

**CAPITAL SECURITIES CORPORATION AND
SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Report
For The Six Months Ended June 30, 2020 and 2019**

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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.

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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 June 30, 2020, December 31, 2019 and June 30, 2019, and the consolidated statements of comprehensive income for the three months ended June 30, 2020 and 2019 and the six months ended June 30, 2020 and 2019 as well as the changes in equity and cash flows for the six months ended June 30, 2020 and 2019, 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 June 30, 2020, December 31, 2019 and June 30, 2019, and its consolidated financial performance for the three months ended June 30, 2020 and 2019 and the six months ended June 30, 2020 and 2019 as well as its consolidated cash flows for the six months ended June 30, 2020 and 2019 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms and International Accounting Standards ("IASs") 34 "Interim Financial Reporting", 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 of our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the six months ended June 30, 2020. 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:

Valuation of financial instruments

Please refer to Note 4(g) of the consolidated financial statements as of and for the year ended December 31, 2019 for the related accounting policy regarding the valuation of financial instruments, Note 6(b) financial assets, Note 6(k) financial liabilities at fair value through profit or loss and Note 6(u)(v) fair value and fair value hierarchy of financial instruments for details.

Risk and descriptions of the key audit matter:

The Group's valuation of financial instruments is one of audit processes refer to important judgements. Financial products on balance sheets mainly belong to first or secondary level in fair value hierarchy, and can 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.

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 0.81%, 0.98% and 0.97% of consolidated total assets as of June 30, 2020, December 31, 2019 and June 30, 2019, respectively, and the recognized profit or loss under equity method constituted 2.21%, 5.82%, 6.99% and 4.92% of consolidated net income before income tax for the three months and six months ended June 30, 2020 and 2019, respectively.

The Group has prepared its parent-company-only financial statements as of and for the six months ended June 30, 2020 and 2019, 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 International Accounting Standards ("IASS") 34 "Interim Financial Reporting", 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)
August 25, 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 such consolidated financial statements are those generally accepted and applied in the Republic of China.

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

Consolidated Balance Sheets

June 30, 2020, December 31, 2019, and June 30, 2019

(Expressed in Thousands of New Taiwan Dollars)

		June 30, 2020		December 31, 2019		June 30, 2019	
		Amount	%	Amount	%	Amount	%
110000	Assets						
111100	Current assets:						
111100	Cash and cash equivalents (note 6(a))	\$ 10,822,717	7	8,323,636	6	8,123,268	6
112000	Financial assets at fair value through profit or loss - current (notes 6(b) and 8)	33,767,792	22	31,003,268	24	31,590,014	25
113200	Financial assets at fair value through other comprehensive income - current (note 6(b))	20,016,386	13	15,982,702	12	15,059,665	12
114030	Receivable for securities provided as collateral	10,661,908	7	12,166,194	9	9,862,259	8
114040	Refinancing margin	81,489	-	91,153	-	14,693	-
114050	Refinancing collateral receivable	67,023	-	137,339	-	13,112	-
114060	Receivable of securities business money lending	2,184,522	2	1,996,204	2	1,919,196	2
114070	Customers' margin account (note 6(d))	39,011,759	25	34,803,719	26	33,601,427	26
114080	Receivable - futures margin	1,144	-	2	-	3	-
114090	Collateral for securities borrowed	263,862	-	344,523	-	71,034	-
114100	Security borrowing margin	551,021	-	315,958	-	928,323	1
114110	Notes receivable	35,942	-	22,401	-	22,623	-
114130	Accounts receivable (note 6(c))	10,729,585	7	6,488,246	5	7,110,662	6
114150	Prepayments	43,003	-	33,609	-	30,251	-
114170	Other receivables	420,320	-	178,684	-	314,558	-
114300	Leverage contract trading - customers' margin account	368,326	-	308,543	-	240,468	-
114600	Current income tax assets	23,590	-	27,957	-	26,597	-
119095	Amounts held for each customer in the account (note 6(m))	8,759,850	6	3,025,153	2	598,882	-
119990	Other current assets-others	353,581	-	753,210	1	804,960	1
		<u>138,163,820</u>	<u>89</u>	<u>116,002,501</u>	<u>87</u>	<u>110,331,995</u>	<u>87</u>
120000	Non-current assets:						
122000	Financial assets at fair value through profit or loss - non-current (notes 6(b) and 8)	181,029	-	180,467	-	180,485	-
123200	Financial assets at fair value through other comprehensive income - non-current (note 6(b))	2,123,848	2	2,464,932	2	2,256,674	2
124100	Investments accounted for under equity method (note 6(e))	1,390,107	1	1,471,573	1	1,376,077	1
125000	Property and equipment (notes 6(f) and 8)	3,135,551	2	3,025,605	2	3,025,842	2
125800	Right-of-use assets (notes 6(g))	881,943	1	955,250	1	1,005,988	1
126000	Investment property (notes 6(h) and 8)	3,624,052	2	3,796,990	3	3,760,344	3
127000	Intangible assets (note 6(i))	3,615,217	2	3,609,740	3	3,616,314	3
128000	Deferred income tax assets	64,005	-	107,846	-	170,514	-
129000	Other non-current assets	1,588,069	1	1,555,509	1	1,549,080	1
		<u>16,603,821</u>	<u>11</u>	<u>17,167,912</u>	<u>13</u>	<u>16,941,318</u>	<u>13</u>
Total assets		<u>\$ 154,767,641</u>	<u>100</u>	<u>133,170,413</u>	<u>100</u>	<u>127,273,313</u>	<u>100</u>

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**Consolidated Balance Sheets****June 30, 2020, December 31, 2019, and June 30, 2019****(Expressed in Thousands of New Taiwan Dollars)**

		June 30, 2020		December 31, 2019		June 30, 2019	
		Amount	%	Amount	%	Amount	%
210000	Liabilities and Equity						
211000	Current liabilities:						
211100	Short-term borrowings (note 6(j))	\$ 4,573,090	3	6,631,002	5	4,077,307	3
212000	Financial liabilities at fair value through profit or loss - current (note 6(k))	1,667,558	1	1,459,094	1	828,378	1
214010	Bonds sold under repurchase agreements (note 6(l))	39,488,135	26	31,847,531	24	33,901,266	27
214040	Guarantee deposited for short sales	2,073,592	1	2,390,464	2	1,215,246	1
214050	Proceeds payable from short sales	2,285,928	2	2,755,405	2	1,353,726	1
214070	Securities lending refundable deposits	1,053,695	1	336,713	-	907,858	1
214080	Futures traders' equity (note 6(d))	38,978,222	25	34,747,531	26	33,558,538	26
214090	Equity for each customer in the account (note 6(m))	8,759,850	6	3,025,153	2	598,882	-
214100	Leverage contract trading - customers' equity	363,661	-	308,590	-	239,286	-
214130	Accounts payable (note 6(n))	10,440,402	7	6,236,058	5	6,445,100	5
214150	Advance receipts	57,214	-	60,867	-	36,489	-
214160	Receipts under custody	126,714	-	114,442	-	102,897	-
214170	Other payables	2,556,164	2	662,217	1	1,744,360	2
214200	Other financial liabilities - current (note 6(v))	3,733,356	2	3,579,951	3	3,348,053	3
214600	Current income tax liabilities	427,601	-	269,795	-	348,617	-
215100	Provisions - current (note 6(p))	61,148	-	52,566	-	59,301	-
216000	Current lease liabilities (note 6(o))	190,353	-	193,565	-	186,884	-
219000	Other current liabilities	17,940	-	13,717	-	6,145	-
		<u>116,854,623</u>	<u>76</u>	<u>94,684,661</u>	<u>71</u>	<u>88,958,333</u>	<u>70</u>
220000	Non-Current liabilities:						
224200	Other financial liabilities - non-current (note 6(v))	388,993	-	349,518	-	323,519	-
226000	Non-current lease liabilities (note 6(o))	746,903	1	819,040	1	865,034	1
228000	Deferred income tax liabilities	423,759	-	463,963	-	473,435	-
229000	Other non-current liabilities	625,516	-	637,102	1	684,608	1
		<u>2,185,171</u>	<u>1</u>	<u>2,269,623</u>	<u>2</u>	<u>2,346,596</u>	<u>2</u>
	Total liabilities	<u>119,039,794</u>	<u>77</u>	<u>96,954,284</u>	<u>73</u>	<u>91,304,929</u>	<u>72</u>
	Equity attributable to shareholders of the parent:						
301010	Common stock (note 6(r))	21,709,081	14	23,209,081	17	23,209,081	18
302000	Capital surplus (note 6(r))	2,743,205	2	2,852,299	2	2,852,299	2
304000	Retained earnings:						
304010	Legal reserve	1,922,939	1	1,658,360	1	1,658,360	1
304020	Special reserve	4,116,356	3	3,587,197	3	3,587,197	3
304040	Unappropriated earnings (note 6(r))	839,912	-	2,681,569	2	992,915	1
305120	Exchange differences on translation of foreign operations	(147,415)	-	(118,543)	-	(10,203)	-
305140	Unrealized gains (losses) on financial assets at fair value through other comprehensive income	1,874,294	1	1,696,677	1	1,566,011	1
305500	Treasury shares (note 6(r))	-	-	(1,574,000)	(1)	-	-
	Total equity attributable to the parent company	<u>33,058,372</u>	<u>21</u>	<u>33,992,640</u>	<u>25</u>	<u>33,855,660</u>	<u>26</u>
306000	Non-controlling interests	<u>2,669,475</u>	<u>2</u>	<u>2,223,489</u>	<u>2</u>	<u>2,112,724</u>	<u>2</u>
	Total equity	<u>35,727,847</u>	<u>23</u>	<u>36,216,129</u>	<u>27</u>	<u>35,968,384</u>	<u>28</u>
	Total liabilities and equity	<u>\$ 154,767,641</u>	<u>100</u>	<u>133,170,413</u>	<u>100</u>	<u>127,273,313</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 three months and six months ended June 30, 2020 and 2019****(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)**

		For the three months ended June 30				For the six months ended June 30			
		2020		2019		2020		2019	
		Amount	%	Amount	%	Amount	%	Amount	%
Income:									
401000	Brokerage commissions (note 6(t))	\$ 1,266,568	43	956,819	59	2,503,409	72	1,798,980	52
402000	Revenues from securities business money lending	45	-	24	-	62	-	89	-
403000	Revenue from securities lending	47,923	2	46,401	3	92,157	3	83,865	2
404000	Underwriting commissions (note 6(t))	28,737	1	18,173	1	55,402	2	40,061	1
406000	Commissions on wealth management business	18,319	1	25,721	2	41,165	1	47,568	1
410000	Net gains (losses) on sale of trading securities (note 6(t))	360,844	12	8,159	1	(420,829)	(12)	225,280	7
421100	Securities management, distribution, and management fees	38,107	1	35,145	2	75,334	2	69,382	2
421200	Interest revenue (note 6(t))	320,737	11	387,769	24	673,326	20	757,167	22
421300	Dividend revenue	28,664	1	24,089	1	37,670	1	35,276	1
421500	Net gains (losses) on measurement of trading securities at fair value through profit or loss (note 6(t))	976,110	34	(41,884)	(3)	(230,562)	(7)	627,855	18
421600	Net gains (losses) on covering of borrowed securities and bonds with resale agreements	(25,253)	(1)	24,281	2	67,184	2	52,261	2
421610	Net gains (losses) on measurement of borrowed securities and bonds with resale agreements	(23,126)	(1)	(12,873)	(1)	(36,397)	(1)	(140,004)	(4)
421750	Realized gains (losses) from investments in debt instruments at fair value through other comprehensive income	104,854	4	60,704	4	152,957	4	97,032	3
422000	Net gains (losses) from exchange traded notes (note 6(v))	(77)	-	20	-	(3)	-	20	-
422100	Management and commissions revenue from exchange traded notes (note 6(v))	1	-	-	-	3	-	-	-
422200	Net gains (losses) on stock warrants issued (note 6(t) and (v))	78,272	3	89,807	6	121,198	4	68,446	2
424100	Futures commission revenues (note 6(t))	86,958	3	49,490	3	147,736	4	107,623	3
424400	Net gains (losses) on derivative instruments - futures (note 6(v))	(102,869)	(4)	(43,282)	(3)	145,542	4	(386,574)	(11)
424500	Net gains (losses) on derivative instruments - OTC (note 6(v))	(339,273)	(12)	(26,526)	(2)	(8,059)	-	(118,045)	(3)
424800	Management fee revenues	186	-	82	-	392	-	104	-
424900	Consultancy fee revenue	3,399	-	4,074	-	6,187	-	7,038	-
425300	Impairment losses and reversal gains (note 6(u))	(2,578)	-	1,467	-	(2,882)	-	(41)	-
428000	Other operating revenues	49,064	2	21,453	1	36,755	1	58,450	2
		<u>2,915,612</u>	<u>100</u>	<u>1,629,113</u>	<u>100</u>	<u>3,457,747</u>	<u>100</u>	<u>3,431,833</u>	<u>100</u>
Expenses:									
501000	Brokerage fees	161,775	6	115,796	7	290,901	8	214,218	7
502000	Brokerage and clearing fees - proprietary trading	3,130	-	3,250	-	7,779	-	7,068	-
503000	Clearing and exchange fees - refinancing	1,110	-	351	-	1,783	-	1,209	-
504000	Clearing and exchange fees - underwriting	262	-	69	-	628	-	551	-
521200	Financial costs	108,058	4	171,989	11	244,936	7	318,278	9
524100	Futures commission expense (note 6(t))	84,256	3	71,872	4	187,370	6	151,061	4
524300	Cleaning and settlement expenses	43,537	1	37,311	2	89,576	3	70,818	2
528000	Other operating expenditure	3,335	-	144	-	6,149	-	974	-
531000	Employee benefits expenses (note 6(t))	687,871	24	613,678	38	1,288,636	37	1,157,050	34
532000	Depreciation and amortization expense (note 6(t))	112,089	4	94,248	6	223,697	7	200,016	6
533000	Other operating expenses (note 6(t))	362,101	12	336,196	21	704,115	20	662,774	19
		<u>1,567,524</u>	<u>54</u>	<u>1,444,904</u>	<u>89</u>	<u>3,045,570</u>	<u>88</u>	<u>2,784,017</u>	<u>81</u>
Other income (expenses):									
601000	Share of profits of associates and joint ventures accounted for using equity method (note 6(e))	41,275	1	47,111	3	91,152	3	99,311	3
602000	Other gains and losses (note 6(t))	282,460	10	296,388	18	516,451	15	553,000	16
		<u>323,735</u>	<u>11</u>	<u>343,499</u>	<u>21</u>	<u>607,603</u>	<u>18</u>	<u>652,311</u>	<u>19</u>
902001	Net income before income tax	1,671,823	57	527,708	32	1,019,780	30	1,300,127	38
701000	Less: Income tax expenses (note 6(q))	99,909	3	103,737	6	225,358	7	201,942	6
	Net income	<u>1,571,914</u>	<u>54</u>	<u>423,971</u>	<u>26</u>	<u>794,422</u>	<u>23</u>	<u>1,098,185</u>	<u>32</u>
805000	Other comprehensive income:								
805500	Components that may not be reclassified to profit or loss in subsequent periods:								
805540	Unrealized gains (losses) from investments in equity instruments at fair value through other comprehensive income	441,000	15	128,437	8	43,617	1	369,657	11
805550	Share of other comprehensive income of associates and joint ventures accounted for using equity method	344	-	3,439	-	344	-	3,439	-
805599	Less: Income tax related to components of other comprehensive income	-	-	-	-	-	-	-	-
	Subtotal of components that may not be subsequently reclassified into profit or loss	<u>441,344</u>	<u>15</u>	<u>131,876</u>	<u>8</u>	<u>43,961</u>	<u>1</u>	<u>373,096</u>	<u>11</u>
805600	Components that may be reclassified to profit or loss in subsequent periods:								
805610	Exchange differences on translation of foreign operations	(75,222)	(3)	33,034	2	(35,344)	(1)	41,893	1
805615	Unrealized gains (losses) from investments in debt instruments at fair value through other comprehensive income	577,727	20	201,155	12	163,870	5	445,594	13
805699	Less: Income tax related to components of other comprehensive income (note 6(q))	(6,403)	-	3,184	-	(3,260)	-	4,066	-
	Subtotal of items that may be subsequently reclassified into profit or loss	<u>508,908</u>	<u>17</u>	<u>231,005</u>	<u>14</u>	<u>131,786</u>	<u>4</u>	<u>483,421</u>	<u>14</u>
805000	Other comprehensive income, net	<u>950,252</u>	<u>32</u>	<u>362,881</u>	<u>22</u>	<u>175,747</u>	<u>5</u>	<u>856,517</u>	<u>25</u>
902006	Total comprehensive income	<u>\$ 2,522,166</u>	<u>86</u>	<u>786,852</u>	<u>48</u>	<u>970,169</u>	<u>28</u>	<u>1,954,702</u>	<u>57</u>
Net income attributable to:									
913100	Shareholders of the parent	\$ 1,508,552	52	359,545	22	658,534	19	962,578	28
913200	Non-controlling interests	63,362	2	64,426	4	135,888	4	135,607	4
		<u>\$ 1,571,914</u>	<u>54</u>	<u>423,971</u>	<u>26</u>	<u>794,422</u>	<u>23</u>	<u>1,098,185</u>	<u>32</u>
Total comprehensive income attributable to:									
914100	Shareholders of the parent	\$ 2,467,501	85	716,362	44	837,552	24	1,812,031	53
914200	Non-controlling interests	54,665	1	70,490	4	132,617	4	142,671	4
		<u>\$ 2,522,166</u>	<u>86</u>	<u>786,852</u>	<u>48</u>	<u>970,169</u>	<u>28</u>	<u>1,954,702</u>	<u>57</u>
975000	Basic earnings per share (note 6(s))	<u>\$ 0.69</u>		<u>0.15</u>		<u>0.30</u>		<u>0.41</u>	
985000	Diluted earnings per share (note 6(s))	<u>\$ 0.69</u>		<u>0.15</u>		<u>0.30</u>		<u>0.41</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 six months ended June 30, 2020 and 2019****(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	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, 2019	\$ 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 six months ended June 30, 2019	-	-	-	-	962,578	-	-	-	962,578	135,607	1,098,185
Other comprehensive income	-	-	-	-	-	30,865	818,588	-	849,453	7,064	856,517
Total comprehensive income	-	-	-	-	962,578	30,865	818,588	-	1,812,031	142,671	1,954,702
Appropriation and distribution of retained earnings: (note 6(r))											
Legal reserve	-	-	138,725	-	(138,725)	-	-	-	-	-	-
Special reserve	-	-	-	284,386	(284,386)	-	-	-	-	-	-
Cash dividends of common stocks	-	-	-	-	(928,363)	-	-	-	(928,363)	-	(928,363)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	(5,439)	-	5,439	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(262,691)	(262,691)
Balance at June 30, 2019	\$ 23,209,081	2,852,299	1,658,360	3,587,197	992,915	(10,203)	1,566,011	-	33,855,660	2,112,724	35,968,384
Balance at January 1, 2020	\$ 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
Net income for the six months ended June 30, 2020	-	-	-	-	658,534	-	-	-	658,534	135,888	794,422
Other comprehensive income	-	-	-	-	-	(28,872)	207,890	-	179,018	(3,271)	175,747
Total comprehensive income	-	-	-	-	658,534	(28,872)	207,890	-	837,552	132,617	970,169
Appropriation and distribution of retained earnings: (note 6(r))											
Legal reserve	-	-	264,579	-	(264,579)	-	-	-	-	-	-
Special reserve	-	-	-	529,159	(529,159)	-	-	-	-	-	-
Cash dividends of common stocks	-	-	-	-	(1,736,726)	-	-	-	(1,736,726)	-	(1,736,726)
Purchase of treasury shares	-	-	-	-	-	-	-	(30,387)	(30,387)	-	(30,387)
Retirement of treasury shares	(1,500,000)	(104,387)	-	-	-	-	-	1,604,387	-	-	-
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	30,273	-	(30,273)	-	-	-	-
Capital surplus changes in ownership interests in subsidiaries	-	(4,707)	-	-	-	-	-	-	(4,707)	313,369	308,662
Balance at June 30, 2020	\$ 21,709,081	2,743,205	1,922,939	4,116,356	839,912	(147,415)	1,874,294	-	33,058,372	2,669,475	35,727,847

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 six months ended June 30, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	For the six months ended June 30	
	2020	2019
Cash flows from operating activities:		
Net income before tax	\$ 1,019,780	1,300,127
Adjustments:		
Income and expenses items:		
Depreciation expense	205,991	183,194
Amortization expense	17,706	16,822
Impairment loss	2,882	41
Net losses (gains) on financial assets or liabilities at fair value through profit or loss	266,959	(487,851)
Financial cost	244,936	318,278
Interest revenue (including financial revenue)	(906,165)	(1,045,565)
Dividend revenue	(93,143)	(70,036)
Share of profit of associates and joint ventures accounted for using equity method	(91,152)	(99,311)
Losses (gains) on disposal and retirement of property and equipment	(11,317)	342
Net gains on non-operating financial instruments at fair value through profit or loss	(20,507)	(19,900)
Subtotal of income of non-cash activities	(383,810)	(1,203,986)
Changes in operating assets and liabilities:		
Increase in financial assets at fair value through profit or loss	(3,012,577)	(16,538)
Increase in financial assets at fair value through other comprehensive income	(3,689,502)	(3,663,723)
Decrease in receivable for securities provided as collateral	1,504,645	133,772
Decrease in refinancing margin	9,664	24,921
Decrease in receivable on refinancing collateral	70,316	21,307
Decrease (increase) in receivable of securities business money lending	(188,318)	29,909
Increase in customers' margin account	(4,208,040)	(325,797)
Decrease (increase) in margin receivable of futures trading	(2,675)	1,498
Decrease in collateral for securities borrowed	80,661	383,166
Increase in security borrowing margin	(235,063)	(516,175)
Increase in notes receivable	(13,541)	(5,442)
Increase in accounts receivable	(4,332,399)	(2,418,953)
Decrease (increase) in prepayments	(9,361)	7,500
Increase in other receivables	(74,169)	(415,985)
Increase in leverage contract trading - customers' margin account	(59,783)	(11,904)
Increase in pledged assets - current	(11,131)	-
Decrease in other current assets	410,759	44,512
Decrease (increase) in guarantee deposited for business operations	77	(67,669)
Increase in settlement fund	(7,485)	(4,232)
Decrease in refundable deposits	2,312	8,611
Increase in other non-current assets	(27,706)	(45,374)
Increase (decrease) in financial liabilities at fair value through profit or loss	209,555	(374,090)
Increase in bonds sold under repurchase agreements	7,640,604	5,868,742
Decrease in guarantee deposited for short sales	(316,872)	(1,101,498)
Decrease in proceeds payable from short sales	(469,477)	(1,249,589)
Increase in securities lending refundable deposits	716,983	263,015
Increase in futures traders' equity	4,230,691	399,712
Increase in leverage contract trading - customers' equity	55,071	13,387
Decrease in notes payable	-	(481)
Increase in accounts payable	4,232,171	2,552,569
Decrease in advance receipts	(3,653)	(600)
Increase (decrease) in receipts under custody	12,272	(13,966)
Increase (decrease) in other payable	(15,617)	147,108
Increase (decrease) in other financial liabilities - current	153,405	(9,834)
Increase in provision - current	8,582	8,635
Increase (decrease) in other current liabilities	4,223	(5,507)
Increase in other financial liabilities - non-current	39,475	13,487
Increase (decrease) in other non-current liabilities	(11,586)	26,182
Total changes in assets and liabilities from operating activities	2,692,511	(299,324)
Total cash generated from operation	2,308,701	(1,503,310)

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

Consolidated Statements of Cash Flows

For the six months ended June 30, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	For the six months ended June 30	
	2020	2019
Cash generated from operating activities	\$ 3,328,481	(203,183)
Interest received	1,023,670	980,456
Dividends received	72,340	49,272
Interest paid	(274,334)	(287,815)
Income taxes paid	(56,285)	(369,154)
Net Cash flows provided by operating activities	4,093,872	169,576
Cash flows from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	-	(64,864)
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	202,681	1,528
Increase in deferred debits	(54)	(266)
Acquisition of property and equipment	(47,930)	(163,144)
Proceeds from disposal of property and equipment	20,287	-
Acquisition of intangible assets	(22,931)	(11,561)
Net cash flows provided by (used in) investing activities	152,053	(238,307)
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	(2,057,912)	203,801
Payment of lease liabilities	(106,534)	(45,822)
Issuance of common stock for cash	482,278	-
Purchase of treasury shares	(30,387)	-
Net cash flows (used in) provided by financing activities	(1,712,555)	157,979
Effect of exchange rate changes on cash and cash equivalents	(34,289)	40,601
Increase in cash and cash equivalents	2,499,081	129,849
Cash and cash equivalents, beginning of period	8,323,636	7,993,419
Cash and cash equivalents, end of period	\$ 10,822,717	8,123,268

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

June 30, 2020 and 2019

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

(1) Company history:

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 June 30, 2020, the composition of the consolidated financial statements includes the Company and the subsidiaries (the “Group”). As of June 30, 2020, 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) Securities business money lending;
- (l) Managing the unexpended balance of clients’ securities accounts within their authorization;
- (m) Securities lending business (except book-entry central government securities) ;
- (n) Trust business;
- (o) Offshore securities business;
- (p) Other relevant services as approved by the authority in charge.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

The consolidated financial statements were authorized for issue by the board of directors on August 25, 2020.

(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, 2020.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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
Amendments to IFRS 16 “Covid-19-Related Rent Concessions”	June 1, 2020

The Group assesses that the adoption of the abovementioned standards would not have any material impact on its consolidated financial statements.

- (b) 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:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 16 “Property, Plant and Equipment—Proceeds before Intended Use”	January 1, 2022
Amendments to IAS 37 “Onerous Contracts—Cost of Fulfilling a Contract”	January 1, 2022
Annual Improvements to IFRS Standards 2018-2020	January 1, 2022
Amendments to IFRS 17 “Insurance Contracts”	January 1, 2023

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

Issuance / Release Dates	Standards or Interpretations	Content of amendment
September 11, 2014	Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	<p>The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture.</p> <p>The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.</p>
January 23, 2020	Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	<p>The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of balance sheet, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.</p>

The Group is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its consolidated financial position and consolidated financial performance. The results thereof will be disclosed when the Group completes its evaluation.

(4) Summary of significant accounting policies:

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the “ Regulations Governing the Preparation of Financial Reports by Securities Firms”, and the IAS 34 “ Interim Financial Reporting” endorsed and issued into effect by the FSC, and do not include all of the information required by the Regulations and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC for a complete set of the annual consolidated financial statements.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Except as described below, the significant accounting policies adopted in the accompanying consolidated financial statements are the same as the consolidated financial statements as of and for the year ended December 31, 2019. Please refer to Note 4 of the consolidated financial statements as of and for the year ended December 31, 2019 for the detail disclosures of significant accounting policies.

(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.

(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.

(ii) List of subsidiaries in the consolidated financial statements

Subsidiaries included in the consolidated financial report are as follows:

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			June 30, 2020	December 31, 2019	June 30, 2019	
The Company	Capital Investment Management Corp.	Engaged in providing advice on securities investment, securities investment consultancy and discretionary investment	100.00 %	100.00 %	100.00 %	The corporation established in February, 1990. As of June 30, 2020, the paid-in capitals amounted to \$70,000.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			June 30, 2020	December 31, 2019	June 30, 2019	
The Company	CSC International Holdings Ltd.	Long-term equity investment business	100.00 %	100.00 %	100.00 %	The corporation established in March, 1996. As of June 30, 2020, the paid-in capitals amounted to US\$45,000 thousands.
"	Capital Futures Corp.	Engaged in domestic and foreign futures business	56.58 %	56.21 %	56.21 %	The corporation established in February, 1997 and conducted a cash capital increase on March, 2020. The Company's ratio of equity ownership increased from 56.21% to 56.58%. As of June 30, 2020, the paid-in capitals amounted to \$2,104,376.
"	Taiwan International Securities (B.V.I) Corp.	Holding company for offshore securities units	100.00 %	100.00 %	100.00 %	The corporation established in December, 1996. As of June 30, 2020, the paid-in capitals amounted to US\$9,516 thousands.
"	Taiwan International Securities Investment Consulting Corp.	Investment consultancy	- %	99.92 %	99.92 %	Completion of liquidation.
"	CSC Venture Capital Corp.	Venture Capital and consulting business	100.00 %	100.00 %	100.00 %	The corporation established in January, 2016. As of June 30, 2020, the paid-in capitals amounted to \$1,000,000.
Capital Futures Corp.	CSC Futures (HK) Ltd.	Futures dealing business	97.27 %	97.27 %	97.27 %	The corporation established in December, 1998. As of June 30, 2020, the paid-in capitals amounted to HK\$220,000 thousands.
"	Capital International Technology Corp.	Management, consulting and information service business	100.00 %	100.00 %	100.00 %	The corporation established in December, 2014. As of June 30, 2020, the paid-in capitals amounted to \$50,000.
Capital International Technology Corp.	Capital True Partner Technology Co., Ltd.	Management, consulting and information service business.	51.00 %	51.00 %	51.00 %	The corporation established in August 20, 2008. Acquired 51% of the equity on February 9, 2015 and held controlling interest. As of June 30, 2020, 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 %	100.00 %	The corporation established in October, 2016. As of June 30, 2020, 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 %	100.00 %	The corporation established in May, 1994.
CSC Securities (HK) Ltd.	Capital Securities Nominees Ltd.	Agency service	100.00 %	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 %	100.00 %	Liquidation in progress
TIS Securities (HK) Limited	Taiwan International Capital (HK) Ltd.	Liquidation in progress	100.00 %	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
			June 30, 2020	December 31, 2019	June 30, 2019	
The Company	Capital Insurance Agency Corp.	Manages personal insurance agent business.	100.00 %	100.00 %	100.00 %	The corporation established in November 2000. The Company acquired 100% of the equity and gained a controlling interest. The paid-in capitals amounted to \$7,400. As of June 30, 2020, December 31, 2019 and June 30, 2019, the total assets constituted 0.03% - 0.04% and 0.04% of the Group's total assets. For the six months ended June 30, 2020 and 2019, the operation revenue were merely 0.95% and 1.57% 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 %	100.00 %	The corporation established in November 2000. The Company acquired 100% of the equity and gained a controlling interest. The paid-in capitals amounted to \$5,000. As of June 30, 2020, December 31, 2019 and June 30, 2019, the total assets constituted 0.08% - 0.09% and 0.12% of the Group's total assets. For the six months ended June 30, 2020 and 2019, the operation revenue were merely 1.92% and 2.96% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.

(d) Employee benefits

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

(e) Income tax

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

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

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

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

The preparation of the consolidated financial statements in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Firms and IAS 34 “Interim Financial Reporting” requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In these consolidated financial statements, judgments and key sources of estimation uncertainty used by management in the application of critical accounting policies are expected to be consistent with those of Note 5 of the consolidated financial statements as of and for the year ended December 31, 2019.

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Cash	\$ 2,756	2,781	3,079
Bank deposits			
Checking accounts	33,635	38,143	30,806
Demand deposits	1,591,817	581,921	527,283
Foreign currency deposits	<u>1,603,170</u>	<u>1,219,527</u>	<u>1,296,824</u>
Subtotal	<u>3,228,622</u>	<u>1,839,591</u>	<u>1,854,913</u>
Cash equivalents			
Time deposits	5,696,858	5,286,174	4,085,029
Futures margin - excess margin	1,834,501	1,184,098	1,947,741
Commercial papers	<u>59,980</u>	<u>10,992</u>	<u>232,506</u>
Subtotal	<u>7,591,339</u>	<u>6,481,264</u>	<u>6,265,276</u>
Total	<u><u>\$ 10,822,717</u></u>	<u><u>8,323,636</u></u>	<u><u>8,123,268</u></u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Financial assets

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

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Open-ended funds and money-market instruments			
Open-ended funds and money-market instruments	\$ 540,256	251,541	320,794
Valuation adjustment	<u>32,994</u>	<u>15,091</u>	<u>4,489</u>
Subtotal	<u>573,250</u>	<u>266,632</u>	<u>325,283</u>
Securities invested by securities broker			
Securities invested by securities broker	-	146,849	-
Valuation adjustment	<u>-</u>	<u>(1,589)</u>	<u>-</u>
Subtotal	<u>-</u>	<u>145,260</u>	<u>-</u>
Trading securities - proprietary trading			
Listed stocks	\$ 1,154,477	1,810,032	1,304,141
Listed funds	571,873	796,400	740,889
OTC stocks	345,149	387,666	475,866
OTC funds	138,788	200,580	163,900
Emerging market stocks	469,884	532,189	527,720
Convertible corporate bonds	777,591	889,088	664,628
Government bonds	5,599,771	3,317,485	6,913,755
Corporate bonds	8,195,146	7,641,557	8,797,151
International bonds	5,064,366	4,536,910	4,413,156
Financial debentures	1,262,042	200,000	300,000
Foreign stocks	86,043	519,279	154,623
Overseas bonds	91,207	233,297	190,385
Others	<u>10,300</u>	<u>300</u>	<u>2,757</u>
	23,766,637	21,064,783	24,648,971
Valuation adjustment	<u>111,457</u>	<u>165,577</u>	<u>78,977</u>
Subtotal	<u>23,878,094</u>	<u>21,230,360</u>	<u>24,727,948</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Trading securities - underwriting:			
Listed stocks	\$ 24,389	37,424	64,192
OTC stocks	16,196	38,716	46,715
Convertible corporate bonds	<u>211,351</u>	<u>85,097</u>	<u>105,361</u>
	251,936	161,237	216,268
Valuation adjustment	<u>(537)</u>	<u>26,053</u>	<u>24,822</u>
Subtotal	<u>251,399</u>	<u>187,290</u>	<u>241,090</u>
Trading securities - hedging			
Listed stocks	1,420,519	2,816,447	1,545,706
OTC stocks	486,115	773,913	256,762
Convertible corporate bonds	6,632,895	4,948,227	4,164,804
Others	<u>27,000</u>	<u>-</u>	<u>-</u>
	8,566,529	8,538,587	5,967,272
Valuation adjustment	<u>128,547</u>	<u>279,305</u>	<u>26,683</u>
Subtotal	<u>8,695,076</u>	<u>8,817,892</u>	<u>5,993,955</u>
Derivatives			
Call options	2,167	3,482	948
Futures margin - proprietary fund	187,616	233,624	230,378
IRS asset swaps	16,143	16,053	12,158
Asset swap options - long position	114,957	37,684	21,035
Leverage derivatives - non-hedging	45,805	39,066	35,999
Structured notes	1,923	25,925	-
Currency swaps	1,362	-	-
Interest rate swaps	<u>-</u>	<u>-</u>	<u>1,220</u>
Subtotal	<u>369,973</u>	<u>355,834</u>	<u>301,738</u>
Total	<u>\$ 33,767,792</u>	<u>31,003,268</u>	<u>31,590,014</u>

As of June 30, 2020, December 31, 2019 and June 30, 2019, par value for trading securities-bonds and financial assets at fair value through other comprehensive income-bonds undertaken for repurchase agreements of the Group, please refer to note 8 for details.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Debt instruments at fair value through other comprehensive income			
Government bonds	\$ 2,215,213	2,225,249	-
International bonds	828,940	1,198,147	1,240,837
Overseas bonds	<u>16,032,671</u>	<u>12,054,824</u>	<u>13,150,594</u>
	19,076,824	15,478,220	14,391,431
Valuation adjustment	<u>527,728</u>	<u>366,972</u>	<u>393,043</u>
Subtotal	<u>19,604,552</u>	<u>15,845,192</u>	<u>14,784,474</u>
Equity instrument at fair value through other comprehensive income			
Listed stocks	186,375	118,428	143,546
OTC stocks	87,496	10,756	10,756
Emerging market stocks	61,747	24,130	24,130
Foreign stocks	<u>-</u>	<u>-</u>	<u>101,882</u>
	335,618	153,314	280,314
Valuation adjustment	<u>76,216</u>	<u>(15,804)</u>	<u>(5,123)</u>
Subtotal	<u>411,834</u>	<u>137,510</u>	<u>275,191</u>
Total	<u><u>\$ 20,016,386</u></u>	<u><u>15,982,702</u></u>	<u><u>15,059,665</u></u>

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

The Group has assessed the debentures shown above are held within a business model whose objective is achieved by both collecting the contractual cash flows and selling securities; therefore, they have been classified as financial asset at fair value through other comprehensive income.

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

For the three months and the six months ended June 30, 2020 and 2019, 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 \$6,220, \$1,744, \$6,220 and \$2,028, 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 \$264,951, \$262,551, \$267,470 and \$401,151, respectively, cumulative dispose gains (losses) for the three months and the six months ended June 30, 2020 and 2019, amounted to \$31,747, \$10,494, \$30,273 and \$(5,439), respectively, were transferred from other equity items to retained earnings.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 3) For credit risk (including the impairment of debt instrument investments) and market risk; please refer to note 6(u).
- 4) For the six months ended June 30, 2020 and 2019, impairment test have been applied by the Group, the variation of loss allowance in the debt instrument measured at fair value through other comprehensive income of the Group please refer to note 6(u).
- (iii) Financial assets at fair value through profit or loss - non-current:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Mandatorily measured at fair value through profit or loss:			
Government bonds	\$ 180,329	180,329	180,329
Valuation adjustment	<u>700</u>	<u>138</u>	<u>156</u>
Total	<u>\$ 181,029</u>	<u>180,467</u>	<u>180,485</u>

As of June 30, 2020, December 31, 2019 and June 30, 2019, the Group took advantage of government bonds as margins of bills, interest rate swaps, structured notes transaction, settlement fund guarantee deposits, and compensation reserve of trust business (for details please refer to note 8).

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

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Equity instruments at fair value through other comprehensive income			
Non-listed or non-over-the-counter stocks	\$ 919,345	1,181,752	1,127,268
Valuation adjustment	<u>1,204,503</u>	<u>1,283,180</u>	<u>1,129,406</u>
Total	<u>\$ 2,123,848</u>	<u>2,464,932</u>	<u>2,256,674</u>

For the three months and the six months ended June 30, 2020 and 2019, 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 \$27,552, \$34,760, \$55,473 and \$34,760, respectively.

For the six months ended June 30, 2020 and 2019, the Group did not sell equities recognized in FVOCI -non-current. Furthermore, the Group acquired proceeds from capital reduction amounted to \$202,681 for the six months ended June 30, 2020.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (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 six months ended June 30, 2020 and 2019 VaR (99%, per 10-day) of equity stocks are as follows:

Type of market risk	June 30, 2020	December 31, 2019	June 30, 2019	For the six months ended June 30,					
				2020			2019		
				Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	1,135,789	1,364,147	1,025,554	1,166,920	1,330,276	1,066,520	999,571	1,046,836	932,006

(c) Accounts Receivable

	June 30, 2020	December 31, 2019	June 30, 2019
Receivable on securities purchased by customers	\$ 111,882	21,368	21,439
Settlement	1,057,862	-	2,336,692
Interests receivable	416,332	527,952	608,639
Receivables on securities sold	9,059,110	5,859,407	4,037,291
Others	86,105	81,225	108,307
Subtotal	10,731,291	6,489,952	7,112,368
Less: allowance for doubtful accounts	(1,706)	(1,706)	(1,706)
Total	<u>\$ 10,729,585</u>	<u>6,488,246</u>	<u>7,110,662</u>

- (i) For credit risk (including the impairment of debt instrument investments) and market risk; please refer to note 6(u).
- (ii) For the six months ended June 30, 2020 and 2019, impairment test have been applied by the Group, the variation of loss allowance in receivables, please refer to note 6(u).

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

As of June 30, 2020, December 31, 2019 and June 30, 2019, a reconciliation of the customers' margin account and the futures traders' equity was as follows:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Customers' margin account			
Cash in banks	\$ 28,218,724	26,292,763	24,992,226
Customers' margin account - futures clearing house	5,496,032	4,874,988	4,063,392
Customers' margin account - other futures commission merchants	5,296,447	3,635,783	4,544,886
Marketable securities	<u>556</u>	<u>185</u>	<u>923</u>
Total customers' margin account	<u>39,011,759</u>	<u>34,803,719</u>	<u>33,601,427</u>
Add:			
Commission expense	5,431	1,248	4,986
Other	1,150	(66)	38
Less:			
Commission revenue	(23,239)	(7,426)	(16,652)
Futures transaction tax	(1,529)	(1,342)	(1,094)
Interest revenues	(4,367)	(5,699)	(3,653)
Temporary receipts	(803)	(1,817)	(21,343)
Remittance amount of the customers after the market closed	(11,957)	(9,235)	(1,998)
Other receivables	<u>1,777</u>	<u>(31,851)</u>	<u>(3,173)</u>
Futures traders' equity	<u><u>\$ 38,978,222</u></u>	<u><u>34,747,531</u></u>	<u><u>33,558,538</u></u>

(e) Investments accounted for under equity method

As of June 30, 2020, December 31, 2019 and June 30, 2019, investments under equity method consisted of the following:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Subsidiaries			
Capital Insurance Advisory Corp.	\$ 42,961	78,906	56,071
Capital Insurance Agency Corp.	<u>40,366</u>	<u>43,447</u>	<u>43,163</u>
Subtotal	<u>83,327</u>	<u>122,353</u>	<u>99,234</u>
Associates			
True Partner Advisor Hong Kong Ltd.	49,546	47,860	47,311
Capital Investment Trust Corp.	<u>1,257,234</u>	<u>1,301,360</u>	<u>1,229,532</u>
Subtotal	<u>1,306,780</u>	<u>1,349,220</u>	<u>1,276,843</u>
Total	<u><u>\$ 1,390,107</u></u>	<u><u>1,471,573</u></u>	<u><u>1,376,077</u></u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Subsidiaries:

For the three months and the six months ended June 30, 2020 and 2019, the Group's share of gains or losses of the subsidiaries were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
The Group's share of gains based on the subsidiaries' financial statements	\$ <u>3,569</u>	<u>15,524</u>	<u>18,059</u>	<u>33,974</u>
		June 30, 2020	December 31, 2019	June 30, 2019
Total assets		\$ <u>172,821</u>	<u>167,994</u>	<u>204,355</u>
Total liabilities		\$ <u>89,494</u>	<u>45,641</u>	<u>105,121</u>
	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Revenue	\$ <u>31,443</u>	<u>78,740</u>	<u>99,120</u>	<u>155,425</u>
Net income	\$ <u>3,569</u>	<u>15,524</u>	<u>18,059</u>	<u>33,974</u>

(ii) Associates

Name of associate	Nature between the Company	Primary business area and registered country	Proportion of Ownership and Voting Rights		
			June 30, 2020	December 31, 2019	June 30, 2019
True Partner Advisor Hong Kong Ltd.	Engaged in asset management. The Subsidiary's strategic alliance in expansion of asset management.	Hong Kong	49.00 %	49.00 %	49.00 %
Capital Investment Trust Corp.	Engaged in security investment and discretionary investment services.	Taiwan	20.00 %	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:

	June 30, 2020	December 31, 2019	June 30, 2019
Total carrying amount of the associates that were not individually material	\$ <u>1,306,780</u>	<u>1,349,220</u>	<u>1,276,843</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
The Group's share of gains based on the associates' financial statements:				
Net gains from continuing operations	\$ 37,706	31,587	73,093	65,337
Other comprehensive income (losses)	54	3,645	232	3,661
Total comprehensive income (losses)	<u>\$ 37,760</u>	<u>35,232</u>	<u>73,325</u>	<u>68,998</u>

(iii) Collateral

As of June 30, 2020, December 31, 2019 and June 30, 2019, none of the investment accounted for under equity method of the Group were pledged for collateral.

(f) Property and equipment

	Land	Buildings	Equipment	Leasehold improvements	Total
Carrying amount:					
June 30, 2020	<u>\$ 1,989,033</u>	<u>753,587</u>	<u>264,165</u>	<u>128,766</u>	<u>3,135,551</u>
January 1, 2020	<u>\$ 1,881,232</u>	<u>722,474</u>	<u>273,784</u>	<u>148,115</u>	<u>3,025,605</u>
June 30, 2019	<u>\$ 1,916,596</u>	<u>750,820</u>	<u>203,201</u>	<u>155,225</u>	<u>3,025,842</u>

As of June 30, 2020, December 31, 2019 and June 30, 2019, the property and equipment which are provided as collateral or pledge, please refer to note 8 for details.

There was no significant acquisition, disposal and impairment loss or reversal of impairment losses of property and equipment of the Group in the periods for the six months ended June 30, 2020 and 2019. For the six months ended June 30, 2020 and 2019, \$421,088 and \$2,429,307 of property and equipment were transferred to investment property, and \$573,032 and \$34,077 of investment property were transferred to property and equipment. Please refer to note 6(t) for details of the depreciation expense occurring in this period and note 6(f) of the consolidated financial statements as of and for the year ended December 31, 2019 for other relevant information.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(g) Right-of-use assets

The Group leases many assets including 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, 2020	\$ 1,116,803	22,336	1,139,139
Additions	26,803	4,944	31,747
Reductions	(9,453)	-	(9,453)
Effect of changes in foreign exchange rates	(460)	-	(460)
Balance at June 30, 2020	<u>\$ 1,133,693</u>	<u>27,280</u>	<u>1,160,973</u>
Balance at January 1, 2019	\$ -	-	-
Effects of retrospective application	1,062,820	8,049	1,070,869
Additions	16,120	8,225	24,345
Effect of changes in foreign exchange rates	937	-	937
Balance at June 30, 2019	<u>\$ 1,079,877</u>	<u>16,274</u>	<u>1,096,151</u>
Accumulated depreciation and impairment losses:			
Balance at January 1, 2020	\$ 176,718	7,171	183,889
Depreciation	100,471	4,312	104,783
Reductions	(9,453)	-	(9,453)
Effect of changes in foreign exchange rates	(189)	-	(189)
Balance at June 30, 2020	<u>\$ 267,547</u>	<u>11,483</u>	<u>279,030</u>
Balance at January 1, 2019	\$ -	-	-
Depreciation	86,960	3,146	90,106
Effect of changes in foreign exchange rates	57	-	57
Balance at June 30, 2019	<u>\$ 87,017</u>	<u>3,146</u>	<u>90,163</u>
Carrying amount:			
June 30, 2020	<u>\$ 866,146</u>	<u>15,797</u>	<u>881,943</u>
January 1, 2020	<u>\$ 940,085</u>	<u>15,165</u>	<u>955,250</u>
June 30, 2019	<u>\$ 992,860</u>	<u>13,128</u>	<u>1,005,988</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(h) Investment property

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
<u>Carrying Amount:</u>			
June 30, 2020	\$ <u>2,966,675</u>	<u>657,377</u>	<u>3,624,052</u>
January 1, 2020	\$ <u>3,083,445</u>	<u>713,545</u>	<u>3,796,990</u>
June 30, 2019	\$ <u>3,048,546</u>	<u>711,798</u>	<u>3,760,344</u>
<u>Fair Value:</u>			
June 30, 2020			<u>7,295,403</u>
January 1, 2020			<u>7,577,872</u>
June 30, 2019			<u>7,459,944</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.

As of June 30, 2020, December 31, 2019 and June 30, 2019, the investment properties were provided as collateral or pledged, for details please refer to note 8.

There was no significant acquisition, disposal and impairment loss or reversal of impairment losses of investment properties of the Group in the periods for the six months ended June 30, 2020 and 2019. For the six months ended June 30, 2020 and 2019, \$421,088 and \$2,429,307 of property and equipment which were out of use land and buildings were transferred to investment property, and \$573,032 and \$34,077 of investment property were transferred to property and equipment. Please refer to note 6(t) for details of the depreciation expense occurring in this period and note 6(h) of the consolidated financial statements as of and for the year ended December 31, 2019 for other relevant information.

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, for the six months ended June 30, 2020, there was no significant addition of lease contract of the Group. Please refer to note 6(o) of the consolidated financial statements as of and for the year ended December 31, 2019 for relevant information.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Intangible assets

(i) Goodwill

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized as goodwill. As of June 30, 2020, December 31, 2019 and June 30, 2019, the book value was all \$3,126,698.

The Capital International Technology Corp., the second level subsidiary, acquired 51% shares of the Capital True Partner Technology Co., Ltd in order to expand operations. The Group recognized the differences between investment costs and identifiable assets as goodwill. As of June 30, 2020, December 31, 2019 and June 30, 2019, the book value of goodwill was all \$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 June 30, 2020, December 31, 2019 and June 30, 2019, the book value of the operation franchise was all \$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 June 30, 2020, December 31, 2019 and June 30, 2019, the book values of intangible assets were \$46,221, \$46,235 and \$46,298, 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 June 30, 2020, December 31, 2019 and June 30, 2019, the amortized book value were \$30,211, \$24,720 and \$31,231, respectively.

(j) Short-term borrowings

Nature of borrowings	June 30, 2020	December 31, 2019	June 30, 2019
Collateralized loan	\$ 1,362,980	709,780	2,398,900
Credit loan	3,210,110	5,921,222	1,678,407
Total	<u>\$ 4,573,090</u>	<u>6,631,002</u>	<u>4,077,307</u>
Interest rate range	<u>0.55%~1.50%</u>	<u>0.95%~3.37%</u>	<u>0.80%~2.85%</u>

As of June 30, 2020, December 31, 2019 and June 30, 2019, the Group had provided the land, buildings, and certificates of time deposits as collateral, for details please refer to note 8.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	June 30, 2020	December 31, 2019	June 30, 2019
Liabilities on sale of borrowed securities	\$ 341,833	386,818	101,879
Redeem liabilities on sale of borrowed securities	(2,740)	-	-
Valuation adjustment	(13,898)	(50,296)	178
Subtotal	<u>325,195</u>	<u>336,522</u>	<u>102,057</u>
Settlement coverage bonds payable of short sale	49,794	-	-
Valuation adjustment	(17)	-	-
Subtotal	<u>49,777</u>	<u>-</u>	<u>-</u>
Exchange Traded Notes	697	699	991
Valuation adjustment	8	30	13
Subtotal	<u>705</u>	<u>729</u>	<u>1,004</u>
Stock warrants issued	15,552,800	14,997,622	11,975,410
Stock warrants repurchased	(15,014,656)	(14,444,316)	(11,599,322)
Subtotal	<u>538,144</u>	<u>553,306</u>	<u>376,088</u>
Put options	4,290	11,902	1,073
IRS asset swaps	12,617	2,436	776
Asset swap options - short position	715,957	529,328	338,208
Structured notes	16,639	11,583	8,598
Leverage derivatives - non-hedging	2,758	7,574	490
Currency swaps	422	4,745	84
Interest rate swaps	1,054	969	-
Subtotal	<u>753,737</u>	<u>568,537</u>	<u>349,229</u>
Total	<u><u>\$ 1,667,558</u></u>	<u><u>1,459,094</u></u>	<u><u>828,378</u></u>

(l) Bonds sold under repurchase agreements

	June 30, 2020	December 31, 2019	June 30, 2019
Bonds sold under repurchase agreements	<u>\$ 39,488,135</u>	<u>31,847,531</u>	<u>33,901,266</u>
Agreed-upon repurchase amounts	<u>39,606,648</u>	<u>32,022,184</u>	<u>34,188,618</u>
Interest rates	<u>0.10%~2.70%</u>	<u>0.20%~3.20%</u>	<u>0.30%~3.20%</u>
Date of repurchase	<u>2020.7.1~2021.6.30</u>	<u>2020.1.2~2020.12.30</u>	<u>2019.7.1~2020.6.26</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(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.

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Equity for each customer in the account	\$ <u>8,759,850</u>	<u>3,025,153</u>	<u>598,882</u>

(n) Accounts payable

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Payable of securities sold by customers	\$ 107,704	11,136	19,448
Settlement	-	248,937	-
Payable of settlements	9,959,166	5,072,389	6,046,890
Others	<u>373,532</u>	<u>903,596</u>	<u>378,762</u>
Total	\$ <u>10,440,402</u>	<u>6,236,058</u>	<u>6,445,100</u>

(o) Lease liabilities

The Group’ s lease liabilities are as follow:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Current	\$ <u>190,353</u>	<u>193,565</u>	<u>186,884</u>
Non-current	\$ <u>746,903</u>	<u>819,040</u>	<u>865,034</u>

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

The amounts recognized in profit or loss were as follows:

	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Interest on lease liabilities	\$ <u>3,346</u>	<u>3,285</u>	<u>6,851</u>	<u>6,870</u>
Expenses relating to short-term leases	\$ <u>1,618</u>	<u>12,975</u>	<u>3,064</u>	<u>15,353</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	\$ <u>8,340</u>	<u>6,628</u>	<u>13,692</u>	<u>13,099</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	For the six months ended June 30,	
	2020	2019
Total cash outflow for leases	\$ 130,130	81,144

(p) Employee benefit

(i) Defined benefit plans

In the prior fiscal year, there is apparently no evidence of any material market volatility, material curtailment, reimbursement and settlement or other material one-time events. Therefore, pension cost in the interim consolidated financial statements is measured and disclosed according to the respective actuarial report as of December 31, 2019 and 2018.

For the three months and the six months ended June 30, 2020 and 2019, the Group's pension expenses recognized in profit or loss were \$1,967, \$2,867, \$3,923 and \$5,723, respectively.

(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 \$21,643, \$20,098, \$42,959 and \$41,020 under defined contribution plan to the Bureau of the Labor Insurance for the three months and the six months ended June 30, 2020 and 2019, respectively.

(iii) For the three months and the six months ended June 30, 2020 and 2019, the pension costs contributed by overseas subsidiaries in compliance with local ordinance were \$761, \$1,199, \$1,768 and \$2,433, respectively.

(iv) Provision for employee benefits liabilities

	June 30, 2020	December 31, 2019	June 30, 2019
Compensated absences	\$ 61,148	52,566	59,301

(q) Income tax

(i) The Group's tax rate interpretation was as follow:

The Company and its subsidiaries including Capital Investment Management Corp., Capital Futures Corp., Taiwan International Securities Investment Consulting Corp. and CSC Venture Capital Corp. are founded in Taiwan. The corporate income tax rate are both 20% for the years ended December 31, 2020 and 2019.

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, 2020 and 2019.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The tax rate of reinvestment business of subsidiaries which founded in Hong Kong are all 16.5% for the years ended December 31, 2020 and 2019.

The tax rate of reinvestment business of subsidiaries which founded in Mainland are all 25% for the years ended December 31, 2020 and 2019.

- (ii) The detail of income tax expense or benefit for the three months and the six months ended June 30, 2020 and 2019 were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Current tax expense	\$ 149,765	108,995	218,459	265,350
Deferred income tax expense (benefit)	(49,856)	(5,258)	6,899	(63,408)
Total	<u>\$ 99,909</u>	<u>103,737</u>	<u>225,358</u>	<u>201,942</u>

- (iii) The amount of income tax expense or benefit recognized in other comprehensive income for the three months and the six months ended June 30, 2020 and 2019 were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Foreign exchange difference from translating financial statement of foreign operations	<u>\$ (6,403)</u>	<u>3,184</u>	<u>(3,260)</u>	<u>4,066</u>

- (iv) Income tax assessment status

- 1) The Company's income tax returns through 2017 were assessed by the Tax Authority.
- 2) Subsidiary - Capital Investment Management Corp.'s income tax returns through 2018 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. And on June 15, 2020, the entity was been admitted the completion of liquidation by the court.
- 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 2018 were assessed by the Tax Authority.

- (r) Capital and other equity

- (i) Capital stock

As of June 30, 2020, December 31, 2019 and June 30, 2019, the Company had authorized capital of \$30,000,000 and issued common stock of 2,170,908 thousand shares, 2,320,908 thousand shares and 2,320,908 thousand shares, respectively, with a par value of \$10 per share.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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:

	June 30, 2020	December 31, 2019	June 30, 2019
Premium from stock issuance	\$ 1,661,603	1,776,413	1,776,413
Treasury stock transactions	486,556	437,096	437,096
Paid-in capital from merger	563,715	602,665	602,665
Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,251	1,338	1,338
Changes in ownership interests in subsidiaries	30,080	34,787	34,787
	<u><u>\$ 2,743,205</u></u>	<u><u>2,852,299</u></u>	<u><u>2,852,299</u></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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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 2019 and 2018 earnings distribution resolved by the shareholders' meeting on June 22, 2020 and June 24, 2019, respectively, were as follows:

	2019		2018	
	Amount	Dividends per share	Amount	Dividends per share
Cash dividends	<u>\$ 1,736,726</u>	0.8	<u>928,363</u>	0.4

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

(iv) Treasury stocks

Pursuant to Article 28-2 of the "Securities and Exchange Act", the Company repurchased 150,000 thousand shares as treasury shares to maintain the Company's credit standing and shareholders' equity from November, 2019 to January 31, 2020, and retired all shares on February, 2020.

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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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. The Company repurchased 150,000 thousand shares in total and all the repurchased shares were retired and the registration of capital reduction was completed on February 21, 2020.

(s) Earnings per share

The basic earnings per share and dilutive earnings per share for the three months and the six months ended June 30, 2020 and 2019 were calculated as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Net income attributable to common shareholders of the Company	\$ <u>1,508,552</u>	<u>359,545</u>	<u>658,534</u>	<u>962,578</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	<u>2,170,924</u>	<u>2,320,908</u>	<u>2,170,924</u>	<u>2,320,908</u>
Basic earnings per share (dollar)	\$ <u>0.69</u>	<u>0.15</u>	<u>0.30</u>	<u>0.41</u>
Effect of potentially dilutive common stock				
- Employee remuneration (thousands of shares) (Note)	<u>881</u>	<u>521</u>	<u>881</u>	<u>1,320</u>
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	<u>2,171,805</u>	<u>2,321,429</u>	<u>2,171,805</u>	<u>2,322,228</u>
Dilutive earnings per share (dollar)	\$ <u>0.69</u>	<u>0.15</u>	<u>0.30</u>	<u>0.41</u>

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

(t) Items of the statements of comprehensive income

(i) Brokerage commissions

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Brokerage commission from TSE market	\$ 571,682	375,539	1,053,590	686,320
Brokerage commission from OTC market	205,249	133,567	350,323	262,782
Handling fee from security financing	8,431	6,998	15,591	11,863
Futures commission income - brokerage	443,225	405,760	1,010,601	774,557
Overseas subsidiaries	10,885	17,223	21,755	26,876
Others	<u>27,096</u>	<u>17,732</u>	<u>51,549</u>	<u>36,582</u>
	\$ <u>1,266,568</u>	<u>956,819</u>	<u>2,503,409</u>	<u>1,798,980</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Underwriting commissions

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Revenue from underwriting securities on a firm commitment basis	\$ 23,119	14,959	41,952	22,743
Handling fee revenues from underwriting securities on best efforts basis	119	687	251	1,140
Processing fee revenues from underwriting operations	4,178	1,098	7,918	11,527
Revenue from underwriting consultation	840	1,120	4,400	3,260
Others	481	309	881	1,391
	<u>\$ 28,737</u>	<u>18,173</u>	<u>55,402</u>	<u>40,061</u>

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

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Gains (losses) on securities sold - proprietary trading	\$ 236,130	(6,875)	(329,419)	119,752
Gains (losses) on securities sold - underwriting	9,200	6,088	33,347	9,388
Gains (losses) on securities sold - hedging	115,514	8,946	(124,757)	96,140
Total	<u>\$ 360,844</u>	<u>8,159</u>	<u>(420,829)</u>	<u>225,280</u>

(iv) Interest revenue

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Interest revenue - margin loans	\$ 122,702	145,498	271,793	283,994
Interest revenue - bonds	158,581	210,395	321,407	415,289
Overseas subsidiaries	15,404	15,154	27,189	23,977
Others	24,050	16,722	52,937	33,907
	<u>\$ 320,737</u>	<u>387,769</u>	<u>673,326</u>	<u>757,167</u>

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

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Trading securities - proprietary	\$ 502,938	(27,994)	(53,231)	336,529
Trading securities - underwriting	15,228	(3,883)	(26,589)	33,134
Trading securities - hedging	456,923	(9,980)	(150,759)	258,192
Settlement coverage bonds payable of short sale	1,021	(27)	17	-
	<u>\$ 976,110</u>	<u>(41,884)</u>	<u>(230,562)</u>	<u>627,855</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Gains on changes in fair value of stock warrants	\$ 1,155,538	9,189,333	5,466,449	12,975,536
Gains on exercise of stock warrants before maturity	7,056,361	3,993,857	15,752,120	7,841,910
Losses on changes in fair value of stock warrants repurchased	(8,098,328)	(13,060,374)	(21,040,356)	(20,681,880)
Gains on expiration of stock warrants	11,914	5,795	29,187	9,684
Stock warrants issuance expenses	(47,213)	(38,804)	(86,202)	(76,804)
	<u>\$ 78,272</u>	<u>89,807</u>	<u>121,198</u>	<u>68,446</u>

(vii) Futures commission revenues

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Futures commission revenues - CSC Futures (HK) Ltd.	<u>\$ 86,958</u>	<u>49,490</u>	<u>147,736</u>	<u>107,623</u>

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

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Future trading - reconsignment	\$ 64,121	61,325	149,327	121,606
Future trading - introducing brokers	387	246	945	414
Commission expenses - CSC Futures (HK) Ltd.	19,748	10,301	37,098	29,041
	<u>\$ 84,256</u>	<u>71,872</u>	<u>187,370</u>	<u>151,061</u>

(ix) Employee benefits, depreciation, and amortization expenses

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Employee benefit expenses				
Salary expense	\$ 608,685	537,405	1,127,568	999,606
Health and labor insurance expense	40,263	37,956	83,688	80,434
Pension expense	24,371	24,164	48,650	49,176
Others	14,552	14,153	28,730	27,834
Depreciation expense	103,227	85,620	205,991	183,194
Amortization expense	8,862	8,628	17,706	16,822
	<u>\$ 799,960</u>	<u>707,926</u>	<u>1,512,333</u>	<u>1,357,066</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(x) Other operating expenses

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Rental expense	\$ 9,951	19,604	16,743	28,453
Taxes	90,499	77,685	188,631	167,143
Information technology expense	58,870	54,911	113,917	107,809
Postage expense	54,618	43,337	104,083	84,375
Professional service fee	7,876	5,558	13,441	10,945
Other expenses	140,287	135,101	267,300	264,049
	<u>\$ 362,101</u>	<u>336,196</u>	<u>704,115</u>	<u>662,774</u>

(xi) Other gains and losses

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Financial revenue	\$ 107,072	144,869	232,839	288,398
Currency exchange gains (losses)	(4,326)	(3,736)	(9,682)	1,150
Net gains (losses) on disposal of investment	2,221	(1,057)	(5,281)	6,744
Net gains (losses) on measurement of non-operating financial instruments at fair value through profit or loss	32,604	(1,403)	20,507	19,900
Revenue from bank's allocation fee	39,159	34,007	77,136	67,567
Net gains (losses) on disposal of property and equipment	-	(342)	11,317	(342)
Dividend revenue	27,552	34,760	55,473	34,760
Gains on reversal of prior year's liabilities	15,189	38,707	20,113	51,898
Rental income	39,820	39,035	82,236	51,952
Others	23,169	11,548	31,793	30,973
	<u>\$ 282,460</u>	<u>296,388</u>	<u>516,451</u>	<u>553,000</u>

(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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the three months and the six months ended June 30, 2020 and 2019, the estimated amounts of remuneration to employees were \$9,121, \$4,844, \$9,121 and \$12,515, respectively, and to directors were \$15,201, \$8,072, \$15,201 and \$20,857, 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.

For the years ended December 31, 2019 and 2018, the estimated amounts of remuneration to employees were \$32,756 and \$20,971, and to directors were \$54,594 and \$34,951 by the Company. The difference between actual employee remuneration of \$27,027 and \$14,587 and actual remuneration to directors of \$45,335 and \$24,248 were \$14,988 and \$17,087 in total. The difference was accounted for as changes in accounting estimates and would be recognized as profit or loss in 2020 and 2019. The information about the appropriations is available at the website of the Market Observation Post System.

For the three months and the six months ended June 30, 2020 and 2019, the estimated amounts of remuneration to employees were \$2,100, \$2,330, \$4,600 and \$4,780 and to directors were \$2,100, \$2,330, \$4,600 and \$4,780 by the domestic subsidiaries of the Group, respectively.

(u) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of June 30, 2020, December 31, 2019 and June 30, 2019, the maximum credit exposure amounted to \$123,881,935, \$100,461,622 and \$98,488,574, 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 (74.93%); secondly, is in Asia (13.39%, exclusion of Taiwan); then, is in America (8.30%). 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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>Region</u>	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Taiwan	\$ 92,395,579	74,762,540	70,891,165
Asia (Taiwan is excluded)	16,506,118	13,582,675	14,259,813
Europe	3,274,286	4,010,808	5,445,269
America	10,231,184	7,523,511	7,370,402
Other	<u>904,422</u>	<u>77,525</u>	<u>23,332</u>
Total	<u><u>\$ 123,311,589</u></u>	<u><u>99,957,059</u></u>	<u><u>97,989,981</u></u>

2) Impairment loss

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

	<u>June 30, 2020</u>		<u>December 31, 2019</u>		<u>June 30, 2019</u>	
	<u>Total amount</u>	<u>Allowance</u>	<u>Total amount</u>	<u>Allowance</u>	<u>Total amount</u>	<u>Allowance</u>
Not past due	\$ 24,013,380	9,040	20,845,564	9,373	19,223,586	10,047
Past due 0~30 days	229	229	275	275	264	264
Past due 31~120 days	2,082	2,082	127	127	282	282
Past due 121~360 days	16	16	8	8	243	243
Past due more than 360 days	<u>304,594</u>	<u>304,594</u>	<u>305,771</u>	<u>305,771</u>	<u>307,510</u>	<u>307,510</u>
	<u><u>\$ 24,320,301</u></u>	<u><u>315,961</u></u>	<u><u>21,151,745</u></u>	<u><u>315,554</u></u>	<u><u>19,531,885</u></u>	<u><u>318,346</u></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 June 30, 2020, December 31, 2019 and June 30, 2019, the impairment losses of accrued receivables were recognized \$315,961, \$315,554 and \$318,346, 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) of the consolidated financial statements as of and for the year ended December 31, 2019.

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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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The loss allowance provision for the six months ended June 30, 2020 and 2019 was as follows:

	12-month ECL		Lifetime ECL -not credit impaired		Lifetime ECL -credit impaired		
	Accrued receivables	Debt securities at FVOCI	Accrued receivables	Debt securities at FVOCI	Accrued receivables	Debt securities at FVOCI	Total
Balance on January 1, 2020	\$ -	7,567	-	-	315,554	-	323,121
Provision or reversal of Impairment loss	-	1,708	-	-	1,174	-	2,882
Amounts written off	-	-	-	-	(299)	-	(299)
Effect of exchange rate	-	-	-	-	(468)	-	(468)
Balance on June 30, 2020	<u>\$ -</u>	<u>9,275</u>	<u>-</u>	<u>-</u>	<u>315,961</u>	<u>-</u>	<u>325,236</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, 2019	\$ -	5,861	-	-	338,517	-	344,378
Provision or reversal of Impairment loss	-	2,742	-	-	(2,701)	-	41
Amounts written off	-	-	-	-	(20,670)	-	(20,670)
Effect of exchange rate	-	-	-	-	3,200	-	3,200
Balance on June 30, 2019	<u>\$ -</u>	<u>8,603</u>	<u>-</u>	<u>-</u>	<u>318,346</u>	<u>-</u>	<u>326,949</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
June 30, 2020							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 325,195	325,195	325,195	-	-	-	-
Settlement coverage bonds payable of short sale	49,777	49,777	49,777	-	-	-	-
Stock warrants issued	538,144	538,144	480,494	57,650	-	-	-
Put options - futures	4,290	4,290	4,290	-	-	-	-
Exchange traded notes	705	705	-	-	705	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	14,093	14,093	892	1,462	(6,268)	18,007	-
Put options	715,957	715,957	55,299	82,737	312,011	265,910	-
Leverage derivatives - non-hedging	2,758	2,758	2,758	-	-	-	-
Short-term borrowings	4,573,090	4,573,090	4,573,090	-	-	-	-
Bonds sold under repurchase agreements	39,488,135	39,606,648	25,819,116	13,787,532	-	-	-
Guarantee deposited for short sales	2,073,592	2,073,592	2,073,592	-	-	-	-
Proceeds payable from short sales	2,285,928	2,285,928	2,285,928	-	-	-	-
Securities lending refundable deposits	1,053,695	1,053,695	1,053,695	-	-	-	-
Futures traders' equity	38,978,222	38,978,222	38,978,222	-	-	-	-
Leverage contract trading customers' equity	363,661	363,661	363,661	-	-	-	-
Notes payable and accounts payable	439,545	439,545	439,545	-	-	-	-
Receipts under custody	126,714	126,714	126,714	-	-	-	-
Other payables	2,556,164	2,556,164	2,553,016	3,148	-	-	-
Structured notes	4,138,988	4,138,988	3,629,035	111,943	297,195	100,815	-
Lease liabilities	937,256	982,306	105,340	96,488	142,574	330,692	307,212
	<u>\$ 98,665,909</u>	<u>98,829,472</u>	<u>82,919,659</u>	<u>14,140,960</u>	<u>746,217</u>	<u>715,424</u>	<u>307,212</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	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	-
Leverage derivatives - non-hedging	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	24,531,050	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	-	-	-	-
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>77,700,040</u>	<u>8,038,573</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>
June 30, 2019							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 102,057	102,057	102,057	-	-	-	-
Stock warrants issued	376,088	376,088	337,228	38,860	-	-	-
Put options - futures	1,073	1,073	1,073	-	-	-	-
Exchange traded notes	1,004	1,004	-	-	-	1,004	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	860	860	(20)	254	448	178	-
Put options	338,208	338,208	28,821	48,841	153,644	106,902	-
Leverage derivatives - non-hedging	490	490	490	-	-	-	-
Short-term borrowings	4,077,307	4,077,307	4,077,307	-	-	-	-
Bonds sold under repurchase agreements	33,901,266	34,188,618	34,188,618	-	-	-	-
Guarantee deposited for short sales	1,215,246	1,215,246	1,215,246	-	-	-	-
Proceeds payable from short sales	1,353,726	1,353,726	1,353,726	-	-	-	-
Securities lending refundable deposits	907,858	907,858	907,858	-	-	-	-
Futures traders' equity	33,558,538	33,558,538	33,558,538	-	-	-	-
Leverage contract trading customers' equity	239,286	239,286	239,286	-	-	-	-
Notes payable and accounts payable	406,230	406,230	406,230	-	-	-	-
Receipts under custody	102,897	102,897	102,897	-	-	-	-
Other payables	1,744,360	1,744,360	1,742,451	1,909	-	-	-
Structured notes	3,680,170	3,680,170	3,130,724	225,927	206,322	117,197	-
Lease liabilities	1,051,918	1,109,035	97,252	103,250	294,878	300,810	312,845
	<u>\$ 83,058,582</u>	<u>83,403,051</u>	<u>81,489,782</u>	<u>419,041</u>	<u>655,292</u>	<u>526,091</u>	<u>312,845</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:

		June 30, 2020		
		Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial assets</u>				
<u>Monetary Item</u>				
USD	\$	811,758	29.6300	24,052,390
AUD		2,917	20.3350	59,317
CAD		2	21.6800	43
CHF		53	31.1150	1,649
EUR		10,904	33.2700	362,776
GBP		2,921	36.4300	106,412
HKD		121,863	3.8230	465,882
JPY		1,036,138	0.2751	285,042
SGD		433	21.2400	9,197
CNY		84,069	4.1910	352,333
KRW		381,687	0.0249	9,504
NZD		3	19.0200	57
THB		14,783	0.9645	14,258
MYR		421	6.6195	2,787
<u>Non-Monetary Item</u>				
USD		639,643	29.6300	18,952,622
AUD		109,571	20.3350	2,228,126
CAD		5	21.6800	108
EUR		6,120	33.2700	203,612
GBP		3	36.4300	109
HKD		342	3.8230	1,307
JPY		1,195	0.2751	329
CNY		251,173	4.1910	1,052,666
<u>Investments under equity method</u>				
HKD		12,960	3.8230	49,546

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

		June 30, 2020		
		Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial liabilities</u>				
<u>Monetary Item</u>				
USD	\$	1,427,749	29.6300	42,304,203
AUD		101,418	20.3350	2,062,335
CHF		52	31.1150	1,618
EUR		16,797	33.2700	558,836
GBP		2,848	36.4300	103,753
HKD		212,971	3.8230	814,188
JPY		1,014,327	0.2751	279,041
SGD		539	21.2400	11,448
CNY		180,241	4.1910	755,390
KRW		219,707	0.0249	5,471
NZD		1	19.0200	19
THB		12,059	0.9645	11,631
MYR		408	6.6195	2,701
<u>Non-Monetary Item</u>				
USD		87	29.6300	2,578
CNY		38	4.1910	159
NZD		1	19.0200	19

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

		December 31, 2019		
		Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial assets</u>				
<u>Monetary Item</u>				
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
<u>Non-Monetary Item</u>				
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
<u>Investments under equity method</u>				
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
<u>Financial liabilities</u>				
<u>Monetary Item</u>				
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
<u>Non-Monetary Item</u>				
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

		June 30, 2019		
		Foreign Currency	Exchange Rate	Amount
		(thousands)		
<u>Financial assets</u>				
<u>Monetary Item</u>				
USD	\$	581,641	31.0600	18,065,769
AUD		2,811	21.7950	61,266
CAD		299	23.7300	7,095
CHF		74	31.8550	2,357
EUR		8,751	35.3800	309,610
GBP		3,096	39.3900	121,951
HKD		84,167	3.9770	334,732
JPY		4,080,906	0.2886	1,177,749
SGD		247	22.9700	5,674
CNY		73,296	4.5210	331,371
ZAR		2	2.1900	4
KRW		447,213	0.0271	12,119
NZD		57	20.8500	1,188
THB		1,713	1.0165	1,741
<u>Non-Monetary Item</u>				
USD		477,234	31.0600	14,822,888
AUD		142,575	21.7950	3,107,422
CAD		2	23.7300	47
EUR		6,068	35.3800	214,686
GBP		1	39.3900	39
HKD		22,581	3.9770	89,805
JPY		25,220	0.2886	7,278
CNY		344,168	4.5210	1,555,984
NZD		2	20.8500	42
<u>Investments under equity method</u>				
HKD		11,896	3.9770	47,311

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

		June 30, 2019		
		Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial liabilities</u>				
<u>Monetary Item</u>				
USD	\$	1,025,324	31.0600	31,846,563
AUD		133,596	21.7950	2,911,725
CAD		16	23.7300	380
CHF		74	31.8550	2,357
EUR		14,156	35.3800	500,839
GBP		2,989	39.3900	117,737
HKD		181,893	3.9770	723,388
JPY		4,079,875	0.2886	1,177,452
SGD		296	22.9700	6,799
CNY		277,782	4.5210	1,255,852
KRW		114,436	0.0271	3,101
THB		(333)	1.0165	(338)
<u>Non-Monetary Item</u>				
USD		5	31.0600	155
CNY		72	4.5210	326

Because there are a variety of functional currencies, the Group discloses a summary of currency exchange variation on the monetary items. For the three months and the six months ended June 30, 2020 and 2019, the realized and unrealized currency exchange gains (losses) amounted to \$18,842, \$(16,529), \$(22,636) and \$2,774, respectively.

2) Sensitivity analysis

The currency risk of the Group arises mainly from cash and cash equivalents, other receivables, security borrowing margin, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, customers' margin account, 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 six months ended June 30, 2020 and 2019, 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 six months ended June 30, 2020		For the six months ended June 30, 2019	
	Appreciated 5%	Depreciated 5%	Appreciated 5%	Depreciated 5%
Net income	(644,407)	644,407	(528,841)	528,841
Other comprehensive income	696,272	(696,272)	598,114	(598,114)

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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	June 30, 2020	December 31, 2019	June 30, 2019	For the six months ended June 30,					
				2020			2019		
				Average	Maximum	Minimum	Average	Maximum	Minimum
Interest risk	1,760,464	1,409,781	1,522,578	1,521,318	1,760,464	1,378,218	1,497,856	1,522,578	1,473,449

(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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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ii) Level 2

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

iii) Level 3

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

2) Not measured at fair value

As of June 30, 2020, December 31, 2019 and June 30, 2019, the fair value information of the financial assets and financial liabilities of the Group was as follows:

a) Fair value information

	June 30, 2020		December 31, 2019		June 30, 2019	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets :						
Cash and cash equivalents	\$ 10,822,717	10,822,717	8,323,636	8,323,636	8,123,268	8,123,268
Accrued receivable	33,780,256	33,780,256	24,793,814	24,793,814	20,283,060	20,283,060
Customers' margin account	39,011,759	39,011,759	34,803,719	34,803,719	33,601,427	33,601,427
Leverage contract trading - customers' margin account	368,326	368,326	308,543	308,543	240,468	240,468
Restricted assets - current	90,019	90,019	673,926	673,926	732,569	732,569
Other non-current assets	1,477,799	1,477,799	1,473,700	1,473,700	1,504,771	1,504,771
Financial liabilities :						
Short-term borrowings	4,573,090	4,573,090	6,631,002	6,631,002	4,077,307	4,077,307
Bonds sold under repurchase agreements	39,488,135	39,488,135	31,847,531	31,847,531	33,901,266	33,901,266
Accrued payable	27,723,946	27,723,946	15,790,247	15,790,247	12,716,686	12,716,686
Futures traders' equity	38,978,222	38,978,222	34,747,531	34,747,531	33,558,538	33,558,538
Leverage contract trading - customers' equity	363,661	363,661	308,590	308,590	239,286	239,286
Other financial liabilities - current	3,733,356	3,733,356	3,579,951	3,579,951	3,348,053	3,348,053
Other financial liabilities - non- current	388,993	388,993	349,518	349,518	323,519	323,519
Other non-current liabilities	98,285	98,285	103,115	103,115	96,853	96,853

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

b) Hierarchy information of non-financial instruments not measured at fair value

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment property				
June 30, 2020	\$ <u>-</u>	<u>-</u>	<u>7,295,403</u>	<u>7,295,403</u>
December 31, 2019	\$ <u>-</u>	<u>-</u>	<u>7,577,872</u>	<u>7,577,872</u>
June 30, 2019	\$ <u>-</u>	<u>-</u>	<u>7,459,944</u>	<u>7,459,944</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.

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>
June 30, 2020				
Financial assets at fair value through profit or loss	\$ 11,217,738	22,361,110	-	33,578,848
Financial assets at fair value through other comprehensive income	2,659,141	17,357,245	2,123,848	22,140,234
Derivative financial assets	<u>189,783</u>	<u>180,190</u>	<u>-</u>	<u>369,973</u>
	<u>\$ 14,066,662</u>	<u>39,898,545</u>	<u>2,123,848</u>	<u>56,089,055</u>
Financial liabilities at fair value through profit or loss	\$ 913,821	-	-	913,821
Derivative financial liabilities	<u>13,307</u>	<u>740,430</u>	<u>-</u>	<u>753,737</u>
	<u>\$ 927,128</u>	<u>740,430</u>	<u>-</u>	<u>1,667,558</u>

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	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2019				
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>\$ 14,728,459</u>	<u>32,437,978</u>	<u>2,464,932</u>	<u>49,631,369</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>\$ 902,459</u>	<u>556,635</u>	<u>-</u>	<u>1,459,094</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
June 30, 2019				
Financial assets at fair value through profit or loss	\$ 12,956,627	18,512,134	-	31,468,761
Financial assets at fair value through other comprehensive income	275,191	14,784,474	2,256,674	17,316,339
Derivative financial assets	<u>231,326</u>	<u>70,412</u>	<u>-</u>	<u>301,738</u>
	<u>\$ 13,463,144</u>	<u>33,367,020</u>	<u>2,256,674</u>	<u>49,086,838</u>
Financial liabilities at fair value through profit or loss	\$ 479,149	-	-	479,149
Derivative financial liabilities	<u>1,073</u>	<u>348,156</u>	<u>-</u>	<u>349,229</u>
	<u>\$ 480,222</u>	<u>348,156</u>	<u>-</u>	<u>828,378</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.

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

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

ii) Derivative financial instruments

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

4) Transfer between Level 1 and Level 2

For the six months ended June 30, 2020 and 2019, 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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6) Movements of financial assets at fair value classified into Level 3

(In Thousands Dollars)

For the six months ended June 30, 2020								
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	Capital reduction	
Financial assets at fair value through other comprehensive income	\$ 2,464,932	-	(60,745)	45,000	-	202,681	-	2,123,848

For the six months ended June 30, 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	Capital reduction	
Financial assets at fair value through other comprehensive income	\$ 1,911,577	-	282,496	64,864	-	2,263	-	2,256,674

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	<ul style="list-style-type: none"> Price-to-Book Ratio Discount for lack of marketability 	<ul style="list-style-type: none"> 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

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- 8) Fair value measurement to Level 3, and the sensitivity analysis of the substitutable appropriate assumption made on fair value

The fair value measurement that the Group made for the financial instruments is deemed reasonable; however, different valuation models or inputs could result in different valuation results. Specifically, if the valuation input of financial instruments classified in the Level 3 changes by 1%, the effects on other comprehensive income are as follows:

	Change in fair value recognized in other comprehensive income	
	Favorable change	Unfavorable change
June 30, 2020		
Financial assets fair value through other comprehensive income	\$ <u>21,238</u>	<u>(21,238)</u>
December 31, 2019		
Financial assets fair value through other comprehensive income	\$ <u>24,649</u>	<u>(24,649)</u>
June 30, 2019		
Financial assets fair value through other comprehensive income	\$ <u>22,567</u>	<u>(22,567)</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:

Types of financial assets	June 30, 2020				
	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	\$ <u>45,166,205</u>	<u>39,488,135</u>	<u>-</u>	<u>-</u>	<u>-</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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December 31, 2019					
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	\$ 33,447,074	31,847,531	-	-	-

June 30, 2019					
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	\$ 33,679,406	33,901,266	-	-	-

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:

June 30, 2020						
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	\$ 180,190	-	180,190	-	-	180,190

June 30, 2020						
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	\$ 749,447	-	749,447	-	-	749,447
Under repurchase agreements	39,488,135	-	39,488,135	39,488,135	-	-
Total	\$ 40,237,582	-	40,237,582	39,488,135	-	749,447

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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	\$ 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)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals	
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
June 30, 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	\$ 70,412	-	70,412	-	-	70,412
June 30, 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	\$ 348,156	-	348,156	-	-	348,156
Under repurchase agreements	33,901,266	-	33,901,266	33,901,266	-	-
Total	\$ 34,249,422	-	34,249,422	33,901,266	-	348,156

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(v) Financial risk management

Except the following mentioned, there were no material changes in the Group's financial risk management and policies as disclosed in note 6(w) of the consolidated financial statements as of and for the year ended December 31, 2019.

As of June 30, 2020, December 31, 2019 and June 30, 2019, the related financial risk and the presentation of the Group's financial 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	June 30, 2020		December 31, 2019		June 30, 2019	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Stock warrants issued	\$ 15,646,789	-	18,302,776	-	6,812,199	-

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

(ii) Market risk:

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

(iii) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand:

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

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

(iv) Type, purpose, and strategy of financial derivatives held:

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(v) Presentation of financial derivatives

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

1) For the three months and the six months ended June 30, 2020:

a) Gains (losses) on valuation

	<u>For the three months ended June 30, 2020</u>	<u>For the six months ended June 30, 2020</u>	<u>Account</u>
Stock warrants issued	\$ 206,878	8,838,494	Gains (losses) on stock warrants issued
Stock warrants repurchased	(289,013)	(8,869,419)	Gains (losses) on stock warrants issued

b) Gains (losses) on sale

	<u>For the three months ended June 30, 2020</u>	<u>For the six months ended June 30, 2020</u>	<u>Account</u>
Security borrowing	\$ 36,278	71,867	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	30,777	(213,682)	Gains (losses) on sale of trading securities
Futures transaction	(112,806)	12,985	Gains (losses) on derivative financial instruments - futures

c) Gains (losses) on maturity

	<u>For the three months ended June 30, 2020</u>	<u>For the six months ended June 30, 2020</u>	<u>Account</u>
Stock warrants issued	\$ 8,016,935	12,409,262	Gains (losses) on stock warrants issued
Stock warrants repurchased	(7,809,315)	(12,170,937)	Gains (losses) on stock warrants issued

2) For the three months and the six months ended June 30, 2019:

a) Gains (losses) on valuation

	<u>For the three months ended June 30, 2019</u>	<u>For the six months ended June 30, 2019</u>	<u>Account</u>
Stock warrants issued	\$ 4,234,816	8,434,690	Gains (losses) on stock warrants issued
Stock warrants repurchased	(4,158,102)	(8,360,597)	Gains (losses) on stock warrants issued

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b) Gains (losses) on sale

	For the three months ended June 30, 2019	For the six months ended June 30, 2019	Account
Security borrowing	\$ 15,262	30,186	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	(21,226)	42,035	Gains (losses) on sale of trading securities
Futures transaction	(30,473)	(93,022)	Gains (losses) on derivative financial instruments - futures

c) Gains (losses) on maturity

	For the three months ended June 30, 2019	For the six months ended June 30, 2019	Account
Stock warrants issued	\$ 8,954,169	12,392,440	Gains (losses) on stock warrants issued
Stock warrants repurchased	(8,902,272)	(12,321,283)	Gains (losses) on stock warrants issued

Exchange traded notes

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

Financial Instruments	June 30, 2020		December 31, 2019		June 30, 2019	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Exchange traded notes issued	\$ 705	-	729	-	1,004	-

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 instruments as 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.

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- (v) Presentation of other financial instruments as approved by the authority:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>	<u>Account</u>
Margin - exchange traded notes	\$ 25	25	20	Other non-current assets
Outstanding liabilities - exchange traded notes	705	729	1,004	Financial liabilities at fair value through profit or loss - current
	<u>For the three months ended June 30,</u>	<u>For the six months ended June 30,</u>		
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Gains (losses) on exchange traded notes	\$ (77)	20	(3)	20
Management and commissions revenue on exchange traded notes	1	-	3	-
				Net gains (losses) from exchange traded notes
				Management and commissions revenue from exchange traded notes

Futures

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

Please refer to note 12(a) for the notional principal and nominal amount as of June 30, 2020, December 31, 2019 and June 30, 2019.

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

- (ii) Market risk:

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

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

- (iii) Liquidity risk, cash flow risk, and the amount, period and uncertainty of future cash demand:

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

Futures trading are considered as margin transactions. Margins are collected in advance and valued daily on open futures positions established by the Group. For margin calls, the Group has sufficient operating funds to meet the liquidity requirement. As a result, there is no liquidity risk, cash flow risk, or significant cash demand.

For options trading, premiums are collected or paid in advance. If the counterparty of a short put position exercises the option, the Group has sufficient operating funds to meet the liquidity requirement. Therefore, there is no liquidity risk, no cash flow risk, and no significant cash demand.

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(iv) Presentation of financial derivatives:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>	<u>Account</u>
Futures margin - proprietary fund	\$ 187,616	233,624	230,378	Financial assets at fair value through profit or loss - current
Excess futures margin	1,834,501	1,184,098	1,947,741	Cash and cash equivalent
Call options	2,167	3,482	948	Financial assets at fair value through profit or loss - current
Put options	4,290	11,902	1,073	Financial liabilities at fair value through profit or loss - current

	<u>For the three months ended June 30, 2020</u>	<u>2019</u>	<u>For the six months ended June 30, 2020</u>	<u>2019</u>	<u>Account</u>
Gains (losses) on futures transactions	\$ (102,869)	(43,282)	145,542	(386,574)	Gains (losses) on derivatives - futures

Derivative instruments - OTC

(i) Interest rate financial derivatives

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

	<u>June 30, 2020</u>		<u>December 31, 2019</u>		<u>June 30, 2019</u>	
	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>
Financial Instruments						
For trading purpose:						
NT dollar interest swaps	\$ 15,300,000	-	21,300,000	-	24,600,000	-

Counterparties to interest rate swaps are banks with good credit ratings. The Group pays fixed and collects floating interest payments. Since the trend of interest rate is stabilized, no default is expected and credit risk is accordingly remote.

2) Market risk:

Non-trading NT dollar interest rate swaps are primarily held for hedging. Gain or loss from the fluctuations of interest rate tends to offset gains and losses of the hedged items, and therefore market risk is insignificant.

In order to manage risk, Stop-loss points are established in accordance to the changes in the contract value of trading NT dollar interest rate. Loss is kept within prediction, and therefore there is no significant market risk.

3) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand:

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

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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	June 30, 2020		December 31, 2019		June 30, 2019	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Equity-linked notes	\$ 351,778	-	215,789	-	94,954	-
Principal guaranteed notes	3,079,807	-	2,935,907	-	2,850,749	-
Credit-linked notes	685,900	-	669,900	-	575,100	-
Principal guaranteed notes (in USD thousands)	USD 560	-	USD 3,690	-	USD 4,952	-

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

2) Market risk

For structured notes, the respective products are exercised at their fair value and the hedged items all have fair values. Therefore, there is no significant market risk of structured notes.

3) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand:

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

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Convertible bond asset-backed swaps

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

Financial Instruments	June 30, 2020		December 31, 2019		June 30, 2019	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Convertible bond asset-backed swaps	\$ 1,651,300	-	886,900	-	715,300	-
Convertible bond options	6,880,900	-	4,452,000	-	3,699,500	-

Counterparties to convertible bond asset-backed swaps are institutions with good credit ratings. The Group swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. Since the counterparties are governed by relevant regulatory authorities, and the Group maintains good credit risk control over counterparties, the credit risks is minimal.

For convertible bond options, the Group collects premium or margins from investor prior to issuing convertible bond options, and therefore, there is no credit risk.

2) Market risk:

For convertible bond asset-backed swaps, the Group swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. Therefore, there is no market risk.

For convertible bond options, since the exercise price of the convertible bonds acquired through underwriting or proprietary trading is determined on the contract date, there is no market risk.

3) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand:

Convertible bonds acquired through underwriting or proprietary trading are the underlying assets of asset-backed swaps. The underlying assets are sold to the counterparties for commission. Within the term of the contract, the Group swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. The Group also receives the right to call the convertible bond prior to the expiration of the contract. Therefore, there is no significant liquidity risk or significant cash demand.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Options

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

Financial Instruments	June 30, 2020		December 31, 2019		June 30, 2019	
	Notional principal/ Nominal amount	Credit Risk	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) Leverage derivatives

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

Financial Instruments	June 30, 2020		December 31, 2019		June 30, 2019	
	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk
For trading purpose:						
Leverage derivatives-long position	\$ 1,592,312	-	2,700,301	-	1,406,438	-
Leverage derivatives-short position	1,583,926	-	2,448,322	-	1,406,438	-

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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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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 June 30, 2020, December 31, 2019 and June 30, 2019, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options, convertible bond asset swaps and currency swaps were presented on the balance sheets as follows:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Financial assets at fair value through profit or loss - current			
IRS asset swaps	\$ 16,143	16,053	12,158
Asset swap options-long position	114,957	37,684	21,035
Leverage derivatives - non-hedging	45,805	39,066	35,999
Structured notes	1,923	25,925	-
Currency swaps	1,362	-	-
Interest rate swaps	-	-	1,220
Total	<u>\$ 180,190</u>	<u>118,728</u>	<u>70,412</u>
Financial liabilities at fair value through profit or loss - current			
IRS asset swaps	\$ 12,617	2,436	776
Asset swap options-short position	715,957	529,328	338,208
Structured notes	16,639	11,583	8,598
Leverage derivatives - non-hedging	2,758	7,574	490
Currency swaps	422	4,745	84
Interest rate swaps	1,054	969	-
Total	<u>\$ 749,447</u>	<u>556,635</u>	<u>348,156</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Other financial liabilities - current			
Structured notes principal value	\$ <u>3,733,356</u>	<u>3,579,951</u>	<u>3,348,053</u>
Other financial liabilities - non-current			
Structured notes principal value	\$ <u>388,993</u>	<u>349,518</u>	<u>323,519</u>

For the three months and the six months ended June 30, 2020 and 2019, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options, convertible bond asset swaps and currency swaps are presented on statements of income as follows:

	<u>For the three months ended June 30, 2020</u>		<u>For the six months ended June 30, 2020</u>	
	<u>Gains (losses) on derivative instruments - OTC</u>	<u>Unrealized Gains (losses)</u>	<u>Gains (losses) on derivative instruments - OTC</u>	<u>Unrealized Gains (losses)</u>
Interest rate swaps	\$ 452	1,288	(1,028)	(1,054)
Equity derivatives	-	-	(61)	-
Structured notes	(21,801)	(13,812)	27,666	(6,117)
IRS asset swaps	35	(11,177)	94	3,526
Asset swap options	(331,563)	(217,400)	(65,732)	107,275
Currency swaps	698	373	4,090	941
Leverage derivatives - non-hedging	12,906	23,814	26,912	11,554
Total	\$ <u>(339,273)</u>	<u>(216,914)</u>	<u>(8,059)</u>	<u>116,125</u>

	<u>For the three months ended June 30, 2019</u>		<u>For the six months ended June 30, 2019</u>	
	<u>Gains (losses) on derivative instruments - OTC</u>	<u>Unrealized Gains (losses)</u>	<u>Gains (losses) on derivative instruments - OTC</u>	<u>Unrealized Gains (losses)</u>
Interest rate swaps	\$ 662	224	91	1,220
Equity derivatives	1,946	-	1,946	-
Structured notes	(9,093)	(245)	(22,894)	(6,554)
IRS asset swaps	59	(12,624)	123	1,181
Asset swap options	(28,964)	5,660	(106,391)	76,055
Currency swaps	464	151	(4,889)	(83)
Leverage derivatives - non-hedging	8,400	13,619	13,969	(2,396)
Total	\$ <u>(26,526)</u>	<u>6,785</u>	<u>(118,045)</u>	<u>69,423</u>

(w) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The capital base includes shares capital, capital surplus and retained earnings. The Board of Directors monitors the return on capital as well as the level of dividends to make sure the Group has sufficient financial resources to cope with the future need of operating fund, capital expenditure and other operating need.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group maintains no change of its capital management. The Group's capital adequacy ratio is as below:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Capital adequacy ratio	333 %	390 %	426 %

(x) Financing activities not affecting current cash flow

The Group's financing activities which did not affect the current cash flow in the six months ended June 30, 2020 and 2019, 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).

	<u>January 1, 2020</u>	<u>Cash flows</u>	<u>Non-cash changes</u>			<u>June 30, 2020</u>
			<u>Other</u>	<u>Foreign exchange movement</u>	<u>Fair value changes</u>	
Short-term borrowings	\$ 6,631,002	(2,057,912)	-	-	-	4,573,090
Lease liabilities	1,012,605	(113,374)	38,319	(294)	-	937,256
Total liabilities from financing activities	<u>\$ 7,643,607</u>	<u>(2,171,286)</u>	<u>38,319</u>	<u>(294)</u>	<u>-</u>	<u>5,510,346</u>

	<u>January 1, 2019</u>	<u>Cash flows</u>	<u>Non-cash changes</u>			<u>June 30, 2019</u>
			<u>Other</u>	<u>Foreign exchange movement</u>	<u>Fair value changes</u>	
Short-term borrowings	\$ 3,873,506	203,801	-	-	-	4,077,307
Lease liabilities	1,070,869	(45,822)	27,101	(230)	-	1,051,918
Total liabilities from financing activities	<u>\$ 4,944,375</u>	<u>157,979</u>	<u>27,101</u>	<u>(230)</u>	<u>-</u>	<u>5,129,225</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.	Associate
Funds issued by Capital Investment Trust Corp.	Funds issued by associate
San Ho Enterprise Co., Ltd. (Note)	Juristic-person director
Other related parties	Key management personnel

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Note : The corporation was discharged on June 24, 2019.

(c) Key management personnel transactions

(i) Key management personnel compensation

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Short-term employee benefits	\$ 41,089	35,864	117,980	102,464
Post-employment benefits	701	679	1,391	1,378
Total	<u>\$ 41,790</u>	<u>36,543</u>	<u>119,371</u>	<u>103,842</u>

(ii) Bond transactions - bonds sold under repurchase agreements

Bonds sold under repurchase agreements with key management personnel as of June 30, 2020, December 31, 2019 and June 30, 2019 were as follows:

	June 30, 2020		December 31, 2019		June 30, 2019	
	Par value	Purchase price	Par value	Purchase price	Par value	Purchase price
Key management personnel	<u>\$ 22,500</u>	<u>22,710</u>	<u>22,500</u>	<u>22,670</u>	<u>32,500</u>	<u>32,638</u>

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Total financial expenses				
Key management personnel	<u>\$ 27</u>	<u>44</u>	<u>58</u>	<u>98</u>

(iii) Structured notes transactions

Structured notes	June 30, 2020	December 31, 2019	June 30, 2019
Key management personnel	<u>\$ 95,756</u>	<u>71,393</u>	<u>84,898</u>

(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 June 30, 2020, December 31, 2019 and June 30, 2019 were as follows:

	June 30, 2020		December 31, 2019		June 30, 2019	
	Par value	Purchase price	Par value	Purchase price	Par value	Purchase price
Funds issued by associate	\$ 35,624	35,641	-	-	40,000	40,000
Juristic-person directors	-	-	-	-	21,300	21,300
Total	<u>\$ 35,624</u>	<u>35,641</u>	<u>-</u>	<u>-</u>	<u>61,300</u>	<u>61,300</u>

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Total financial expenses				
Funds issued by associate	\$ 34	130	34	314
Juristic-person directors	-	28	-	56
Total	<u>\$ 34</u>	<u>158</u>	<u>34</u>	<u>370</u>

Transaction terms are the same as the general clients.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(ii) Structured notes transaction

Structured notes	June 30, 2020	December 31, 2019	June 30, 2019
Juristic-person directors	\$ -	-	4,950

(iii) Futures transactions

Futures traders' equity	June 30, 2020	December 31, 2019	June 30, 2019
Associates	\$ 341,624	142,376	368,072

(iv) Lease agreements

1) Lease revenue

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Subsidiaries	\$ -	86	-	346
Associates	4,311	4,311	8,623	8,623
Total	\$ 4,311	4,397	8,623	8,969

2) Guarantee deposits received

	June 30, 2020	December 31, 2019	June 30, 2019
Associates	\$ 3,811	3,811	3,811

(v) Insurance commission revenues

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

1) Commission revenues

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Subsidiaries	\$ 1,308	3,853	5,390	7,518

2) Accounts receivable

	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiaries	\$ 586	1,877	2,561

(vi) Brokerage and sub-brokerage

Brokerage commissions	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Funds issued by associate	\$ 9,955	5,351	16,846	8,582
Other related parties	845	273	1,099	562
Total	\$ 10,800	5,624	17,945	9,144

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Re-consigned handling commissions				
Funds issued by associate	\$ 1,086	2,261	3,862	4,264
Other related parties	108	46	174	77
Total	<u>\$ 1,194</u>	<u>2,307</u>	<u>4,036</u>	<u>4,341</u>

(vii) Wealth management business

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Trust account commissions revenue				
Associates	<u>\$ 1,818</u>	<u>-</u>	<u>3,489</u>	<u>-</u>
	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Trust account management fee revenue				
Associates	<u>\$ 9</u>	<u>30</u>	<u>460</u>	<u>95</u>

(viii) Underwriting business

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Stock service income				
Associates	<u>\$ 32</u>	<u>30</u>	<u>62</u>	<u>60</u>
	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Underwriting commissions				
Funds issued by associate	<u>\$ 1</u>	<u>557</u>	<u>1</u>	<u>897</u>
	June 30, 2020		December 31, 2019	
Account receivable				
Associates	<u>\$ 12</u>	<u>10</u>	<u>10</u>	<u>10</u>

(ix) Others

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Other revenue				
Associates	<u>\$ 1</u>	<u>1</u>	<u>2</u>	<u>2</u>

(x) Custody account business

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Custody account business revenue				
Second level subsidiaries	<u>\$ 1,611</u>	<u>-</u>	<u>3,079</u>	<u>-</u>

(xi) Accrued receivables

	June 30, 2020		December 31, 2019	
Account receivable				
Associates	<u>\$ 19</u>	<u>10</u>	<u>11</u>	

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Other receivable	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiaries	\$ <u>73</u>	<u>154</u>	<u>326</u>
Associates	\$ <u>115,736</u>	<u>-</u>	<u>99,203</u>

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

(8) Pledged assets:

The following assets were pledged as collateral or restricted in use as of June 30, 2020, December 31, 2019 and June 30, 2019:

	June 30, 2020	December 31, 2019	June 30, 2019	The collateral use
Restricted assets - current	\$ 90,019	673,926	732,569	Bank borrowings, accounts settled, repurchase agreement.
Trading securities and bonds purchased under resale agreements (par value)	40,527,826	32,506,236	34,831,857	Repurchase agreement
Property and equipment	1,750,737	1,832,513	1,859,504	Bank borrowings
Financial assets at fair value through profit or loss - non - current	181,029	180,467	180,485	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business
Investment property	2,813,725	2,974,772	2,936,581	Bank borrowings
Total	\$ <u>45,363,336</u>	<u>38,167,914</u>	<u>40,540,996</u>	

(9) Significant commitments and contingencies:

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

	June 30, 2020		December 31, 2019		June 30, 2019	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities procured through margin purchase	425,795	\$ 4,257,950	520,214	5,202,140	525,866	5,258,660
Collateral for margin purchase	18,791	187,910	8,868	88,680	20,149	201,490
Lending securities to customers through short sales	65,736	657,360	57,750	577,500	34,389	343,890
Collateral for short sales	5,970	59,700	6,900	69,000	2,669	26,690

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

	June 30, 2020		December 31, 2019		June 30, 2019	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities borrowed from securities finance companies	8,785	\$ 87,850	3,594	35,940	253	2,530
Collateral for refinancing margin	28	280	969	9,690	23	230

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Promissory notes	\$ <u>21,980,000</u>	<u>25,510,000</u>	<u>26,640,000</u>
Promissory notes (in USD thousands)	USD <u>60,000</u>	USD <u>60,000</u>	USD <u>60,000</u>

- (d) As of June 30, 2020, December 31, 2019 and June 30, 2019, the market values of collaterals which received from customers on conducting borrowing and lending business with unrestricted purposes were \$6,136,685, \$5,687,926 and \$4,297,316, 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. On December 2019, Taiwan Shilin District Court decided the case in favor of the Company. According to the opinion from the attorney 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 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) A resigned employee of Xi-Song branch scammed the clients. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation of \$16,375. 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.
- (h) A resigned employee of Xi-Song branch scammed the clients. The clients claimed the Company was unjustly enriched and filed a lawsuit against the Company alleged for taking joint responsibility of compensation of \$1,300. The case is under the trial of Taiwan Shilin District Court. According to the opinion from the attorney of the Company, the case had no impact to the Company.
- (i) Tatung Company applied for provisional attachment of the stocks stored by the Company's custody business client under the custody account. The Company replied the court that the client had no stock for attachment. Tatung Company claimed the Company's reply was not true, and filed a lawsuit against the Company for compensation of \$100,000. 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.
- (j) Tatung Company claimed the voting right of the stocks owned by the Company's custody business clients did not exist and filed a lawsuit against the Company alleged for taking joint responsibility of compensation of \$8,250. According to the opinion from the attorney of the Company, the case had no impact to the Company.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (k) 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. 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 June 30, 2020.
- (l) The Company provided the Letter of Comfort to the banks which loaned to its subsidiary CSC International Holdings Ltd. and CSC Securities (HK) Ltd.
- (m) 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

June 30, 2020, December 31, 2019 and June 30, 2019

	June 30, 2020	December 31, 2019	June 30, 2019		June 30, 2020	December 31, 2019	June 30, 2019
Trust Assets				Trust Liabilities			
Bank deposits	\$ 1,300,642	1,123,650	1,179,145	Accounts payable	\$ 95	44	645
Short-term investment				Trust capital	12,660,357	13,751,705	13,729,784
Funds	10,445,900	12,115,260	11,948,983	Accumulated earnings or deficit	(584,713)	(103,139)	(13,802)
Stocks	136,999	124,245	97,605				
Securities lent	76,517	53,383	361,941				
Bonds	66,471	31,715	56,984				
Structured notes	29,054	10,013	-				
Accounts receivable	20,156	190,344	71,969				
Total Assets	\$ 12,075,739	13,648,610	13,716,627	Total Liabilities	\$ 12,075,739	13,648,610	13,716,627

(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 six months ended June 30, 2020 and 2019

	For the six months ended June 30,	
	2020	2019
Trust revenue		
Interest revenue	\$ 2,352	2,702
Cash dividends revenue	221,238	261,944
Rental revenue	1,442	3,560
Investment gains - realized	-	1,826
Investment gains - unrealized	-	773,186
Currency exchange gains	-	55,434
Other revenue	-	30
Subtotal	<u>225,032</u>	<u>1,098,682</u>
Trust expense		
Management fee	168	364
Service fee	22,036	30,511
Investment losses - realized	174,787	-
Investment losses - unrealized	602,407	-
Currency exchange losses - unrealized	-	1,277,589
Supplementary insurance premium	<u>1</u>	<u>7</u>
Subtotal	<u>799,399</u>	<u>1,308,471</u>
Loss before income tax	(574,367)	(209,789)
Income tax expense	<u>(124)</u>	<u>(179)</u>
Net loss	<u><u>\$ (574,491)</u></u>	<u><u>(209,968)</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

June 30, 2020, December 31, 2019 and June 30, 2019

Investment items	June 30, 2020	December 31, 2019	June 30, 2019
Bank deposits	\$ 1,300,642	1,123,650	1,179,145
Short-term investment			
Funds	10,445,900	12,115,260	11,948,983
Stocks	136,999	124,245	97,605
Securities lent	76,517	53,383	361,941
Bonds	66,471	31,715	56,984
Structured Notes	29,054	10,013	-
Account receivables	20,156	190,344	71,969
Total	<u><u>\$ 12,075,739</u></u>	<u><u>13,648,610</u></u>	<u><u>13,716,627</u></u>

(10) Losses Due To Major Disasters:None

(11) Subsequent Events:None

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(12) Other:

(a) As of June 30, 2020, December 31, 2019 and June 30, 2019, the open positions of futures and option contracts were as follows:

(i) June 30, 2020

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	11	\$ 24,827	24,799	
	TAIEX Futures	Short	108	(246,578)	(247,752)	
	Mini-TAIEX Futures	Long	17	9,608	9,610	
	Electronic Sector Index Futures	Long	1	2,007	2,060	
	Electronic Sector Index Futures	Short	23	(46,650)	(47,385)	
	Finance Sector Index Futures	Short	11	(13,836)	(13,713)	
	Non-Finance Non-Electronics Sub-Index Futures	Long	4	4,678	4,697	
	Single Stock Futures	Long	597	95,093	98,023	
	Single Stock Futures	Short	1,936	(356,715)	(363,118)	
	HSI Futures	Short	1	(4,590)	(4,635)	
	Mini-HSI Futures	Short	8	(7,344)	(7,416)	
	Mini-Dow Futures	Long	8	30,862	30,447	
	Gold Futures	Long	7	36,979	37,344	
	MSCI Taiwan Index Futures	Long	94	120,589	120,516	
	FTSE China A50 Index Futures	Long	2	808	812	
	FTSE China A50 Index Futures	Short	377	(152,545)	(153,064)	
	10 Year U.S. T-Note Futures	Short	5	(20,611)	(20,618)	
	Crude Oil Futures	Long	49	48,805	57,598	
	Mini-Weekly Stock Index Futures	Short	18	(10,387)	(10,430)	
	AUD Futures	Long	3	6,119	6,133	
	Japanese Yen Futures	Long	4	13,550	13,735	
	VIX Futures	Short	90	(85,017)	(83,376)	
	Brent Crude Oil Futures	Long	43	52,583	52,582	
	Euro Futures	Long	5	20,823	20,840	
	Subtotal			(476,942)		
Options contract :						
	Taiex Options (Call)	Long	264	925	632	
	Taiex Options (Put)	Long	664	2,628	1,400	
	Taiex Options (Call)	Short	412	(3,376)	(3,640)	
	Taiex Options (Put)	Short	252	(1,024)	(594)	
	Taiex Weekly Options (Call)	Long	46	28	5	
	Taiex Weekly Options (Put)	Long	61	176	130	
	Taiex Weekly Options (Call)	Short	6	(12)	(14)	
	Taiex Weekly Options (Put)	Short	26	(48)	(42)	
	Subtotal			(703)		
Total				\$ (477,645)		

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) 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 Options (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

(iii) June 30, 2019

Item	Trading category	Open positions		Contract size or paid	Fair value	Note
		Long/ Short	Number of contracts	for (received from) premium		
Futures contract :						
	TAIEX Futures	Long	87	\$ 184,371	184,040	
	TAIEX Futures	Short	206	(427,943)	(435,772)	
	TSEC Weighted Index Futures	Short	1	(2,114)	(2,113)	
	Mini-TAIEX Futures	Long	5	2,573	2,619	
	Mini-TAIEX Futures	Short	31	(16,397)	(16,394)	
	Electronic Sector Index Futures	Short	5	(8,291)	(8,422)	
	Finance Sector Index Futures	Short	2	(2,566)	(2,573)	
	Single Stock Futures	Long	186	43,703	45,249	
	Single Stock Futures	Short	6,584	(890,669)	(910,060)	
	HSI Futures	Short	3	(16,823)	(17,005)	
	Dow Futures	Long	13	6,909	6,909	
	E-mini-Dow Futures	Short	2	(8,102)	(8,260)	
	Soybean Futures	Short	12	(17,304)	(17,201)	
	FTSE China A50 Index Futures	Long	62	26,012	26,007	
	FTSE China A50 Index Futures	Short	540	(224,893)	(226,511)	
	S&P 500 Futures	Long	10	5,892	5,864	
	S&P 500 Futures	Short	1	(4,579)	(4,572)	
	SGX Nikkei 225 Index Futures	Short	4	(12,152)	(12,248)	
	5 Year U.S. T-Note Futures	Long	80	293,401	293,595	
	10 Year U.S. T-Note Futures	Short	4	(15,893)	(15,899)	
	Mini-TOPIX Futures	Short	4	(1,786)	(1,790)	
	TOPIX Futures	Long	180	55,755	55,821	
	TOPIX Futures	Short	12	(53,622)	(53,714)	
	Crude Oil Futures	Short	45	(75,885)	(81,724)	
	Mini-Weekly Stock Index Futures	Long	37	19,692	19,765	
	OTC Futures	Short	11	(5,865)	(5,999)	
	AUD Futures	Long	35	76,350	76,488	
	GBP/USD Futures	Long	27	21,324	21,329	
	GBP/USD Futures	Short	69	(54,670)	(54,684)	
	AUD/USD Futures	Short	139	(75,744)	(75,932)	
	JPY/USD Futures	Long	69	42,419	42,391	
	JPY/USD Futures	Short	225	(139,447)	(139,026)	
	EUR/USD Futures	Short	102	(72,860)	(72,924)	
	Japanese Yen Futures	Long	2	7,211	7,246	
	Japanese Yen Futures	Short	27	(97,895)	(97,925)	
	GBP Futures	Long	14	34,563	34,649	
	VIX Futures	Short	28	(14,567)	(13,502)	
	Euro Futures	Long	16	71,060	71,106	
	Subtotal			(1,348,832)		

(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	6	51	104	
	TAIEX Options (Put)	Long	34	366	153	
	TAIEX Options (Call)	Short	34	(255)	(444)	
	TAIEX Options (Put)	Short	6	(58)	(16)	
	TAIEX Weekly Options (Call)	Long	24	118	125	
	TAIEX Weekly Options (Put)	Long	361	380	366	
	TAIEX Weekly Options (Call)	Short	61	(343)	(399)	
	TAIEX Weekly Options (Put)	Short	24	(83)	(76)	
	Taiwan SE Weighted Index Options (Call)	Long	164	180	200	
	Taiwan SE Weighted Index Options (Call)	Short	707	(167)	(113)	
	Soybean Meal Option (Put)	Short	19	(116)	(25)	
	Subtotal			73		
Total				<u>\$ (1,348,759)</u>		

(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	Stockholders' equity (Total liabilities - futures traders' equity)	6,081,181 1,091,429	5.57	4,757,193 1,134,039	4.19	≥ 1	Satisfactory to requirement
17	Current Assets Current Liabilities	44,509,513 39,849,895	1.12	38,493,436 35,254,144	1.09	≥ 1	"
22	Stockholders' equity Minimum paid-in capital	6,081,181 1,115,000	545.40 %	4,757,193 1,115,000	426.65 %	≥ 60% ≥ 40%	"
22	Adjusted net capital Total amount of customers' margin required for open positions of futures trader	4,733,712 8,634,695	54.82 %	3,391,764 6,204,348	54.67 %	≥ 20% ≥ 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		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 53,395	US 53,395
2	Taiwan International Securities (B.V.I) Corp.	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	41,156	41,156	7,937	5	%	2	-	Tradings	-		-	188,665	943,327
5	CSC Futures (HK) Ltd.	AAA Fintech Limited	Account receivables - Customer	No	176,384	176,384	92,601	4.45	%	2	-	Tradings	-		-	188,665	943,327
6	CSC Futures (HK) Ltd.	Future Leading Investment Pte. Ltd.	Account receivables - Customer	No	82,312	82,312	-	5	%	2	-	Tradings	-		-	188,665	943,327
7	CSC Futures (HK) Ltd.	Alpha Rnd Singapore Pte Ltd.	Account receivables - Customer	No	82,312	82,312	-	4.45	%	2	-	Tradings	-		-	188,665	943,327
8	CSC Futures (HK) Ltd.	Derivatives China Alpha Fund	Account receivables - Customer	No	82,312	82,312	-	4.45	%	2	-	Tradings	-		-	188,665	943,327
9	CSC Futures (HK) Ltd.	Perfect Hexagon Limited	Account receivables - Customer	No	88,192	88,192	-	4.45	%	2	-	Tradings	-		-	188,665	943,327

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 six months ended June 30, 2020:

(In Thousands Dollars)

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Intercompany transaction details			
				General ledger account	Amount	Trading terms	Percentage of total consolidated revenue or total assets
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts payable	419		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts receivable	13,734		0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other receivable	23,511		0.02 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Bonds sold under repurchase agreements	117,007		0.08 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other payable	3,863		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Guarantee deposits received	4,195		- %

(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	Futures commission revenue	101,471	General transaction	2.93 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Lease revenue	8,752	General transaction	0.25 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Revenue from securities management, distribution, and management fees	240	General transaction	0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Financial costs	170	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other operating revenue	11	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Securities commission expense	3,047	General transaction	0.09 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Interest revenue	116	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Miscellaneous expense	2,440	General transaction	0.07 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Non-operating revenue	23,483	General transaction	0.68 %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Accounts receivable	22		- %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Other receivable	94		- %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Professional service fee	31,500	General transaction	0.91 %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Other operating revenue	142	General transaction	- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other receivable	144		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other payable	75		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Receipts under custody	83		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other operating expense	922	General transaction	0.03 %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Non-operating revenue	194	General transaction	0.01 %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Guarantee deposits received	183		- %
1	Capital Futures Corp.	Capital Securities Corp.	2	Customers' margin account	1,153,205		0.75 %
1	Capital Futures Corp.	Capital Securities Corp.	2	Futures traders' equity	1,153,205		0.75 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Customers' margin account	511,272		0.33 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures traders' equity	4,247,260		2.74 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Other payable	3,398		- %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures commission expense	3,713	General transaction	0.11 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Brokerage commissions revenue	29,422	General transaction	0.85 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Financial costs	1,494	General transaction	0.04 %
1	Capital Futures Corp.	Capital International Technology Corp.	3	Professional service fees	768	General transaction	0.02 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Customers' margin account	3,889,972		2.51 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Futures traders' equity	153,984		0.10 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Prepayments	496		- %
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	7,976	General transaction	0.23 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Information technology expense	3,495	General transaction	0.10 %
2	CSC Futures (HK) Ltd.	CSC Securities (HK) Ltd.	3	Financial costs	208	General transaction	0.01 %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Lease revenue	5,861	General transaction	0.17 %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other receivable	HK 22		- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other operating revenue	HK 1,980	General transaction	0.22 %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Brokerage handling fee expense	HK 240	General transaction	0.03 %
3	CSC Securities (HK) Ltd.	CSC International Holdings Ltd.	3	Other payable	HK 228,306		0.57 %

(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
4	Taiwan International Securities (B.V.I.) Corp.	TIS Securities (HK) Limited	3	Other receivable	HK 26,248		0.07 %

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) Information on investees:

(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 June 30, 2020	Balance on December 31, 2019	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 %	84,084	31,928	(8,361)	(8,361)	-	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.	1,896,520	1,212,539	119,066,014	56.58 %	3,440,736	1,067,099	308,770	173,813	226,225	"
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 %	1,579,426	896	(10,236)	(10,236)	-	"
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 %	42,961	66,358	17,100	17,100	53,045	Subsidiary
0	Capital Insurance Agency Corp.	Taipei ,Taiwan, R.O.C.	November 8, 2000		Manages personal insurance agent business.	7,400	7,400	740,000	100.00 %	40,366	32,762	959	959	4,040	"
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 %	27	484	484	484	-	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		Completion of liquidation.	-	9,992	-	- %	-	-	(6)	(6)	-	"
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 %	826,065	103	(3,155)	(3,155)	-	"
0	Capital Investment Trust Corp.	Taipei ,Taiwan, R.O.C.	October 16, 1995		Engaged in security investment and discretionary investment services.	1,272,505	1,272,505	33,067,507	20.00 %	1,257,234	888,082	356,335	71,267	115,737	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 166,936 thousands	HK 18,107 thousands	HK 234 thousands	-	-	The transaction has been written off in the consolidated financial statements

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Ref. No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and number of FSC	Primary business operation	Original investment amount		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 June 30, 2020	Balance on December 31, 2019	Shares	Ratio	Book value					
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 (26,044) thousands	HK -	HK 126 thousands	-	-	The transaction has been written off in the consolidated financial statements
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 (66,016) 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	214,000,000	97.27 %	917,574	163,956	(16,786)	(16,328)	-	"
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 %	43,287	768	1,585	1,585	-	"
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 %	49,546	64,026	3,728	1,826	-	Associates
5	Capital Securities Nominee Ltd.	Hong Kong	April 7, 1995		Agency services.	HK 2	HK 2	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. The entity was been permitted from the court approval of its completion of liquidation on June 15, 2020.

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 and 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 investment in 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, 2020	Remittance of recoverable investment this period		Accumulated remittance as of June 30, 2020	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 June 30, 2020
					Remittance amount	Recoverable amount						
Capital True Partner Technology Co., Ltd.	Management, consulting and information service business	5,013	(C)	24,372	-	-	24,372	2,960	28.86%	854 B(2)	14,426	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	18,863	(C)	18,863	-	-	18,863	(453)	56.58%	(256) B(2)	9,547	-

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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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.

(e) Major shareholders:

There was no shareholder who held 5% or more of the issuer's equity.

Note 1: Taiwan Depository & Clearing Corporation calculates the information of the shareholders holding 5% or more of the Company's non-physical common shares and special shares which have been registered in dematerialized form (including treasury shares) based on the last business day of every quarter. The stock recorded in the Company's financial statements may differs from the shares which have been registered in dematerialized form because of different basis of preparation.

Note 2: If the shareholders deliver shareholdings to the trust, it shows the trustor's separate account opened by the trustee. As to insiders' equity declaration of shareholdings over 10% under securities trading laws, the shareholders' shareholdings include their own shareholdings and shares delivered to the trust with the right to decide how to use the trust property. The information related to insiders' equity declaration please refers to Market Observation Post System.

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

According to article 1(c), no. 5 of the letter no. 10703209011 issued by Financial Supervisory Commission on June 1, 2018, the required supplementary disclosures of the Company's information on reinvestment in overseas businesses for the six months ended June 30, 2020 are as follows:

(i) Balance sheet and income statement:

1) Balance sheet

Unit: US \$ thousands

Company	CSC International Holdings Ltd. June 30, 2020	Taiwan International Securities (B.V.I) Corp. June 30, 2020
Nature		
Current assets	10,536	1
Long-term investments	21,539	-
Property and premises	1,963	-
Other assets	19,395	3,380
Total assets	53,433	3,381
Current liabilities	38	20
Other liabilities	-	3,360
Total liabilities	38	3,380
Common stock	45,000	9,516
Retained earnings (Accumulated deficit)	8,410	(9,430)
Cumulative translation adjustments	(15)	(85)
Total stockholders' equity	53,395	1
Total liabilities and stockholders' equity	53,433	3,381

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Income statement

Unit: US \$ thousands

Company	CSC International Holdings Ltd.	Taiwan International Securities (B.V.I) Corp.
Nature	For the six months ended June 30, 2020	For the six months ended June 30, 2020
Operating revenue	30	16
Operating expense	(376)	-
Non-operating revenue	4	-
Non-operating expense	(1)	-
Income (loss) before tax	(343)	16
Net income (loss)	(343)	16

(ii) Securities held as of June 30, 2020

Unit: shares / US\$ thousands

Name of holding company	Securities types and name	Account classification	June 30, 2020	
			Shares	Book value
CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Long-term investments	128,000,000	\$ <u><u>21,539</u></u>
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Other liabilities	265,000,000	\$ <u><u>(3,360)</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.

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, corporate financing, 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

For the three months ended June 30, 2020							
	Brokerage business	Corporate financing business	Dealing business	Derivative instrument business	Others	Futures	Adjustment and elimination Total
Segment Revenue	\$ 1,073,143	100,015	1,050,117	133,271	56,574	568,886	(66,394) 2,915,612
Segment profit or loss	\$ 500,651	59,183	948,443	83,397	(26,862)	185,221	(78,210) 1,671,823

For the three months ended June 30, 2019							
	Brokerage business	Corporate financing business	Dealing business	Derivative instrument business	Others	Futures	Adjustment and elimination Total
Segment Revenue	\$ 810,090	68,468	219,934	38,664	66,069	488,756	(62,868) 1,629,113
Segment profit or loss	\$ 318,215	34,652	40,102	(7,113)	40,743	185,952	(84,843) 527,708

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	For the six months ended June 30, 2020							
	Brokerage business	Corporate financing business	Dealing business	Derivative instrument business	Others	Futures	Adjustment and elimination	Total
Segment Revenue	\$ 2,043,578	148,589	205,724	(91,155)	101,500	1,197,921	(148,410)	3,457,747
Segment profit or loss	\$ 946,113	74,278	(24,138)	(191,111)	(34,384)	401,622	(152,600)	1,019,780

	For the six months ended June 30, 2019							
	Brokerage business	Corporate financing business	Dealing business	Derivative instrument business	Others	Futures	Adjustment and elimination	Total
Segment Revenue	\$ 1,522,644	169,021	725,889	67,772	115,555	948,493	(117,541)	3,431,833
Segment profit or loss	\$ 574,821	101,137	381,279	(38,411)	73,782	384,473	(176,954)	1,300,127

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.