37,424	107,320
OTC stocks	38,716	55,690
Convertible corporate bonds	<u>85,097</u>	<u>141,011</u>
	161,237	304,021
Valuation adjustment	<u>26,053</u>	<u>(8,312)</u>
Subtotal	<u>187,290</u>	<u>295,709</u>
<b>Trading securities - hedging</b>		
Listed stocks	2,816,447	1,746,810
OTC stocks	773,913	397,140
Convertible corporate bonds	<u>4,948,227</u>	<u>3,799,450</u>
	8,538,587	5,943,400
Valuation adjustment	<u>279,305</u>	<u>(231,510)</u>
Subtotal	<u>8,817,892</u>	<u>5,711,890</u>

(Continued)

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

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
<b>Derivatives</b>		
Call options	\$ 3,482	11,580
Futures margin - proprietary fund	233,624	223,490
IRS asset swaps	16,053	13,855
Asset swap options - long position	37,684	4,072
Currency derivatives	39,066	46,967
Structured notes	25,925	3,075
Currency swaps	-	1,690
Subtotal	<u>355,834</u>	<u>304,729</u>
Total	<u><u>\$ 31,003,268</u></u>	<u><u>31,060,874</u></u>

As of December 31, 2019 and 2018, trading securities, financial assets at fair value through other comprehensive income and financial assets available for sale undertaken for repurchase agreements of the Group, please refer to note 6(l) and note 8 for details.

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

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Debt instruments at fair value through other comprehensive income		
Government bonds	\$ 2,225,249	-
International bonds	1,198,147	1,226,189
Overseas bonds	<u>12,054,824</u>	<u>9,205,561</u>
	15,478,220	10,431,750
Valuation adjustment	<u>366,972</u>	<u>(50,161)</u>
Subtotal	<u>15,845,192</u>	<u>10,381,589</u>
Equity instrument at fair value through other comprehensive income		
Listed stocks	118,428	237,755
OTC stocks	10,756	40,353
Emerging market stocks	24,130	24,130
Foreign stocks	<u>-</u>	<u>279,832</u>
	153,314	582,070
Valuation adjustment	<u>(15,804)</u>	<u>(97,730)</u>
Subtotal	<u>137,510</u>	<u>484,340</u>
Total	<u><u>\$ 15,982,702</u></u>	<u><u>10,865,929</u></u>

(Continued)

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- 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.

- 2) Equity instrument investments measured at fair value through other comprehensive income

For the years ended December 31, 2019 and 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 \$11,651 and \$25,757, respectively.

Due to the consideration of asset allocation and managing and adjusting the investment portfolio, the Group sold shares of stocks for a fair value \$691,488 and \$490,485, respectively, cumulative dispose losses for the years ended December 31, 2019 and 2018, amounted to \$22,648 and \$(6,645), respectively, 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(v).
- 4) For the years ended December 31, 2019 and 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(v).

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

	December 31, 2019	December 31, 2018
Mandatorily measured at fair value through profit or loss:		
Government bonds	\$ 180,329	185,952
Valuation adjustment	138	(843)
Total	<u>\$ 180,467</u>	<u>185,109</u>

As of December 31, 2019 and 2018, 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 (for details please refer to note 8).

- (iv) Financial assets at fair value through other comprehensive income — non-current

	December 31, 2019	December 31, 2018
Equity instruments at fair value through other comprehensive income		
Non-listed or non-over-the-counter stocks	\$ 1,181,752	1,064,667
Valuation adjustment	1,283,180	846,910
Total	<u>\$ 2,464,932</u>	<u>1,911,577</u>

(Continued)

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

For the years ended December 31, 2019 and 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 \$68,384 and \$52,529.

For the years ended December 31, 2019 and 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 \$12,632 and \$9,774, generated cumulative dispose gains \$2,132 and \$7, and the gains were transferred from other equity items to retained earnings.

- (v) The Group uses Value at risk (VaR) to monitor and measure the market risk of its investment in equity stocks. VaR refers to the unexpected loss of financial instruments derived from the changes in market risk factors within certain time periods and confidence level. The table below discloses the VaR, which is the estimation of potential loss in ten days and is covered by 99% of the adverse changes in market prices. In the table below by using this assumption, 2.5 out of 250 days VaR will exceed the disclosed amounts due to the changes in market price. For the years ended December 31, 2019 and 2018 VaR (99%, per 10-day) of equity stocks are as follows:

Type of market risk	December 31, 2019	December 31, 2018	For the years ended December 31,					
			2019			2018		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	1,364,147	997,970	1,122,594	1,364,147	932,006	1,263,629	1,615,221	947,949

(c) Accounts Receivable

	December 31, 2019	December 31, 2018
Receivable on securities purchased by customers	\$ 21,368	8,642
Settlement	-	712,274
Interests receivable	527,952	547,595
Receivables on securities sold	5,859,407	3,261,956
Others	81,225	78,419
Subtotal	6,489,952	4,608,886
Less: allowance for doubtful accounts	(1,706)	(1,713)
Total	<u>\$ 6,488,246</u>	<u>4,607,173</u>

- (i) For credit risk (including the impairment of debt instrument investments) and market risk; please refer to note 6(v).
- (ii) For the years ended December 31, 2019 and 2018, impairment test have been applied by the Group, the variation of loss allowance in receivables, please refer to note 6(v).

(Continued)



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

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

As of December 31, 2019 and 2018, a reconciliation of the customers' margin account and the futures traders' equity was as follows:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Customers' margin account		
Cash in banks	\$ 26,292,763	24,386,388
Customers' margin account - futures clearing house	4,874,988	2,579,464
Customers' margin account - other futures commission merchants	3,635,783	6,309,528
Marketable securities	<u>185</u>	<u>250</u>
Total customers' margin account	<u>34,803,719</u>	<u>33,275,630</u>
Add:		
Commission expense	1,248	5,035
Other	(66)	52
Less:		
Commission revenue	(7,426)	(17,259)
Futures transaction tax	(1,342)	(1,426)
Interest revenues	(5,699)	(3,726)
Temporary receipts	(1,817)	(669)
Remittance amount of the customers after the market closed	(9,235)	(7,179)
Other receivables	<u>(31,851)</u>	<u>(91,632)</u>
Futures traders' equity	<u><u>\$ 34,747,531</u></u>	<u><u>33,158,826</u></u>

(e) Investments under equity method

As of December 31, 2019 and 2018, investments under equity method consisted of the following:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Subsidiaries		
Capital Insurance Advisory Corp.	\$ 78,906	84,732
Capital Insurance Agency Corp.	<u>43,447</u>	<u>40,757</u>
Subtotal	<u>122,353</u>	<u>125,489</u>
Associates		
True Partner Advisor Hong Kong Ltd.	47,860	45,719
Capital Investment Trust Corp.	<u>1,301,360</u>	<u>1,261,329</u>
Subtotal	<u>1,349,220</u>	<u>1,307,048</u>
Total	<u><u>\$ 1,471,573</u></u>	<u><u>1,432,537</u></u>

(Continued)

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

(i) Subsidiaries:

For the years ended December 31, 2019 and 2018, the Group's share of gains or losses of the subsidiaries were as follows:

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
The Group's share of gains based on the subsidiaries' financial statements	<u>\$ 57,093</u>	<u>60,232</u>
	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Total assets	<u>\$ 167,994</u>	<u>151,345</u>
Total liabilities	<u>\$ 45,641</u>	<u>25,856</u>
	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Revenue	<u>\$ 271,953</u>	<u>247,494</u>
Net income	<u>\$ 57,093</u>	<u>60,232</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>Proportion of Ownership and Voting Rights</b>	
			<b>December 31, 2019</b>	<b>December 31, 2018</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 %	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, 2019</b>	<b>December 31, 2018</b>
Total carrying amount of the associates that were not individually material	<u>\$ 1,349,220</u>	<u>1,307,048</u>
	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
The Group's share of gains based on the associates' financial statements:		
Net gains from continuing operations	\$ 135,538	90,973
Other comprehensive income (losses)	5,902	1,238
Total comprehensive income (losses)	<u>\$ 141,440</u>	<u>92,211</u>

(Continued)

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

(iii) Collateral

As of December 31, 2019 and 2018, none of the investment accounted for under equity method of the Group were pledged for collateral.

(f) Property and equipment

As of December 31, 2019 and 2018, movement in property and equipment of the Group are as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
Cost or deemed cost					
Balance at January 1, 2019	\$ 3,929,272	1,790,730	574,812	157,462	6,452,276
Additions	-	-	181,955	117,797	299,752
Transferred from investment property	29,358	8,314	-	-	37,672
Reclassified to investment property	(2,077,398)	(613,943)	-	-	(2,691,341)
Disposals and retirements	-	-	(86,942)	(9,200)	(96,142)
Effect of exchange rate changes	-	(2,581)	(1,950)	(267)	(4,798)
Balance at December 31, 2019	<u><u>\$ 1,881,232</u></u>	<u><u>1,182,520</u></u>	<u><u>667,875</u></u>	<u><u>265,792</u></u>	<u><u>3,997,419</u></u>
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	-	3,352	2,113	391	5,856
Balance at December 31, 2018	<u><u>\$ 3,929,272</u></u>	<u><u>1,790,730</u></u>	<u><u>574,812</u></u>	<u><u>157,462</u></u>	<u><u>6,452,276</u></u>
Depreciation and impairment loss					
Balance at January 1, 2019	\$ -	642,432	386,219	82,665	1,111,316
Depreciation	-	28,990	96,544	44,101	169,635
Transferred from investment property	-	3,595	-	-	3,595
Reclassified to investment property	-	(213,848)	-	-	(213,848)
Disposals and retirements	-	-	(86,942)	(8,858)	(95,800)
Effect of exchange rate changes	-	(1,123)	(1,730)	(231)	(3,084)
Balance at December 31, 2019	<u><u>\$ -</u></u>	<u><u>460,046</u></u>	<u><u>394,091</u></u>	<u><u>117,677</u></u>	<u><u>971,814</u></u>
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	-	1,382	1,856	296	3,534
Balance at December 31, 2018	<u><u>\$ -</u></u>	<u><u>642,432</u></u>	<u><u>386,219</u></u>	<u><u>82,665</u></u>	<u><u>1,111,316</u></u>
Carrying amount:					
December 31, 2019	<u><u>\$ 1,881,232</u></u>	<u><u>722,474</u></u>	<u><u>273,784</u></u>	<u><u>148,115</u></u>	<u><u>3,025,605</u></u>
December 31, 2018	<u><u>\$ 3,929,272</u></u>	<u><u>1,148,298</u></u>	<u><u>188,593</u></u>	<u><u>74,797</u></u>	<u><u>5,340,960</u></u>

As of December 31, 2019 and 2018, the property and equipment which are provided as collateral or pledge, please refer to note 8 for details.

(Continued)

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

(g) Right-of-use assets

The Group leases many assets including land and buildings, machinery, and vehicles. Information about leases for which the Group as a lessee is presented below:

	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
Cost:			
Balance at January 1, 2019	\$ -	-	-
Effects of retrospective application	1,062,820	8,049	1,070,869
Additions	79,188	14,287	93,475
Reductions	(24,017)	-	(24,017)
Effect of changes exchange rate	(1,188)	-	(1,188)
Balance at December 31, 2019	<u>\$ 1,116,803</u>	<u>22,336</u>	<u>1,139,139</u>
Accumulated depreciation and impairment losses:			
Balance at January 1, 2019	\$ -	-	-
Depreciation	192,771	7,171	199,942
Reductions in accumulated depreciation	(15,857)	-	(15,857)
Effect of changes exchange rate	(196)	-	(196)
Balance at December 31, 2019	<u>\$ 176,718</u>	<u>7,171</u>	<u>183,889</u>
Carrying amount:			
December 31, 2019	<u>\$ 940,085</u>	<u>15,165</u>	<u>955,250</u>

(h) Investment property

As of December 31, 2019 and 2018, movement in investment property of the Group are as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost or deemed cost			
Balance at January 1, 2019	\$ 1,035,870	633,054	1,668,924
Transferred from property and equipment	2,077,398	613,943	2,691,341
Reclassified to Property and equipment	(29,358)	(8,314)	(37,672)
Disposals and retirements	(465)	-	(465)
Balance at December 31, 2019	<u>\$ 3,083,445</u>	<u>1,238,683</u>	<u>4,322,128</u>
Balance at January 1, 2018	\$ 1,312,668	796,069	2,108,737
Reclassified to Property and equipment	(276,798)	(163,015)	(439,813)
Balance at December 31, 2018	<u>\$ 1,035,870</u>	<u>633,054</u>	<u>1,668,924</u>

(Continued)

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

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Depreciation and impairment loss			
Balance at January 1, 2019	\$ -	294,910	294,910
Depreciation	-	19,975	19,975
Transferred from property and equipment	-	213,848	213,848
Reclassified to Property and equipment	-	(3,595)	(3,595)
Balance at December 31, 2019	<u>\$ -</u>	<u>525,138</u>	<u>525,138</u>
Balance at January 1, 2018	\$ -	312,196	312,196
Depreciation	-	14,830	14,830
Reclassified to Property and equipment	-	(32,116)	(32,116)
Balance at December 31, 2018	<u>\$ -</u>	<u>294,910</u>	<u>294,910</u>
Carrying Amount:			
December 31, 2019	<u>\$ 3,083,445</u>	<u>713,545</u>	<u>3,796,990</u>
December 31, 2018	<u>\$ 1,035,870</u>	<u>338,144</u>	<u>1,374,014</u>
Fair Value:			
December 31, 2019			<u>7,577,872</u>
December 31, 2018			<u>2,237,610</u>

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

Investment property include several commercial buildings for lease. Each lease contract contains original non-cancellable lease period of 1 to 12 years, which the subsequent lease period is consulted with lessee, and no contingent rent payment. Related information (including rental revenue and direct operation expense), please refer to note 6(u). Further, the Group decide to lease properties, which are out of use land and buildings, and therefore transferred them from property and equipment into investment property, please refer to note 6(f).

As of December 31, 2019 and 2018, the investment properties were provided as collateral or pledged, for details please refer to note 8.

(i) Intangible assets

(i) Goodwill

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized as goodwill. As of December 31, 2019 and 2018, the book value was both \$3,126,698.

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

Goodwill is allocated to the operating segments as follows:

	<b>December 31, 2019</b>	<b>December 31, 2018</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 5.24% and 4.06% in year 2019 and 2018 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 2019 and 2018 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, 2019 and 2018, the book value of goodwill was both \$22,088.

(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, 2019 and 2018, the book value of the operation franchise was both \$389,999.

(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, 2019 and 2018, the book values of intangible assets were \$46,235 and \$46,270 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, 2019 and 2018, the amortized book value were \$24,720 and \$36,015 respectively.

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

(j) Short-term borrowings

Nature of borrowings	December 31, 2019	December 31, 2018
Collateralized loan	\$ 709,780	1,635,394
Credit loans	5,921,222	2,238,112
Total	<u>\$ 6,631,002</u>	<u>3,873,506</u>
Interest rate range	<u>0.95%~3.37%</u>	<u>0.65%~4.40%</u>

As of December 31, 2019 and 2018, the Group had provided the land, buildings, and certificates of time deposits as collateral, for details please refer to note 8.

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

	December 31, 2019	December 31, 2018
Liabilities on sale of borrowed securities	\$ 386,818	668,469
Redeem liabilities on sale of borrowed securities	-	(62,095)
Valuation adjustment	(50,296)	(139,826)
Subtotal	<u>336,522</u>	<u>466,548</u>
Exchange Traded Notes	699	-
Valuation adjustment	30	-
Subtotal	<u>729</u>	<u>-</u>
Stock warrants issued	14,997,622	13,077,314
Stock warrants repurchased	(14,444,316)	(12,617,507)
Subtotal	<u>553,306</u>	<u>459,807</u>
Put options	11,902	16,074
IRS asset swaps	2,436	763
Asset swap options - short position	529,328	208,927
Structured notes	11,583	8,914
Currency derivatives	7,574	9,063
Currency swaps	4,745	31,575
Interest rate swaps	969	544
Subtotal	<u>568,537</u>	<u>275,860</u>
Total	<u>\$ 1,459,094</u>	<u>1,202,215</u>

(l) Bonds sold under repurchase agreements

	December 31, 2019	December 31, 2018
Bonds sold under repurchase agreements	<u>\$ 31,847,531</u>	<u>28,032,524</u>
Agreed-upon repurchase amounts	<u>32,022,184</u>	<u>28,213,380</u>
Interest rates	<u>0.20%~3.20%</u>	<u>0.35%~4.40%</u>
Date of repurchase	<u>2020.1.2~2020.12.30</u>	<u>2019.1.2~2019.12.20</u>

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

(m) Equity for each customer in the account

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

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Equity for each customer in the account	<b>\$ 3,025,153</b>	<b>26,969</b>

(n) Accounts payable

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Payable of securities sold by customers	\$ 11,136	10,731
Settlement	248,937	-
Payable of settlements	5,072,389	3,476,398
Others	903,596	370,764
Total	<b>\$ 6,236,058</b>	<b>3,857,893</b>

(o) Operating leases

(i) Lessee

Non-cancellable operating lease payables are as follows:

	<b>December 31, 2018</b>
Within 1 year	\$ 129,299
1-5 years	483,674
Over 5 years	455,396
	<b>\$ 1,068,369</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 year ended December 31, 2018, the operating lease expenses recognized in profit or loss was \$159,977.

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

(ii) Lessor

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

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Within 1 year	\$ 140,696	111,834
1-5 years	462,794	471,665
Over 5 years	402,354	534,251
	<b><u>\$ 1,005,844</u></b>	<b><u>1,117,750</u></b>

The rental revenue from investment property for the years ended December 31, 2019 and 2018 amounted to \$121,073 and \$62,318 respectively.

(p) Lease liabilities

The Group's lease liabilities are as follow:

	<b>December 31, 2019</b>
Current	<b><u>\$ 193,565</u></b>
Non-current	<b><u>\$ 819,040</u></b>

The maturity analysis please refer to note 6(w) financial instruments.

The amounts recognized in profit or loss were as follows:

	<b>For the year ended December 31, 2019</b>
Interest on lease liabilities	<b><u>\$ 14,274</u></b>
Expenses relating to short-term leases	<b><u>\$ 18,353</u></b>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	<b><u>\$ 24,223</u></b>

The amounts recognized in the statement of cash flows for the Group was as follows:

	<b>For the year ended December 31, 2019</b>
Total cash outflow for leases	<b><u>\$ 195,758</u></b>

(Continued)

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

(q) 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, 2019</b>	<b>December 31, 2018</b>
Present value of defined benefit obligations	\$ (877,621)	(972,838)
Fair value of plan assets	343,634	383,030
Recognized liabilities for defined benefit obligations	<u><u>\$ (533,987)</u></u>	<u><u>(589,808)</u></u>

The Group's employee benefits liabilities are as follows:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Compensated absences	<u><u>\$ 52,566</u></u>	<u><u>50,666</u></u>

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

1) Composition of plan assets

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

The balance of the Group's labor pension preparatory special account in Bank of Taiwan amounted to \$300,402 and \$253,883 as of December 31, 2019 and 2018, 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 \$48,848 and \$134,419 as of December 31, 2019 and 2018, respectively.

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## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

2) Movements in present value of the defined benefit obligations

The movements in present value of the defined benefit obligations of the Group in 2019 and 2018 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Defined benefit obligation on January 1	\$ 972,838	1,009,545
Current service costs and interest	14,918	18,740
Remeasurement of net defined liabilities		
-Actuarial loss (gain) arising from changes in financial assumptions	13,720	9,688
-Experience adjustments	(58,162)	42,570
Benefits paid by the plan	(65,693)	(107,705)
Defined benefit obligation on December 31	<b>\$ 877,621</b>	<b>972,838</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 2019 and 2018 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Fair value of plan assets on January 1	\$ 383,030	458,883
Interest revenue	3,562	4,840
Remeasurement of net defined liabilities		
-Return on plan assets (excluding interest)	9,315	8,837
Contributions from the employer	11,558	13,862
Benefits paid from plan assets	(63,831)	(103,392)
Fair value of plan assets on December 31	<b>\$ 343,634</b>	<b>383,030</b>

4) Expense recognized in profit or loss

The expenses recognized by the Group in 2019 and 2018 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Current service cost	\$ 5,938	8,206
Net interest of net defined benefit liabilities (assets)	5,418	5,694
Current pension cost	<b>\$ 11,356</b>	<b>13,900</b>

(Continued)

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

- 5) Re-measurement of net defined benefit plan recognized in other comprehensive income

For the years ended December 31, 2019 and 2018, 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>2019</b>	<b>2018</b>
Balance at January 1	\$ (168,526)	(125,105)
Recognized amount during the period	53,757	(43,421)
Balance at December 31	<u><u>\$ (114,769)</u></u>	<u><u>(168,526)</u></u>

- 6) Actuarial assumptions

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

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Discount rate	0.67%	0.93%
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 \$12,009. The weighted average duration of the defined benefit obligation is 1~2 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, 2019 and 2018, 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, 2019		
Discount rate	(22,314)	23,258
Future salary growth rate	18,483	(17,962)
December 31, 2018		
Discount rate	(25,549)	26,659
Future salary growth rate	21,402	(20,776)

(Continued)

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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 \$81,864 and \$87,093 under defined contribution plan to the Bureau of the Labor Insurance for the years ended December 31, 2019 and 2018, respectively.

(iii) For the years ended December 31, 2019 and 2018, the pension costs contributed by overseas subsidiaries in compliance with local ordinance were \$4,732 and \$4,291, respectively.

(r) 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, and CSC Venture Capital Corp. are founded in Taiwan. The corporate income tax rate are both 20% for the years ended December 31, 2019 and 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, 2019 and 2018.

The tax rate of reinvestment business of subsidiaries which founded in Hong Kong are all 16.5% for the years ended December 31, 2019 and 2018.

The tax rate of reinvestment business of subsidiaries which founded in Mainland are all 25% for the years ended December 31, 2019 and 2018.

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

(ii) Income tax expense (benefit)

The amount of income tax expense (benefit) for the years ended December 31, 2019 and 2018 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Current tax expense		
Current year	\$ 328,215	470,599
Adjustment to the prior years' income tax	<u>61,057</u>	<u>40,349</u>
	<u>389,272</u>	<u>510,948</u>
Deferred tax expense		
Unrealized gains (losses) on derivative financial instruments	(64,320)	(96,395)
Unrealized gains (losses) on foreign investments under Equity Method	1,372	(658)
Decrease in tax loss carried forward	108,204	92,455
Adjustments of deferred income tax assets and liabilities	(35,665)	(12,803)
Adjustment in tax rate	<u>-</u>	<u>55,473</u>
	<u>9,591</u>	<u>38,072</u>
Income tax expense from continuing operations	<u><u>\$ 398,863</u></u>	<u><u>549,020</u></u>

The amount of income tax expense or benefit recognized in other comprehensive income in year 2019 and 2018 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Foreign exchange difference from translating financial statements of foreign operations	<u><u>\$ (7,322)</u></u>	<u><u>19,234</u></u>

(Continued)

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

Reconciliation of income tax expense (benefit) and income before tax in year 2019 and 2018 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Net income before tax	\$ 3,228,097	2,326,530
Income tax using the Company's domestic tax rate	\$ 711,044	560,885
Effect of tax rates in foreign jurisdiction (not applicable for separate financial statements)	-	978
Adjustment in tax rate	-	55,473
Tax exempt income	(345,072)	(104,036)
Alternative minimum tax	3,585	6,510
Unrecognized deferred tax assets for current-year losses	863	128
Unrecognized temporary differences for current years	(220)	(256)
Additional surtax on undistributed retained earnings	382	2,943
Amounts use in investment tax credit	-	(527)
Adjustments to prior years' income tax	61,057	40,349
Unrecognized temporary differences for prior years	(35,665)	(12,803)
Others	2,889	(624)
Total	<u>\$ 398,863</u>	<u>549,020</u>

(iii) Deferred income tax assets and liabilities

1) Recognized deferred income tax assets

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Tax loss carried forward	\$ 31,476	104,015
Unrealized losses on foreign investments under Equity Method	5,663	6,542
Foreign exchange difference from translating financial statements of foreign operations	2,626	170
Unrecognized loss in derivative financial instruments	68,081	5,043
Total	<u>\$ 107,846</u>	<u>115,770</u>

2) Unrecognized deferred tax assets

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Unrealized losses on foreign investments under Equity Method	\$ 275	269
Tax loss carried forward	2,591	1,711
Total	<u>\$ 2,866</u>	<u>1,980</u>

(Continued)

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

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, 2019, the Group's estimated tax losses recognized under deferred income tax asset were as follows:

<u>Year or loss</u>	<u>Amount</u>	<u>Expiry date</u>
2016 (Declared)	\$ 2,240	2026
2017 (Declared)	4,141	2027
2018 (Declared)	1,564	2028
2019 (Estimated)	<u>5,009</u>	2029
Total	<u><u>\$ 12,954</u></u>	

3) Recognized deferred income tax liabilities

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Foreign exchange difference from translating financial statements of foreign operations	\$ -	4,866
Unrealized gains on derivative financial instruments	6,298	7,581
Unrealized gains on foreign investments under Equity Method	2,469	1,975
Losses on intercompany transactions	1,928	1,928
Amortization of operation franchise	42,881	42,881
Amortization of goodwill	362,697	362,697
Land value incremental tax	<u>47,690</u>	<u>56,107</u>
Total	<u><u>\$ 463,963</u></u>	<u><u>478,035</u></u>

4) Unrecognized deferred tax liabilities

As of December 31, 2019 and 2018, the Group's temporary differences are not recognized under deferred tax liabilities. Details are as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Aggregate amount of temporary differences related to investments in subsidiaries	<u><u>\$ 14,845</u></u>	<u><u>29,063</u></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, 2019. 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.

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

(iv) Income tax assessment status

- 1) The Company's income tax returns through 2017, 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 2017 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 and July 1, 2012 to September 16, 2019 were assessed by the Tax Authority.
- 5) Subsidiary - Capital International Technology Corp.'s income tax returns through 2018 were assessed by the Tax Authority.
- 6) Subsidiary - CSC Venture Capital Corp.'s income tax returns through 2017 were assessed by the Tax Authority.

(v) Income tax administrative relief

Since amortization of intangible assets withheld from year 2011 to 2014 and tax loss carried forward from year 2017 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.

(s) Capital and other equity

(i) Capital stock

As of December 31, 2019 and 2018, the Company had authorized capital of \$30,000,000 and issued common stock of 2,320,908 thousand shares with a par value of \$10 per share.

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

The followings are the capital surplus of the Company:

	<b>December 31, 2019</b>	<b>December 31, 2018</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

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.

Originally 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; However, in accordance with Ruling No. 1080321644 issued by the Financial Supervisory Commission on July 10, 2019, from year 2019, a special reserve can not to be set aside. From year 2019, the special reserve can be reversed within an amount equal to special reserve for prior year when the aforementioned fees being expended.

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## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### 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 2018 and 2017 earnings distributions resolved by the shareholders' meetings on June 24, 2019 and June 27, 2018, respectively, were as follows:

	<b>2018</b>		<b>2017</b>	
	<b>Amount</b>	<b>Dividends per share</b>	<b>Amount</b>	<b>Dividends per share</b>
Cash dividends	\$ 928,363	0.4	433,815	0.2
Stock dividends	-	-	1,518,351	0.7
	<b><u>\$ 928,363</u></b>		<b><u>1,952,166</u></b>	

#### (iv) Treasury stocks

Pursuant to Article 28-2 of the "Securities and Exchange Act", the Company repurchased 147,191 thousand shares as treasury shares to maintain the Company's credit standing and shareholders' equity for year ended December 31, 2019. As of December 31, 2019, unretired shares amounted to 147,191 thousand shares.

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

On November 11, 2019, the Company's board meeting resolved a share buyback plan, which was based on the latest reviewed financial report on September 30, 2019. The cap of the repurchase was 232,090 thousand shares which were amounted to \$9,861,897. As of December 31, 2019, the Company repurchase 147,191 thousand shares which were amounted to \$1,574,000.

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

(t) Earnings per share

The basic earnings per share and dilutive earnings per share for the years ended December 31, 2019 and 2018 were calculated as follows:

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Net income attributable to common shareholders of the Company	<u>\$ 2,566,823</u>	<u>1,408,865</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	<u>2,314,284</u>	<u>2,320,908</u>
Basic earnings per share (dollar)	<u>\$ 1.11</u>	<u>0.61</u>
Effect of potentially dilutive common stock		
- Employee remuneration (thousands of shares) (Note)	<u>2,912</u>	<u>2,343</u>
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	<u>2,317,196</u>	<u>2,323,251</u>
Dilutive earnings per share (dollar)	<u>\$ 1.11</u>	<u>0.61</u>

Note: The number of shares issued was calculated based on the closing price at the reporting date.

(u) Items of the statements of comprehensive income

(i) Brokerage commissions

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Brokerage commission from TSE market	\$ 1,539,188	1,827,623
Brokerage commission from OTC market	567,295	637,115
Handling fee from security financing	23,878	35,585
Futures commission income - brokerage	1,567,795	1,836,830
Overseas subsidiaries	46,031	50,711
Others	<u>75,006</u>	<u>73,013</u>
	<u>\$ 3,819,193</u>	<u>4,460,877</u>

(ii) Underwriting commissions

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Revenue from underwriting securities on a firm commitment basis	\$ 52,495	61,900
Handling fee revenues from underwriting securities on best efforts basis	4,942	1,350
Processing fee revenues from underwriting operations	18,444	7,954
Revenue from underwriting consultation	5,260	9,953
Others	<u>1,740</u>	<u>11,445</u>
	<u>\$ 82,881</u>	<u>92,602</u>

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

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

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Gains (losses) on securities sold - proprietary trading	\$ 452,383	(348,708)
Gains (losses) on securities sold - underwriting	60,428	30,003
Gains (losses) on securities sold - hedging	505,145	(1,155,191)
<b>Total</b>	<b>\$ 1,017,956</b>	<b>(1,473,896)</b>

(iv) Interest revenue

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Interest revenue - margin loans	\$ 592,790	767,184
Interest revenue - bonds	836,503	1,100,550
Overseas subsidiaries	51,727	49,628
Others	77,261	61,072
<b>Total</b>	<b>\$ 1,558,281</b>	<b>1,978,434</b>

(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>2019</b>	<b>2018</b>
Trading securities - proprietary	\$ 423,243	(416,586)
Trading securities - underwriting	34,364	(19,711)
Trading securities - hedging	510,815	(165,545)
Settlement coverage bonds payable of short sale	-	(29)
<b>Total</b>	<b>\$ 968,422</b>	<b>(601,871)</b>

(vi) Net gains (losses) on stock warrants issued

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Gains on changes in fair value of stock warrants	\$ 21,714,001	30,322,653
Gains on exercise of stock warrants before maturity	21,160,960	24,075,007
Losses on changes in fair value of stock warrants repurchased	(42,699,393)	(52,645,565)
Gains on expiration of stock warrants	15,602	112,965
Stock warrants issuance expenses	(154,084)	(182,019)
<b>Total</b>	<b>\$ 37,086</b>	<b>1,683,041</b>

(vii) Futures commission revenues

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Futures commission revenues - CSC Futures (HK) Ltd.	\$ 209,879	453,195

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## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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>2019</b>	<b>2018</b>
Future trading - reconsignment	\$ 246,008	273,044
Future trading - introducing brokers	697	2,279
Commission expenses - CSC Futures (HK) Ltd.	<u>55,032</u>	<u>192,904</u>
	<b><u>\$ 301,737</u></b>	<b><u>468,227</u></b>

(ix) Employee benefits, depreciation, and amortization expenses

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Employee benefit expenses		
Salary expense	\$ 2,150,037	2,250,144
Health and labor insurance expense	158,368	165,668
Pension expense	97,952	105,284
Others	57,802	60,388
Depreciation expense	389,552	173,545
Amortization expense	<u>34,410</u>	<u>33,920</u>
	<b><u>\$ 2,888,121</u></b>	<b><u>2,788,949</u></b>

(x) Other operating expenses

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Rental expense	\$ 42,555	159,977
Taxes	344,570	421,528
Information technology expense	214,041	209,881
Postage expense	180,430	153,246
Professional service fee	21,028	258,861
Other expenses	<u>543,880</u>	<u>529,831</u>
	<b><u>\$ 1,346,504</u></b>	<b><u>1,733,324</u></b>

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

(xi) Other gains and losses

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Financial revenue	\$ 569,367	389,823
Currency exchange gains (losses)	(8,259)	19,072
Net gains (losses) on disposal of investment	7,431	68,664
Net gains (losses) on measurement of non-operating financial instruments at fair value through profit or loss	28,906	(13,052)
Revenue from bank's allocation fee	139,968	133,107
Net gains (losses) on disposal of property and equipment	13,801	(122)
Dividend revenue	65,448	49,551
Gains on reversal of prior year's liabilities	52,211	202,491
Rental income	121,073	62,318
Others	52,274	90,305
	<b>\$ 1,042,220</b>	<b>1,002,157</b>

(xii) Remuneration to employees and directors

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 appropriate 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, 2019 and 2018, the estimated amounts of remuneration to employee were \$32,756 and \$20,971, and to directors were \$54,594 and \$34,951, 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 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.

(Continued)

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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 by the Company. The difference between actual employee remuneration of \$14,587 and \$30,515 and actual remuneration to directors of \$24,248 and \$50,859 were \$17,087 and \$13,966 in total. The difference was accounted for as changes in accounting estimates and would be recognized as profit or loss in 2019 and 2018. The information about the appropriations is available at the website of the Market Observation Post System.

For the years ended December 31, 2019 and 2018, the estimated amounts of remuneration to employees were \$8,714 and \$12,369 and to directors were \$8,714 and \$12,274 by the domestic subsidiaries of the Group, respectively.

(v) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of December 31, 2019 and 2018, the maximum credit exposure amounted to \$100,461,622 and \$92,766,076, 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 (74.79%); secondly, is in Asia (13.59%, exclusion of Taiwan); then, is in America (7.53%). 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.

Region	December 31, 2019	December 31, 2018
Taiwan	\$ 74,762,540	68,026,272
Asia (Taiwan is excluded)	13,582,675	13,929,523
Europe	4,010,808	4,495,750
America	7,523,511	5,709,464
Other	77,525	82,619
Total	<u>\$ 99,957,059</u>	<u>92,243,628</u>

2) Impairment loss

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

	December 31, 2019		December 31, 2018	
	Total amount	Allowance	Total amount	Allowance
Not past due	\$ 20,845,564	9,373	16,677,224	23,522
Past due 0~30 days	275	275	272	272
Past due 31~120 days	127	127	914	914
Past due 121~360 days	8	8	25,523	25,523
Past due more than 360 days	305,771	305,771	288,286	288,286
	<u>\$ 21,151,745</u>	<u>315,554</u>	<u>16,992,219</u>	<u>338,517</u>

(Continued)



## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Allowance for doubtful debts under receivables and overdue receivables are recorded for the 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, 2019 and 2018, the impairment losses of accrued receivables were recognized \$315,554 and \$338,517, respectively.

#### 3) Credit risk of accrued receivables and debt securities

Debt securities held by the Group including government bonds, listed and unlisted debt securities are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(g).

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, 2019 and 2018 were 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, 2019	\$ -	5,861	-	-	338,517	-	344,378
Provision or reversal of Impairment loss	-	1,706	-	-	(5,496)	-	(3,790)
Amounts written off	-	-	-	-	(20,803)	-	(20,803)
Effect of exchange rate	-	-	-	-	3,336	-	3,336
Balance on December 31, 2019	<u>\$ -</u>	<u>7,567</u>	<u>-</u>	<u>-</u>	<u>315,554</u>	<u>-</u>	<u>323,121</u>

	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	\$ -	-	-	-	260,851	-	260,851
Adjustment on initial application of IFRS 9	-	15,153	-	-	-	-	15,153
Balance on January 1, 2018	-	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, 2018	<u>\$ -</u>	<u>5,861</u>	<u>-</u>	<u>-</u>	<u>338,517</u>	<u>-</u>	<u>344,378</u>

(Continued)

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

(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	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
December 31, 2019							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 336,522	336,522	336,522	-	-	-	-
Stock warrants issued	553,306	553,306	465,459	87,847	-	-	-
Put options - futures	11,902	11,902	11,902	-	-	-	-
Exchange traded notes	729	729	-	-	-	729	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	8,150	8,150	4,592	822	(711)	3,447	-
Put options	529,328	529,328	41,762	67,521	208,340	211,705	-
Currency derivatives	7,574	7,574	7,574	-	-	-	-
Short-term borrowings	6,631,002	6,631,002	6,631,002	-	-	-	-
Bonds sold under repurchase agreements	31,847,531	32,022,184	32,022,184	-	-	-	-
Guarantee deposited for short sales	2,390,464	2,390,464	2,390,464	-	-	-	-
Proceeds payable from short sales	2,755,405	2,755,405	2,755,405	-	-	-	-
Securities lending refundable deposits	336,713	336,713	336,713	-	-	-	-
Futures traders' equity	34,747,531	34,747,531	34,747,531	-	-	-	-
Leverage contract trading customers' equity	308,590	308,590	308,590	-	-	-	-
Notes payable and accounts payable	948,074	948,074	948,074	-	-	-	-
Receipts under custody	114,442	114,442	114,442	-	-	-	-
Other payables	662,217	662,217	662,208	9	-	-	-
Structured notes	3,941,052	3,941,052	3,296,957	294,709	241,782	107,604	-
Lease liabilities	1,012,605	1,063,979	109,793	96,531	162,309	335,250	360,096
	<u>\$ 87,143,137</u>	<u>87,369,164</u>	<u>85,191,174</u>	<u>547,439</u>	<u>611,720</u>	<u>658,735</u>	<u>360,096</u>

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Less than 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, 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	<u>3,676,833</u>	<u>3,676,833</u>	<u>3,175,382</u>	<u>191,419</u>	<u>237,377</u>	<u>72,655</u>	<u>-</u>
	<u><u>\$ 76,992,842</u></u>	<u><u>77,173,698</u></u>	<u><u>76,294,364</u></u>	<u><u>386,624</u></u>	<u><u>363,264</u></u>	<u><u>129,446</u></u>	<u><u>-</u></u>

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

(iii) Currency risk

1) Currency risk exposure

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

		December 31, 2019		
		Foreign Currency (thousands)	Exchange Rate	Amount
<b><u>Financial assets</u></b>				
<b><u>Monetary Item</u></b>				
USD	\$	643,458	29.9800	19,290,871
AUD		3,907	21.0050	82,067
CAD		79	22.9900	1,816
CHF		62	30.9250	1,917
EUR		8,250	33.5900	277,118
GBP		3,724	39.3600	146,577
HKD		121,561	3.8490	467,888
JPY		791,762	0.2760	218,526
SGD		262	22.2800	5,837
CNY		76,826	4.3050	330,736
ZAR		6	2.1200	13
KRW		327,087	0.0262	8,570
NZD		63	20.1900	1,272
THB		3,514	1.0098	3,548
MYR		27	7.0330	190
<b><u>Non-Monetary Item</u></b>				
USD		480,419	29.9800	14,402,962
AUD		143,304	21.0050	3,010,101
EUR		1,185	33.5900	39,804
HKD		338	3.8490	1,301
JPY		3,884	0.2760	1,072
CNY		256,294	4.3050	1,103,346
NZD		8	20.1900	162
<b><u>Investments under equity method</u></b>				
HKD		12,434	3.8490	47,860

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

		December 31, 2019		
		Foreign Currency (thousands)	Exchange Rate	Amount
<b><u>Financial liabilities</u></b>				
<b><u>Monetary Item</u></b>				
	USD	\$ 1,093,707	29.9800	32,789,336
	AUD	134,397	21.0050	2,823,009
	CHF	62	30.9250	1,917
	EUR	9,096	33.5900	305,535
	GBP	3,655	39.3600	143,861
	HKD	219,471	3.8490	844,744
	JPY	846,953	0.2760	233,759
	SGD	281	22.2800	6,261
	CNY	195,801	4.3050	842,923
	KRW	172,660	0.0262	4,524
	THB	1,766	1.0098	1,783
	MYR	26	7.0330	183
<b><u>Non-Monetary Item</u></b>				
	USD	175	29.9800	5,247
	CNY	539	4.3050	2,320

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

		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

(Continued)

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

		December 31, 2018		
		Foreign Currency (thousands)	Exchange Rate	Amount
<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

Because there are a variety of functional currencies, the Group discloses a summary of currency exchange variation on the monetary items. For the years ended December 31, 2019 and 2018, the realized and unrealized currency exchange gains (losses) amounted to \$(395) and \$(52,501), respectively.

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

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, short-term borrowings, 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 years ended December 31, 2019 and 2018, 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, 2019		For the years ended December 31, 2018	
	Appreciated	Depreciated	Appreciated	Depreciated
	5%	5%	5%	5%
Net income	(489,190)	489,190	(366,625)	366,625
Other comprehensive income	546,716	(546,716)	426,520	(426,520)

(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, 2019	December 31, 2018	For the years ended December 31,					
			2019			2018		
			Average	Maximum	Minimum	Average	Maximum	Minimum
Interest risk	1,409,781	1,384,626	1,497,257	1,572,243	1,409,781	1,722,466	2,076,354	1,384,626

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

(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 satisfies all the following conditions: 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. The Group's investments in Taiwan central government bonds, equity instruments, debt instruments and derivative instruments with public quote in an active market 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 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.

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

2) Not measured at fair value

As of December 31, 2019 and 2018, the fair value information of the financial assets and financial liabilities of the Group was as follows:

a) Fair value information

	<b>December 31, 2019</b>		<b>December 31, 2018</b>	
	<b>Book value</b>	<b>Fair value</b>	<b>Book value</b>	<b>Fair value</b>
Financial assets :				
Cash and cash equivalents	\$ 8,323,636	8,323,636	7,993,419	7,993,419
Accrued receivable	24,793,814	24,793,814	17,631,012	17,631,012
Customers' margin account	34,803,719	34,803,719	33,275,630	33,275,630
Leverage contract trading - customers' margin account	308,543	308,543	228,564	228,564
Restricted assets - current	673,926	673,926	730,728	730,728
Other non-current assets	1,473,700	1,473,700	1,416,547	1,416,547
Financial liabilities :				
Short-term borrowings	6,631,002	6,631,002	3,873,506	3,873,506
Bonds sold under repurchase agreements	31,847,531	31,847,531	28,032,524	28,032,524
Accrued payable	15,790,247	15,790,247	10,788,574	10,788,574
Futures traders' equity	34,747,531	34,747,531	33,158,826	33,158,826
Leverage contract trading - customers' equity	308,590	308,590	225,899	225,899
Other financial liabilities - current	3,579,951	3,579,951	3,357,887	3,357,887
Other financial liabilities - non-current	349,518	349,518	310,032	310,032
Other non-current liabilities	103,115	103,115	68,458	68,458

b) Hierarchy information of non-financial instruments not measured at fair value

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investment property				
December 31, 2019	<u>\$ -</u>	<u>-</u>	<u>7,577,872</u>	<u>7,577,872</u>
December 31, 2018	<u>\$ -</u>	<u>-</u>	<u>2,237,610</u>	<u>2,237,610</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, accrued receivable, customers' margin account, leverage contract trading - customers' margin account, other current assets, other non-current assets, short term borrowings, 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) 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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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

3) Measured at fair value

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, 2019</b>				
Financial assets at fair value through profit or loss	\$ 12,128,552	18,699,349	-	30,827,901
Financial assets at fair value through other comprehensive income	2,362,801	13,619,901	2,464,932	18,447,634
Derivative financial assets	<u>237,106</u>	<u>118,728</u>	<u>-</u>	<u>355,834</u>
	<u><b>\$ 14,728,459</b></u>	<u><b>32,437,978</b></u>	<u><b>2,464,932</b></u>	<u><b>49,631,369</b></u>
Financial liabilities at fair value through profit or loss	\$ 890,557	-	-	890,557
Derivative financial liabilities	<u>11,902</u>	<u>556,635</u>	<u>-</u>	<u>568,537</u>
	<u><b>\$ 902,459</b></u>	<u><b>556,635</b></u>	<u><b>-</b></u>	<u><b>1,459,094</b></u>
	<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>

b) Valuation techniques of financial instruments measured at fair value

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.

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## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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.

#### 4) Transfer between Level 1 and Level 2

For the years ended December 31, 2019 and 2018, there is no transfer of financial instruments between Level 1 and Level 2.

#### 5) Fair value adjustments

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

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

6) Movements of financial assets at fair value classified into Level 3

(In Thousands Dollars)

For the year ended December 31, 2019								
Item	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 through other comprehensive income	\$ 1,911,577	-	438,403	134,384	-	19,432	-	2,464,932

For the year ended December 31, 2018								
Item	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 through other comprehensive income	\$ 1,787,809	-	(152,389)	288,030	-	11,873	-	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.

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 the multiple, the higher fair value.  · The higher the discount for lack of marketability, the lower the fair value.
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

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## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- 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:

		<b>Change in fair value recognized in other comprehensive income</b>	
		<b>Favorable change</b>	<b>Unfavorable change</b>
<b>December 31, 2019</b>			
Financial assets fair value through other comprehensive income	\$	<u>24,649</u>	<u>(24,649)</u>
<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.

(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:

<b>December 31, 2019</b>					
<b>Types of financial assets</b>	<b>Book value of the transferred financial assets</b>	<b>Book value of relevant financial liabilities</b>	<b>Fair value of the transferred financial assets (Note)</b>	<b>Fair value of relevant financial liabilities (Note)</b>	<b>Fair value net position (Note)</b>
Under repurchase agreements	\$ <u>33,447,074</u>	<u>31,847,531</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>December 31, 2018</b>					
<b>Types of financial assets</b>	<b>Book value of the transferred financial assets</b>	<b>Book value of relevant financial liabilities</b>	<b>Fair value of the transferred financial assets (Note)</b>	<b>Fair value of relevant financial liabilities (Note)</b>	<b>Fair value net position (Note)</b>
Under repurchase agreements	\$ <u>28,357,997</u>	<u>28,032,524</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Continued)

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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, 2019						
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	Net amount (e)=(c)-(d)
Derivative financial assets	\$ 118,728	-	118,728	-	-	118,728

December 31, 2019						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets offsetting in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d) Financial instruments (Note)	Cash received as collaterals	Net amount (e)=(c)-(d)
Derivative financial liabilities	\$ 556,635	-	556,635	-	-	556,635
Under repurchase agreements	31,847,531	-	31,847,531	31,847,531	-	-
Total	\$ 32,404,166	-	32,404,166	31,847,531	-	556,635

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	Net amount (e)=(c)-(d)
Derivative financial assets	\$ 69,659	-	69,659	-	-	69,659

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated 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	\$ 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>

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

(w) 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.

(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

- 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.

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## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- 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.

(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.

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## **CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

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

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.
- 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.

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## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

4) Structured notes:

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

5) Asset swap:

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

- (vii) Financial risk information of financial derivatives and other financial instrument as approved by the authority.

As of December 31, 2019 and 2018, the related financial risk and the presentation of the Group's financial derivatives and other financial instrument as approved by the authority were as follows:

Stock warrants

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

Financial Instruments	December 31, 2019		December 31, 2018	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Stock warrants issued	\$ 18,302,776	-	17,901,620	-

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

(ii) Market risk:

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

(iii) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand:

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

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

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

(iv) Type, purpose, and strategy of financial derivatives held:

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

(v) Presentation of financial derivatives

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

1) For the years ended December 31, 2019 and 2018:

a) Gains (losses) on valuation

	<b>For the years ended December 31,</b>		<b>Account</b>
	<b>2019</b>	<b>2018</b>	
Stock warrants issued	\$ 11,359,166	15,625,056	Gains (losses) on stock warrants issued
Stock warrants repurchased	(11,382,768)	(15,308,436)	Gains (losses) on stock warrants issued

b) Gains (losses) on sale

	<b>For the years ended December 31,</b>		<b>Account</b>
	<b>2019</b>	<b>2018</b>	
Security borrowing	\$ 55,194	171,070	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	340,093	(1,331,899)	Gains (losses) on sale of trading securities
Futures transaction	(319,856)	(180,945)	Gains (losses) on derivative financial instruments - futures

c) Gains (losses) on maturity

	<b>For the years ended December 31,</b>		<b>Account</b>
	<b>2019</b>	<b>2018</b>	
Stock warrants issued	\$ 31,531,397	38,885,569	Gains (losses) on stock warrants issued
Stock warrants repurchased	(31,316,625)	(37,337,129)	Gains (losses) on stock warrants issued

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## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### Exchange traded notes

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

Financial Instruments	December 31, 2019		December 31, 2018	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Exchange traded notes issued	\$ 729	-	-	-

Index-related products trading (futures or other derivative products) will take certain credit risk from counterparties. The Group determines those with international credit rating BBB (inclusive) or above, and therefore, no default is expected and credit risk is accordingly remote.

- (ii) Market risk:

There is no tracking error on exchange traded notes (ETN). Issuers hedge and manage the position via stocks or other products (futures or other derivative products) which are related to the index.

- (iii) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand:

Stocks with small market cap or transaction volume will be replaced by other stocks in case the liquidity risk affects the index performance.

The duration of exchange traded notes issued is three years from the issue date. Except for cash flows from hedging transactions, there is no additional cash demand.

- (iv) Type, purpose, and strategy of other financial derivatives approved by the authority held:

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

- (v) Presentation of other financial derivatives approved by the authority:

For the year ended December 31, 2019, gains (losses) on exchange traded notes amounted to \$67, and were reflected as net gains (losses) from exchange traded notes. As of December 31, 2019, margin exchange traded notes amounted to \$25, and were reflected as other non current assets; outstanding liabilities exchange traded notes which recognized as financial liabilities at fair value through profit or loss current amounted to \$729.

#### 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, 2019 and 2018.

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.

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## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(ii) Market risk:

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

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

(iii) Liquidity risk, cash flow risk, and the amount, period and uncertainty of future cash demand:

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

Futures trading are considered as margin transactions. Margins are collected in advance and valued daily on open futures positions established by the Group. For margin calls, the Group has sufficient operating funds to meet the liquidity requirement. As a result, there is no liquidity risk, cash flow risk, or significant cash demand.

For options trading, premiums are collected or paid in advance. If the counterparty of a short put position exercises the option, the Group has sufficient operating funds to meet the liquidity requirement. Therefore, there is no liquidity risk, no cash flow risk, and no significant cash demand.

(iv) Presentation of financial derivatives:

For the years ended December 31, 2019 and 2018, gains (losses) on futures and options transactions amounted to \$(661,537) and \$476,053, respectively, and were recognized in gains (losses) on derivatives - futures. As of December 31, 2019 and 2018, futures margin - proprietary fund amounted to \$233,624 and \$223,490, respectively, and were recognized in financial assets at fair value through profit or loss - current; excess future margin which recognized in cash and cash equivalent amounted to \$1,184,098 and \$1,998,273, respectively.

As of December 31, 2019 and 2018, the balance of call options which recognized in financial assets at fair value through profit or loss - current amounted to \$3,482 and \$11,580, respectively, put options which recognized in financial liabilities at fair value through profit or loss - current amounted to \$11,902 and \$16,074, respectively.

#### Derivative instruments - OTC

(i) Interest rate financial derivatives

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

	December 31, 2019		December 31, 2018	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
<b>Financial Instruments</b>				
For trading purpose:				
NT dollar interest swaps	\$ 21,300,000	-	29,800,000	-

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## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Counterparties to interest rate swaps are banks with good credit ratings. The Group pays fixed and collects floating interest payments. Since the trend of interest rate is stabilized, no default is expected and credit risk is accordingly remote.

2) Market risk:

Non-trading NT dollar interest rate swaps are primarily held for hedging. Gain or loss from the fluctuations of interest rate tends to offset gains and losses of the hedged items, and therefore market risk is insignificant.

In order to manage risk, Stop-loss points are established in accordance to the changes in the contract value of trading NT dollar interest rate. Loss is kept within prediction, and therefore there is no significant market risk.

3) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand:

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

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

4) Type, purpose, and strategy of financial derivatives held:

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

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

(ii) Structured notes

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

Financial Instruments	December 31, 2019		December 31, 2018	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Equity-linked notes	\$ 215,789	-	49,225	-
Principal guaranteed notes	2,935,907	-	2,730,772	-
Credit-linked notes	669,900	-	562,300	-
Principle guaranteed notes (in USD thousands)	USD 3,690	-	USD 10,597	-

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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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, 2019		December 31, 2018	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Convertible bond asset-backed swaps	\$ 886,900	-	694,900	-
Convertible bond options	4,452,000	-	3,012,400	-

Counterparties to convertible bond asset-backed swaps are institutions with good credit ratings. The Group swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. Since the counterparties are governed by relevant regulatory authorities, and the Group maintains good credit risk control over counterparties, the credit risks is minimal.

For convertible bond options, the Group collects premium or margins from investor prior to issuing convertible bond options, and therefore, there is no credit risk.

2) Market risk:

For convertible bond asset-backed swaps, the Group swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. Therefore, there is no market risk.

For convertible bond options, since the exercise price of the convertible bonds acquired through underwriting or proprietary trading is determined on the contract date, there is no market risk.

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

- 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:

Financial Instruments	December 31, 2019		December 31, 2018	
	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk
For trading purpose:				
Equity options	\$ 200,000	-	-	-

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.

(v) Currency derivatives

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

Financial Instruments	December 31, 2019		December 31, 2018	
	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk
For trading purpose:				
Currency derivatives-long position	\$ 2,700,301	-	1,568,749	-
Currency derivatives-short position	2,448,322	-	1,510,240	-

(Continued)

## CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The Group does the Know-Your-Customer (KYC) process before trading, and gives counterparties appropriate leverage multiples and risk ratings based on their financial status and past trading experience. Besides, the Group collects margins from counterparties and sets the Pre-Settlement Risk (PSR) to manage credit risk. The Group examines the limits regularly to insure their overall credit risk is acceptable, and therefore the risk is controllable.

2) Market risk:

The Group has established the product types, trading quotas, market risk limits, stop-loss and stop-right standards to manage market risk, and therefore losses are within predictable range.

3) Liquidity risk, cash flow risk, and the amount of future cash demand:

The Group monitors the concentration rate and trading volume, and selects registered brokers which have related licenses, experience and a certain amount of asset to cover the position to meet the liquidity need and control the liquidity risk.

(vi) Presentation of derivative instruments in financial statement

As of December 31, 2019 and 2018, 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, 2019</b>	<b>December 31, 2018</b>
Financial assets at fair value through profit or loss - current		
IRS asset swaps	\$ 16,053	13,855
Asset swap options-long position	37,684	4,072
Currency derivatives	39,066	46,967
Structured notes	25,925	3,075
Currency swaps	-	1,690
Total	<u><u>\$ 118,728</u></u>	<u><u>69,659</u></u>
Financial liabilities at fair value through profit or loss - current		
IRS asset swaps	\$ 2,436	763
Asset swap options-short position	529,328	208,927
Structured notes	11,583	8,914
Currency derivatives	7,574	9,063
Currency swaps	4,745	31,575
Interest rate swaps	969	544
Total	<u><u>\$ 556,635</u></u>	<u><u>259,786</u></u>
Other financial liabilities - current		
Structured notes principal value	<u><u>\$ 3,579,951</u></u>	<u><u>3,357,887</u></u>
Other financial liabilities - non-current		
Structured notes principal value	<u><u>\$ 349,518</u></u>	<u><u>310,032</u></u>

(Continued)

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

For the years ended December 31, 2019 and 2018, 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, 2019		For the year ended December 31, 2018	
	Gains (losses) on derivative instruments - OTC	Unrealized Gains (losses)	Gains (losses) on derivative instruments - OTC	Unrealized Gains (losses)
Interest rate swaps	\$ (517)	(969)	(4,016)	(544)
Equity derivatives	(232)	51	873	-
Structured notes	(67,731)	(16,490)	(36,093)	(6,466)
IRS asset swaps	218	13,617	259	13,092
Asset swap options	(264,473)	11,817	64,786	130,058
Currency swaps	(9,634)	(4,745)	14,300	(29,885)
Currency derivatives	36,424	(6,412)	72,343	18,304
Total	<u>\$ (305,945)</u>	<u>(3,131)</u>	<u>112,452</u>	<u>124,559</u>

(x) 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.

The Company maintains no change of its capital management. The Company's capital adequacy ratio is as below:

	December 31, 2019	December 31, 2018
Capital adequacy ratio	390 %	435 %

(y) Financing activities not affecting current cash flow

The Group's financing activities which did not affect the current cash flow in the years ended December 31, 2019 and 2018, were as follows:

- (i) For Short-term borrowings, please refer to note 6(j).
- (ii) For Right-of-use assets, please refer to note 6(g).

	January 1, 2019	Cash flows	Non-cash changes			December 31, 2019
			Other	Foreign exchange movement	Fair value changes	
Short-term borrowings	\$ 3,873,506	2,757,496	-	-	-	6,631,002
Lease liabilities	1,070,869	(153,182)	95,265	(347)	-	1,012,605
Total liabilities from financing activities	<u>\$ 4,944,375</u>	<u>2,604,314</u>	<u>95,265</u>	<u>(347)</u>	<u>-</u>	<u>7,643,607</u>

(Continued)

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

	January 1, 2018	Cash flows	Non-cash changes			December 31, 2018
			Other	Foreign exchange movement	Fair value changes	
Short-term borrowings	\$ 7,081,698	(3,208,192)	-	-	-	3,873,506
Commercial papers payable	4,099,184	(4,099,184)	-	-	-	-
Total liabilities from financing activities	<u>\$ 11,180,882</u>	<u>(7,307,376)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,873,506</u>

**(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.

<u>Names of related parties</u>	<u>Relationships</u>
Capital Insurance Advisory Corp.	Subsidiary
Capital Insurance Agency Corp.	Subsidiary
Capital Investment Trust Corp. (Note 1)	Associate
Funds issued by Capital Investment Trust Corp. (Note 1)	Funds issued by associate
San Ho Enterprise Co., Ltd. (Note 2)	Juristic-person director
Kwang Hsing Industrial Co., Ltd.	Juristic-person director
Tai Chun Enterprise Co., Ltd. (Note 2)	Juristic-person director
Other related parties	Key management personnel

Note 1: Since February 9, 2018, the corporation has become an associate of the Company.

Note 2: The corporation was discharged on June 24, 2019.

- (c) Key management personnel transactions

- (i) Key management personnel compensation:

	For the years ended December 31,	
	2019	2018
Short-term employee benefits	\$ 218,948	255,870
Post-employment benefits	2,722	2,564
Total	<u>\$ 221,670</u>	<u>258,434</u>

(Continued)

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

(ii) Bond transactions - bonds sold under repurchase agreements

Bonds sold under repurchase agreements with key management personnel as of December 31, 2019 and 2018 were as follows:

	December 31, 2019		December 31, 2018	
	Par value	Purchase price	Par value	Purchase price
Key management personnel	\$ 22,500	22,670	43,000	43,060
<b>Total financial expenses</b>				
	For the years ended December 31, 2019		2018	
Key management personnel	\$ 182		152	

(iii) Structured notes transactions

As of December 31, 2019 and 2018, the balances of structured notes transactions with key management personnel were \$71,393 and \$55,612, 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, 2019 and 2018 were as follows:

	December 31, 2019		December 31, 2018	
	Par value	Purchase price	Par value	Purchase price
Funds issued by associate	\$ -	-	50,000	50,044
Juristic-person directors	-	-	20,300	20,315
Total	\$ -	-	70,300	70,359
<b>Total financial expenses</b>				
	For the years ended December 31, 2019		2018	
Funds issued by associate	\$ 472		161	
Juristic-person directors	56		81	
Total	\$ 528		242	

Transaction terms are the same as the general clients.

(ii) Structured notes transaction and future transactions

As of December 31, 2019 and 2018 the balances of structured notes transactions with juristic-person directors and others of the Group were \$0 and \$17,082, respectively. The balance of future transactions with the associate were \$142,376 and \$287,357, respectively.

(Continued)

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

(iii) Lease agreements

1) Lease revenue

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Subsidiaries	\$ 346	1,038
Associates	17,247	15,810
Total	<u><u>\$ 17,593</u></u>	<u><u>16,848</u></u>

2) Guarantee deposits received

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Subsidiaries	\$ -	200
Associates	3,811	3,811
Total	<u><u>\$ 3,811</u></u>	<u><u>4,011</u></u>

(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>2019</b>	<b>2018</b>
Subsidiaries	<u><u>\$ 12,931</u></u>	<u><u>11,905</u></u>

2) Accounts receivable

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Subsidiaries	<u><u>\$ 1,877</u></u>	<u><u>2,020</u></u>

(v) Commissions

The 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 years ended December 31, 2019 and 2018, were as follows:

	<b>For the years ended December 31,</b>	
<b>Brokerage commissions</b>	<b>2019</b>	<b>2018</b>
Associates	\$ 1,148	856
Funds issued by associate	23,738	15,969
Juristic-person directors	-	288
Other related parties	1,044	10,270
Total	<u><u>\$ 25,930</u></u>	<u><u>27,383</u></u>

(Continued)

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

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Re-consigned handling commissions</b>		
Funds issued by associate	\$ 8,696	4,879
Other related parties	193	235
Total	<u>\$ 8,889</u>	<u>5,114</u>
	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Other commissions</b>		
Funds issued by associate	<u>\$ 4,406</u>	<u>639</u>

(vi) Management service income and stock service income:

For the year ended December 31, 2019 and 2018, the Group provided management service and stock service for associate, and the service income amounted to \$356 and \$259, respectively.

(vii) Accrued receivables

The accrued receivables between the associate and the Group primarily were securities management service receivable. As of December 31, 2019 and 2018, the accrued receivables amounted to \$164 and \$10, respectively.

(viii) Disposals of financial assets

On January 16, 2018, the Group disposed all its shares (941 thousand shares) of Reliance Securities Investment Trust Co., Ltd (which was recognized in 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, 2019 and 2018:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>	<b>The collateral use</b>
Restricted assets - current	\$ 673,926	730,728	Bank borrowings, accounts settled, repurchase agreement.
Trading securities and bonds purchased under resale agreements (par value)	32,506,236	29,145,321	Repurchase agreement
Property and equipment	1,832,513	3,968,485	Bank borrowings
Financial assets at fair value through profit or loss - non - current	180,467	185,109	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business
Investment property	2,974,772	895,814	Bank borrowings
Total	<u>\$ 38,167,914</u>	<u>34,925,457</u>	

(Continued)

**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:

	December 31, 2019		December 31, 2018	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities procured through margin purchase	520,214	\$ 5,202,140	528,296	5,282,960
Collateral for margin purchase	8,868	88,680	34,550	345,500
Collateral for short sales	6,900	69,000	6,150	61,500
Lending securities to customers through short sales	57,750	577,500	50,957	509,570

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

	December 31, 2019		December 31, 2018	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities borrowed from securities finance companies	3,594	\$ 35,940	1,074	10,740
Collateral for refinancing margin	969	9,690	53	530

- (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, 2019	December 31, 2018
Promissory notes	<u>\$ 25,510,000</u>	<u>26,440,000</u>
Promissory notes (in USD thousands)	<u>USD 60,000</u>	<u>USD 60,000</u>

- (d) As of December 31, 2019 and 2018, the market values of collaterals which received from customers on conducting borrowing and lending business with unrestricted purposes were \$5,687,926 and \$3,848,765, 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. In December 2019, Taiwan Shilin District Court decide the case in favor of the Company, the case had no impact to the Company.
- (f) A resigned employee of Wan-Hua branch was accused of privately soliciting investment to scam. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation for damages of \$2,798. The case is under the trial of Taiwan Taipei District Court. According to the opinion from the attorney of the Company, the case had no impact to the Company.

(Continued)



## 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 dollars, which was in favor of the Company, or the investors reached compromises to waive off the appeal rights. There was one case that mutual reach the settlement and withdraw appeals on May 7, 2019. 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, 2019.
- (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 \$2,520 for contract price. As of December 31, 2019, the unpaid balance was amounted to \$1,452.
- (j) According to the Article 17 of Enforcement Rules of the Trust Enterprise Act, the balance sheet, income statement and property list of trust accounts were declared as follows:
- (i) Balance sheet of trust accounts

#### Balance Sheet of Trust Accounts

##### December 31, 2019 and 2018

Trust Assets	December 31, 2019	December 31, 2018	Trust Liabilities	December 31, 2019	December 31, 2018
Bank deposits	\$ 1,123,650	863,717	Accounts payable	\$ 44	230
Short-term investment			Trust capital	13,751,705	12,864,910
Funds	12,115,260	10,355,060	Accumulated earnings or deficit	(103,139)	(1,066,242)
Stocks	124,245	351,841			
Securities lent	53,383	90,222			
Bonds	31,715	12,003			
Structured notes	10,013	12,224			
Accounts receivable	190,344	113,831			
<b>Total Assets</b>	<b>\$ 13,648,610</b>	<b>11,798,898</b>	<b>Total Liabilities</b>	<b>\$ 13,648,610</b>	<b>11,798,898</b>

(Continued)

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

(ii) Income statement of trust accounts

**Income Statement of Trust Accounts**

**For the years ended December 31, 2019 and 2018**

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Trust revenue		
Interest revenue	\$ 5,626	5,686
Cash dividends revenue	522,595	480,749
Rental revenue	6,674	10,547
Investment gains - unrealized	938,923	-
Currency exchange gains	94,949	12,587,351
Other revenue	-	709
Subtotal	<u>1,568,767</u>	<u>13,085,042</u>
Trust expense		
Management fee	679	1,115
Service fee	60,976	75,544
Realized investment losses	46,561	3,935
Investment losses - unrealized	-	1,781,114
Currency exchange losses - unrealized	1,702,347	1,311,566
Supplementary insurance premium	92	76
Currency exchange losses	-	11,760,193
Subtotal	<u>1,810,655</u>	<u>14,933,543</u>
Loss before income tax	(241,888)	(1,848,501)
Income tax expense	(319)	(327)
Net Loss	<u><u>\$ (242,207)</u></u>	<u><u>(1,848,828)</u></u>

(Continued)

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

(iii) Property list of trust accounts

**Property list of trust accounts**

**December 31, 2019 and 2018**

<b>Investment items</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Bank deposits	\$ 1,123,650	863,717
Short-term investment		
Funds	12,115,260	10,355,060
Stocks	124,245	351,841
Securities lent	53,383	90,222
Bonds	31,715	12,003
Structured Notes	10,013	12,224
Account receivables	<u>190,344</u>	<u>113,831</u>
Total	<u><u>\$ 13,648,610</u></u>	<u><u>11,798,898</u></u>

**(10) Significant Catastrophic Loss:None**

**(11) Significant Subsequent Events:**

The Company had repurchased 150,000 thousand shares after the reporting date. All the repurchased shares were retired and the registration of capital reduction was completed on February 21, 2020.

The Board of Directors resolved to subscribe the cash capital increase of Capital Futures Corp. on January 21, 2020, and the investment amounted to \$683,981.

The Board of Directors of the subsidiary, Capital Futures Corp., approved to conduct cash replenishment on November 28, 2019 for \$340,000, and issued new common stock of 34,000 thousand shares with \$10 dollars face value per share. On February 25, 2020, the Board of Directors approved to issue the stock of \$34.4 per share. The cash replenishment got the approval by the FSC No. 1090300222 on January 30, 2020. The base date is March 26, 2020.

(Continued)

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

**(12) Other:**

(a) As of December 31, 2019 and 2018, the open positions of futures and option contracts were as follows:

(i) December 31, 2019

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	10	\$ 24,105	23,988	
	TAIEX Futures	Short	206	(495,233)	(494,153)	
	Mini-TAIEX Futures	Long	7	4,198	4,194	
	Mini-TAIEX Futures	Short	10	(5,998)	(5,997)	
	Electronic Sector Index Futures	Short	2	(4,258)	(4,218)	
	Finance Sector Index Futures	Long	100	135,817	135,840	
	Single Stock Futures	Long	400	80,919	85,272	
	Single Stock Futures	Short	5,763	(964,987)	(990,418)	
	HSI Futures	Short	1	(5,379)	(5,441)	
	Mini-HSI Futures	Short	11	(11,921)	(11,969)	
	FTSE China A50 Index Futures	Long	2	862	864	
	FTSE China A50 Index Futures	Short	558	(237,783)	(241,063)	
	VIX Futures	Long	46	21,568	21,308	
	VIX Futures	Short	4	(1,775)	(1,754)	
	SGX Nikkei 225 Index Futures	Short	5	(16,488)	(16,129)	
	10 Year U.S. T-Note Futures	Short	5	(19,421)	(19,250)	
	Ultra U.S. Treasury Bond Futures	Short	3	(16,889)	(16,338)	
	Crude Oil Futures	Short	17	(30,513)	(31,120)	
	Japanese Yen Futures	Long	3	10,326	10,394	
	Japanese Yen Futures	Short	5	(17,355)	(17,324)	
	Long-term Euro-BTP Futures	Long	7	33,538	33,497	
	Euro-Bund Futures	Long	3	17,265	17,180	
	Subtotal			(1,499,402)		
Options contract :						
	TAIEX Options (Call)	Long	377	454	357	
	TAIEX Options (Put)	Long	160	284	332	
	TAIEX Options (Call)	Short	588	(2,298)	(1,728)	
	TAIEX Options (Put)	Short	556	(2,332)	(2,779)	
	Stock Options (Call)	Long	10	1	1	
	Stock Options (Put)	Long	14	1	1	
	Stock Options (Call)	Short	10	(96)	(127)	
	Stock Options (Put)	Short	1	(3)	(1)	
	TAIEX Weekly Options (Call)	Long	2,487	621	221	
	TAIEX Weekly Options (Put)	Long	2,494	1,943	2,548	
	TAIEX Weekly Options (Call)	Short	1,148	(1,109)	(680)	
	TAIEX Weekly Options (Put)	Short	2,714	(3,813)	(6,527)	
	Electronic Sector Index Options (Call)	Long	10	51	22	
	Electronic Sector Index Options (Put)	Short	20	(76)	(33)	
	Finance Sector Index Options (Call)	Short	20	(10)	(3)	
	Crude Oil Option (Put)	Short	1	(4)	(5)	
	Gold Option (Put)	Long	2	3	-	
	Gold Option (Call)	Short	10	(20)	(19)	
	Subtotal			(6,403)		
Total				\$ (1,505,805)		

(Continued)

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

(ii) 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)	
	Single Stock Futures	Long	1,938	347,884	344,406	
	Single 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)	
	MSCI Taiwan Index Futures	Short	70	(76,977)	(76,654)	
	FTSE China A50 Index Futures	Short	466	(149,721)	(148,929)	
	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)	
	2-Year U.S. T-Note Futures	Short	1	(6,495)	(6,521)	
	10-Year U.S. T-Note Futures	Short	100	(372,827)	(374,771)	
	Euro-Bond 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)	
	JPY/USD FX Futures	Long	53	32,509	32,120	
	JPY/USD FX Futures	Short	213	(130,851)	(130,068)	
	EUR/USD FX Futures	Long	113	79,609	80,110	
	USD 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)		

(Continued)

**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)	
	JPY dollar 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**

- (b) Restrictions and enforcement of the Group's various financial ratios under futures trading law

Subsidiary - Capital Futures Corp.'s financial ratio in the table below is prepared according to "Regulations Governing Futures Commission Merchants" :

Art.	Calculation formula	Current Period		Last Period		Standard	Enforcement
		Calculation	Ratio	Calculation	Ratio		
17	$\frac{\text{Stockholders' equity}}{\text{(Total liabilities - futures traders' equity)}}$	$\frac{5,012,996}{652,322}$	7.68	$\frac{5,032,092}{486,790}$	10.34	$\geq 1$	Satisfactory to requirement
17	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{38,683,882}{35,119,902}$	1.10	$\frac{38,113,857}{34,567,504}$	1.10	$\geq 1$	"
22	$\frac{\text{Stockholders' equity}}{\text{Minimum paid-in capital}}$	$\frac{5,012,996}{1,115,000}$	449.60 %	$\frac{5,032,092}{1,115,000}$	451.31 %	$\geq 60\%$ $\geq 40\%$	"
22	$\frac{\text{Adjusted net capital}}{\text{Total amount of customers' margin required for open positions of futures trader}}$	$\frac{3,630,546}{6,542,582}$	55.49 %	$\frac{3,659,697}{6,318,099}$	57.92 %	$\geq 20\%$ $\geq 15\%$	"

- (c) Unique risk for futures trading

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 business needs sufficient liquidity to cover the transactions and suffer the loss may occur.

(Continued)

# 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	US 29,322	US 29,322	- %	2	-	Operations	-		-	US 53,637	US 53,637
2	Taiwan International Securities (B.V.I) Corp. Limited.	TIS Securities (HK) Limited.	Other receivables - Related party	Yes	US 3,380	US 3,380	US 3,380	- %	2	-	Operations & repayment of financing	-		-	US 3,380	US 3,380
3	TIS Securities (HK) Limited.	Taiwan International Capital (HK) Ltd.	Other receivables	Yes	HK 1,463	HK 1,463	HK 1,463	- %	2	-	Repayment of financing	-		-	HK 1,463	HK 1,463
4	CSC Futures (HK) Ltd.	Klaw Trading Limited	Account receivables - Customer	No	41,639	41,639	17,845	5 %	2	-	Tradings	-		-	193,301	966,505
5	CSC Futures (HK) Ltd.	AAA Fintech Limited	Account receivables - Customer	No	83,278	83,278	37,177	5.09 %	2	-	Tradings	-		-	193,301	966,505
6	CSC Futures (HK) Ltd.	Future Leading Investment Pte. Ltd.	Account receivables - Customer	No	83,278	83,278	-	5 %	2	-	Tradings	-		-	193,301	966,505
7	CSC Futures (HK) Ltd.	Alpha Rnd Singapore Pte Ltd.	Account receivables - Customer	No	83,278	83,278	-	5.09 %	2	-	Tradings	-		-	193,301	966,505
8	CSC Futures (HK) Ltd.	Derivatives China Alpha Fund	Account receivables - Customer	No	83,278	83,278	-	5.09 %	2	-	Tradings	-		-	193,301	966,505

Note: Type of Loans

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

- (ii) Providing endorsements and guarantees for other parties:None
- (iii) Acquisition of real estate exceeding NT\$300 million or 20% of paid-in capital:None
- (iv) Disposal of real estate exceeding NT\$300 million or 20% of paid-in capital:None
- (v) Handling fee discounts on transactions with related parties exceeding NT\$5 million:None
- (vi) Accounts receivables from related parties exceeding NT\$100 million or 20% of paid-in capital:None
- (vii) Significant transactions between parent company and subsidiaries for the year ended December 31, 2019:

(In Thousands Dollars)

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Intercompany transaction details				Percentage of total consolidated revenue or total assets
				General ledger account	Amount	Trading terms		
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts payable	379			- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts receivable	10,914			0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other receivable	777			- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Bonds sold under repurchase agreements	46,000			0.03 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other payable	3,892			- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Guarantee deposits received	4,007			- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Futures commission revenue	130,341	General transaction		1.67 %

(Continued)



# 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 Futures Corp.	1	Lease revenue	17,165	General transaction	0.22 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Revenue from securities management, distribution, and management fees	448	General transaction	0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Financial costs	500	General transaction	0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other operating revenue	38	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Securities commission expense	3,492	General transaction	0.04 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Interest revenue	424	General transaction	0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Miscellaneous expense	9,441	General transaction	0.12 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Non-operating revenue	46,967	General transaction	0.60 %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Accounts receivable	29		- %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Other receivables	152		- %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Professional service fees	73,848	General transaction	0.95 %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Lease revenue	400	General transaction	0.01 %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Other operating revenue	109	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Lease revenue	85	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Non-operating revenue	150	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Revenue from securities management, distribution, and management fees	90	General transaction	- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other receivables	19		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other payables	15		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Receipts under custody	73		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other operating expense	4,618	General transaction	0.06 %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Other receivables	42		- %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Lease revenue	321	General transaction	1.00 %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Financial costs	1	General transaction	- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Lease revenue	129	General transaction	- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Non-operating revenue	45	General transaction	- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Guarantee deposits received	11		- %
1	Capital Futures Corp.	Capital Securities Corp.	2	Customers' margin account	688,447		0.52 %
1	Capital Futures Corp.	Capital Securities Corp.	2	Futures traders' equity	688,447		0.52 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Customers' margin account	581,174		0.44 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures traders' equity	4,375,854		3.29 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Other payable	2,909		- %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures commission expense	8,345	General transaction	0.11 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Brokerage commissions revenue	61,245	General transaction	0.79 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Financial costs	7,702	General transaction	0.10 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Customers' margin account	4,010,621		3.01 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Futures traders' equity	215,941		0.16 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Other payables	185		- %

(Continued)

# 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
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Information technology expense	245	General transaction	- %
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	Professional service fees	21,117	General transaction	0.27 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Group membership fees	187	General transaction	- %
2	CSC Futures (HK) Ltd.	CSC Securities (HK) Ltd.	3	Financial costs	354	General transaction	- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Lease revenue	6,925	General transaction	0.09 %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other receivables	HK 22		- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other operating revenue	HK 4,124	General transaction	0.21 %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Brokerage handling fee expense	HK 291	General transaction	0.01 %
3	CSC Securities (HK) Ltd.	CSC International Holdings Ltd.	3	Other payables	HK 228,306		0.67 %
4	Taiwan International Securities (B.V.I.) Corp.	TIS Securities (HK) Limited	3	Other receivables	HK 26,248		0.08 %

Note 1: The numbers in the Ref No. column represent as follows:

- (1) 0 stands for the parent company.
- (2) Subsidiaries are coded from No. 1 per respective companies.

Note 2: Transaction relationship with the counterparties are as follows:

- (1) Parent company to subsidiaries.
- (2) Subsidiaries to parent company.
- (3) Subsidiaries to subsidiaries.

### (b) Related information of investee companies:

(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, 2019	Balance on December 31, 2018	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 %	92,445	74,119	(4,795)	(4,795)	9,450	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 %	2,817,870	1,735,635	600,009	337,355	337,222	"
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 %	1,605,349	24,552	4,135	4,135	-	"
0	Capital Insurance Advisory Corp.	Taipei ,Taiwan, R.O.C.	November 9, 2000		Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business.	3,890	3,890	100.00 %	500,000	100.00 %	78,906	182,510	53,049	53,049	58,875	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 %	43,447	89,443	4,044	4,044	1,354	"
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 %	18	304	260	260	-	The transaction has been written off in the consolidated financial statements
0	Taiwan International Securities Investment Consulting Corp. (Note 4)	Taipei ,Taiwan, R.O.C.	March 3, 1994		Liquidation in progress.	9,992	9,992	99.92 %	999,200	99.92 %	12,644	-	(155)	(155)	-	"

(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, 2019	Balance on December 31, 2018		Shares	Ratio	Book value					
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 %	763,112	4,290	(2,452)	(2,452)	-	The transaction has been written off in the consolidated financial statements
0	Capital Investment Trust Corp.	Taipei ,Taiwan, R.O.C.	October 10, 1995		Engaged in security investment and discretionary investment services.	1,272,505	1,272,505	20.00 %	33,067,507	20.00 %	1,301,360	1,670,556	665,343	133,069	99,202	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 166,703 thousands	HK 39,519 thousands	HK 6,318 thousands	-	-	The transaction has been written off in the consolidated financial statements
2	TIS Securities (HK) Limited. (Note 5)	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 (26,170) thousands	HK -	HK 78 thousands	-	-	"
3	Taiwan International Capital (HK) Ltd. (Note 5)	Hong Kong	July 16, 1997	No. FSC-110159	Liquidation in progress.	HK 2	HK 2	100.00 %	2	100.00 %	HK (66,086) thousands	HK -	HK 71 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 %	940,119	249,672	(50,944)	-	-	"
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 %	42,249	-	(3,224)	-	-	"
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 %	47,860	129,089	5,038	-	-	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 resolved to dissolve on June 27, 2012, and the company is being liquidated now.

Note 5: 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 overseas branches or representative offices:

(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 the Mainland China:

(i) Investment in the 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, 2019	Remittance of recoverable investment this period		Accumulated remittance as of December 31, 2019	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, 2019
					Remittance amount	Recoverable amount							
Capital True Partner Technology Co., Ltd.	Management, consulting and information service business	5,013	(C)	24,372	-	-	24,372	2,159	28.67%	28.67 %	619 B(2)	13,529	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	18,863	(C)	18,863	-	-	18,863	(4,057)	56.21%	56.21 %	(2,280) B(2)	10,001	-

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 the 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.

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**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, 2019 are as follows:

- (i) Balance sheet and income statement:

- 1) Balance sheet

Unit: US \$ thousands

Company		
Nature	CSC International Holdings Ltd. December 31, 2019	Taiwan International Securities (B.V.I) Corp. December 31, 2019
Current assets	10,891	1
Long-term investments	21,407	-
Property and premises	2,000	-
Other assets	19,395	3,380
Total assets	53,693	3,381
Current liabilities	56	19
Other liabilities	-	3,361
Total liabilities	56	3,380
Common stock	45,000	9,516
Retained earnings (Accumulated deficit)	8,754	(9,447)
Cumulative translation adjustments	(117)	(68)
Total stockholders' equity	53,637	1
Total liabilities and stockholders' equity	53,693	3,381

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**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, 2019</b>	<b>For the years ended December 31, 2019</b>
Operating revenue	809	10
Operating expense	(811)	(2)
Non-operating revenue	141	-
Non-operating expense	(2)	-
Income (loss) before tax	137	8
Net income (loss)	137	8

(ii) Securities held as of December 31, 2019

Unit: shares / US\$ thousands

<b>Name of holding company</b>	<b>Securities types and name</b>	<b>Account classification</b>	<b>December 31, 2019</b>	
			<b>Shares</b>	<b>Book value</b>
CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Long-term investments	128,000,000	\$ <u><u>21,407</u></u>
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Other liabilities	265,000,000	\$ <u><u>(3,361)</u></u>

(iii) Derivatives financial instrument transactions and the source of capital: None.

(iv) Revenue from engagement in consultation on assets management business, service contents and litigation: None.

(Continued)

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

**(14) Segment information:**

(a) General 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) Corporate financing 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) Futures: 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) Profits or losses, assets and liabilities of segments information

(Continued)

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

	For the year ended December 31, 2019							
	Brokerage business	Corporate financing business	Dealing business	Derivative instrument business	Others	Futures	Adjustment and elimination	Total
Segment Revenue	\$ 3,331,720	369,509	1,800,633	384,101	231,977	1,919,015	(240,004)	7,796,951
Segment profit or loss	\$ 1,350,826	228,595	1,201,096	170,687	(135,463)	746,614	(334,258)	3,228,097

	For the year ended December 31, 2018							
	Brokerage business	Corporate financing business	Dealing business	Derivative instrument business	Others	Futures	Adjustment and elimination	Total
Segment Revenue	\$ 3,828,016	283,678	312,051	498,916	203,870	2,814,164	(302,050)	7,638,645
Segment profit or loss	\$ 1,723,648	130,042	(498,734)	240,223	419,963	954,976	(643,588)	2,326,530

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 regions

Since the revenue from foreign customers were not significant and there was no disclosure.

(f) Information about major customers

There was no disclosure because no single customer accounted for 10% or more of the Group's revenues for the current periods.





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 statements of financial position as of December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and cash flows for the years ended December 31, 2019 and 2018, 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, 2019 and 2018, and its financial performance and its cash flows for the years ended December 31, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms.

### Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. 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 for the year ended December 31, 2019. 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(u)(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 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(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(h)(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 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 1.36% and 1.55% of total assets as of December 31, 2019 and 2018, respectively, and the recognized share of profits under using equity method constituted 4.72% and 4.74% of net income before income tax for the years ended December 31, 2019 and 2018, 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 26, 2020

#### **Notes to Readers**

The accompanying financial statements are intended only to present the 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 independent 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 independent auditors' report and financial statements, the Chinese version shall prevail.

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

**CAPITAL SECURITIES CORPORATION**

**Balance Sheets**

**December 31, 2019 and 2018**

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

	<b>Assets</b>	<b>December 31, 2019</b>		<b>December 31, 2018</b>	
		<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
110000	<b>Current assets:</b>				
111100	Cash and cash equivalents (note 6(a))	\$ 2,656,201	3	2,554,322	3
112000	Financial assets at fair value through profit or loss - current (notes 6(b) and 8)	30,255,818	32	30,265,614	37
113200	Financial assets at fair value through other comprehensive income- current (note 6(b))	15,976,583	17	10,850,674	13
114030	Receivable for securities provided as collateral	11,934,900	13	9,756,590	12
114040	Refinancing margin	91,153	-	39,614	-
114050	Refinancing collateral receivable	137,339	-	34,419	-
114060	Receivable of securities business money lending	1,996,204	2	1,949,105	2
114090	Collateral for securities borrowed	344,523	-	454,200	1
114100	Security borrowing margin	312,084	-	412,148	1
114110	Notes receivable	22,401	-	17,181	-
114130	Accounts receivable (note 6(c))	6,395,116	7	4,251,551	5
114150	Prepayments	22,060	-	18,084	-
114170	Other receivables	93,395	-	22,368	-
114600	Current income tax assets	26,358	-	26,358	-
119000	Other current assets	695,209	1	790,564	1
119095	Amounts held for each customer in the account (note 6(l))	3,025,153	3	26,969	-
		<u>73,984,497</u>	<u>78</u>	<u>61,469,761</u>	<u>75</u>
120000	<b>Non-current assets:</b>				
122000	Financial assets at fair value through profit or loss - non-current (notes 6(b) and 8)	180,467	-	185,109	-
123200	Financial assets at fair value through other comprehensive income- non-current (note 6(b))	2,174,104	2	1,627,616	2
124100	Investments accounted for under equity method (note 6(d))	6,715,151	7	6,827,001	9
125000	Property and equipment (notes 6(e) and 8)	2,339,571	2	4,577,214	6
125800	Right-of-use assets (note 6(f))	852,107	1	-	-
126000	Investment property (notes 6(g) and 8)	4,346,760	5	2,021,203	3
127000	Intangible assets (note 6(h))	3,527,506	4	3,543,038	4
128000	Deferred income tax assets (note 6(q))	7,610	-	115,600	-
129000	Other non-current assets	1,190,857	1	1,061,874	1
		<u>21,434,133</u>	<u>22</u>	<u>19,958,655</u>	<u>25</u>
	<b>Total assets</b>	<u><u>\$ 95,418,630</u></u>	<u><u>100</u></u>	<u><u>81,428,416</u></u>	<u><u>100</u></u>

See accompanying notes to financial statements.

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

**CAPITAL SECURITIES CORPORATION**

**Balance Sheets**

**December 31, 2019 and 2018**

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

		December 31, 2019		December 31, 2018	
		Amount	%	Amount	%
<b>Liabilities and Equity</b>					
210000	<b>Current liabilities:</b>				
211100	Short-term borrowings (note 6(i))	\$ 6,631,002	7	3,873,506	5
212000	Financial liabilities at fair value through profit or loss - current (note 6(j))	1,436,258	2	1,177,315	1
214010	Bonds sold under repurchase agreements (note 6(k))	31,893,531	33	28,230,524	35
214040	Guarantee deposited for short sales	2,390,464	3	2,316,744	3
214050	Proceeds payable from short sales	2,755,405	3	2,603,315	3
214070	Securities lending refundable deposits	336,713	-	644,843	1
214090	Equity for each customer in the account (note 6(l))	3,025,153	3	26,969	-
214110	Notes payable	-	-	481	-
214130	Accounts payable (note 6(m))	6,123,154	6	3,583,940	4
214150	Advance receipts	58,143	-	26,386	-
214160	Receipts under custody	109,866	-	115,918	-
214170	Other payables	512,459	1	623,162	1
214200	Other financial liabilities - current (note 6(v))	3,579,951	4	3,357,887	4
214600	Current income tax liabilities	183,169	-	398,160	-
215100	Provisions - current (note 6(p))	44,610	-	43,530	-
216000	Current lease liabilities (note 6(o))	156,150	-	-	-
219000	Other current liabilities	3,047	-	3,164	-
		<u>59,239,075</u>	<u>62</u>	<u>47,025,844</u>	<u>57</u>
220000	<b>Non-Current liabilities:</b>				
224200	Other financial liabilities - non-current (note 6(v))	349,518	-	310,032	-
226000	Non-current lease liabilities (note 6(o))	751,240	1	-	-
228000	Deferred income tax liabilities (note 6(q))	455,196	-	468,479	1
229000	Other non-current liabilities (note 6(p))	630,961	1	652,069	1
		<u>2,186,915</u>	<u>2</u>	<u>1,430,580</u>	<u>2</u>
	<b>Total liabilities</b>	<u>61,425,990</u>	<u>64</u>	<u>48,456,424</u>	<u>59</u>
<b>Equity:</b>					
301010	Common stock (note 6(r))	23,209,081	24	23,209,081	28
302000	Capital surplus (note 6(r))	2,852,299	3	2,852,299	4
304000	Retained earnings:				
304010	Legal reserve	1,658,360	2	1,519,635	2
304020	Special reserve	3,587,197	4	3,302,811	4
304040	Unappropriated earnings (note 6(r))	2,681,569	3	1,387,250	2
305120	Exchange differences on translation of foreign operations	(118,543)	-	(41,068)	-
305140	Unrealized gains (losses) on financial assets at fair value through other comprehensive income	1,696,677	2	741,984	1
305500	Treasury shares (note 6(r))	(1,574,000)	(2)	-	-
	<b>Total equity</b>	<u>33,992,640</u>	<u>36</u>	<u>32,971,992</u>	<u>41</u>
<b>Total liabilities and equity</b>		<u>\$ 95,418,630</u>	<u>100</u>	<u>81,428,416</u>	<u>100</u>

See accompanying notes to financial statements.

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

## CAPITAL SECURITIES CORPORATION

## Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

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

		2019		2018	
		Amount	%	Amount	%
<b>Income:</b>					
401000	Brokerage commissions (note 6(t))	\$ 2,205,367	38	2,573,772	52
402000	Revenues from securities business money lending	96	-	264	-
403000	Revenue from securities lending	195,605	3	137,401	3
404000	Underwriting commissions (note 6(t))	82,881	1	92,602	2
406000	Commissions on wealth management business	104,054	2	107,619	2
410000	Net gains (losses) on sale of trading securities (note 6(t))	952,684	16	(1,406,516)	(29)
421100	Securities management, distribution, and management fees	143,721	3	140,914	3
421200	Interest revenue (note 6(t))	1,506,978	26	1,929,231	39
421300	Dividend revenue	235,167	4	238,150	5
421500	Net gains (losses) on measurement of trading securities at fair value through profit or loss (note 6(t))	949,088	16	(595,797)	(12)
421600	Net gains (losses) on covering of borrowed securities and bonds with resale agreements	77,635	1	177,866	4
421610	Net gains (losses) on measurement of borrowed securities and bonds with resale agreements	(88,422)	(2)	45,706	1
421750	Realized gains (losses) from investments in debt instruments at fair value through other comprehensive income	259,754	4	(386,551)	(8)
422000	Net gains (losses) from exchange traded notes (note 6(v))	(67)	-	-	-
422200	Net gains (losses) on stock warrants issued (notes 6(t) and (v))	37,086	1	1,683,041	34
424100	Futures commission revenues	130,341	2	166,348	3
424400	Net gains (losses) on derivative instruments - futures (note 6(v))	(645,521)	(11)	10,268	-
424500	Net gains (losses) on derivative instruments - OTC (note 6(v))	(342,369)	(6)	40,109	1
425300	Impairment losses and reversal gains (note 6(u))	(1,817)	-	(10,514)	-
428000	Other operating revenues	83,701	2	(21,253)	-
		<u>5,885,962</u>	<u>100</u>	<u>4,922,660</u>	<u>100</u>
<b>Expenses:</b>					
501000	Brokerage fees	161,450	3	190,239	4
502000	Brokerage and clearing fees - proprietary trading	13,674	-	14,697	-
503000	Clearing and exchange fees - refinancing	2,275	-	2,127	-
504000	Clearing and exchange fees - underwriting	1,049	-	1,093	-
521200	Financial costs	602,497	10	699,996	14
524200	Securities commission expense	3,492	-	4,721	-
528000	Other operating expenditure	6,926	-	6,649	-
531000	Employee benefits expenses (note 6(t))	1,879,473	32	1,974,377	40
532000	Depreciation and amortization expense (note 6(t))	353,271	6	171,347	4
533000	Other operating expenses (note 6(t))	1,081,663	19	1,238,245	25
		<u>4,105,770</u>	<u>70</u>	<u>4,303,491</u>	<u>87</u>
<b>Other income (expenses):</b>					
601000	Share of profits of associates and joint ventures accounted for using equity method (note 6(d))	524,510	9	790,995	16
602000	Other gains and losses (note 6(t))	514,046	9	428,281	9
		<u>1,038,556</u>	<u>18</u>	<u>1,219,276</u>	<u>25</u>
902001	<b>Net income before income tax</b>	2,818,748	48	1,838,445	38
701000	<b>Less: Income tax expenses (note 6(q))</b>	251,925	4	429,580	9
	<b>Net income</b>	<u>2,566,823</u>	<u>44</u>	<u>1,408,865</u>	<u>29</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	54,421	1	(43,049)	(1)
805540	Unrealized gains (losses) from investments in equity instruments at fair value through other comprehensive income	632,045	11	(28,936)	(1)
805560	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method	(83,371)	(2)	(219,278)	(4)
805599	Less: 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>603,095</u>	<u>10</u>	<u>(291,263)</u>	<u>(6)</u>
805600	<b>Components that may be reclassified to profit or loss in subsequent periods:</b>				
805610	Exchange differences on translation of foreign operations	(74,122)	(1)	61,868	1
805615	Unrealized gains (losses) from investments in debt instruments at fair value through other comprehensive income	430,568	7	(222,349)	(4)
805660	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method	(10,609)	-	10,642	-
805699	Less: Income tax related to components of other comprehensive income (note 6(q))	(7,256)	-	10,012	-
	<b>Subtotal of items that may be subsequently reclassified into profit or loss</b>	<u>353,093</u>	<u>6</u>	<u>(159,851)</u>	<u>(3)</u>
805000	<b>Other comprehensive income, net</b>	<u>956,188</u>	<u>16</u>	<u>(451,114)</u>	<u>(9)</u>
902006	<b>Total comprehensive income</b>	<u>\$ 3,523,011</u>	<u>60</u>	<u>957,751</u>	<u>20</u>
975000	<b>Basic earnings per share (note 6(s))</b>	<u>\$ 1.11</u>		<u>0.61</u>	
985000	<b>Diluted earnings per share (note 6(s))</b>	<u>\$ 1.11</u>		<u>0.61</u>	

See accompanying notes to financial statements.



(English Translation of Financial Statements Originally Issued in Chinese)

**CAPITAL SECURITIES CORPORATION**

**Statements of Changes in Equity**

**For the years ended December 31, 2019 and 2018**

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

	Stock		Retained earnings			Total other equity interest				
						Exchange differences on translation of foreign operations	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on financial assets available for sale	Treasury shares	Total Equity
	Common stocks	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings					
<b>Balance at January 1, 2018</b>	\$ 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
Appropriations of prior year's earnings: (note 6(r))										
Legal reserve	-	-	289,360	-	(289,360)	-	-	-	-	-
Special reserve	-	-	-	593,188	(593,188)	-	-	-	-	-
Cash dividends of ordinary shares	-	-	-	-	(433,815)	-	-	-	-	(433,815)
Stock dividends of ordinary shares	1,518,351	-	-	-	(1,518,351)	-	-	-	-	-
Disposal of investments in equity instruments designated 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
Net income for the year ended December 31, 2019	-	-	-	-	2,566,823	-	-	-	-	2,566,823
Other comprehensive income	-	-	-	-	54,190	(77,475)	979,473	-	-	956,188
Total comprehensive income	-	-	-	-	2,621,013	(77,475)	979,473	-	-	3,523,011
Appropriations of prior year's earnings: (note 6(r))										
Legal reserve	-	-	138,725	-	(138,725)	-	-	-	-	-
Special reserve	-	-	-	284,386	(284,386)	-	-	-	-	-
Cash dividends of ordinary shares	-	-	-	-	(928,363)	-	-	-	-	(928,363)
Purchase of treasury shares	-	-	-	-	-	-	-	-	(1,574,000)	(1,574,000)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	24,780	-	(24,780)	-	-	-
<b>Balance at December 31, 2019</b>	<b>\$ 23,209,081</b>	<b>2,852,299</b>	<b>1,658,360</b>	<b>3,587,197</b>	<b>2,681,569</b>	<b>(118,543)</b>	<b>1,696,677</b>	<b>-</b>	<b>(1,574,000)</b>	<b>33,992,640</b>

See accompanying notes to financial statements.



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

## CAPITAL SECURITIES CORPORATION

## Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	2019	2018
<b>Cash flows from operating activities:</b>		
Net income before tax	\$ 2,818,748	1,838,445
<b>Adjustments:</b>		
Income and expenses items		
Depreciation expense	327,215	145,380
Amortization expense	26,056	25,967
Impairment loss	1,817	10,514
Net losses (gains) on financial assets or liabilities at fair value through profit or loss	(860,666)	550,091
Interest expense	602,497	699,996
Interest revenue (including financial revenue)	(1,509,291)	(1,932,206)
Dividend revenue	(300,259)	(287,653)
Cash dividend received from investments under equity method	506,103	435,766
Share of profits of associates and joint ventures accounted for using equity method	(524,510)	(790,995)
Losses (gains) on disposal and retirement of property and equipment	(13,801)	122
Gains on disposal of investments accounted for using equity method	-	(69,631)
Net losses (gains) on non-operating financial instruments at fair value through profit or loss	(20,826)	24,859
Gains on lease modification	(2)	-
<b>Subtotal of income of non-cash activities</b>	<b>(1,765,667)</b>	<b>(1,187,790)</b>
<b>Changes in operating assets and liabilities:</b>		
Decrease in financial assets at fair value through profit or loss	895,930	2,814,346
Decrease (increase) in financial assets at fair value through other comprehensive income	(4,583,290)	21,631,372
Decrease (increase) in receivable for securities provided as collateral	(2,178,310)	4,638,803
Decrease (increase) in refinancing margin	(51,539)	6,481
Decrease (increase) in receivable on refinancing collateral	(102,920)	4,469
Increase in receivable of securities business money lending	(47,099)	(416,874)
Decrease in collateral for securities borrowed	109,677	460,143
Decrease in security borrowing margin	100,064	519,720
Decrease (increase) in notes receivable	(5,220)	4,630
Decrease (increase) in accounts receivable	(2,160,843)	2,005,340
Decrease (increase) in prepayments	(4,021)	220
Increase in other receivables	(68,953)	(30,649)
Decrease (increase) in guarantee deposited for business operations	(67,900)	51,100
Increase in other current assets	(2,902,829)	(40,977)
Decrease in settlement fund	12,122	4,695
Decrease (increase) in other non-current assets	(73,200)	101,755
Increase (decrease) in financial liabilities at fair value through profit or loss	258,943	(1,594,426)
Increase (decrease) in bonds sold under repurchase agreements	3,663,007	(18,837,289)
Increase in guarantee deposited for short sales	73,720	90,480
Increase in proceeds payable from short sales	152,090	102,462
Decrease in securities lending refundable deposits	(308,130)	(545,434)
Increase in equity for each customer in the account	2,998,184	13,490
Decrease in notes payable	(481)	(398)
Increase (decrease) in accounts payable	2,521,034	(1,922,273)
Increase (decrease) in advance receipts	31,757	(3,395)
Decrease in receipts under custody	(6,052)	(225,256)
Decrease in other payable	(112,340)	(166,836)
Increase (decrease) in other current liabilities	(117)	142
Increase (decrease) in other financial liabilities - current	222,064	(1,152,096)
Increase in provision - current	1,080	1,325
Increase in other financial liabilities - non-current	39,486	43,995
Increase (decrease) in other non-current liabilities	33,313	(3,710)
<b>Total changes in assets and liabilities from operating activities</b>	<b>(1,560,773)</b>	<b>7,555,355</b>
<b>Total cash generated from operations</b>	<b>(3,326,440)</b>	<b>6,367,565</b>

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

Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	2019	2018
Cash generated from operating activities	\$ (507,692)	8,206,010
Interest received	1,526,748	2,012,400
Dividends received	297,895	287,656
Interest paid	(585,243)	(719,783)
Income tax paid	(464,953)	(172,364)
<b>Net Cash flows provided by operating activities</b>	<u>266,755</u>	<u>9,613,919</u>
<b>Cash flows from investing activities:</b>		
Acquisition of financial assets at fair value through other comprehensive income	(35,000)	(270,470)
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	6,800	1,085
Increase in deferred debits	(800)	(798)
Acquisition of investments accounted for under equity method	-	(1,272,505)
Proceeds from capital reduction of investments accounted for using equity method	-	212,179
Acquisition of property and equipment	(243,565)	(99,771)
Proceeds from disposal of property and equipment	14,608	-
Acquisition of intangible assets	(7,166)	(22,861)
<b>Net cash flows used in investing activities</b>	<u>(265,123)</u>	<u>(1,443,374)</u>
<b>Cash flows from financing activities:</b>		
Increase (decrease) in short-term borrowings	2,757,496	(3,208,192)
Decrease in commercial papers payable	-	(4,099,184)
Payment of lease liabilities	(117,041)	-
Cash dividends paid	(928,363)	(433,815)
Purchase of treasury shares	(1,574,000)	-
<b>Net cash flows provided by (used in) financing activities</b>	<u>138,092</u>	<u>(7,741,191)</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>(37,845)</u>	<u>11,807</u>
<b>Increase in cash and cash equivalents</b>	101,879	441,161
<b>Cash and cash equivalents at beginning of period</b>	2,554,322	2,113,161
<b>Cash and cash equivalents at end of period</b>	<u><u>\$ 2,656,201</u></u>	<u><u>2,554,322</u></u>

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

**CAPITAL SECURITIES CORPORATION**

**Notes to the Financial Statements**

**For the years ended December 31, 2019 and 2018**

**(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 11/F, No. 156, Section 3, Minsheng East Road, Songshan District, Taipei, Taiwan, R.O.C. As of December 31, 2019, except for the Head Office, the Company has established an Offshore Securities Unit branch and 51 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 issue by the board of directors on March 26, 2020.

(Continued)

## 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, 2019.

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
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:

- (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.

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in opening balance on January 1, 2019. The details of the changes in accounting policies are disclosed below,

- 1) Definition of a lease

Previously, the Company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4(n)

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

- 2) As a lessee

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities on balance sheet.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

The Company decided to apply recognition exemptions to short-term leases of office equipment and leases of transportation equipment.

- Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Company applied this approach to its largest property leases; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Company applied this approach to all other lease.

In addition, the Company used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) As a lessor

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. The Company accounted for its leases in accordance with IFRS 16 from the date of initial application.

4) Impacts on financial statements

On transition to IFRS 16, the Company recognised additional \$939,218 of both right-of-use assets and lease liabilities. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.35%.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of financial position at the date of initial application disclosed as follows:

	<b>January 1, 2019</b>
Operating lease commitment at December 31, 2018 as disclosed in the Company's financial statements	\$ 979,873
Recognition exemption for:	
short-term leases	(2,706)
leases of low -value assets	(144)
Extension and termination options reasonably certain to be exercised	<u>4,680</u>
	<u>981,703</u>
Discounted using the incremental borrowing rate at January 1, 2019	<u>939,218</u>
Lease liabilities recognized at January 1, 2019	<u><u>\$ 939,218</u></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, 2020 in accordance with Rule No. 1080323028 issued by the FSC on July 29, 2019:

<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 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform"	January 1, 2020
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

The Company assesses that the adoption of the abovementioned standards would not have any material impact on its 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 International Accounting Standards Board (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 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 "Classification of Liabilities as Current or Non-current"	January 1, 2022

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

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the 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 were applied consistently throughout the periods presented in the financial statements.

##### (a) Statement of compliance

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

- 1) Financial assets at fair value through profit or loss are measured at fair value (including derivative instruments);
- 2) Financial assets at fair value through other comprehensive income are measured at fair value;
- 3) The defined benefit liabilities (assets) are measured at fair value of plan assets less the present value of the defined benefit obligation, limited as explained in Note 4(p).

###### (ii) Functional and presentation currency

The functional currency of each Company entity is determined based on the primary economic environment in which the entity operates. The 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) Foreign currencies

###### (i) Foreign currency transaction

Transactions in foreign currencies are translated into the respective functional currencies at exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date.

Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of transaction.

Exchange differences are generally recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

- 1) An investment in equity securities designated as at fair value through other comprehensive income;

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

- 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 hedges are effective.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated into the presentation currency at the average rate. Foreign currency differences are recognized in other comprehensive income.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, exchange differences 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.

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

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

- (i) Assets arising from operating activities that are expected to be realized, or 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.

(Continued)



## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

(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

Account receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a account receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A account receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

On initial recognition, a financial asset is classified as measured at: amortized cost; Fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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.

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

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 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.

Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

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 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.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

4) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses (ECL) 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.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

The Company measures loss allowances at an amount equal to lifetime 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 portion of ECLs that result from default events are possible 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.

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.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

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.

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 charge to profit or loss and is recognized in other comprehensive income instead of reducing the carrying amount of the asset.

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. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 2 years past due based on historical experience of recoveries of similar assets. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written 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.

#### 5) Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt and equity instruments issued by the Company are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2) Equity instrument

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

3) Treasury shares

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is recognized in capital surplus or retained earnings (if the capital surplus is not sufficient to be written down).

4) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

5) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

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

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

#### (iii) Derivative financial instruments

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally 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.

(Continued)

## **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 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.

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.

(Continued)

## 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 are regarded 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 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”.

(Continued)



## **CAPITAL SECURITIES CORPORATION**

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

(i) 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.

(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, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognized in profit or loss.

(ii) Reclassification to investment property

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

(iii) Subsequent cost

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

(iv) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight line basis over the estimated useful lives of each component of an item of property and equipment.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

Land is not depreciated.

The estimated useful lives 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 property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition, and subsequently at cost, less accumulated depreciation and accumulated impairment losses. Depreciation expense is calculated based on the depreciation method, useful life, and residual value which are the same as those adopted for property and equipment.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount) is recognized in profit or loss.

Rental income from investment property is recognized as other revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

#### (m) Intangible assets

##### (i) Recognition and measurement

Goodwill arising on the acquisition of subsidiaries is measured at cost, less accumulated impairment losses.

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

##### (ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

#### (iii) Amortization

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

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

#### (n) Leases

Applicable from January 1, 2019

##### (i) Identifying a lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the customer has the right to direct the use of the asset throughout the period of use only if either:
  - 1) the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
  - 2) the relevant decisions about how and for what purpose the asset is used are predetermined and:
    - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
    - the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

(ii) Lessee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change in the lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset, or
- there is a change of its assessment on whether it will exercise a extension or termination option; or
- there is any lease modifications

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Company accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of office equipment and transportation equipment etc. that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

#### (iii) Lessor

When the Company acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

#### Applicable before January 1, 2019

##### (i) Lessor

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

##### (ii) Lessee

Operating leases are not recognized in the 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

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than deferred tax assets and assets arising from employee benefits) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

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## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(p) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

(ii) Defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to 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. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

(iv) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid 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 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.

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## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

(s) Income tax

Income taxes comprise current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

- (i) Temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
- (ii) Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) Taxable temporary differences arising on the Initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) The Company has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (ii) The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - 1) The same taxable entity; or
  - 2) Different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

(Continued)



## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

(t) Business combinations

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

(u) Earnings per share (EPS)

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

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

The preparation of the 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.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

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

(a) The fair value of financial instrument:

The fair value of non-active market or non-quoted financial instruments is determined by evaluation method. In this case, fair value is assessed from observable data or patterns of similar financial instruments. If there are no market observables, the fair value of financial instruments is assessed using appropriate assumptions. When using the evaluation model to determine fair value, all models must be calibrated to ensure that the output reflects actual data and market prices. The model uses only observable data as much as possible; however, for the part of credit risk (risk of itself and the counterparty), the Company must estimate the fluctuation and correlation for the fair value of financial assets. For sensitivity analysis of financial instruments, please refer to note 6(u).

(b) The impairment evaluation of goodwill:

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

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

(a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash	\$ 2,590	2,590
Bank deposits		
Checking accounts	25,545	31,152
Demand deposits	197,121	61,122
Foreign currency deposits	111,874	412,303
Subtotal	334,540	504,577
Cash equivalents		
Time deposits	1,729,750	566,510
Futures margin - excess margin	589,321	1,480,645
Subtotal	2,319,071	2,047,155
Total	\$ 2,656,201	2,554,322

(Continued)

**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, 2019</b>	<b>December 31, 2018</b>
<b>Open-ended funds and money-market instruments</b>		
Open-ended funds and money-market instruments	\$ 138,052	118,052
Valuation adjustment	<u>13,861</u>	<u>(6,965)</u>
Subtotal	<u>151,913</u>	<u>111,087</u>
<b>Trading securities - proprietary trading</b>		
Listed stocks	1,756,341	1,309,582
Listed funds	791,648	847,254
OTC stocks	337,626	303,916
OTC funds	200,580	83,480
Emerging market stocks	532,189	498,304
Emerging market funds	-	12,414
Convertible corporate bonds	889,088	496,130
Government bonds	3,317,485	6,511,541
Corporate bonds	7,641,557	9,652,271
International bonds	4,536,910	4,079,947
Financial debentures	200,000	300,000
Foreign stocks	474,829	126,052
Other	<u>300</u>	<u>257</u>
	20,678,553	24,221,148
Valuation adjustment	<u>158,200</u>	<u>(244,685)</u>
Subtotal	<u>20,836,753</u>	<u>23,976,463</u>
<b>Trading securities - underwriting:</b>		
Listed stocks	37,424	107,320
OTC stocks	38,716	55,690
Convertible corporate bonds	<u>85,097</u>	<u>141,011</u>
	161,237	304,021
Valuation adjustment	<u>26,053</u>	<u>(8,312)</u>
Subtotal	<u>187,290</u>	<u>295,709</u>
<b>Trading securities - hedging</b>		
Listed stocks	2,816,447	1,746,810
OTC stocks	773,913	397,140
Convertible corporate bonds	<u>4,948,227</u>	<u>3,799,450</u>
	8,538,587	5,943,400
Valuation adjustment	<u>279,305</u>	<u>(231,510)</u>
Subtotal	<u>8,817,892</u>	<u>5,711,890</u>

(Continued)

# CAPITAL SECURITIES CORPORATION

## Notes to the Financial Statements

	December 31, 2019	December 31, 2018
<b>Derivatives</b>		
Futures margin - proprietary fund	\$ 182,308	147,773
IRS asset swaps	16,053	13,855
Asset swap options - long position	37,684	4,072
Structured notes	25,925	3,075
Currency swaps	-	1,690
Subtotal	<u>261,970</u>	<u>170,465</u>
Total	<u><u>\$ 30,255,818</u></u>	<u><u>30,265,614</u></u>

As of December 31, 2019 and 2018, trading securities, financial assets at fair value through other comprehensive income and financial assets available for sale undertaken for repurchase agreements of the Company please refer to note 6(k) and note 8.

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

	December 31, 2019	December 31, 2018
Debt instruments at fair value through other comprehensive income		
Government bonds	\$ 2,225,249	-
International bonds	1,198,147	1,226,189
Overseas bonds	<u>12,054,824</u>	<u>9,205,561</u>
	15,478,220	10,431,750
Valuation adjustment	<u>366,972</u>	<u>(50,161)</u>
Subtotal	<u>15,845,192</u>	<u>10,381,589</u>
Equity instrument at fair value through other comprehensive income		
Listed stocks	118,428	237,755
OTC stocks	10,756	40,353
Foreign stocks	<u>-</u>	<u>279,832</u>
	129,184	557,940
Valuation adjustment	<u>2,207</u>	<u>(88,855)</u>
Subtotal	<u>131,391</u>	<u>469,085</u>
Total	<u><u>\$ 15,976,583</u></u>	<u><u>10,850,674</u></u>

1) Debt instrument investments measured 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.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

- 2) Equity instrument investments measured at fair value through other comprehensive income

For the years ended December 31, 2019 and 2018, the dividends were recognized from the Company designated and disposed the aforementioned equity instrument investments measured at fair value through other comprehensive income – current amounted to \$11,651 and \$25,717, respectively.

Due to the consideration of asset allocation and managing and adjusting the investment portfolio, the Company sold shares of stocks for a fair value \$691,488 and \$489,535, respectively, cumulative dispose losses for the years ended December 31, 2019 and 2018, amounted to \$22,648 and \$(6,818), respectively, 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 years ended December 31, 2019 and 2018, impairment test have been applied by the Company, the variation of loss allowance in the debt instrument measured at fair value through other comprehensive income of the Company please refer to note 6(u).

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

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Mandatorily measured at fair value through profit or loss:		
Government bonds	\$ 180,329	185,952
Valuation adjustment	<u>138</u>	<u>(843)</u>
Total	<b><u>\$ 180,467</u></b>	<b><u>185,109</u></b>

As of December 31, 2019 and 2018, 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 (for details please refer to note 8).

- (iv) Financial assets at fair value through other comprehensive income – non-current

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Equity instruments at fair value through other comprehensive income		
Non-listed or non-over-the-counter stocks	\$ 683,734	655,534
Valuation adjustment	<u>1,490,370</u>	<u>972,082</u>
Total	<b><u>\$ 2,174,104</u></b>	<b><u>1,627,616</u></b>

For the years ended December 31, 2019 and 2018, the dividends were recognized from the Company designated and disposed the aforementioned equity instrument investments at fair value through other comprehensive income – non-current amounted to \$65,092 and \$49,442.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

For the years ended December 31, 2019 and 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 \$0 and \$9,774, generated cumulative dispose gains \$0 and \$7, and the gains were transferred from other equity items to retained earnings.

- (v) The Company uses Value at risk (VaR) to monitor and measure the market risk of its investment in equity stocks. VaR refers to the unexpected loss of financial instruments derived from the changes in market risk factors within certain time periods and confidence level. The table below discloses the VaR, which is the estimation of potential loss in ten days and is covered by 99% of the adverse changes in market prices. In the table below by using this assumption, 2.5 out of 250 days VaR will exceed the disclosed amounts due to the changes in market price. For the years ended December 31, 2019 and 2018 VaR (99%, per 10-day) of equity stocks are as follows:

Type of market risk	December 31, 2019	December 31, 2018	For the years ended December 31,					
			2019			2018		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	1,364,147	997,970	1,122,594	1,364,147	932,006	1,263,629	1,615,221	947,949

(c) Accounts Receivable

	December 31, 2019	December 31, 2018
Receivable on securities purchased by customers	\$ 21,368	8,642
Settlement	-	712,274
Interests receivable	527,952	547,595
Receivables on securities sold	5,760,596	2,899,035
Others	<u>86,906</u>	<u>85,718</u>
Subtotal	6,396,822	4,253,264
Less: allowance for doubtful accounts	<u>(1,706)</u>	<u>(1,713)</u>
Total	<u><u>\$ 6,395,116</u></u>	<u><u>4,251,551</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 years ended December 31, 2019 and 2018, impairment test have been applied by the Company, the variation of loss allowance in receivables, please refer to note 6(u).

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(d) Investments under equity method

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Subsidiaries		
Capital Investment Management Corp.	\$ 92,445	106,690
CSC International Holdings Ltd	1,605,349	1,636,902
Capital Futures Corp.	2,817,870	2,828,539
Capital Insurance Advisory Corp.	78,906	84,732
Capital Insurance Agency Corp.	43,447	40,757
CSC Venture Capital Corp.	763,112	854,906
Taiwan International Securities (B.V.I) Corp.	18	347
Taiwan International Securities Investment Consulting Corp.	<u>12,644</u>	<u>12,799</u>
Subtotal	<u>5,413,791</u>	<u>5,565,672</u>
Associates		
Capital Investment Trust Corp.	<u>1,301,360</u>	<u>1,261,329</u>
Total	<u><u>\$ 6,715,151</u></u>	<u><u>6,827,001</u></u>

(i) Subsidiaries:

Please refer to the consolidated financial statements as of and for the year ended December 31, 2019 for further information.

For the years ended December 31, 2019 and 2018, the Company's share of gains or losses of the subsidiaries were as follows:

	<b>For the years ended December 31, 2019</b>	<b>2018</b>
Based on the audited financial statements	<u><u>\$ 391,441</u></u>	<u><u>703,840</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:

<b>Name of associate</b>	<b>Nature between the Company</b>	<b>Primary business area and registered country</b>	<b>Proportion of Ownership and Voting Rights</b>	
			<b>December 31, 2019</b>	<b>December 31, 2018</b>
Capital Investment Trust Corp.	Engaged in security investment and discretionary investment services.	Taiwan	20.00 %	20.00 %

(Continued)

## 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:

	December 31, 2019	December 31, 2018
Total carrying amount of the associates	<u>\$ 1,301,360</u>	<u>1,261,329</u>
	For the years ended December 31,	
	2019	2018
Based on the financial statements attributable to the Company:		
Net gains from continuing operations	\$ 133,069	87,155
Other comprehensive income (losses)	6,164	872
Total comprehensive income (losses)	<u>\$ 139,233</u>	<u>88,027</u>

#### (e) Property and equipment

As of December 31, 2019 and 2018, movement in property and equipment of the Company are as follows:

	Land	Buildings	Equipment	Leasehold improvements	Total
Cost or deemed cost					
Balance at January 1, 2019	\$ 3,464,223	1,461,191	402,490	125,891	5,453,795
Additions	-	-	134,296	109,269	243,565
Transferred from investment property	126,013	32,417	-	-	158,430
Reclassified to investment property	(2,089,373)	(621,026)	-	-	(2,710,399)
Disposals and retirements	-	-	(68,761)	(9,200)	(77,961)
Balance at December 31, 2019	<u>\$ 1,500,863</u>	<u>872,582</u>	<u>468,025</u>	<u>225,960</u>	<u>3,067,430</u>
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
Reclassified 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>\$ 3,464,223</u>	<u>1,461,191</u>	<u>402,490</u>	<u>125,891</u>	<u>5,453,795</u>
Depreciation and impairment loss					
Balance at January 1, 2019	\$ -	557,098	255,431	64,052	876,581
Depreciation	-	21,590	69,642	38,414	129,646
Transferred from investment property	-	13,099	-	-	13,099
Reclassified to investment property	-	(213,848)	-	-	(213,848)
Disposals and retirements	-	-	(68,761)	(8,858)	(77,619)
Balance at December 31, 2019	<u>\$ -</u>	<u>377,939</u>	<u>256,312</u>	<u>93,608</u>	<u>727,859</u>
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
Reclassified 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>557,098</u>	<u>255,431</u>	<u>64,052</u>	<u>876,581</u>

(Continued)



**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
Carrying amount:					
December 31, 2019	\$ <u>1,500,863</u>	<u>494,643</u>	<u>211,713</u>	<u>132,352</u>	<u>2,339,571</u>
December 31, 2018	\$ <u>3,464,223</u>	<u>904,093</u>	<u>147,059</u>	<u>61,839</u>	<u>4,577,214</u>

As of December 31, 2019 and 2018, the property and equipment which are provided as collateral or pledge, please refer to note 8 for details.

(f) Right-of-use assets

The Company leases many assets including buildings, machinery, and vehicles. Information about leases for which the Company as a lessee is presented below:

	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
Cost:			
Balance at January 1, 2019	\$ -	-	-
Effects of retrospective application	934,538	4,680	939,218
Additions	75,643	10,031	85,674
Reductions	<u>(16,271)</u>	<u>-</u>	<u>(16,271)</u>
Balance at December 31, 2019	<u>\$ 993,910</u>	<u>14,711</u>	<u>1,008,621</u>
Accumulated depreciation and impairment losses:			
Balance at January 1, 2019	\$ -	-	-
Depreciation	167,262	5,109	172,371
Reduction in accumulated depreciation	<u>(15,857)</u>	<u>-</u>	<u>(15,857)</u>
Balance at December 31, 2019	<u>\$ 151,405</u>	<u>5,109</u>	<u>156,514</u>
Carrying amount:			
December 31, 2019	<u>\$ 842,505</u>	<u>9,602</u>	<u>852,107</u>

(g) Investment property

As of December 31, 2019 and 2018, movement in investment property of the Company are as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost or deemed cost			
Balance at January 1, 2019	\$ 1,500,919	854,906	2,355,825
Transferred from property and equipment	2,089,373	621,026	2,710,399
Reclassified to property and equipment	(126,013)	(32,417)	(158,430)
Disposals and retirements	<u>(465)</u>	<u>-</u>	<u>(465)</u>
Balance at December 31, 2019	<u>\$ 3,463,814</u>	<u>1,443,515</u>	<u>4,907,329</u>

(Continued)

# CAPITAL SECURITIES CORPORATION

## Notes to the Financial Statements

	<u>Land</u>	<u>Buildings</u>	<u>Total</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
Reclassified 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>
Depreciation and impairment loss			
Balance at January 1, 2019	\$ -	334,622	334,622
Depreciation	-	25,198	25,198
Transferred from property and equipment	-	213,848	213,848
Reclassified to property and equipment	<u>-</u>	<u>(13,099)</u>	<u>(13,099)</u>
Balance at December 31, 2019	<u><u>\$ -</u></u>	<u><u>560,569</u></u>	<u><u>560,569</u></u>
Balance at January 1, 2018	\$ -	345,834	345,834
Depreciation	-	19,100	19,100
Transferred from property and equipment	-	1,919	1,919
Reclassified 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>
<u>Carrying Amount:</u>			
December 31, 2019	<u><u>\$ 3,463,814</u></u>	<u><u>882,946</u></u>	<u><u>4,346,760</u></u>
December 31, 2018	<u><u>\$ 1,500,919</u></u>	<u><u>520,284</u></u>	<u><u>2,021,203</u></u>
<u>Fair Value:</u>			
December 31, 2019			<u><u>8,269,352</u></u>
December 31, 2018			<u><u>3,164,414</u></u>

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

Investment property include several commercial buildings for lease. Each lease contract contains original non-cancellable lease period of 1 to 12 years, which the subsequent lease period is consulted with lessee, and no contingent rent payment. Related information (including rental revenue and direct operation expense), please refer to note 6(t). Further, the Company decide to lease properties, which are out of use land and buildings, and therefore transferred them from property and equipment into investment property, please refer to note 6(e).

As of December 31, 2019 and 2018, the investment properties were provided as collateral or pledged, for details please refer to note 8.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(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, 2019 and 2018, the book value was both \$3,126,698.

Goodwill is allocated to the operating segments as follows:

	<b>December 31, 2019</b>	<b>December 31, 2018</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 5.24% and 4.06% in year 2019 and 2018 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 2019 and 2018 exceeded the carrying amount, no impairment occurred for both years.

(ii) Other intangible assets - Operation franchise

The Company acquired the operation of securities corporation operation franchise during 1994 to 2005 and expected the franchise will generate continuing cash inflows. In accordance with IAS No.38 "Intangible Assets" endorsed by the FSC, the franchise is regarded as intangible assets with an indefinite useful life. As of December 31, 2019 and 2018, the book value of the operation franchise was both \$389,999.

(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, 2019 and 2018, the amortized book value were \$10,809 and \$26,341, respectively.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(i) Short-term borrowings

Nature of borrowings	December 31, 2019	December 31, 2018
Collateralized loan	\$ 709,780	1,635,394
Credit loans	5,921,222	2,238,112
Total	<u>\$ 6,631,002</u>	<u>3,873,506</u>
Interest rate range	<u>0.95%~3.37%</u>	<u>0.65%~4.40%</u>

As of December 31, 2019 and 2018, the Company had provided the land, buildings, and certificates of time deposits as collateral, for details please refer to note 8.

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

	December 31, 2019	December 31, 2018
Liabilities on sale of borrowed securities	\$ 384,561	668,469
Redeem liabilities on sale of borrowed securities	-	(62,095)
Valuation adjustment	(51,404)	(139,826)
Subtotal	<u>333,157</u>	<u>466,548</u>
Exchange Traded Notes	699	-
Valuation adjustment	30	-
Subtotal	<u>729</u>	<u>-</u>
Stock warrants issued	14,997,622	13,077,314
Stock warrants repurchased	(14,444,316)	(12,617,507)
Subtotal	<u>553,306</u>	<u>459,807</u>
Put options	5	237
IRS asset swaps	2,436	763
Asset swap options - short position	529,328	208,927
Structured notes	11,583	8,914
Currency swaps	4,745	31,575
Interest rate swaps	969	544
Subtotal	<u>549,066</u>	<u>250,960</u>
Total	<u>\$ 1,436,258</u>	<u>1,177,315</u>

(k) Bonds sold under repurchase agreements

	December 31, 2019	December 31, 2018
Bonds sold under repurchase agreements	<u>\$ 31,893,531</u>	<u>28,230,524</u>
Agreed-upon repurchase amounts	<u>32,068,191</u>	<u>28,411,414</u>
Interest rates	<u>0.20%~3.20%</u>	<u>0.35%~4.40%</u>
Date of repurchase	<u>2020.1.2~2020.12.30</u>	<u>2019.1.2~2019.12.20</u>

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

(l) Equity for each customer in the account

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

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Equity for each customer in the account	<b>\$ 3,025,153</b>	<b>26,969</b>

(m) Accounts payable

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Payable of securities sold by customers	\$ 11,136	10,731
Settlement	248,937	-
Payable of settlements	5,066,861	3,476,398
Others	796,220	96,811
Total	<b>\$ 6,123,154</b>	<b>3,583,940</b>

(n) Operating leases

(i) Lessee

Non-cancellable operating lease payables are as follows:

	<b>December 31, 2018</b>
Within 1 year	\$ 108,877
1-5 years	442,201
Over 5 years	428,795
	<b>\$ 979,873</b>

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

For the year ended December 31, 2018, the operating lease expenses recognized in profit or loss were \$123,124.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

(ii) Lessor

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

	December 31, 2019	December 31, 2018
Within 1 year	\$ 168,174	127,527
1-5 years	467,096	481,386
Over 5 years	402,354	534,251
	<u>\$ 1,037,624</u>	<u>1,143,164</u>

The rental revenue from investment property for the years ended December 31, 2019 and 2018 amounted to \$139,173 and \$72,048, respectively.

(o) Lease liabilities

The Company's lease liabilities are as follows:

	December 31, 2019
Current	\$ <u>156,150</u>
Non-current	\$ <u>751,240</u>

The maturity analysis please refer to note 6(u) financial instruments.

The amounts recognized in profit or loss were as follows:

	For the year ended December 31, 2019
Interest on lease liabilities	\$ <u>12,596</u>
Expenses relating to short-term leases	\$ <u>4,288</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	\$ <u>23,462</u>

The amounts recognized in the statement of cash flows for the Company was as follows:

	For the year ended December 31, 2019
Total cash outflow for leases	\$ <u>157,387</u>

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

(p) Employee benefit

(i) Defined benefit plans

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

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Present value of defined benefit obligations	\$ (852,588)	(946,285)
Fair value of plan assets	<u>325,737</u>	<u>364,814</u>
Recognized liabilities for defined benefit obligations	<u><b>\$ (526,851)</b></u>	<u><b>(581,471)</b></u>

The Company's employee benefits liabilities are as follows:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Compensated absences	<u><b>\$ 44,610</b></u>	<u><b>43,530</b></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 \$276,889 and \$230,395 as of December 31, 2019 and 2018, 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 \$48,848 and \$134,419 as of December 31, 2019 and 2018, respectively.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

2) Movements in present value of the defined benefit obligations

The movements in present value of the defined benefit obligations of the Company in 2019 and 2018 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Defined benefit obligation on January 1	\$ 946,285	979,722
Current service costs and interest	14,311	17,958
Remeasurement of net defined liabilities		
-Actuarial loss (gain) arising from changes in financial assumptions	13,358	9,496
-Experience adjustments	(59,125)	41,871
Benefits paid by the plan	(62,241)	(102,762)
Defined benefit obligation on December 31	<b>\$ 852,588</b>	<b>946,285</b>

3) Movements in fair value of defined benefit plan assets

The movements in fair value of defined benefit plan assets of the Company in 2019 and 2018 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Fair value of plan assets on January 1	\$ 364,814	441,227
Interest revenue	3,390	4,652
Remeasurement of net defined liabilities		
-Return on plan assets (excluding interest)	8,654	8,318
Contributions from the employer	11,120	13,379
Benefits paid from plan assets	(62,241)	(102,762)
Fair value of plan assets on December 31	<b>\$ 325,737</b>	<b>364,814</b>

4) Expense recognized in profit or loss

The expenses recognized by the Company in 2019 and 2018 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Current service cost	\$ 5,575	7,734
Net interest of net defined benefit liabilities (assets)	5,346	5,572
Current pension cost	<b>\$ 10,921</b>	<b>13,306</b>

(Continued)



## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

- 5) Re-measurement of net defined benefit plan recognized in other comprehensive income

For the years ended December 31, 2019 and 2018, 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>2019</b>	<b>2018</b>
Balance at January 1	\$ (157,059)	(114,010)
Recognized amount during the period	54,421	(43,049)
Balance at December 31	<u><u>\$ (102,638)</u></u>	<u><u>(157,059)</u></u>

- 6) Actuarial assumptions

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

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Discount rate	0.67%	0.93%
Future salary growth rate	2.00%	2.00%

The expected contribution to the defined benefit plan for the next year is \$11,574. The weighted average duration of the defined benefit obligation is 1 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, 2019 and 2018, 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, 2019		
Discount rate	(21,732)	22,652
Future salary growth rate	18,013	(17,505)
December 31, 2018		
Discount rate	(24,875)	25,956
Future salary growth rate	20,843	(20,233)

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.

(Continued)

## 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 employee's 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 \$66,717 and \$72,349 under defined contribution plan to the Bureau of the Labor Insurance for the years ended December 31, 2019 and 2018, respectively.

(q) Income tax

(i) Income tax expense (benefit)

The amount of income tax expense (benefit) for the years ended December 31, 2019 and 2018 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Current tax expense		
Current year	\$ 176,414	353,459
Adjustment to the prior years' income tax	65,131	43,244
	<u>241,545</u>	<u>396,703</u>
Deferred tax expense		
Unrealized gains (losses) on derivative financial instruments	(63,038)	(100,056)
Unrealized gains (losses) on foreign investments under Equity Method	879	(1,422)
Decrease in tax loss carried forward	108,204	92,455
Adjustments of deferred income tax assets and liabilities	(35,665)	(12,803)
Adjustment in tax rate	-	54,703
	<u>10,380</u>	<u>32,877</u>
Income tax expense from continuing operations	<u>\$ 251,925</u>	<u>429,580</u>

The amount of income tax expense or benefit recognized in other comprehensive income in year 2019 and 2018 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Foreign exchange difference from translating financial statements of foreign operations	<u>\$ (7,256)</u>	<u>10,012</u>

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

Reconciliation of income tax expense (benefit) and income before tax in year 2019 and 2018 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Net income before tax	\$ 2,818,748	1,838,445
Income tax using the Company's domestic tax rate	\$ 563,750	367,689
Adjustment in tax rate	-	54,703
Tax exempt income	(345,249)	(25,590)
Alternative minimum tax	3,585	-
Additional surtax on undistributed retained earnings	378	2,897
Amounts use in investment tax credit	-	(527)
Income tax difference of bonds purchased under resale agreements and income tax separately levied	(5)	(33)
Adjustments to prior years' income tax	65,131	43,244
Unrecognized temporary differences for prior years	(35,665)	(12,803)
Total	<u>\$ 251,925</u>	<u>429,580</u>

(ii) Deferred income tax assets and liabilities

1) Recognized deferred income tax assets

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Tax loss carried forward	\$ 31,476	104,015
Unrealized losses on foreign investments under Equity Method	5,663	6,542
Foreign exchange difference from translating financial statements of foreign operations	2,390	-
Unrecognized loss in derivative financial instruments	68,081	5,043
Total	<u>\$ 107,610</u>	<u>115,600</u>

2) Recognized deferred income tax liabilities

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Foreign exchange difference from translating financial statements of foreign operations	\$ -	4,866
Losses on intercompany transactions	1,928	1,928
Amortization of operation franchise	42,881	42,881
Amortization of goodwill	362,697	362,697
Land value incremental tax	47,690	56,107
Total	<u>\$ 455,196</u>	<u>468,479</u>

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

(iii) Income tax assessment status

The Company's income tax returns through 2017, except for 2015, were assessed by the Tax Authority.

(iv) Income tax administrative relief

Since amortization of intangible assets withheld from year 2011 to 2014 and tax loss carried forward from year 2017 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, 2019 and 2018, the Company had authorized capital of \$30,000,000 and issued common stock of 2,320,908 thousand shares with a par value of \$10 per share.

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, 2019</b>	<b>December 31, 2018</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
	<u><u>\$ 2,852,299</u></u>	<u><u>2,852,299</u></u>

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

(iii) Retained earnings

1) Legal reserve

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.

Originally 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 ; However, in accordance with Ruling No. 1080321644 issued by the Financial Supervisory Commission on July 10, 2019, from year 2019, a special reserve can not be set aside. From year 2019, the special reserve can be reversed within an amount equal to special reserve for prior year when the aforementioned fees being expended.

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.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

The Company's 2018 and 2017 earnings distributions resolved by the shareholders' meetings on June 24, 2019 and June 27, 2018, respectively, were as follows:

	<b>2018</b>		<b>2017</b>	
	<b>Amount</b>	<b>Dividends per share</b>	<b>Amount</b>	<b>Dividends per share</b>
Cash dividends	\$ 928,363	0.4	433,815	0.2
Stock dividends	-	-	1,518,351	0.7
	<b><u>\$ 928,363</u></b>		<b><u>1,952,166</u></b>	

(iv) Treasury stocks

Pursuant to Article 28-2 of the "Securities and Exchange Act", the Company repurchased 147,191 thousand shares as treasury shares to maintain the Company's credit standing and shareholders' equity for the year ended December 31, 2019. As of December 31, 2019, unretired shares amounted to 147,191 thousand shares.

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

On November 11, 2019, the Company's board meeting resolved a share buyback plan, which was based on the latest reviewed financial report on September 30, 2019. The cap of the repurchase was 232,090 thousand shares which were amounted to \$9,861,897. As of December 31, 2019, the Company repurchased 147,191 thousand shares which were amounted to \$1,574,000.

(s) Earnings per share

The basic earnings per share and dilutive earnings per share for the years ended December 31, 2019 and 2018 were calculated as follows:

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Net income attributable to common shareholders of the Company	<b><u>\$ 2,566,823</u></b>	<b><u>1,408,865</u></b>
Weighted-average number of common stock shares outstanding (thousands of shares)	<b><u>2,314,284</u></b>	<b><u>2,320,908</u></b>
Basic earnings per share (dollar)	<b><u>\$ 1.11</u></b>	<b><u>0.61</u></b>
Effect of potentially dilutive common stock		
- Employee remuneration (thousands of shares) (Note)	<b><u>2,912</u></b>	<b><u>2,343</u></b>
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	<b><u>2,317,196</u></b>	<b><u>2,323,251</u></b>
Dilutive earnings per share (dollar)	<b><u>\$ 1.11</u></b>	<b><u>0.61</u></b>

Note: The number of shares issued was calculated based on the closing price at the reporting date.

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**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(t) Items of the statements of comprehensive income

(i) Brokerage commissions

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Brokerage commission from TSE market	\$ 1,539,188	1,828,059
Brokerage commission from OTC market	567,295	637,115
Handling fee from security financing	23,878	35,585
Others	<u>75,006</u>	<u>73,013</u>
	<b><u>\$ 2,205,367</u></b>	<b><u>2,573,772</u></b>

(ii) Underwriting commissions

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Revenue from underwriting securities on a firm commitment basis	\$ 52,495	61,900
Handling fee revenues from underwriting securities on best efforts basis	4,942	1,350
Processing fee revenues from underwriting operations	18,444	7,954
Revenue from underwriting consultation	5,260	9,953
Others	<u>1,740</u>	<u>11,445</u>
	<b><u>\$ 82,881</u></b>	<b><u>92,602</u></b>

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

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Gains (losses) on securities sold - proprietary trading	\$ 387,111	(281,328)
Gains (losses) on securities sold - underwriting	60,428	30,003
Gains (losses) on securities sold - hedging	<u>505,145</u>	<u>(1,155,191)</u>
Total	<b><u>\$ 952,684</u></b>	<b><u>(1,406,516)</u></b>

(iv) Interest revenue

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Interest revenue - margin loans	\$ 592,790	767,184
Interest revenue - bonds	836,503	1,100,550
Others	<u>77,685</u>	<u>61,497</u>
	<b><u>\$ 1,506,978</u></b>	<b><u>1,929,231</u></b>

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

- (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>2019</b>	<b>2018</b>
Trading securities - proprietary	\$ 403,909	(410,512)
Trading securities - underwriting	34,364	(19,711)
Trading securities - hedging	510,815	(165,545)
Settlement coverage bonds payable of short sale	-	(29)
	<b><u>\$ 949,088</u></b>	<b><u>(595,797)</u></b>

- (vi) Net gains (losses) on stock warrants issued

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Gains on changes in fair value of stock warrants	\$ 21,714,001	30,322,653
Gains on exercise of stock warrants before maturity	21,160,960	24,075,007
Losses on changes in fair value of stock warrants repurchased	(42,699,393)	(52,645,565)
Gains on expiration of stock warrants	15,602	112,965
Stock warrants issuance expenses	(154,084)	(182,019)
	<b><u>\$ 37,086</u></b>	<b><u>1,683,041</u></b>

- (vii) Employee benefits, depreciation, and amortization expenses

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Employee benefit expenses		
Salary expense	\$ 1,628,480	1,704,360
Health and labor insurance expense	129,502	137,448
Pension expense	77,638	85,655
Others	43,853	46,914
Depreciation expense	327,215	145,380
Amortization expense	26,056	25,967
	<b><u>\$ 2,232,744</u></b>	<b><u>2,145,724</u></b>

- (viii) Other operating expenses

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Rental expense	\$ 27,750	123,124
Taxes	292,479	342,447
Information technology expense	106,205	102,604
Postage expense	121,481	107,026
Professional service fee	85,214	108,120
Other expenses	448,534	454,924
	<b><u>\$ 1,081,663</u></b>	<b><u>1,238,245</u></b>

(Continued)



**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(ix) Other gains and losses

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Financial revenue	\$ 2,313	2,975
Net gains (losses) on disposal of investment	477	68,505
Net gains (losses) on measurement of non-operating financial instruments at fair value through profit or loss	20,826	(24,859)
Revenue from bank's allocation fee	139,968	133,107
Revenue from information technology service	46,667	44,108
Net gains (losses) on disposal of property and equipment	13,801	(122)
Dividend revenue	65,092	49,503
Gains on reversal of prior year's liabilities	52,211	25,700
Rental income	139,173	72,048
Others	33,518	57,316
	<b>\$ 514,046</b>	<b>428,281</b>

(x) Remuneration to employees and directors

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 appropriate 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, 2019 and 2018, the estimated amounts of remuneration to employee were \$32,756 and \$20,971, and to directors were \$54,594 and \$34,951, 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 accounted for as changes in accounting estimates and recognized in profit or loss in the following year. If the Board of Directors resolved to distribute the employees' remuneration in the form of shares, the number of shares of the distribution is based on the closing price of the day before the Board of Directors' meeting date.

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## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

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 by the Company. The difference between actual employee remuneration of \$14,587 and \$30,515 and actual remuneration to directors of \$24,248 and \$50,859 were \$17,087 and \$13,966 in total. The difference was accounted for as changes in accounting estimates and would be recognized as profit or loss in 2019 and 2018. The information about the appropriations is available at the website of the Market Observation Post System.

(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, 2019 and 2018, the maximum credit exposure amounted to \$58,834,957 and \$52,518,387, respectively.

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 (69.58%); secondly, is in America (12.65%); then, is in Asia (11.29%, 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, 2019	December 31, 2018
Taiwan	\$ 40,940,023	38,199,540
Asia (Taiwan is excluded)	6,645,342	4,466,342
Europe	3,807,126	4,367,262
America	7,442,466	5,485,243
Total	<u>\$ 58,834,957</u>	<u>52,518,387</u>

2) Impairment loss

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

	December 31, 2019		December 31, 2018	
	Total amount	Allowance	Total amount	Allowance
Not past due	\$ 20,427,312	836	16,001,621	15,146
Past due 0~30 days	275	275	272	272
Past due 31~120 days	127	127	914	914
Past due 121~360 days	8	8	377	377
Past due more than 360 days	216,334	216,334	221,259	221,259
	<u>\$ 20,644,056</u>	<u>217,580</u>	<u>16,224,443</u>	<u>237,968</u>

Allowance for doubtful debts under receivables and overdue receivables are recorded for the 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, 2019 and 2018, the impairment losses of accrued receivables were recognized \$217,580 and \$237,968, respectively.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

3) Credit risk of accrued receivables and debt securities

Debt securities held by the Company including government bonds, listed and unlisted debt securities are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(f).

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.

The loss allowance provision for the years ended December 31, 2019 and 2018 were as follows:

	<b>12-month ECL</b>		<b>Lifetime ECL -not credit impaired</b>		<b>Lifetime ECL -credit impaired</b>		
	<b>Accrued receivables</b>	<b>Debt securities at FVOCI</b>	<b>Accrued receivables</b>	<b>Debt securities at FVOCI</b>	<b>Accrued receivables</b>	<b>Debt securities at FVOCI</b>	<b>Total</b>
Balance on January 1, 2019	\$ -	5,861	-	-	237,968	-	243,829
Provision or reversal of Impairment loss	-	1,706	-	-	111	-	1,817
Amounts written off	-	-	-	-	(20,499)	-	(20,499)
Balance on December 31, 2019	<u>\$ -</u>	<u>7,567</u>	<u>-</u>	<u>-</u>	<u>217,580</u>	<u>-</u>	<u>225,147</u>

	<b>12-month ECL</b>		<b>Lifetime ECL -not credit impaired</b>		<b>Lifetime ECL -credit impaired</b>		
	<b>Accrued receivables</b>	<b>Debt securities at FVOCI</b>	<b>Accrued receivables</b>	<b>Debt securities at FVOCI</b>	<b>Accrued receivables</b>	<b>Debt securities at FVOCI</b>	<b>Total</b>
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, 2018	-	15,153	-	-	218,162	-	233,315
Provision or reversal of Impairment loss	-	(9,292)	-	-	19,806	-	10,514
Balance on December 31, 2018	<u>\$ -</u>	<u>5,861</u>	<u>-</u>	<u>-</u>	<u>237,968</u>	<u>-</u>	<u>243,829</u>

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(ii) Liquidity risk

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Less than 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, 2019							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 333,157	333,157	333,157	-	-	-	-
Stock warrants issued	553,306	553,306	465,459	87,847	-	-	-
Put options - futures	5	5	5	-	-	-	-
Exchange traded notes	729	729	-	-	-	729	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	8,150	8,150	4,592	822	(711)	3,447	-
Put options	529,328	529,328	41,762	67,521	208,340	211,705	-
Short-term borrowings	6,631,002	6,631,002	6,631,002	-	-	-	-
Bonds sold under repurchase agreements	31,893,531	32,068,191	24,577,057	7,491,134	-	-	-
Guarantee deposited for short sales	2,390,464	2,390,464	2,390,464	-	-	-	-
Proceeds payable from short sales	2,755,405	2,755,405	2,755,405	-	-	-	-
Securities lending refundable deposits	336,713	336,713	336,713	-	-	-	-
Notes payable and accounts payable	3,865,851	3,865,851	3,865,851	-	-	-	-
Receipts under custody	109,866	109,866	109,866	-	-	-	-
Other payables	512,459	512,459	512,459	-	-	-	-
Structured notes	3,941,052	3,941,052	3,296,957	294,709	241,782	107,604	-
Lease liabilities	907,390	954,367	89,740	77,553	139,137	312,884	335,053
	<u>\$ 54,768,408</u>	<u>54,990,045</u>	<u>45,410,489</u>	<u>8,019,586</u>	<u>588,548</u>	<u>636,369</u>	<u>335,053</u>

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Less than 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, 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>

(Continued)

**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, 2019</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	\$ 54,944	29.9800	1,647,221
AUD	2,200	21.0050	46,211
CAD	4	22.9900	92
EUR	1,420	33.5900	47,698
GBP	635	39.3600	24,994
HKD	8,997	3.8490	34,629
JPY	7,769	0.2760	2,144
SGD	8	22.2800	178
CNY	40,454	4.3050	174,154
ZAR	6	2.1200	13
KRW	18	0.0262	-
<b><u>Non-Monetary Item</u></b>			
USD	476,215	29.9800	14,276,926
AUD	143,300	21.0050	3,010,017
EUR	1,185	33.5900	39,804
HKD	338	3.8490	1,301
JPY	2,475	0.2760	683
CNY	251,594	4.3050	1,083,112
<b><u>Investments under equity method</u></b>			
USD	53,638	29.9300	1,605,367
<b><u>Financial liabilities</u></b>			
<b><u>Monetary Item</u></b>			
USD	529,342	29.9800	15,869,673
AUD	132,660	21.0050	2,786,523
EUR	2,297	33.5900	77,156
GBP	635	39.3600	24,994
HKD	66,162	3.8490	254,658
JPY	57	0.2760	16
SGD	1	22.2800	22
CNY	168,381	4.3050	724,880

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

December 31, 2018			
	Foreign Currency (thousands)	Exchange Rate	Amount
<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	1,637,249
<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

Because there are a variety of functional currencies, the Company discloses a summary of currency exchange variation on the monetary items. For the years ended December 31, 2019 and 2018, the realized and unrealized currency exchange gains (losses) amounted to \$9,561 and \$(75,010), respectively.

(Continued)

## 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, short-term borrowings 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, 2019 and 2018, 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, 2019		For the year ended December 31, 2018	
	Appreciated 5%	Depreciated 5%	Appreciated 5%	Depreciated 5%
Net income	(518,752)	518,752	(402,922)	402,922
Other comprehensive income	609,017	(609,017)	490,182	(490,182)

#### (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, 2019	December 31, 2018	For the years ended December 31,					
			2019			2018		
			Average	Maximum	Minimum	Average	Maximum	Minimum
Interest risk	1,409,781	1,384,626	1,497,257	1,572,243	1,409,781	1,722,466	2,076,354	1,384,626

(Continued)



## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

(v) Fair value information and hierarchy

1) Fair value information

a) General description

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

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

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 satisfies all the following conditions: 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. The Company's investments in Taiwan central government bonds, equity instruments, debt instruments and derivative instruments with public quote in an active market 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.

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**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

2) Not measured at fair value

As of December 31, 2019 and 2018, the fair value information of the financial assets and financial liabilities of the Company was as follows:

a) Fair value information

	<b>December 31, 2019</b>		<b>December 31, 2018</b>	
	<b>Book value</b>	<b>Fair value</b>	<b>Book value</b>	<b>Fair value</b>
Financial assets :				
Cash and cash equivalents	\$ 2,656,201	2,656,201	2,554,322	2,554,322
Accrued receivable	24,378,626	24,378,626	16,963,534	16,963,534
Restricted assets - current	615,927	615,927	671,822	671,822
Other non-current assets	1,114,091	1,114,091	1,043,086	1,043,086
Financial liabilities :				
Short-term borrowings	6,631,002	6,631,002	3,873,506	3,873,506
Bonds sold under repurchase agreements	31,893,531	31,893,531	28,230,524	28,230,524
Accrued payable	15,436,383	15,436,383	10,313,532	10,313,532
Other financial liabilities - current	3,579,951	3,579,951	3,357,887	3,357,887
Other financial liabilities - non-current	349,518	349,518	310,032	310,032
Other non-current liabilities	104,110	104,110	70,598	70,598

b) Hierarchy information of non-financial instruments not measured at fair value

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investment property				
December 31, 2019	\$ -	-	<b>8,269,352</b>	<b>8,269,352</b>
December 31, 2018	\$ -	-	<b>3,164,414</b>	<b>3,164,414</b>

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, accrued receivable, other current assets, other non-current assets, short term borrowings, bonds sold under repurchase agreements, accrued payable, other financial liabilities - current, other financial liabilities - non-current, and other non-current liabilities.
- ii) The investment properties were evaluated and estimated using Market Method based on the market evidence of transaction price of similar properties.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

3) Measured at fair value

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, 2019</b>				
Financial assets at fair value through profit or loss	\$ 11,709,290	18,465,025	-	30,174,315
Financial assets at fair value through other comprehensive income	2,356,682	13,619,901	2,174,104	18,150,687
Derivative financial assets	<u>182,308</u>	<u>79,662</u>	<u>-</u>	<u>261,970</u>
	<u><b>\$ 14,248,280</b></u>	<u><b>32,164,588</b></u>	<u><b>2,174,104</b></u>	<u><b>48,586,972</b></u>
Financial liabilities at fair value through profit or loss	\$ 887,192	-	-	887,192
Derivative financial liabilities	<u>5</u>	<u>549,061</u>	<u>-</u>	<u>549,066</u>
	<u><b>\$ 887,197</b></u>	<u><b>549,061</b></u>	<u><b>-</b></u>	<u><b>1,436,258</b></u>
	<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>

b) Valuation techniques of financial instruments measured at fair value

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.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

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.

#### 4) Transfer between Level 1 and Level 2

For the years ended December 31, 2019 and 2018, there is no transfer of financial instruments between Level 1 and Level 2.

#### 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.

(Continued)

# CAPITAL SECURITIES CORPORATION

## Notes to the Financial Statements

### 6) Movements of financial assets at fair value classified into Level 3

(In Thousands Dollars)

For the year ended December 31, 2019								
Item	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 through other comprehensive income	\$ 1,627,616	-	518,288	35,000	-	6,800	-	2,174,104

For the year ended December 31, 2018								
Item	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 through other comprehensive income	\$ 948,242	-	52,744	638,503	-	11,873	-	1,627,616

### 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.

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 the multiple, the higher fair value.</li> <li>The higher the discount for lack of marketability, the lower the fair value.</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

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

- 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:

		<b>Change in fair value recognized in other comprehensive income</b>	
		<b>Favorable change</b>	<b>Unfavorable change</b>
<b>December 31, 2019</b>			
Financial assets fair value through other comprehensive income	\$	<u>21,741</u>	<u>(21,741)</u>
<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.

(vi) Transfer of financial assets

The transferred financial assets of the Company 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 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:

<b>December 31, 2019</b>					
<b>Types of financial assets</b>	<b>Book value of the transferred financial assets</b>	<b>Book value of relevant financial liabilities</b>	<b>Fair value of the transferred financial assets (Note)</b>	<b>Fair value of relevant financial liabilities (Note)</b>	<b>Fair value net position (Note)</b>
Under repurchase agreements	\$ <u>33,493,218</u>	<u>31,893,531</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Continued)

# CAPITAL SECURITIES CORPORATION

## Notes to the Financial Statements

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	-	-	-

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, 2019						
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	\$ 79,662	-	79,662	-	-	79,662

December 31, 2019						
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	\$ 549,061	-	549,061	-	-	549,061
Under repurchase agreements	31,893,531	-	31,893,531	31,893,531	-	-
Total	\$ 32,442,592	-	32,442,592	31,893,531	-	549,061

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	\$ 22,692	-	22,692	-	-	22,692

(Continued)

## 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>

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

(v) Financial risk management

(i) Brief

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

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

The disclosure hereby presents above-mentioned risk information, evaluation, and objectives, policies, and procedures of managing information. Further information regarding quantity disclosure please refers to related disclosures.

(ii) Risk management framework

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

(iii) Credit risk

- 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.

(Continued)



## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

- 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.

(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.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

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.
- 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.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

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.

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 financial derivatives and other financial instruments as approved by the authority

As of December 31, 2019 and 2018, the related financial risk and the presentation of the Company's derivatives and other financial instruments as approved by the authority were as follows:

Stock warrants

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

Financial Instruments	December 31, 2019		December 31, 2018	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Stock warrants issued	\$ 18,302,776	-	17,901,620	-

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.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

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.

(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, 2019 and 2018:

a) Gains (losses) on valuation

	For the years ended December 31,		Account
	2019	2018	
Stock warrants issued	\$ 11,359,166	15,625,056	Gains (losses) on stock warrants issued
Stock warrants repurchased	(11,382,768)	(15,308,436)	Gains (losses) on stock warrants issued

b) Gains (losses) on sale

	For the years ended December 31,		Account
	2019	2018	
Security borrowing	\$ 55,194	171,070	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	340,093	(1,331,899)	Gains (losses) on sale of trading securities
Futures transaction	(319,856)	(180,945)	Gains (losses) on derivative financial instruments - futures

c) Gains (losses) on maturity

	For the years ended December 31,		Account
	2019	2018	
Stock warrants issued	\$ 31,531,397	38,885,569	Gains (losses) on stock warrants issued
Stock warrants repurchased	(31,316,625)	(37,337,129)	Gains (losses) on stock warrants issued

(Continued)

# CAPITAL SECURITIES CORPORATION

## Notes to the Financial Statements

### Exchange traded notes

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

Financial Instruments	December 31, 2019		December 31, 2018	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Exchange traded notes issued	\$ 729	-	-	-

Index-related products trading (futures or other derivative products) will take certain credit risk from counterparties. The Company determines those with international credit rating BBB (inclusive) or above, and therefore, no default is expected and credit risk is accordingly remote.

(ii) Market risk:

There is no tracking error on exchange traded notes (ETN). Issuers hedge and manage the position via stocks or other products (futures or other derivative products) which are related to the index.

(iii) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand:

Stocks with small market cap or transaction volume will be replaced by other stocks in case the liquidity risk affects the index performance.

The duration of exchange traded notes issued is three years from the issue date. Except for cash flows from hedging transactions, there is no additional cash demand.

(iv) Type, purpose, and strategy of other financial instruments approved by the authority held:

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

(v) Presentation of other financial instruments approved by the authority:

For the year ended December 31, 2019, gains (losses) on exchange traded notes amounted to \$67, and were reflected as net gains (losses) from exchange traded notes. As of December 31, 2019, margin exchange traded notes amounted to \$25, and were reflected as other non- current assets; outstanding liabilities exchange traded notes which recognized as financial liabilities at fair value through profit or loss current amounted to \$729.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

#### Futures

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

Financial Instruments	December 31, 2019		December 31, 2018	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Taichung Futures	\$ 117,741	-	1,029,517	-
Finance Sector Index Futures	135,817	-	-	-
Long-term Euro-BTP Futures	33,538	-	-	-
Euro-Bond Futures	17,265	-	-	-
10 year U.S.-Note Futures	-	-	372,827	-
Euro-Bond Futures	-	-	132,141	-
Taichung Weekly Options	-	-	173	-
For non-trading purpose:				
Taichung Futures	132,665	-	87,429	-
Mini-Taichung Futures	4,198	-	-	-
Single Stock Futures	1,038,306	-	743,429	-
HSI Futures	5,379	-	25,340	-
Soybean Futures	-	-	16,964	-
Mini-HSI Futures	11,921	-	-	-
Crude Oil Futures	30,513	-	-	-
FTSE China A50 Index Futures	238,645	-	136,494	-
VIX Futures	23,342	-	-	-
SGX Nikkei 225 Index Futures	16,488	-	12,002	-
Japanese yen Futures	10,326	-	10,249	-
Taichung Options	-	-	41	-
Stock Options	-	-	1	-
Crude Oil Options	4	-	-	-
JPY dollar Options	-	-	6	-

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

(ii) Market risk:

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

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

(iii) Liquidity risk, cash flow risk, and the amount, period and uncertainty of future cash demand:

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

Futures trading are considered as margin transactions. Margins are collected in advance and valued daily on open futures positions established by the Company. For margin calls, the Company has sufficient operating funds to meet the liquidity requirement. As a result, there is no liquidity risk, cash flow risk, or significant cash demand.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

For options trading, premiums are collected or paid in advance. If the counterparty of a short put position exercises the option, the Company has sufficient operating funds to meet the liquidity requirement. Therefore, there is no liquidity risk, no cash flow risk, and no significant cash demand.

(iv) Presentation of financial derivatives:

For the years ended December 31, 2019 and 2018, gains (losses) on futures and options transactions amounted to \$(645,521) and \$10,268, respectively, and were recognized in gains (losses) on derivatives - futures. As of December 31, 2019 and 2018, futures margin - proprietary fund amounted to \$182,308 and \$147,773, respectively, and were recognized in financial assets at fair value through profit or loss - current; excess future margin which recognized in cash and cash equivalent amounted to \$589,321 and \$1,480,645, respectively.

As of December 31, 2019 and 2018, the balance of put options which recognized in financial liabilities at fair value through profit or loss - current amounted to \$5 and \$237, respectively.

Derivative instruments - OTC

(i) Interest rate financial derivatives

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

	December 31, 2019		December 31, 2018	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
<b>Financial Instruments</b>				
For trading purpose:				
NT dollar interest swaps	\$ 21,300,000	-	29,800,000	-

Counterparties to interest rate swaps are banks with good credit ratings. The Company pays fixed and collects floating interest payments. Since the trend of interest rate is stabilized, no default is expected and credit risk is accordingly remote.

2) Market risk:

Non-trading NT dollar interest rate swaps are primarily held for hedging. Gain or loss from the fluctuations of interest rate tends to offset gains and losses of the hedged items, and therefore market risk is insignificant.

In order to manage risk, Stop-loss points are established in accordance to the changes in the contract value of trading NT dollar interest rate. Loss is kept within prediction, and therefore there is no significant market risk.

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.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

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

4) Type, purpose, and strategy of financial derivatives held:

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

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

(ii) Structured notes

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

Financial Instruments	December 31, 2019		December 31, 2018	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Equity-linked notes	\$ 215,789	-	49,225	-
Principal guaranteed notes	2,935,907	-	2,730,772	-
Credit-linked notes	669,900	-	562,300	-
Principle guaranteed notes (in USD thousands)	USD 3,690	-	USD 10,597	-

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.

(Continued)



**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(iii) Convertible bond asset-backed swaps

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

Financial Instruments	December 31, 2019		December 31, 2018	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Convertible bond asset-backed swaps	\$ 886,900	-	694,900	-
Convertible bond options	4,452,000	-	3,012,400	-

Counterparties to convertible bond asset-backed swaps are institutions with good credit ratings. The Company swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. Since the counterparties are governed by relevant regulatory authorities, and the Company maintains good credit risk control over counterparties, the credit risks is minimal.

For convertible bond options, the Company collects premium or margins from investor prior to issuing convertible bond options, and therefore, there is no credit risk.

2) Market risk:

For convertible bond asset-backed swaps, the Company swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. Therefore, there is no market risk.

For convertible bond options, since the exercise price of the convertible bonds acquired through underwriting or proprietary trading is determined on the contract date, there is no market risk.

3) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand:

Convertible bonds acquired through underwriting or proprietary trading are the underlying assets of asset-backed swaps. The underlying assets are sold to the counterparties for commission. Within the term of the contract, the Company swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. The Company also receives the right to call the convertible bond prior to the expiration of the contract. Therefore, there is no significant liquidity risk or significant cash demand.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(iv) Options

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

Financial Instruments	December 31, 2019		December 31, 2018	
	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk
For trading purpose:				
Equity options	\$ 200,000	-	-	-

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.

(v) Presentation of derivative instruments in financial statement

As of December 31, 2019 and 2018, 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:

	December 31, 2019	December 31, 2018
Financial assets at fair value through profit or loss - current		
IRS asset swaps	\$ 16,053	13,855
Asset swap options-long position	37,684	4,072
Structured notes	25,925	3,075
Currency swaps	-	1,690
Total	<u>\$ 79,662</u>	<u>22,692</u>

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Financial liabilities at fair value through profit or loss - current		
IRS asset swaps	\$ 2,436	763
Asset swap options-short position	529,328	208,927
Structured notes	11,583	8,914
Currency swaps	4,745	31,575
Interest rate swaps	969	544
Total	<u><u>\$ 549,061</u></u>	<u><u>250,723</u></u>
Other financial liabilities - current		
Structured notes principal value	<u><u>\$ 3,579,951</u></u>	<u><u>3,357,887</u></u>
Other financial liabilities - non-current		
Structured notes principal value	<u><u>\$ 349,518</u></u>	<u><u>310,032</u></u>

For the years ended December 31, 2019 and 2018, 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, 2019</b>		<b>For the year ended December 31, 2018</b>	
	<b>Gains (losses) on derivative instruments - OTC</b>	<b>Unrealized Gains (losses)</b>	<b>Gains (losses) on derivative instruments - OTC</b>	<b>Unrealized Gains (losses)</b>
Interest rate swaps	\$ (517)	(969)	(4,016)	(544)
Equity derivatives	(232)	51	873	-
Structured notes	(67,731)	(16,490)	(36,093)	(6,466)
IRS asset swaps	218	13,617	259	13,092
Asset swap options	(264,473)	11,817	64,786	130,058
Currency swaps	(9,634)	(4,745)	14,300	(29,885)
Total	<u><u>\$ (342,369)</u></u>	<u><u>3,281</u></u>	<u><u>40,109</u></u>	<u><u>106,255</u></u>

(w) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The capital base includes shares capital, capital surplus and retained earnings. The Board of Directors monitors the return on capital as well as the level of dividends to make sure the Company has sufficient financial resources to cope with the future need of operating fund, capital expenditure and other operating need.

The Company maintains no change of its capital management. The Company's capital adequacy ratio is as below:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Capital adequacy ratio	390 %	435 %

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(x) Financing activities not affecting current cash flow

The Company's financing activities which did not affect the current cash flow in the years ended December 31, 2019 and 2018, were as follows:

(i) For Short-term borrowings, please refer to note 6(i).

(ii) For Right-of-use assets, please refer to note 6(f).

			<b>Non-cash changes</b>			
	<b>January 1, 2019</b>	<b>Cash flows</b>	<b>Other</b>	<b>Foreign exchange movement</b>	<b>Fair value changes</b>	<b>December 31, 2019</b>
Short-term borrowings	\$ 3,873,506	2,757,496	-	-	-	6,631,002
Lease liabilities	939,218	(129,637)	97,809	-	-	907,390
Total liabilities from financing activities	<u>\$ 4,812,724</u>	<u>2,627,859</u>	<u>97,809</u>	<u>-</u>	<u>-</u>	<u>7,538,392</u>

			<b>Non-cash changes</b>			
	<b>January 1, 2018</b>	<b>Cash flows</b>	<b>Other</b>	<b>Foreign exchange movement</b>	<b>Fair value changes</b>	<b>December 31, 2018</b>
Short-term borrowings	\$ 7,081,698	(3,208,192)	-	-	-	3,873,506
Commercial papers payable	4,099,184	(4,099,184)	-	-	-	-
Total liabilities from financing activities	<u>\$ 11,180,882</u>	<u>(7,307,376)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,873,506</u>

**(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 the Company during the periods covered in the financial statements.

<b>Names of related parties</b>	<b>Relationships</b>
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. (Note 1)	Subsidiary
CSC Securities (HK) Ltd.	Second-level subsidiary

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

Names of related parties	Relationships
Capital International Technology Corp.	Second-level subsidiary
Capital Investment Trust Corp. (Note 2)	Associate
Funds issued by Capital Investment Trust Corp. (Note 2)	Funds issued by associate
San Ho Enterprise Co., Ltd. (Note 3)	Juristic-person director
Kwang Hsing Industrial Co., Ltd.	Juristic-person director
Tai Chun Enterprise Co., Ltd (Note 3)	Juristic-person director
Others	Key management personnel and others

Note 1: The corporation was liquidated on February 12, 2019.

Note 2: Since February 9, 2018, the corporation has become an associate of the Company.

Note 3: The corporation was discharged on June 24, 2019.

(d) Key management personnel transactions

(i) Key management personnel compensation:

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Short-term employee benefits	\$ 136,567	150,210
Post-employment benefits	1,348	1,121
Total	<b>\$ 137,915</b>	<b>151,331</b>

(ii) Bond transactions - bonds sold under repurchase agreements

Bonds sold under repurchase agreements with key management personnel as of December 31, 2019 and 2018 were as follows:

	December 31, 2019		December 31, 2018	
	Par value	Purchase price	Par value	Purchase price
Key management personnel	\$ 22,500	22,670	43,000	43,060

	<b>For the years ended December 31,</b>	
<b>Total financial expenses</b>	<b>2019</b>	<b>2018</b>
Key management personnel	<b>\$ 182</b>	<b>152</b>

(iii) Structured notes transactions

As of December 31, 2019 and 2018, the balances of structured notes transactions with key management personnel were \$71,393 and \$55,612, respectively.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(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, 2019 and 2018 were as follows:

	December 31, 2019		December 31, 2018	
	Par value	Purchase price	Par value	Purchase price
Funds issued by associate	\$ -	-	50,000	50,044
Subsidiaries	46,000	46,000	198,000	198,000
Juristic-person directors	-	-	20,300	20,315
Total	<u>\$ 46,000</u>	<u>46,000</u>	<u>268,300</u>	<u>268,359</u>

	For the years ended December 31,	
Total financial expenses	2019	2018
Funds issued by associate	\$ 472	161
Subsidiaries	461	321
Juristic-person directors	56	81
Total	<u>\$ 989</u>	<u>563</u>

Transaction terms are the same as those with general clients.

(ii) Structured notes transaction

As of December 31, 2019 and 2018, the balances of structured notes transactions with juristic-person directors of the Company were \$0 and \$17,082, respectively.

(iii) Futures commission revenue

The Company provided futures trading assistance for subsidiary.

	December 31, 2019	December 31, 2018
Commission receivable	<u>\$ 10,914</u>	<u>10,922</u>
Other Receivable (Default loss)	<u>\$ 3,892</u>	<u>19,806</u>

	For the years ended December 31, 2019	2018
Futures commission revenue	<u>\$ 130,341</u>	<u>166,348</u>

(iv) Futures trading

The futures margin in subsidiary of the Company is as follows:

	December 31, 2019	December 31, 2018
Futures margin - proprietary fund	<u>\$ 688,447</u>	<u>1,628,418</u>

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Interest revenue of futures margin	\$ <u>428</u>	<u>424</u>
Handling fees charge	\$ <u>9,455</u>	<u>21,567</u>
Management fees expense	\$ <u>-</u>	<u>1,056</u>

(v) Lease agreements

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b><u>Lease revenue</u></b>		
Subsidiaries	\$ 18,326	20,171
Associates	<u>17,247</u>	<u>15,810</u>
Total	\$ <u>35,573</u>	<u>35,981</u>
	<b>December 31,</b>	<b>December 31,</b>
	<b>2019</b>	<b>2018</b>
<b><u>Guarantee deposits received</u></b>		
Subsidiaries	\$ 4,018	4,246
Associates	<u>3,811</u>	<u>3,811</u>
Total	\$ <u>7,829</u>	<u>8,057</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, 2019 and 2018 amounted to \$46,667 and \$44,108, respectively.

(vii) Securities management fees

The Company provided securities management service to subsidiaries and associates. The revenue from subsidiaries for the years ended December 31, 2019 and 2018 amounted to \$545 and \$520 and from associates amounted to \$124 and \$122, respectively.

(viii) Securities commission expense - introducing brokers

The Company delegated subsidiaries for introducing brokers. As of December 31, 2019 and 2018, securities commission expense payable amounted to \$373 and \$228, respectively. For the years ended December 31, 2019 and 2018, securities commission expenses amounted to \$3,492 and \$4,721, respectively.

(ix) Consulting fee

Subsidiaries agreed to provide investment information, training courses, and services of publishing non-periodicals. For the years ended December 31, 2019 and 2018, consulting fee expense amounted to \$75,600 and \$86,100, respectively.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

(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, 2019 and 2018, re-consigned handling fee amounted to \$4,618 and \$5,887, respectively.

(xi) Insurance commission revenues

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

	<b>For the years ended December 31,</b>	
<b><u>Commission revenues</u></b>	<b>2019</b>	<b>2018</b>
Subsidiaries	<b>\$ <u>12,931</u></b>	<b><u>11,905</u></b>
	<b>December 31,</b>	<b>December 31,</b>
<b><u>Accounts receivable</u></b>	<b>2019</b>	<b>2018</b>
Subsidiaries	<b>\$ <u>1,877</u></b>	<b><u>2,020</u></b>

(xii) Commissions

The commission received from the related parties of the Company engaging in securities and futures trading for the years ended December 31, 2019 and 2018 were as follows:

	<b>For the years ended December 31,</b>	
<b><u>Brokerage commissions</u></b>	<b>2019</b>	<b>2018</b>
Juristic-person directors	\$ -	288
Subsidiaries	-	53
Funds issued by associate	23,738	15,969
Other related parties	<u>1,044</u>	<u>10,270</u>
Total	<b>\$ <u>24,782</u></b>	<b><u>26,580</u></b>
	<b>For the years ended December 31,</b>	
<b><u>Re-consigned handling commissions</u></b>	<b>2019</b>	<b>2018</b>
Funds issued by associate	8,696	4,879
Other related parties	<u>193</u>	<u>235</u>
Total	<b><u>8,889</u></b>	<b><u>5,114</u></b>
	<b>For the years ended December 31,</b>	
<b><u>Other commissions</u></b>	<b>2019</b>	<b>2018</b>
Funds issued by associate	<b>\$ <u>4,406</u></b>	<b><u>639</u></b>

(xiii) Human resources, legal service income and management service income:

The Company provided human resources , legal service, management service etc. for subsidiaries and associates. Service income amounted to \$999 and \$636 in years 2019 and 2018, respectively.

(Continued)



## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

(xiv) Accrued receivables

The accrued receivables between the subsidiaries, associates and the Company primarily were securities management service receivable, computer printing service receivable, service prepayment receivable etc. As of December 31, 2019 and 2018, the accrued receivables amounted to \$1,163 and \$10, respectively.

(xv) Disposal of financial assets

On January 16, 2018, the Company disposed all its shares (941 thousand shares) of 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.

(xvi) 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, 2019 and 2018:

	December 31, 2019	December 31, 2018	The collateral use
Restricted assets - current	\$ 615,927	671,822	Bank borrowings, accounts settled, repurchase agreement.
Trading securities and bonds purchased under resale agreements (par value)	32,552,236	29,343,321	Repurchase agreement
Property and equipment	1,484,200	3,506,196	Bank borrowings
Financial assets at fair value through profit or loss - non - current	180,467	185,109	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business
Investment property	3,323,085	1,358,103	Bank borrowings
Total	<u>\$ 38,155,915</u>	<u>35,064,551</u>	

#### (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, 2019		December 31, 2018	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities procured through margin purchase	520,214	\$ 5,202,140	528,296	5,282,960
Collateral for margin purchase	8,868	88,680	34,550	345,500
Collateral for short sales	6,900	69,000	6,150	61,500
Lending securities to customers through short sales	57,750	577,500	50,957	509,570

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

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

	December 31, 2019		December 31, 2018	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities borrowed from securities finance companies	3,594	\$ 35,940	1,074	10,740
Collateral for refinancing margin	969	9,690	53	530

- (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, 2019	December 31, 2018
Promissory notes	<u>\$ 25,510,000</u>	<u>26,440,000</u>
Promissory notes (in USD thousands)	<u>USD 60,000</u>	<u>USD 60,000</u>

- (d) As of December 31, 2019 and 2018, the market values of collaterals which received from customers on conducting borrowing and lending business with unrestricted purposes were \$5,687,926 and \$3,848,765, 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. In December 2019, Taiwan Shilin District Court decide the case in favor of the Company, the case had no impact to the Company.
- (f) A resigned employee of Wan-Hua branch was accused of privately soliciting investment to scam. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation for damages of \$2,798. The case is under the trial of Taiwan Taipei District Court. According to the opinion from the attorney of the Company, the case had no impact to the Company.
- (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 dollars, which was in favor of the Company, or the investors reached compromises to waive off the appeal rights. There was one case that mutual reach the settlement and withdraw appeals on May 7, 2019. 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, 2019.

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

- (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 property list of trust accounts were declared as follows:
- (i) Balance sheet of trust accounts

**Balance Sheet of Trust Accounts**

**December 31, 2019 and 2018**

<b>Trust Assets</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>	<b>Trust Liabilities</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Bank deposits	\$ 1,123,650	863,717	Accounts payable	\$ 44	230
Short-term investment			Trust capital	13,751,705	12,864,910
Funds	12,115,260	10,355,060	Accumulated earnings or deficit	(103,139)	(1,066,242)
Stocks	124,245	351,841			
Securities lent	53,383	90,222			
Bonds	31,715	12,003			
Structured notes	10,013	12,224			
Accounts receivable	190,344	113,831			
<b>Total Assets</b>	<b>\$ 13,648,610</b>	<b>11,798,898</b>	<b>Total Liabilities</b>	<b>\$ 13,648,610</b>	<b>11,798,898</b>

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(ii) Income statement of trust accounts

**Income Statement of Trust Accounts**

**For the years ended December 31, 2019 and 2018**

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Trust revenue		
Interest revenue	\$ 5,626	5,686
Cash dividends revenue	522,595	480,749
Rental revenue	6,674	10,547
Investment gains - unrealized	938,923	-
Currency exchange gains	94,949	12,587,351
Other revenue	-	709
Subtotal	<u>1,568,767</u>	<u>13,085,042</u>
Trust expense		
Management fee	679	1,115
Service fee	60,976	75,544
Realized investment losses	46,561	3,935
Investment losses - unrealized	-	1,781,114
Currency exchange losses - unrealized	1,702,347	1,311,566
Supplementary insurance premium	92	76
Currency exchange losses	-	11,760,193
Subtotal	<u>1,810,655</u>	<u>14,933,543</u>
Net losses before income tax	(241,888)	(1,848,501)
Income tax expense	(319)	(327)
Net losses after income tax	<u><u>\$ (242,207)</u></u>	<u><u>(1,848,828)</u></u>

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(iii) Property list of trust accounts

**Property list of trust accounts**

**December 31, 2019 and 2018**

<b>Investment items</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Bank deposits	\$ 1,123,650	863,717
Short-term investment		
Funds	12,115,260	10,355,060
Stocks	124,245	351,841
Structured Notes	53,383	90,222
Bonds	31,715	12,003
Structured Notes	10,013	12,224
Account receivables	<u>190,344</u>	<u>113,831</u>
Total	<u><u>\$ 13,648,610</u></u>	<u><u>11,798,898</u></u>

**(10) Significant Catastrophic Loss:None**

**(11) Significant Subsequent Events:**

The Company had repurchased 150,000 thousand shares after the reporting date. All the repurchased shares were retired and the registration of capital reduction was completed on February 21, 2020.

The Board of Directors resolved to subscribe the cash capital increase of Capital Futures Corp. on January 21, 2020, and the investment amounted to \$683,981.

**(12) Other:None**

(Continued)

# CAPITAL SECURITIES CORPORATION

## Notes to the Financial Statements

### (13) Other disclosures:

#### (a) Information on significant transactions:

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

#### (i) Loans to others:

(In Thousands Dollars)

Number	Name of the company providing Loans to Others	Party to Transactions	Account Classification	Related party	Maximum Balance of the Period	Ending balance	Capital Employed	Range of interest rate	Type of Loans (Note)	Amount of Transactions	Purposes of the Borrowers	Allowance of Doubtful Accounts	Collateral		Limit on Loans to a Single Business	Limit on the Amount of Loans
													Name	Value		
1	CSC International Holdings Ltd.	CSC Securities (HK) Ltd	Account receivables - Related party	Yes	US 29,322	US 29,322	US 29,322	- %	2	-	Operations	-		-	US 53,637	US 53,637
2	Taiwan International Securities (B.V.I) Corp. Limited.	TIS Securities (HK) Limited.	Other receivables - Related party	Yes	US 3,380	US 3,380	US 3,380	- %	2	-	Operations & repayment of financing	-		-	US 3,380	US 3,380
3	TIS Securities (HK) Limited.	Taiwan International Capital (HK) Ltd.	Other receivables	Yes	HK 1,463	HK 1,463	HK 1,463	- %	2	-	Repayment of financing	-		-	HK 1,463	HK 1,463
4	CSC Futures (HK) Ltd.	Klaw Trading Limited	Account receivables - Customer	No	41,639	41,639	17,845	5 %	2	-	Tradings	-		-	193,301	966,505
5	CSC Futures (HK) Ltd.	AAA Fintech Limited	Account receivables - Customer	No	83,278	83,278	37,177	5.09 %	2	-	Tradings	-		-	193,301	966,505
6	CSC Futures (HK) Ltd.	Future Leading Investment Pte. Ltd.	Account receivables - Customer	No	83,278	83,278	-	5.0 %	2	-	Tradings	-		-	193,301	966,505
7	CSC Futures (HK) Ltd.	Alpha Rnd Singapore Pte Ltd.	Account receivables - Customer	No	83,278	83,278	-	5.09 %	2	-	Tradings	-		-	193,301	966,505
8	CSC Futures (HK) Ltd.	Derivatives China Alpha Fund	Account receivables - Customer	No	83,278	83,278	-	5.09 %	2	-	Tradings	-		-	193,301	966,505

Note: Type of Loans

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

- (ii) Providing endorsements and guarantees for other parties:None
- (iii) Acquisition of real estate exceeding NT\$300 million or 20% of paid-in capital:None
- (iv) Disposal of real estate exceeding NT\$300 million or 20% of paid-in capital:None
- (v) Handling fee discounts on transactions with related parties exceeding NT\$5 million:None
- (vi) Accounts receivables from related parties exceeding NT\$100 million or 20% of paid-in capital:None

#### (b) Related information of investee companies:

(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, 2019	Balance on December 31, 2018	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 %	92,445	74,119	(4,795)	(4,795)	9,450	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 %	2,817,870	1,735,635	600,009	337,355	337,222	"

(Continued)

# 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, 2019	Balance on December 31, 2018	Shares	Ratio	Book value					
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 %	1,605,349	24,552	4,135	4,135	-	Subsidiary
0	Capital Insurance Advisory Corp.	Taipei ,Taiwan, R.O.C.	November 9, 2000		Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business.	3,890	3,890	500,000	100.00 %	78,906	182,510	53,049	53,049	58,875	"
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 %	43,447	89,443	4,044	4,044	1,354	"
0	Taiwan International Securities (B.V.I) Corp.	British Virgin Island	December 10, 1996	No. FSC-53981	Long-term equity investment business.	1,394,817	1,394,817	300	100.00 %	18	304	260	260	-	"
0	Taiwan International Securities Investment Consulting Corp. (Note 4)	Taipei ,Taiwan, R.O.C.	March 3, 1994		Liquidation in progress.	9,992	9,992	999,200	99.92 %	12,644	-	(155)	(155)	-	"
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 %	763,112	4,290	(2,452)	(2,452)	-	"
0	Capital Investment Trust Corp.	Taipei ,Taiwan, R.O.C.	October 10, 1995		Engaged in security investment and discretionary investment services.	1,272,505	1,272,505	33,067,507	20.00 %	1,301,360	1,670,556	665,343	133,069	99,202	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	128,000,000	100.00 %	HK 166,703 thousands	HK 39,519 thousands	HK 6,318 thousands	-	-	Second-level Subsidiary
2	TIS Securities (HK) Limited. (Note 5)	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 (26,170) thousands	HK -	HK 78 thousands	-	-	"
3	Taiwan International Capital (HK) Ltd. (Note 5)	Hong Kong	July 16, 1997	No. FSC-110159	Liquidation in progress.	HK 2	HK 2	2	100.00 %	HK (66,086) thousands	HK -	HK 71 thousands	-	-	Third-level Subsidiary
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	214,000,000	97.27 %	940,119	249,672	(50,944)	-	-	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 %	42,249	-	(3,224)	-	-	"
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 %	47,860	129,089	5,038	-	-	Associates
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) 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 resolved to dissolve on June 27, 2012, and the company is being liquidated now.

Note 5: 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.

(Continued)

## CAPITAL SECURITIES CORPORATION

### Notes to the Financial Statements

(c) Information on overseas branches or representative offices:

(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 the Mainland China:

(i) Investment in the 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, 2019	Remittance of recoverable investment this period		Accumulated remittance as of December 31, 2019	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, 2019
					Remittance amount	Recoverable amount						
Capital True Partner Technology Co., Ltd.	Management, consulting and information service business	5,013	(C)	24,372	-	-	24,372	2,159	28.67%	619 B(2)	13,529	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	18,863	(C)	18,863	-	-	18,863	(4,057)	56.21%	(2,280) B(2)	10,001	-

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 the Mainland China:

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

Note: The Company invests through subsidiaries Capital International Technology Corp. to invest in Mainland China. According to the relevant rules to small and medium enterprises, the upper limit for investment in China is \$80,000.

(Continued)



# CAPITAL SECURITIES CORPORATION

## Notes to the 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, 2019 are as follows:

- (i) Balance sheet and income statement:

- 1) Balance sheet

Unit: US \$ thousands

Company	CSC International Holdings Ltd. December 31, 2019	Taiwan International Securities (B.V.I) Corp. December 31, 2019
Nature		
Current assets	10,891	1
Long-term investments	21,407	-
Property and premises	2,000	-
Other assets	19,395	3,380
Total assets	53,693	3,381
Current liabilities	56	19
Other liabilities	-	3,361
Total liabilities	56	3,380
Common stock	45,000	9,516
Retained earnings (Accumulated deficit)	8,754	(9,447)
Cumulative translation adjustments	(117)	(68)
Total stockholders' equity	53,637	1
Total liabilities and stockholders' equity	53,693	3,381

- 2) Income statement

Unit: US \$ thousands

Company	CSC International Holdings Ltd. For the year ended December 31, 2019	Taiwan International Securities (B.V.I) Corp. For the year ended December 31, 2019
Nature		
Operating revenue	809	10
Operating expense	(811)	(2)
Non-operating revenue	141	-
Non-operating expense	(2)	-
Income (loss) before tax	137	8
Net income (loss)	137	8

(Continued)

**CAPITAL SECURITIES CORPORATION**  
**Notes to the Financial Statements**

(ii) Securities held as of December 31, 2019

Unit: shares / US\$ thousands

Name of holding company	Securities types and name	Account classification	December 31, 2019	
			Shares	Book value
CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Long-term investments	128,000,000	\$ <u>21,407</u>
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Other liabilities	265,000,000	\$ <u>(3,361)</u>

(iii) Derivatives financial instrument transactions and the source of capital: None.

(iv) Revenue from engagement in consultation on assets management business, service contents and litigation: None.

**(14) Segment information:**

Please refer to the consolidated financial statements of the Company as of and for the year ended December 31, 2019.

## VII. Review, Analysis and Risk Issues of the Financial Status and Operating Results

### 1. Financial status

#### Consolidated financial statements

Unit: 1,000s of NT\$

Item \ Year	2019	2018	Difference	
			Amount	%
Current assets	116,002,501	101,969,620	14,032,881	13.76
Property and equipment	3,025,605	5,340,960	(2,315,355)	(43.35)
Other non-current assets	14,142,307	10,079,327	4,062,980	40.31
<b>Total assets</b>	<b>133,170,413</b>	<b>117,389,907</b>	<b>15,780,506</b>	<b>13.44</b>
Current liabilities	94,684,661	80,738,838	13,945,823	17.27
Non-current liabilities	2,269,623	1,446,333	823,290	56.92
<b>Total liabilities</b>	<b>96,954,284</b>	<b>82,185,171</b>	<b>14,769,113</b>	<b>17.97</b>
Share capital	23,209,081	23,209,081	0	0.00
Capital reserves	2,852,299	2,852,299	0	0.00
Retained earnings	7,927,126	6,209,696	1,717,430	27.66
Other equity items	1,578,134	700,916	877,218	125.15
Treasury stock	(1,574,000)	0	(1,574,000)	-
Non-controlling interests	2,223,489	2,232,744	(9,255)	(0.41)
<b>Total stockholders' equity</b>	<b>36,216,129</b>	<b>35,204,736</b>	<b>1,011,393</b>	<b>2.87</b>

#### Individual financial statements

Unit: 1,000s of NT\$

Item \ Year	2019	2018	Difference	
			Amount	%
Current assets	73,984,497	61,469,761	12,514,736	20.36
Property and equipment	2,339,571	4,577,214	(2,237,643)	(48.89)
Other non-current assets	19,094,562	15,381,441	3,713,121	24.14
<b>Total assets</b>	<b>95,418,630</b>	<b>81,428,416</b>	<b>13,990,214</b>	<b>17.18</b>
Current liabilities	59,239,075	47,025,844	12,213,231	25.97
Non-current liabilities	2,186,915	1,430,580	756,335	52.87
<b>Total liabilities</b>	<b>61,425,990</b>	<b>48,456,424</b>	<b>12,969,566</b>	<b>26.77</b>
Share capital	23,209,081	23,209,081	0	0.00
Capital reserves	2,852,299	2,852,299	0	0.00
Retained earnings	7,927,126	6,209,696	1,717,430	27.66
Other equity items	1,578,134	700,916	877,218	125.15
Treasury stock	(1,574,000)	0	(1,574,000)	-
<b>Total stockholders' equity</b>	<b>33,992,640</b>	<b>32,971,992</b>	<b>1,020,648</b>	<b>3.10</b>

Explanation to major variations:

- (1) Current assets: The increase in the current assets of the current period from the previous period is due to increase in the securities financing receivables, accounts receivable and customer payments retained in dedicated and ledger accounts.
- (2) Property and equipment: The decrease in the property and equipment of the current period from the previous period is due to increase in the land reclassified as investment property of the current period.
- (3) Other non-current assets: The increase in other non-current assets of the current period from the previous period is due to increase in the right-of-use assets.
- (4) Current liabilities: The increase in the current liabilities of the current period from the previous period is due to increase in short-term borrowings, bond repurchase liabilities, customer equities in dedicated and ledger accounts and accounts receivable.
- (5) Non-current liabilities: The increase in the non-current liabilities of the current period from the previous period is due to increase in lease liabilities.
- (6) Retained earnings: The increase in the retained earnings of the current period from the previous period is due to increase in the income of the current period.
- (7) Other equities: The increase in other equities of the current period from the previous period is due to increase in the unrealized gain of financial assets at fair value through other comprehensive income.

## 2. Financial performance:

### Consolidated financial statements

Unit: 1,000s of NT\$

Item \ Year	2019	2018	Difference	
			Amount	%
Income	7,796,951	7,638,645	158,306	2.07
Operating expense	5,803,705	6,465,477	(661,772)	(10.24)
Share of profit of associates and joint ventures	192,631	151,205	41,426	27.40
Other gains and losses	1,042,220	1,002,157	40,063	4.00
Pre-tax profit/loss	3,228,097	2,326,530	901,567	38.75
Net income/loss	2,829,234	1,777,510	1,051,724	59.17

### Individual financial statements

Unit: 1,000 of NT\$

Item \ Year	2019	2018	Difference	
			Amount	%
Income	5,885,962	4,922,660	963,302	19.57
Operating expense	4,105,770	4,303,491	(197,721)	(4.59)
Share of profit of associates and joint ventures	524,510	790,995	(266,485)	(33.69)
Other gains and losses	514,046	428,281	85,765	20.03
Pre-tax profit/loss	2,818,748	1,838,445	980,303	53.32
Net income/loss	2,566,823	1,408,865	1,157,958	82.19

Explanation to major variations:

- (1) Share of income of associates and joint ventures accounted for using the equity method:

The decrease in the current period from the previous period is due to the gain from liquidation of the subsidiary Jing Ting Co., Ltd. accounted for in the previous period.

- (2) Other gains and losses:

The increase in the current period from the previous period is due to the gain from disposal of property and equipment.

(3) Income before and after tax:

The increase in the income before and after tax of the current period from the previous period is due to the increase in the net gain from sales of operating securities.

### 3. Cash flow

#### (1) Analysis of the cash flows in 2019

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
2,554,322	266,755	164,876	2,656,201	-	-

#### (2) Liquidity analysis for the last 2 years

Item \ Year	2019	2018	% of increase (decrease)
Cash flow ratio (%)	0.45	20.44	(97.80)
Cash flow adequacy ratio (%)	198.78	190.52	4.34
Cash reinvestment ratio (%)	-	26.02	(100.00)

Explanation to major variations:

In the current period, net cash inflow from operating activities decreased due to increase in the securities financing receivables, accounts receivable and customer payments retained in dedicated and ledger accounts. As a result, the cash flow and reinvestment ratios decreased from the previous period.

#### (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	Estimated cash surplus (deficit)	Leverage of cash deficits	
				Investment plan	Financial plan
2,656,201	2,852,558	2,878,831	2,629,928	-	-

#### 4. Impacts of major capital expenditures in the most recent year to financial performance: None.

#### 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 plan for the next year: The Company will assess reinvestment in venture capital consulting firms and assist in the management of private equity funds and venture capital firms. The Company can support companies with potential and assist them in becoming TWSE/TPEX-listed after they have grown in order to foster industrial development and direct finance.

## 6. Risk issues

### (1) Impact of interest rate, exchange rate, and inflation on the Company's earnings, and responsive measures:

1. The impact of change in interest rate to the Company's income mainly comes from credit trading and bond (government, corporate and conditional bonds) trading. In 2019, the value of the Company's interest rate risk measured by the risk equivalent amount was between NT\$1,409,781,000 and NT\$1,572,243,000, with an average of NT\$1,467,634. The value of the exchange rate risk measured by the risk equivalent amount was between NT\$61,161,000 and NT\$121,145,000, with an average of NT\$90,714,000.
2. Future measures in response: To manage the interest rate risk of the bond positions, the Company has taken measures in accordance with the risk management policy and relevant regulations. The Company has also entered into interest rate exchange agreements with other financial institutions or use derivatives including futures contracts for hedges. 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. Inflation has non-concrete and indirect impact to the revenue and profit of the Company.

### (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. During the current year, the Company has not lent any funds to others or provided any endorsement/guarantee.
2. The Company has engaged in transactions of derivatives strictly within the scope permitted by the competent authority and the Board of Directors. The transactions of index futures and options are operated on a proprietary basis with the setting of stop loss points to control risks. The issuance of warrants and structured products uses current shares or other derivatives for Delta hedge and to avoid Gamma risks in combination with the related warrants or options to ensure safe risk appetite.
3. Future measures in response: The Company will establish or amend regulations for transactions of derivatives on a timely basis, and adopt a market-neutral strategy for hedge and management of deviating authority to control the risks of derivatives on a comprehensive basis.

### (3) Future R&D plan and the R&D expenses expected to be invested: The Company will actively continue the R&D of new financial products with high gross profit, high values added and capability for overall solutions, and will release such products in accordance with the requirements of the competent authority. In the future, such products will be launched based on the financial technology R&D plan, and the estimated R&D expense is approximately NT\$23,000,000.

- (4) Changes in important policies and laws in Taiwan and abroad impacting our finances, and measures taken in response: None.
- (5) Financial impacts and responsive measures in the event of technological or industrial changes
  - 1. Impact: The emergence of web technologies has changed the traditional means and types of transactions and services. As a result, the securities industry needs more professional IT specialists and newer IT equipment in response to the fast development of e-transactions and provide more software with value-added functions of online service to customers.
  - 2. Measures in response:
    - (1) Employing more IT specialists, with focus on the training in professional knowledge.
    - (2) Continuing to assess the upgrade or new purchase of IT equipment in response to technological changes.
    - (3) Continuing to update and develop new service software to be provided to customers for use.
    - (4) Conducting regular assessment of information security risks and designing measures to be taken in response.
- (6) Impacts from changes in corporate or corporate crisis management, and response measures: None.
- (7) Expected benefits, risks and responsible measures in relation to mergers and acquisitions
  - 1. For mergers and acquisitions, the Company mainly focuses on an increase in the number of branch offices, which is expected to improve the market share of brokerage/financing and profitability of the Company.
  - 2. Measures in response: Before any merger or acquisition, detailed assessment must be conducted by the relevant departments. After consolidation, potential risks may be reduced through database integration by the IT department and compliance of the relevant departments with the internal control system.
- (8) Expected benefits and potential risks from expanding our plant: N/A.
- (9) Risks of concentrated procurement of or sales of goods, and response measures: N/A.
- (10) Impacts and risks from large transfers of shares held by our company's directors, supervisors, and large shareholders holding more than 10% of shares, and response measures: None.
- (11) Impacts and risks from changes our company's operating rights, and response measures: None.

## (12) Major litigation and non-contentious cases

Event	Brief of Facts	Litigants	Current progress	Litigation Start date	Amount of dispute (Unit: NT\$)
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 court ruled in favor of the Company in the first instance of the case, and the Plaintiff filed an appeal against the ruling.	2006.11.23	2,003,697
Criminal	The agent CHIANG, O-PING (dismissed) of the Xisong Branch of the Company forged the Company's documents to gain customers' property by fraud.	Plaintiff: Capital Securities Corp. Defendant: CHIANG, O-PING	A customer of the Xisong Branch of the Company had the transaction documents checked by OO, and as a result the Company discovered that the agent CHIANG, O-PING of the branch forged non-existing documents for the PGN structured products of the Company to gain the property of 15 customers of the Xisong Branch including YU, OO. The offense has been reported to Taipei City Field Office, Investigation Bureau, Ministry of Justice.	2018.12.18	
Civil	The agent CHAN, O-LING of the Wanhua Branch privately engaged in solicitation of investments for fraud and caused damage to the customer FAN, O-YEN, who as a result filed a lawsuit to claim an amount of NT\$2,798,313 as compensation jointly from the Company and the former employee CHAN, O-LING.	Plaintiff: FAN, O-YEN Defendant: Capital Securities Corp. CHAN, O-LING	The case is currently under trial at the Taiwan Taipei District Court.	2019.04.08	2,798,313
Civil	The Plaintiff previously applied for a provisional attachment of the shares of Art Glory Investment Ltd., a company under the escrow account of the Company's escrow customer Pamirs Capital (HK) Ltd., held in escrow at the Company. Upon receipt of the order to enforce the provisional attachment, the Company sent a reply to the court stating that the Company had no shares available for attachment. The Plaintiff considered the Company's reply to be untrue, and thus brought an action in the case.	Plaintiff: Tatung Co. Defendant: Capital Securities Corp.	The case is currently under trial at the Taiwan Taipei District Court.	2019.11.26	100,000,000



**(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. Highest decision-making body for risk management.</li> <li>2. Approval of the risk management policy and direction.</li> <li>3. Approval of the risk management system.</li> </ol>
(2) Risk Management Committee	<ol style="list-style-type: none"> <li>1. Approval of the risk management system and the regulations for management of the risks of all business activities.</li> <li>2. Resolution for improvement of the performance of all business activities.</li> <li>3. Assessment and resolution regarding the distribution of risk assets and the operating strategies.</li> <li>4. Approval of application for new business activities and authorization of transaction limits.</li> </ol>
(3) President	<ol style="list-style-type: none"> <li>1. Reporting to the Board of Directors regarding assessment of the risks in the positions held and the achievement of transaction performance and set objectives.</li> <li>2. Requiring the business units to take necessary measures in response to any anomaly in market price evaluation (e.g., the position held has exceeded the upper limit of loss).</li> </ol>
(4) Risk Management Department	<ol style="list-style-type: none"> <li>1. Assistance in designing the risk management system.</li> <li>2. Assistance in designing the risk limits and methods of distribution for all departments.</li> <li>3. Ensuring implementation of the approved regulations for risk management.</li> <li>4. Submitting timely and complete risk management reports to the President.</li> <li>5. Understanding the contents of all transactions conducted by the business units before such transactions are carried out, and continuing to monitor the positions held for which transactions have been completed.</li> <li>6. Enhancing the measurement technique of risk management as much as possible with regard to financial commodities whose risks can be quantified.</li> <li>7. Understanding the risk limits and situations of use of all business units.</li> <li>8. Assessing the degree of risk exposure and risk concentration at the Company.</li> <li>9. Development and execution of pressure tests and retroactive testing methods.</li> <li>10. Testing the level of difference between the actual and estimated income of investment portfolios.</li> <li>11. Auditing the commodity pricing models and valuation systems used by the business units.</li> <li>12. Other matters related to risk management.</li> </ol>
(5) Business units (Reinvestment in subsidiaries)	<p>Mid-office risk controllers:</p> <ol style="list-style-type: none"> <li>1. Submitting regular reports regarding the risk exposures of the business units (subsidiaries).</li> <li>2. Ensuring timely and accurate communication of information on risk management.</li> <li>3. Ensuring the business units (subsidiaries) effectively implement the requirements for risk limits.</li> <li>4. Monitoring risk exposures and submitting reports when limits are exceeded, including measures taken by the business units (subsidiaries) in response to such situations.</li> <li>5. Ensuring the use of risk measurement and valuation models and the making of assumptions by the business units (subsidiaries) are on a consistent basis.</li> <li>6. Ensuring effective implementation by the business units (subsidiaries) of the internal control procedures to comply with legal requirement and the risk management policies.</li> </ol> <p>Head of business unit (subsidiary's person-in-charge):</p> <ol style="list-style-type: none"> <li>1. Overseeing all matters related to risk management in his/her unit (subsidiary). Analyzes and monitors business risks within the business unit (subsidiary), and takes appropriate responses.</li> <li>2. Supervising the communication of information related to risk management.</li> </ol>
(6) Auditing Department	<ol style="list-style-type: none"> <li>1. Understanding, on a regular basis, the adequacy of the internal control for commodity trading by the business units.</li> <li>2. Reviewing the status of implementation of the Company's risk management system and disclose its facts in the audit reports. 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. Conducting monthly audits regarding whether the business and other departments have fully complied with the system and carried out analysis of the transaction cycles.</li> <li>4. Undertaking matters concerning the laws and regulations applicable to the Company's overall financial and operating activities, and conducting audits regarding compliance with the applicable requirements, laws and regulations.</li> </ol>

Department	Responsibilities
(7) Finance Department	<ol style="list-style-type: none"> <li>1. Accounting treatment or funding as per the approved contracts and transaction documents.</li> <li>2. Preparing memos for the off-balance sheet transaction contracts undertaken.</li> <li>3. Obtaining price information from quotation systems independent of the trading departments to re-value the positions held.</li> <li>4. Completed transactions shall be entered into the account and have their income recognized on a timely basis.</li> <li>5. Making announcements in accordance with the requirements of the competent authority.</li> </ol>
(8) Settlement & Clearing Department	<ol style="list-style-type: none"> <li>1. Acting as the custodian and depository of transaction contracts.</li> <li>2. Settlement and final accounting of commodities.</li> <li>3. Pursuing the payment of collateral.</li> <li>4. Filing of transaction contracts to the relevant competent authorities.</li> <li>5. Confirmation of transaction details.</li> </ol>
(9) Compliance and Legal Division	<ol style="list-style-type: none"> <li>1. Discussing the relevant management policies with the legal advisors.</li> <li>2. Before the signature of any transaction contract/agreement with any transaction counterparty, the Compliance and Legal Division shall review the related rights and obligations, lawfulness and the relevant legal documents.</li> <li>3. Supervising compliance with the applicable laws and regulations.</li> <li>4. Supervising the assessment by the business units of the impact of newly promulgated laws and regulations to the business aspect of the Company.</li> <li>5. Before the launch of new products and services or application for new types of business, the chief compliance officer shall issue opinions of compliance with the law and internal regulations and sign such opinions.</li> </ol>
(10) Information Tech. Department	Development and maintenance of the risk management information system.

### 3. Types, measurement and management processes of risks involved in the Company

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 management

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 management

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 management

Liquidity risks include capital funding and liquidity of financial market. Regarding capital funding, the Company has diversified its financial institution counterparties with multiple fundraising channels. Based on demand for operational capital, the Company makes plans in advance and monitor daily capital use. Meanwhile, the Company makes analysis via special event scenario to respond to emergent demand for capital arising from systemic risks. Regarding liquidity risks of positions, the Company has set regulations in terms of issued amount, trading amount, counterparty, etc., and monitors market situation dynamically.

4. Operational risk management

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 management

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.

(14) Other major risks and measures in response: None.

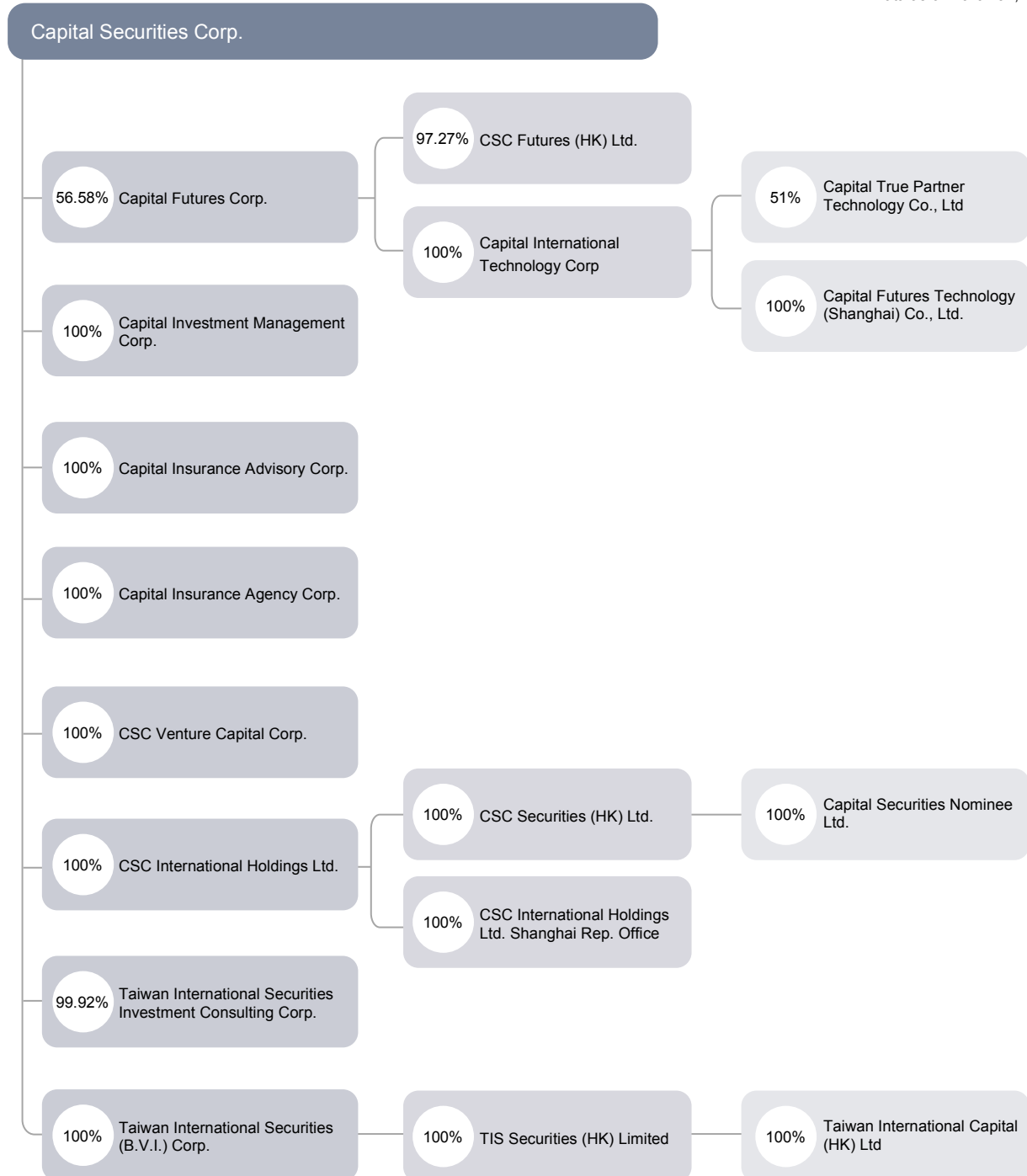
7. Other important matters: None.

## VIII. Special Remarks

### 1. Information of affiliated companies

#### Organizational chart of affiliates.

Data as of March 31, 2020



Note 1: Taiwan International Securities Investment Consulting Corp., TIS Securities (HK) Limited, and Taiwan International Capital (HK) Ltd are currently undergoing liquidation.

## Schedule 1 Basic information of affiliated companies

Unit: \$

Company name	Date of establishment	Address	Issued capital	Main business activities or products
Capital Futures Corp.	1997.02.26	32F and B1, No. 97, Section 2, Dunhua South Road, Da'an District, Taipei City	NT\$2,104,375,840	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.	2014.12.29	32F, No. 97, Section 2, Dunhua South Road, Da'an District, Taipei City	NT\$50,000,000	Management consulting service Information and software service Data processing services Digital information supply service Retail sale of computing and business machinery equipment Retail sale of computer software All business items that are not prohibited or restricted by law, except those that are subject to special approval
Capital Investment Management Corp.	1990.02.16	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.	2000.11.09	14F, No. 156, Section 3, Minsheng East Road, Taipei City	NT\$5,000,000	Personal insurance broker Property insurance broker
Capital Insurance Agency Corp.	2000.11.08	14F, No. 156, Section 3, Minsheng East Road, Taipei City	NT\$7,400,000	Life insurance agency
CSC Venture Capital Corp.	2016.01.12	11F, No. 156, Section 3, Minsheng East Road, Taipei City	NT\$1,000,000,000	General investment, venture capital, investment consulting, management consulting All business items that are not prohibited or restricted by law, except those that are subject to special approval
CSC International Holdings Ltd.	1996.03.04	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands	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 Rep. Office	1997.11.27	18F., New Shanghai International Tower, No. 360 Pudong Nan Road, Shanghai, P.R. China	—	Investigation of business, research of industrial technology and related information collection
CSC Securities (HK) Ltd.	1994.05.03	Units 3204-3207, 32F., Cosco Tower, 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.	1995.04.07	Units 3204-3207, 32F., Cosco Tower, 183 Queen's Road Central, Hong Kong	HK\$2	Agency service
CSC Futures (HK) Ltd.	1998.12.09	Units 3204-3207, 32F., Cosco Tower, 183 Queen's Road Central, Hong Kong	HK\$220,000,000	Securities trading Futures trading

Company name	Date of establishment	Address	Issued capital	Main business activities or products
Capital True Partner Technology Co., Ltd.	2008.08.20	Units 408-410, 4F, No. 1, Jinxiu Road, Wuhou District, Chengdu City, Sichuan Province, China	CNY1,000,000	Design, research and development of computer software and hardware products and computer system assemblies, transfer of the technological results from R&D, sales of self-manufactured products, and provision of relevant technical support and consultation (except for those prohibited by the government and those under restrictions).
Capital Futures Technology (Shanghai) Co., Ltd.	2016.10.14	Building S, 6F, 360 Pudong South Road, Shanghai City, China	CNY4,000,000	Wholesale, import and export of computer hardware, software, auxiliary equipment, electronic equipment and the parts and accessories of the peripheral devices of the above products. (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.	1994.03.03	B2, No.97, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 10682	NT\$10,000,000	(Undergoing liquidation)
Taiwan International Securities (B.V.I.) Corp.	1996.12.10	Tropic Isle Building, P.O. BOX 438, Road Town, Tortola, British Virgin Islands	US\$9,516,300	Long-term equity investment business
TIS Securities (HK) Limited.	1993.08.17	Units 3204-3207, 32F., Cosco Tower, 183 Queen's Road Central, Hong Kong	HK\$265,000,000	(Undergoing liquidation)
Taiwan International Capital (HK) Ltd.	1997.07.16	Units 3204-3207, 32F., Cosco Tower, 183 Queen's Road Central, Hong Kong	HK\$2	(Undergoing liquidation)

## Schedule 2 Information on the same shareholders involved with or controlling affiliated companies

Unit: NTD thousands; shares; %

Presumed Reason	Name	Current shareholding		Date of establishment	Address	Issued capital	Primary business operation
		No. of shares	Shareholding percentage				
		Not applicable					

## Schedule 3 Information on directors, supervisors, and general managers of the affiliated companies

Unit: shares; %

Data as of March 31, 2020

Company name	Title	Name or name of representative	Current shareholding	
			No. of shares	Shareholding percentage
Capital Futures Corp.	Corporate entity	Capital Securities Corporation	119,370,014	56.72% (Note 1)
	Corporate entity	Hong Ye Investment Co., Ltd.	2,031	0.00%
	Chairman	Capital Securities Corp. – Representative: SUN, TIEN-SHAN	1,181,162	0.56%
	Director	Capital Securities Corp. – Representative: LIU, CHING-TSUN	0	0
	Director	Capital Securities Corp. – Representative: WANG, JIUNN-CHIH	0	0

Company name	Title	Name or name of representative	Current shareholding	
			No. of shares	Shareholding percentage
	Director	Hong Ye Investment Co., Ltd. - Representative: LEE, YI-HUEI	0	0
	Independent Director	CHEN, KUO-TAY	0	0
	Independent Director	CHUANG, CHIH-CHENG	0	0
	President	LEE, WEN-CHU	260,690	0.12%
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 Corporation	7,000,000	100%
	Chairman	Capital Securities Corp. – Representative: TSAI, MING-YEN	0	0
	Director	Capital Securities Corp. - Representative: HSIEH, CHIH-FEI	0	0
	Director	Capital Securities Corp. - Representative: REI, GU-ZHENG	0	0
	Supervisor	Capital Securities Corp. – Representative: LI, MEI-YU	0	0
Capital Insurance Advisory Corp.	Corporate entity	Capital Securities Corporation	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: CHANG, 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 Corporation	740,000	100.00%
	Chairman	Capital Securities Corp. – Representative: CHIU, CHAO-CHIEN		0
	Director	Capital Securities Corp. - Representative: CHEN, MING-SHING	0	0
	Director	Capital Securities Corp. – Representative: CHANG, PEI-WEN	0	0
	Supervisor	Capital Securities Corp. – Representative: TAN, TE-CHENG	0	0
	President	HSU, WEN-TUNG	0	0
CSC Venture Capital Corp.	Corporate entity	Capital Securities Corporation	100,000,000	100%
	Chairman	Capital Securities Corp. – Representative: WANG, JIUNN-CHIH	0	0
	Director	Capital Securities Corp. - Representative: CHIA, CHUNG-TAO	0	0
	Director	Capital Securities Corp. - Representative: ZHANG, JIA-WEN	0	0
	Supervisor	Capital Securities Corp. – Representative: TAN, TE-CHENG	0	0
CSC International Holdings Ltd.	Corporate entity	Capital Securities Corporation	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



Company name	Title	Name or name of representative	Current shareholding	
			No. of shares	Shareholding percentage
	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
	Supervisor	True Partner China Holding Limited - Representative: Remco Janssen	0	0
	President	DENG, YI	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. (undergoing liquidation)	Corporate entity	Capital Securities Corporation	999,200	99.92%
	Liquidator	TSAI, MING-YEN	100	0.01%
	Supervisor	Capital Securities Corp. - Representative: LIU, YAO-BAN	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
	Corporate entity	Taiwan International Securities (B.V.I.) Corp.	265,000,000	100.00%



Company name	Title	Name or name of representative	Current shareholding	
			No. of shares	Shareholding percentage
Taiwan International Securities (HK) Ltd. (undergoing liquidation)	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. (undergoing liquidation)	Corporate entity	TIS Securities (HK) Limited.	2	100.00%
	Director	TIS Securities (HK) Limited - Representative: CHEN, MING-SHING	0	0

Note 1: Shareholding percentage includes the sales of securities acquired by the Company's Investment Banking Department from underwriting and recognized.

## Schedule 4 Business status of the affiliated companies

Unit: NTD thousands

Company name	Capital	Total asset	Total liabilities	Net worth	Operating revenues	Operating profit	Income for the current period (after tax)	Earnings per share (NT\$) (after tax)
Capital Futures Corp.	1,764,376	40,155,151	35,142,155	5,012,996	1,735,635	238,920	600,009	3.40
Capital International Technology Corp.	50,000	42,363	115	42,248	0	(270)	(3,224)	(0.64)
Capital Investment Management Corp.	70,000	144,605	52,160	92,445	74,119	(5,475)	(4,795)	(0.69)
Capital Insurance Advisory Corp.	5,000	114,103	35,197	78,906	182,510	65,558	53,049	106.10
Capital Insurance Agency Corp.	7,400	53,891	10,444	43,447	89,443	5,636	4,044	5.47
CSC Venture Capital Corp.	1,000,000	774,961	11,849	763,112	4,290	(7,385)	(2,452)	(0.02)
CSC International Holdings Ltd. (Note 1)	1,346,850	1,607,019	1,670	1,605,349	24,552	(71)	4,135	0.09
CSC Securities (HK) Ltd. (Note 1)	488,832	1,630,251	993,614	636,637	153,532	29,642	24,547	0.19
CSC Securities Trust Ltd. (Note 1)	-	-	-	-	-	-	-	-
Capital Futures (HK) Ltd.	875,750	6,533,032	5,566,527	966,505	249,672	(66,445)	(50,944)	(0.23)
Capital True Partner Technology Co., Ltd.	5,013	9,061	5,179	3,882	22,609	2,157	2,159	2.16
Capital Futures Technology (Shanghai) Co., Ltd.	18,863	18,331	539	17,792	0	(4,401)	(4,057)	(1.01)
Taiwan International Securities Investment Consulting Corp. (Note 2)	10,000	12,654	-	12,654	-	(406)	(155)	(0.15)
Taiwan International Securities (B.V.I.) Corp. (Note 1)	284,823	101,190	101,172	18	304	259	260	867.44
Taiwan International Securities (HK) Ltd. (Note 1) (Note 3)	1,012,035	584	100,528	(99,944)	-	(254)	304	0.00
Taiwan International Capital (HK). Ltd. (Note 1) (Note 4)	-	-	252,383	(252,383)	-	(38)	275	137,455.94

Note 1: The exchange rates are based on the data of the net values and incomes of subsidiaries adjusted and recognized by Capital Securities Corp. (parent) on December 31, 2019:

Assets and liabilities: NTD : USD = 29.93 : 1; NTD : HKD = 3.819 : 1; NTD : CNY = 4.28 : 1.

Income: NTD : USD = 30.3475 : 1; NTD : HKD = 3.885 : 1; NTD : CNY = 4.389 : 1.

Note 2: It was dissolved by a resolution of the annual shareholders' meeting of the Capital Securities Corp. on June 27, 2012. It is currently undergoing the process of liquidation.

Note 3: It was dissolved by a resolution of the Board of Directors of the Taiwan International Securities (HK) Ltd. On December 30, 2011.

Note 4: It was dissolved by a resolution of the Board of Directors of the Taiwan International Capital (HK). Ltd. On December 30, 2011.

2. Private placement of securities in the most recent year up till the publication date of this annual report: None.
3. Holding or disposal of the Company's shares by subsidiaries in the last financial year, up till the publication date of this annual report: None.
4. Other supplementary information:

Key performance indicator (KPI) for the special nature of the industry of the Company:

Capital adequacy ratio: 390% (December 31, 2019)

401% (March 31, 2020)

## Occurrences of Significant Impact on Shareholders' Equity or Security Prices IX.

Matters that have a significant impact on shareholders' income or securities prices as set forth in Article 36, paragraph 3, subparagraph 2 of the Securities and Exchange Act during 2019 and until the date of printing of the annual report shall be specified: None.

## X. Contact Information of Head Office, Branches and Affiliates

### Capital Securities Corp.

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

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

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

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

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

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

### Xisong Branch

3F., No.213, Sec. 5, Nanjing E. Rd., Songshan Dist., Taipei City 10569, Taiwan, R.O.C.  
TEL : 886-2-27683388 FAX : 886-2-27633252

### Guanqian Branch

8F., No. 77, Sec. 1, Chongqing S. Rd., Zhongzheng Dist., Taipei City 10045, Taiwan, R.O.C.  
TEL : 886-2-23615678 FAX : 886-2-23119140

### Guting Branch

1F., No.85, Sec. 2, Nanchang Rd., Zhongzheng Dist., Taipei City 10084, Taiwan, R.O.C.  
TEL : 886-2-23279288 FAX : 886-2-23567201

### Zhongshan Branch

6F., No.372, Linsen N. Rd., Zhongshan Dist., Taipei City 10446, Taiwan, R.O.C.  
TEL : 886-2-21002798 FAX : 886-2-21002780

### Proprietary Trading Department

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

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

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

15F., No.87, Sec. 4, Zhongxiao E. Rd., Da'an Dist., Taipei City 10690, Taiwan, R.O.C.  
TEL : 886-2-27771077 FAX : 886-2-27316236

### Dunnan Branch

B1F.-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

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

### Tianmu Branch

3F., No.18, Sec. 7, Zhongshan N. Rd., Shilin Dist., Taipei City 11152, Taiwan, R.O.C.  
TEL : 886-2-28767388 FAX : 886-2-28767377

### Neihu Branch

6F., No.50, Sec. 4, Chenggong Rd., Neihu Dist., Taipei City 11489, Taiwan, R.O.C.  
TEL : 886-2-27911999 FAX : 886-2-27925974

### Taipei Branch

4F., No.30, Sec. 1, Chongqing N. Rd., Datong Dist., Taipei City 10350, Taiwan, R.O.C.  
TEL : 886-2-25561133 FAX : 886-2-25551297

### Yanping Branch

4F., No.96, Sec. 2, Yanping N. Rd., Datong Dist., Taipei City 10344, Taiwan, R.O.C.  
TEL : 886-2-25553888 FAX : 886-2-25580964

**Shilin Branch**

1F., No.118-1, Zhongzheng Rd., Shilin Dist., Taipei City 11145, Taiwan, R.O.C.  
TEL : 886-2-28380567 FAX : 886-2-28312433

**Donghu Branch**

8F.-1, No.460, Sec. 5, Chenggong Rd., Neihu Dist., Taipei City 11490, Taiwan, R.O.C.  
TEL : 886-2-26333988 FAX : 886-2-26333987

**Da-an Branch**

2F., No.169, Sec. 4, Zhongxiao E. Rd., Da'an Dist., Taipei City 10690, Taiwan, R.O.C.  
TEL : 886-2-27730899 FAX : 886-2-87719629

**Da Hsing Branch**

6F., No.270, Sec. 4, Zhongxiao E. Rd., Da'an Dist., Taipei City 10694, Taiwan, R.O.C.  
TEL : 886-2-55585558 FAX : 886-2-27738180

**Yonghe Branch**

2F., No.353, Fuhe Rd., Yonghe Dist., New Taipei City 23450, Taiwan, R.O.C.  
TEL : 886-2-29207777 FAX : 886-2-29296363

**Banqiao Branch**

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**

1F., No.261, Sec. 1, Zhongyang Rd., Tucheng Dist., New Taipei City 23665, Taiwan, R.O.C.  
TEL : 886-2- 22625988 FAX : 886-2- 22610074

**Xindian Branch**

2F.-5, No.262, Sec. 2, Beixin Rd., Xindian Dist., New Taipei City 23143, Taiwan, R.O.C.  
TEL : 886-2-29121818 FAX : 886-2-29113568

**Zhongli Branch**

3F., No.88, Zhongshan Rd., Zhongli Dist., Taoyuan City 32041, Taiwan, R.O.C.  
TEL : 886-3-4278699 FAX : 886-3-4278611

**Hsinchu Branch**

8F., No.307, Beida Rd., North Dist., Hsinchu City 30044, Taiwan, R.O.C.  
TEL : 886-3-5237777 FAX : 886-3-5235555

**Wanhua Branch**

2F., No. 31, Guilin Rd., Wanhua Dist., Taipei City 10849, Taiwan, R.O.C.  
TEL : 886-2- 23751399 FAX : 886-2- 23751998

**Songshan Branch**

11F., No.130, Sec. 4, Nanjing E. Rd., Songshan Dist., Taipei City 10553, Taiwan, R.O.C.  
TEL : 886-2-25708889 FAX : 886-2-25706776

**Xinzhuan Branch**

2F., No.160, Sec. 2, Zhonghua Rd., Xinzhuan Dist., New Taipei City 24246, Taiwan, R.O.C.  
TEL : 886-2-89918899 FAX : 886-2-89914587

**Danfong Branch**

1F., No.16, Fuguo Rd., Xinzhuan Dist., New Taipei City 24267, Taiwan, R.O.C.  
TEL : 886-2-29082388 FAX : 886-2-29082333

**Nan sanchong Branch**

1F., No.97, Zhengyi S. Rd., Sanchong Dist., New Taipei City 24142, Taiwan, R.O.C.  
TEL : 886-2-29734388 FAX : 886-2-29734998

**Haishan Branch**

3F.-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**

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**

4F., No.32, Sec. 1, Chenggong Rd., Taoyuan Dist., Taoyuan City 33043, Taiwan, R.O.C.  
TEL : 886-3-3377555 FAX : 886-3-3373003

**Minquan Branch**

4F., No.91, Minquan Rd., West Dist., Taichung City 40341, Taiwan, R.O.C.  
TEL : 886-4-22208822 FAX : 886-4-22204208

**Chongde Branch**

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

### Jingguo Branch

3F., No.62, Sec. 2, Jingguo Rd., North Dist., Hsinchu City 30051, Taiwan, R.O.C.  
TEL : 886-3-5317777 FAX : 886-3-5327799

### Zhunan Branch

5F., No.87, Minzu St., Zhunan Township, Miaoli County 35041, Taiwan, R.O.C.  
TEL : 886-37-478345 FAX : 886-37-465010

### Taichung Branch

1F., No.40, Zhongming S. Rd., West Dist., Taichung City 40361, Taiwan, R.O.C.  
TEL : 886-4-23200088 FAX : 886-4-23230317

### Jiancheng Branch

2F., No.735, Jiancheng Rd., East Dist., Taichung City 40150, Taiwan, R.O.C.  
TEL : 886-4-22830099 FAX : 886-4-22830055

### Chiayi Branch

1F., No.87, Chuiyang Rd., East Dist., Chiayi City 60043, Taiwan, R.O.C.  
TEL : 886-5-2258666 FAX : 886-5-2246978

### Tainan Branch

3F., No.76, Sec. 2, Minsheng Rd., West Central Dist., Tainan City 70054, Taiwan, R.O.C.  
TEL : 886-6-2252588 FAX : 886-6-2252388

### Dungmen Branch

4F., No.97, Sec. 1, Beimen Rd., West Central Dist., Tainan City 70044, Taiwan, R.O.C.  
TEL : 886-6-2290077 FAX : 886-6-2295611

### Kaiyuan Branch

3F., No.280, Kaiyuan Rd., North Dist., Tainan City 70456, Taiwan, R.O.C.  
TEL : 886-6-2348899 FAX : 886-6-2348800

### Kaohsiung Branch

1F., No.165, Hedong Rd., Qianjin Dist., Kaohsiung City 80144, Taiwan, R.O.C.  
TEL : 886-7-2150077 FAX : 886-7-2151414

### Sanmin Branch

1F., No.80, Dachang 2nd Rd., Sanmin Dist., Kaohsiung City 80780, Taiwan, R.O.C.  
TEL : 886-7-3952588 FAX : 886-7-3869191

### Zhonggang Branch

1F., No.369, Sec. 2, Daren Rd., Wuqi Dist., Taichung City 43542, Taiwan, R.O.C.  
TEL : 886-4-26577599 FAX : 886-4-26574837

### Dajia Branch

2F., No.295, Jianggong Rd., Dajia Dist., Taichung City 43745, Taiwan, R.O.C.  
TEL : 886-4-26882828 FAX : 886-4-26882882

### Tanzi Branch

No.418, Xinghua 1st Rd., Tanzi Dist., Taichung City 42757, Taiwan, R.O.C.  
TEL : 886-4-25319898 FAX : 886-4-25315779

### Changhua Branch

7F., No.279, Minsheng Rd., Changhua City, Changhua County 50045, Taiwan, R.O.C.  
TEL : 886-4-7250888 FAX : 886-4-7251366

### Gausheng Branch

1F., No.505, Zhongshan 2nd Rd., Qianjin Dist., Kaohsiung City 80146, Taiwan, R.O.C.  
TEL : 886-7-2615211 FAX : 886-7-2110089

### North Kaohsiung Branch

3F., No.317, Minghua Rd., Gushan Dist., Kaohsiung City 80453, Taiwan, R.O.C.  
TEL : 886-7-5559933 FAX : 886-7-5597000

### Fengshan Branch

1F., No.8, Yongfeng Rd., Qianzhen Dist., Kaohsiung City 80643, Taiwan, R.O.C.  
TEL : 886-7-7169788 FAX : 886-7-7168559

### Rueifeng Branch

2F., No.174, Sanduo 1st Rd., Lingya Dist., Kaohsiung City 80282, Taiwan, R.O.C.  
TEL : 886-7-7211828 FAX : 886-7-7110238

### Pingtung Branch

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