

CAPITAL FUTURES CORPORATION
FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
AND
INDEPENDENT AUDITORS' REPORT

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CAPITAL FUTURES CORPORATION
FINANCIAL STATEMENTS
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Independent Auditors' Report

The Board of Directors
Capital Futures Corporation

We have audited the accompanying balance sheets of Capital Futures Corporation as of December 31, 2009 and 2008, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and "Rules Governing Certified Public Accountants' Certification of Financial Statements" of the Republic of China (R.O.C.). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on test basis, evidences supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capital Futures Corporation as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, the related financial accounting standards of the "Business Entity Accounting Act" and of the "Regulations on Business Entity Accounting Handling", and accounting principles generally accepted in the Republic of China.

As described in Note 3, commencing from January 1, 2008, Capital Futures Corporation adopted SFAS No.39 "Share-based payment".The adoption resulted in a decrease of net income of \$4,911 thousands and a decrease in EPS after tax of \$0.08.

Please refer to the consolidated financial statements of Capital Futures Corporation as of December 31, 2009 and 2008, for which have issued an unqualified opinion and a modified unqualified opinion, respectively.

Taipei, Taiwan, R.O.C.
March 10, 2010

Notice to Readers

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

CAPITAL FUTURES CORPORATION
BALANCE SHEETS

December 31, 2009 and 2008

(New Taiwan Dollars in Thousands, Except Share and Per Share Data)

ASSETS	December 31, 2009		December 31, 2008		LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2009		December 31, 2008	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4(1))	\$ 1,038,597	13	899,592	11	Financial liabilities measured at fair value through profit or loss-current (Notes 2 and 4(10))	\$ 4,091	-	1,746	-
Financial assets measured at fair value through profit or loss-current (Notes 2,4(2)and 4(10))	292,955	4	154,801	2	Futures traders' equity (Notes 2,4(5)and 5)	6,604,978	80	6,925,281	84
Customers margin accounts(Notes 2,4(3) and 5)	6,617,778	80	6,929,793	83	Accounts payable	27,743	-	22,893	-
Futures margin receivable	557	-	754	1	Accounts payable-inter co. (Note 5)	8,666	-	12,444	-
Accounts receivable	5,795	-	1,530	-	Advance receipts	-	-	312	-
Accounts receivable-inter co. (Note 5)	5	-	-	-	Receipts under custody	2,279	-	1,578	-
Prepayments	3,357	-	1,284	-	Other payables	67,953	1	97,343	1
Other receivables	3,174	-	7,906	-	Other payables - inter co. (Note 5)	714	-	513	-
Other receivables - inter co. (Note 5)	16	-	-	-	Other liabilities - current	7,770	-	1,777	-
Pledged assets - current	10,000	-	10,000	-		<u>6,724,194</u>	<u>81</u>	<u>7,063,887</u>	<u>85</u>
Other current assets	798	-	437	-	OTHER LIABILITIES				
	<u>7,973,032</u>	<u>97</u>	<u>8,006,097</u>	<u>97</u>	Reserve for default losses (Note 2)	88,967	1	72,457	1
FUNDS AND INVESTMENTS(Notes 2 and 4(4))					Reserve for trading losses (Note 2)	38	-	1,601	-
Long-term investments under equity method	55,300	1	59,503	1	Accrued pension liabilities- non-current (Notes 2 and 4(6))	280	-	296	-
Available-for-sale financial assets-non-current	90	-	90	-	Reserve for bad debt (Note 2)	33,556	1	33,556	-
	<u>55,390</u>	<u>1</u>	<u>59,593</u>	<u>1</u>		<u>122,841</u>	<u>2</u>	<u>107,910</u>	<u>1</u>
PREMISES AND PROPERTY (Note 2)					Total Liabilities	<u>6,847,035</u>	<u>83</u>	<u>7,171,797</u>	<u>86</u>
Equipment	28,319	-	72,336	1	STOCKHOLDERS' EQUITY				
Leasehold improvements	2,440	-	552	-	Common stock, par value \$10 per share	752,268	9	615,000	8
Prepayment for equipment	1,942	-	563	-	120,000 thousand shares authorized ,75,227 and				
	32,701	-	73,451	1	61,500 thousand shares issued and outstanding, respectively (Note4 (8))				
Less: Accumulated depreciation	(10,214)	-	(62,251)	(1)	Capital surplus - premium from stock issuance (Note 4 (8))	107,625	1	-	-
	<u>22,487</u>	<u>-</u>	<u>11,200</u>	<u>-</u>	Retained earnings (Notes 2,4(7)and 4(8))				
OTHER ASSETS					Legal reserve	116,717	1	93,044	1
Guaranty deposit for business operation (Note 2)	80,000	1	80,000	1	Special reserve	233,434	3	186,088	2
Clearing and Settlement fund (Note 2)	104,000	1	112,000	1	Unappropriated earnings	211,141	3	237,358	3
Guaranty deposits paid (Note 2)	2,949	-	2,590	-	Total Stockholders' Equity	<u>1,421,185</u>	<u>17</u>	<u>1,131,490</u>	<u>14</u>
Deferred debits (Note 2)	5,870	-	5,309	-	SIGNIFICANT COMMITMENTS AND CONTINGENCIES (Note 7)				
Deferred income tax assets- non-current (Notes 2 and 4(7))	24,492	-	26,498	-					
	<u>217,311</u>	<u>2</u>	<u>226,397</u>	<u>2</u>	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 8,268,220</u>	<u>100</u>	<u>8,303,287</u>	<u>100</u>
TOTAL ASSETS	<u>\$ 8,268,220</u>	<u>100</u>	<u>8,303,287</u>	<u>100</u>					

(The accompanying notes are an integral part of the financial statements)

CAPITAL FUTURES CORPORATION

STATEMENTS OF INCOME

For the years ended December 31, 2009 and 2008

(New Taiwan Dollars in Thousands, Except Share and Per Share Data)

	2009		2008	
	Amount	%	Amount	%
Income				
Commission income - brokerage (Note 5)	\$ 825,529	68	750,580	50
Commission income - clearing and settlement (Note 5)	72,946	6	17,466	1
Gain on derivative financial instruments (Note 4(10))	198,705	16	551,859	36
Consulting fee (Note 5)	1,792	-	5,336	-
Other operating revenue	2,106	-	9,806	1
Non-operating revenue (Note 4(11))	115,200	10	184,782	12
	<u>1,216,278</u>	<u>100</u>	<u>1,519,829</u>	<u>100</u>
Expense				
Brokerage fees	(145,085)	(12)	(116,991)	(8)
Brokerage fees - proprietary trading	(3,587)	-	(4,765)	-
Futures commission expenses (Note 5)	(172,744)	(14)	(188,347)	(12)
Clearing and settlement expenses	(158,875)	(13)	(93,007)	(6)
Loss on derivative financial instruments (Note 4(10))	(165,201)	(13)	(462,393)	(30)
Futures management expenses	(3)	-	(1)	-
Operating expenses (Note 5)	(322,338)	(27)	(317,254)	(21)
Non-operating expenses	(7,773)	(1)	(29,196)	(2)
	<u>(975,606)</u>	<u>(80)</u>	<u>(1,211,954)</u>	<u>(79)</u>
Continuing operations' income before tax	<u>240,672</u>	<u>20</u>	<u>307,875</u>	<u>21</u>
Less : Income tax expense (Notes 2 and 4(7))	<u>(52,452)</u>	<u>(4)</u>	<u>(71,147)</u>	<u>(5)</u>
Continuing operations' income after tax	<u>188,220</u>	<u>16</u>	<u>236,728</u>	<u>16</u>
Net income	<u>\$ 188,220</u>	<u>16</u>	<u>236,728</u>	<u>16</u>
			Before Tax	After Tax
Basic earnings per share (Note 4(9))	<u>\$ 3.29</u>	<u>2.57</u>	<u>5.01</u>	<u>3.85</u>
Basic earnings per share - retroactively stated (Note 4(9))	<u>\$ -</u>	<u>-</u>	<u>4.50</u>	<u>3.46</u>
Diluted earnings per share (Note 4(9))	<u>\$ 3.29</u>	<u>2.57</u>	<u>4.99</u>	<u>3.84</u>
Diluted earnings per share - retroactively stated (Note 4(9))	<u>\$ -</u>	<u>-</u>	<u>4.49</u>	<u>3.45</u>

(The accompanying notes are an integral part of the financial statements)

CAPITAL FUTURES CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the years ended December 31, 2009 and 2008
(New Taiwan Dollars in Thousands)

	Capital stock	Capital surplus	Retained earnings			Total
			Legal reserve	Special reserve	Unappropriated earnings	
Beginning balance, January 1, 2008	\$ 615,000	-	74,119	148,238	189,373	1,026,730
Appropriation of 2007 earnings:						
Legal reserve	-	-	18,925	-	(18,925)	-
Special reserve	-	-	-	37,850	(37,850)	-
Cash dividends	-	-	-	-	(126,690)	(126,690)
Remuneration to directors and supervisors	-	-	-	-	(2,639)	(2,639)
Employee bonuses	-	-	-	-	(2,639)	(2,639)
Net income for 2008	-	-	-	-	236,728	236,728
Ending balance, December 31, 2008	615,000	-	93,044	186,088	237,358	1,131,490
Appropriation of 2008 earnings:						
Legal reserve	-	-	23,673	-	(23,673)	-
Special reserve	-	-	-	47,346	(47,346)	-
Stock dividends	75,768	-	-	-	(75,768)	-
Cash dividends	-	-	-	-	(67,650)	(67,650)
Common stock issued for cash	61,500	107,625	-	-	-	169,125
Net income for 2009	-	-	-	-	188,220	188,220
Ending balance, December 31, 2009	\$ 752,268	107,625	116,717	233,434	211,141	1,421,185

(The accompanying notes are an integral part of the financial statements)

CAPITAL FUTURES CORPORATION
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2009 and 2008
(New Taiwan Dollars in Thousands)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Net income	\$ 188,220	236,728
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	5,508	10,899
Amortization	3,639	3,895
Provision for default	16,510	15,012
Reversal of reserve for trading losses	(1,563)	(9,373)
Investment loss under the equity method	4,203	1,997
Valuation losses from financial assets	241	-
Decrease (increase) in financial assets measured at fair value through profit or loss	(138,395)	3,663
Decrease in customers margin accounts	312,015	606,539
Decrease (increase) in accounts receivable	(4,270)	338
Decrease in futures margin receivable	197	232
Decrease in other receivables	4,716	84
Decrease (increase) in prepayments	(2,073)	2,873
Decrease (increase) in other current assets	(361)	252
Increase in pledged assets - current	-	(10,000)
Decrease (increase) in deferred income tax assets-non-current	2,006	(3,755)
Increase in financial liabilities measured at fair value through profit or loss	2,345	349
Decrease in futures traders' equity	(320,303)	(604,202)
Increase in accounts payable	1,072	7,801
Decrease in advance receipts	(312)	(2,002)
Increase (decrease) in other payables	(29,189)	5,958
Increase (decrease) in receipts under custody	701	(955)
Increase (decrease) in other current liabilities	5,993	(1,474)
Decrease in accrued pension liabilities	(16)	(14)
Net cash provided by operating activities	<u>50,884</u>	<u>264,845</u>
Cash flows from investing activities:		
Purchase of premises and property	(20,575)	(8,207)
Decrease (increase) in clearing and settlement fund	8,000	(5,000)
Increase in guaranty deposits paid	(359)	-
Increase in deferred debits	(420)	(654)
Proceeds from capital reduction of investments under the equity method	-	43,463
Disposal of available-for-sale financial assets-non-current	-	9
Net cash provided by (used in) investing activities	<u>(13,354)</u>	<u>29,611</u>
Cash flows from financing activities:		
Remuneration to directors and supervisors	-	(2,639)
Employee bonuses	-	(2,639)
Cash dividends	(67,650)	(126,690)
Common stock issued for cash	169,125	-
Net cash provided by (used in) financing activities	<u>101,475</u>	<u>(131,968)</u>
Net increase in cash and cash equivalents	139,005	162,488
Cash and cash equivalents at beginning of year	899,592	737,104
Cash and cash equivalents at end of year	<u><u>\$ 1,038,597</u></u>	<u><u>899,592</u></u>
Cash paid for interest	<u><u>\$ 3,045</u></u>	<u><u>22,785</u></u>
Cash paid for income tax	<u><u>\$ 69,253</u></u>	<u><u>47,261</u></u>

(The accompanying notes are an integral part of the financial statements)

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(NEW TAIWAN DOLLARS IN THOUSANDS)

(1) OVERVIEW

Capital Futures Corporation (the “Company”) established its preparatory office on January 4, 1997, officially incorporated on February 26, 1997 and started operation on July 29, 1997. The Company primarily engages in providing futures brokerage trading for the domestic and overseas market. On March 18, 1998, the Company obtained the membership of general clearing member. Thereafter the Company provides the clearing and settlement for its brokerage and also handles clearing and settlement on consignment for other futures commission merchants

On December 11, 2000, the Company established the Taichung branch and was officially incorporated on April 18, 2001.

On November 14, 2002, the special stockholders’ meeting resolved to engage in futures advisory business. On October 3, 2003, the board of directors resolved to engage in futures proprietary trading business and got the approval by competent authority on October 27, 2003.

The Company applied to the competent authority to establish Capital Futures Management Corp. on February 26, 2004, and was approved on March 18, 2004. On April 17, 2008, the Company obtained an approval letter to register emerging stock, and the official listed date was May 15, 2008. Furthermore, the Company was adopted Securities OTC Listings Review on December 23, 2008 and the official listed date was on April 27, 2009.

The parent company is Capital Securities Corporation. As of December 31, 2009 and 2008, the numbers of employees were 144 and 108, respectively.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared in the local currency and in Chinese. These financial statements have been translated into English. The translated information is in consistent with the Chinese language financial statements from which it is derived.

The financial statements of the Company were prepared in accordance with Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Business Entity Accounting Act, Regulations on Business Entity Accounting Handling, and accounting principles generally accepted in the Republic of China. Summary of significant accounting policies were as follows:

(A) Accounting Estimates

The preparation of the accompanying financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(B) Foreign Currency Transactions

The Company recorded transactions in New Taiwan Dollar. The non-derivative foreign currency transactions of the Company are recorded at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange ruling at the balance sheet date. Any exchange differences resulting from fair value variation through profit and loss are included in the income statement, and exchange differences resulting from fair value variation through equity are accounted for as equity adjustments.

(C) Principles of classifying assets and liabilities as current and non-current

Cash or cash equivalents that are not restricted in use, assets held for the purpose of trade, or assets that will be held short-term and are expected to be converted to cash within 12 months of the balance sheet date are classified as current assets; otherwise, they are classified as non-current assets.

Liabilities that must be fully liquidated within 12 months after the balance sheet date are classified as current liabilities; otherwise, they are classified as non-current liabilities.

(D) Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and with maturity dates that do not present significant risks on changes in value resulting from changes in interest rates, including commercial paper with original maturities of three months or less.

(E) Financial Assets

Financial instruments held by the Company are recorded on trading date and initially recognized at fair value plus transaction costs, except for financial instruments held for trading purpose, which are initially recognized at fair value. Subsequent to their initial recognition, the financial instruments held by the Company are classified according to the purpose of holding as follows:

(a) Financial assets measured at fair value through profit or loss:

Financial assets are classified as held for trading if they have been acquired principally for the purpose of selling or repurchasing in the near term. The derivative financial instruments held by the Company, except for those designated as hedging instruments, are classified under this account. At each balance sheet date, the fair value is remeasured and the resulting gain or loss from such remeasurement is recognized in profit and loss. Financial assets are classified as held for trading as follows:

1. Financial assets acquired primarily for the purpose of selling in the near term.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

2. Assets that are part of a group of distinct financial product portfolios under comprehensive management, where there is evidence that in the near term the group is in fact being managed for short-term profit.
3. Derivative financial assets.

Financial assets held for trading are classified based on the terms of open-end fund, money market instruments, option contract and futures margin derivatives.

Financial assets measured at fair value through profit or loss. Market values of open-end mutual funds are based on their net asset value at the balance sheet date. The uncovered gain (loss) calculated by settle price announced by Taiwan Futures Exchange and the gain (loss) due to settlement on expiration of the contract or offset advance of futures margin are included in current year's earnings and adjust the book amount of futures margin at the balance sheet date. Option contract is reflected as assets or liabilities when paid or collected. Differences in the market value of premium on the balance sheet date are stated as gain or loss. Gain or loss resulting from the exercise of options is recognized as transaction gain or loss.

(b) Available-for-sale financial assets:

The available-for-sale financial assets are classified as current or non-current according to liquidity. Those that are non-current are reclassified as "available-for-sale financial assets-non current" under "funds and investments". Available-for-sale financial assets are measured at fair value. Investments in non-listed (or non-over-the-counter) companies in which the Company is unable to exercise significant influence over the investee's operations and financial policies are accounted for by the cost method at each balance date.

In accordance with the second amendment of Republic of China Statement of Financial Accounting Standards "Financial Instruments: Recognition and Measurement", financial assets classified as assets measured at fair value through profit or loss (other than derivative financial assets and those designated as assets measured at fair value through profit or loss by the entity upon initial recognition) upon initial recognition may be reclassified into other categories. Financial assets classified as available-for-sale that would have met the definition of loans and receivables may be reclassified out of the available-for-sale category to the loans and receivables category. The accounting treatments on the date of reclassification are summarized as follows:

1. Financial assets classified as assets measured at fair value through profit or loss upon initial recognition that would have met the definition of loans and receivables shall be reclassified at their value on the date of reclassification, which will become their new cost or amortized cost, as applicable, if the entity has the intention and ability to hold the financial assets for the foreseeable future or until maturity. Any previous gain or loss already recognized in profit or loss shall not be reversed.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

2. Financial assets classified as assets measured at fair value through profit or loss upon initial recognition which do not meet the preceding criterion may be reclassified out of the fair value through profit or loss category only in rare circumstances and shall be reclassified at their fair value on the date of reclassification, which will become their new cost or amortized cost, as applicable. Any previous gain or loss already recognized in profit or loss shall not be reversed.
3. Financial assets classified as available-for-sale that would have met the definition of loans and receivables shall be reclassified at their fair value on the date of reclassification, which will become their new cost or amortized cost, as applicable, if the entity has the intention and ability to hold the financial assets for the foreseeable future or until maturity. For any previous gain or loss on a financial asset that has been recognized directly in equity, if the financial asset has a fixed maturity, the gain or loss should be amortized to current profit or loss over the remaining life of the financial asset; if not, the gain or loss remains in equity.

(F) Asset Impairment

The Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there is indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

(G) Customers Margin Accounts

The customers' margin refers to the guarantee deposits and premiums collected from futures customers and also the spread calculated based on the market prices everyday. It is reflected under current assets.

(H) Futures Traders' Equity

Futures traders' equity refers to futures customers deposit the guarantee deposits and option premiums and also the spread calculated based on the market prices everyday. It is reflected under current liabilities. The loss is offset only against the balance of the same customers' own margin accounts. If a customer incurs a loss in excess of the margin account balance, the excess is recognized a receivable.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(I) Long-Term Equity Investments

Long-term equity investments where ownership by the Company is more than 20% or the Company has significant influence over the investee companies are accounted for under the equity method. Upon sale, the difference between the disposal amount and the carrying value is accounted for the gain or loss on disposal of long-term investments. If there is capital surplus balance from the long term-equity investment, the sales portion of the capital surplus was charged to the gain or loss on disposal of long-term investments.

Majority-owned affiliates are accounted for under the equity method and combined into the consolidated financial statements. The consolidated financial statements are prepared quarterly.

(J) Premises and Property, and Depreciation

Premises and property are stated at cost. Gains or losses on disposal of premises and property are included in non-operating revenues or expenses.

Depreciation of premises and property is provided by the straight-line method over the estimated useful life prescribed by the government. Assets still in service after full depreciation are depreciated by the estimated useful lives that remain. Estimated useful lives of major property are the following:

Transportation equipment	3 to 5 years
Office facilities	3 to 5 years
Leasehold improvements	3 years

Leasehold improvements are amortized over the lesser of lease terms or the useful lives of such improvement.

(K) Deferred Debits and Amortization

Telephone line charges, computer software cost and network constructions are amortized equally over 3 years.

(L) Guaranty Deposit for Business Operation

In compliance with regulations governing futures commission merchants, the Company deposited the following amounts with a financial institution designated by the Securities and Futures Bureau (SFB):

- (a) futures brokerage merchants: \$50,000.
- (b) futures proprietary merchants: \$10,000.

Where a futures commission merchant applying for the establishment of branch offices, the deposit amount shall be increased by \$10,000 for each branch to be established.

- (c) operation of futures advisory business: \$10,000.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(M) Clearing and Settlement Fund

The Company became the general clearing members of Taiwan Futures Exchange Corporation on March 12, 1998. In compliance with "Taiwan Futures Exchange Corporation Criteria for Clearing Membership", the clearing member shall make a deposit to the clearing and settlement fund equal to 20 percent of its paid-in capital or designated operating funds, but of an amount no more than \$40,000. For each additional futures commission merchant consigning the Company to handle clearing and settlement operations, the Company shall deposit of \$3,000 or \$1,000. And for each additional branch established by a consigning futures commission merchant, or for each additional futures trading introducing broker consigned by the Company or for each additional branch established by such introducing broker, the Company shall deposit of \$1,000.

(N) Guaranty Deposits Paid

The guaranty deposits paid included the self-regulatory fund deposit to Chinese National Futures Association. According to the regulation, the guaranty deposits can be applied to refund when the Company withdraws from the association.

(O) Financial liabilities measured at fair value through profit and loss

Financial liabilities measured at fair value through profit or loss is the gain or loss computed as the price announced by Taiwan Futures Exchange when premium collected when the company sells the option contract, and is recognized as the current income.

(P) Reserve for Default Losses

Per SFB regulations, the Company provides on a monthly basis default indemnity reserve of 2% of brokerage commissions and lists the reserve for default losses. Except during July 1, 1999 to June 30, 2003, provision may be suspended as SFB regulations.

(Q) Reserve for Bad Debt

Per SFB regulations, the Company shall make appropriate provision, within 4 year starting from July 1, 1999 for bad debt at 3% of sales turnover of the principal lines on a monthly basis that is recorded as "other liabilities".

According to the SFB Ruling Letter No.0920003132, the Company stopped to provide the above 3% of reserve for bad debts since July 1, 2003. The balance of "reserve for bad debt", if any, would be maintained on the book for the future write-off of overdue doubtful accounts only in according to the SFB Ruling Letter No. 91625.

(R) Reserve for Trading Losses

Per SFB regulations, the Company is required to provide 10% of realized net gains on futures trading as reserve for futures trading losses, which can only be used to offset net trading losses. Should such reserve is provided up to \$200,000, provision may be suspended.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(S) Special Reserve

Per SFB regulations, futures commission merchants are required to set aside 20% of net income as special reserve, until such amount is equal to its paid-in capital.

(T) Pension Plan

The Company adopted the SFAS No. 18, "Accounting for Pensions" to recognize pension costs on the basis of actuarial report and accrues the minimum pension liability when the accumulated benefit obligation exceeds the fair value of the fund assets. And made all necessary disclosures on the related benefit obligation.

The Labor Pension Act of R.O.C. ("the Act") takes effect from July 1, 2005. In accordance with the Act, employees of the Company may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, which adopts a defined contribution scheme, the Company shall make monthly contributions to the employees' individual pension accounts with the Bureau of Labor Insurance on a basis no less than 6% of the employees' monthly wages. However, the employee retirement plan maintained by the Company has not yet been amended to conform to the Act.

(U) Income Tax

The Company adopted SFAS No. 22 "Accounting for Income Tax" to reflect inter and intra-period income tax allocation. Income tax effects from taxable temporary differences are reported as deferred income tax liabilities, and deductible temporary differences, prior years' loss carry forwards, and investment tax credits are reflected as deferred income tax assets. Deferred income tax assets are recognized subject to management's judgment that realization is more likely than not.

Deferred income tax asset or liability is classified as current or non-current by the nature of underlying asset or liability or the expected time of realization.

Adjustments for under or over estimates of prior year's income tax expenses are reflected as current income tax expense.

The 10% surtax on undistributed earnings is reflected as current expense on the date of stockholders' meeting to resolve on earnings distribution

(V) Earnings Per Share ("EPS")

EPS is based on the weighted-average number of outstanding shares. In the event of capital increase through capitalization of retained earnings, or capital surplus, EPS is retroactively adjusted by the approved capitalization ratio, regardless of the outstanding period when incremental shares are issued.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

The Company's employee bonuses issued by stocks were dilutive potential common shares. If the potential common shares have a non-dilutive effect, the Company should only disclose the basic earnings per share. On the contrary, if the potential common shares have a dilutive effect, the Company should disclose both the basic and diluted earnings per share. In calculating the diluted earnings per share which should take the effect of potential common shares to net income and the weighted-average number of common shares outstanding share into consideration is based on the assumption that all dilutive potential common shares are outstanding and of the current period.

(W) Employee Bonuses and Directors' Remunerations

Employee bonuses and directors' remunerations are accounted for by Interpretation 2007-052 issued by the Accounting Research and Development Foundation ("ARDF"). The Company estimates the amount of employee bonuses and directors' remunerations according to the Interpretation and recognizes it as expenses. Differences between the amounts are approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss.

(3) REASONS FOR AND EFFECT OF ACCOUNTING CHANGES

Commencing from January 1, 2008, the Company adopted SFAS No.39 "Share-based Payment" and the interpretation 2007-052 issued by the ARDF. The share-based payment transactions, employee bonuses and remunerations paid to directors and supervisors are classified, measured and disclosed by the above mentioned rules. The adoption resulted in a decrease of net income of \$4,911 and a decrease in EPS after tax of \$0.08. Also in accordance with the interpretation 2008-169 issued by the ARDF, capitalization of employees' bonus no longer belongs to distribution of stock dividends, so the calculation of basic EPS and diluted EPS for all periods presented shall not be adjusted retroactively.

(4) SUMMARY OF MAJOR ACCOUNTS

(A) Cash and Cash Equivalentents

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Cash	\$ 40	40
Demand deposits	193,957	37,952
Time deposits	844,600	861,600
Total	<u>\$ 1,038,957</u>	<u>899,592</u>

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(B) Financial Assets Measured At Fair Value Through Profit Or Loss-Current

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Financial assets held for trading:		
Open-ended funds and money-market instruments	\$ 20,000	-
Valuation adjustment	(241)	-
Subtotal	<u>19,759</u>	<u>-</u>
Derivative Financial Instruments :		
Call options	2,605	2,330
Futures margin-proprietary fund	270,591	152,471
Subtotal	<u>273,196</u>	<u>154,801</u>
Total	<u>\$ 292,955</u>	<u>154,801</u>

(C) Customers Margin Accounts

<u>December, 31, 2009</u>	<u>Foreign Currency (dollar)</u>	<u>Amount</u>
Cash in bank	USD 17,656,542.57	\$ 564,833
	JPY 4,203,655.00	1,459
	GBP 9,591.83	495
	HKD 1,931,316.93	7,969
	EUR 3.56	-
	AUD 54.73	2
	SGD 50.00	1
		<u>4,343,513</u>
Subtotal		<u>4,918,272</u>
Balance of the futures clearing house	USD 2,476,994.50	79,239
	JPY 61,000,000.00	21,179
		<u>1,418,268</u>
Subtotal		<u>1,518,686</u>
Balance of other futures commission merchants	USD 4,460,776.37	142,700
	JPY (27,530,481.00)	(9,559)
	GBP 113,624.79	5,863
	HKD 7,651,000.36	31,568
	AUD 8,409.66	242
	SGD 251.10	6
		<u>10,000</u>
Subtotal		<u>180,820</u>
Total		<u>\$ 6,617,778</u>

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

<u>December 31, 2008</u>	<u>Foreign Currency (dollar)</u>		<u>Amount</u>
Cash in bank	USD	25,076,831.23	\$ 822,520
	JPY	35,720,640.00	12,988
	GBP	11,868.56	564
	HKD	339,425.31	1,437
	EUR	137,211.65	6,345
Subtotal			<u>5,971,089</u>
Balance of the futures clearing house	USD	4,009,316.40	131,506
	JPY	388,130,000.00	141,124
			<u>588,181</u>
Subtotal			<u>860,811</u>
Balance of other futures commission merchants	USD	1,259,351.29	41,307
	JPY	68,054,060.00	24,744
	GBP	161,263.37	7,663
	HKD	4,799,636.32	20,317
	EUR	83,515.03	3,862
Subtotal			<u>97,893</u>
Total			<u><u>\$ 6,929,793</u></u>

As of December 31, 2009 and 2008, the difference between customers margin accounts and futures traders' equity are the commission revenue from the customers \$3,797 and \$2,120, respectively, futures tax of \$1,172 and \$547, respectively, interest revenue \$67 and \$68, respectively, temporary credits \$628 and \$1,667, respectively, and remittance amount of the customers after the market closed \$7,136 and \$110, respectively.

(D) Long-Term Investments

(a) Long-term investments under equity method

<u>Investee Company</u>	<u>December 31, 2009</u>		<u>December 31, 2008</u>	
	<u>Ownership ratio</u>	<u>Amount</u>	<u>Ownership ratio</u>	<u>Amount</u>
Capital Futures Management Corp. (Original investment at \$61,500.)	61.50%	<u>\$ 55,300</u>	61.50%	<u>59,503</u>

In 2009 and 2008, the loss on investments accounted for under the equity method based on audited investee financial statements were \$4,203 and \$1,997, respectively.

On December 31, 2007, the authorities modified the lowest capital required of Futures Management firms from \$200,000 to \$100,000. On June 30, 2008, the stockholders of Capital Futures Management Corp. resolved to reduce \$100,000 of capital with effective date of August 6, 2008, \$29,328 was used to offset accumulated deficit, \$70,672 was returned to stockholders. On August 20 2008, the Company received the returned amount of \$43,463 proportionally.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

The Company has combined all controllable investee companies into the consolidated financial statements.

(b) Available-for-sale financial assets-non-current

<u>Investee Company</u>	<u>December 31, 2009</u>		<u>December 31, 2008</u>	
	<u>Ownership ratio</u>	<u>Amount</u>	<u>Ownership ratio</u>	<u>Amount</u>
Taiwan Futures Exchange Corp.	0.0041%	<u>\$ 90</u>	0.0041%	<u>90</u>

In November 2008, the Company sold 1,000 shares to Toji Trading Taiwan Co., Ltd for \$31. The transaction resulted in gain of \$22 and therefore the ownership ratio decreased from 0.0045% to 0.0041%.

(E) Futures Traders' Equity

<u>Currency</u>	<u>Foreign Currency Amount (dollar)</u>	<u>Amount</u>
<u>December 31, 2009</u>		
USD	24,554,870.42	\$ 788,510
JPY	37,097,187.00	12,880
GBP	115,458.00	5,958
HKD	9,556,286.45	39,429
EUR	3.56	-
AUD	7,504.00	203
SGD	220.00	5
NTD		5,760,993
Total		<u>\$ 6,604,978</u>
<u>December 31, 2008</u>		
USD	30,342,373.95	\$ 995,230
JPY	491,874,536.00	178,846
GBP	173,084.93	8,225
HKD	5,135,691.67	21,739
EUR	220,726.68	10,206
NTD		5,711,035
Total		<u>\$ 6,925,281</u>

(F) Pension Plan

The relevant information of employee pension fund was as follows:

(a) The Company reserves pension cost expense benefit in 2009 and 2008 as follows:

	<u>2009</u>	<u>2008</u>
Provision for defined benefit plan	\$ 245	444
Provision for defined contribution plan	5,335	4,873
	<u>\$ 5,580</u>	<u>5,317</u>

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(b) The contribution to the pension fund (interest included) in 2009 and 2008 amounted to \$340 and \$854 respectively. As of December 31, 2009 and 2008, the balances of pension fund were \$12,044 and \$11,704, respectively.

(c) Actuarial assumptions used to calculate net pension costs were as follows:

	<u>2009</u>	<u>2008</u>
Discount rate	2.75%	3.00%
Future salary increase rate	1.50%	1.50%
Projected long-term rate of return on pension assets	1.50%	2.00%

(d) Reconciliation between funded status and accrued pension liability per book was as follows:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Vested benefit obligation	\$ -	-
Non-vested benefit obligation	(9,171)	(8,024)
Accumulated benefit obligation	(9,171)	(8,024)
Effect of future salary increases	(1,026)	(959)
Expected benefit obligation	(10,197)	(8,983)
Fair value of pension fund assets	12,044	11,704
Funded status	1,847	2,721
Unrecognized net transitional benefit obligation	97	105
Unrecognized loss (gain) of pension fund	(2,224)	(3,122)
Accrued pension liabilities	<u>\$ (280)</u>	<u>(296)</u>

As of December 31, 2009 and 2008, vested benefits both amounted to \$0.

(e) In 2009 and 2008, components of net pension cost were as follows:

	<u>2009</u>	<u>2008</u>
Service cost	310	485
Interest cost	269	315
Actual return on pension fund assets	\$ (78)	(397)
Loss (gain) on pension fund assets	156	99
Expected return on pension fund assets	(234)	(298)
Amortization of unrecognized loss (gain) on pension fund	(108)	(66)
Amortization of unrecognized net transitional benefit obligation	8	8
Net pension cost	<u>245</u>	<u>444</u>

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(G) Income Tax

The Company's income tax rate is 25%. The Company calculated the minimum tax expenses according to "Alternative Minimum Tax Rule." According to amendment of Income Tax Law which announced on May 27, 2009, the Company's income tax rate will be changed to 20% effective from January 1, 2010.

	December 31, 2009	December 31, 2008
(a) Total deferred income tax assets	\$ 24,492	26,498

	December 31, 2009		December 31, 2008	
	Amount	Tax Effects	Amount	Tax Effects
(b) Temporary differences which resulted in deferred income tax assets:				
Deductible temporary difference from provision for default loss reserve	\$ 88,967	17,794	72,457	18,114
Deductible temporary difference from provision for bad debt reserve	33,492	6,698	33,533	8,384
	\$ 122,459	24,492	105,990	26,498

(c) Reconciliation between the current income tax and income tax expense was as follows:

1. The profit-seeking enterprise income tax rate is 25%. The composition of income tax expense in 2009 and 2008 was as follows:

	2009	2008
Current income tax	\$ 57,461	78,002
Adjustments to prior years' income tax	(9,256)	(3,285)
Income tax effects due to temporary differences	(4,117)	(3,755)
Cumulative effect of changes in income tax rate	6,123	-
10% surtax on undistributed earnings	2,229	51
Income tax separately levied	12	134
Income tax expense	\$ 52,452	71,147

2. The difference between income tax computed on financial income at statutory tax rate and income tax was as follows:

	2009	2008
Income tax computed on financial income at statutory tax rate	\$ 60,158	76,959
Income tax effects due to permanent differences	(6,688)	(2,610)
Income tax effects due to temporary differences	4,117	3,755
Investment tax credits	(126)	(102)
Current income tax	\$ 57,461	78,002

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(d) The Company's income tax returns through 2007 were assessed by the Tax Authority.

(e) The information about imputation system was as follows:

	December 31, 2009	December 31, 2008
1. Information regarding undistributed earnings:		
Undistributed earnings prior to 1997	\$ 106	106
Undistributed earnings after 1998	211,035	237,252
Total	\$ 211,141	237,358
2. Imputation credit account	\$ 71,966	74,087
	2009	2008
	(estimated)	(actual)
3. Deductible rate for earnings distributed to ROC residents	34.93%	33.36%

(H) Earnings Distribution

(a) Capital

The company issued 6,150 thousand shares of common stock for OTC Listing (cash capital increase of \$61,500, stock premium of \$27.50 dollars per share) in April 2009. Besides, On May 27, 2009, the Company's stockholders resolved to transfer unappropriated earnings of \$75,768 and issued 7,577 thousand shares of common stock. The capital increase with effective date of July 25, 2009, was approved by the Financial Supervisory Commission, Executive Yuan on July 2, 2009. As of December 31, 2009 the paid-in capital was \$752,268.

(b) Capital surplus

Pursuant to the ROC Company Law, capital surplus is used only to offset a deficit. However, the premium of stock issuance and capital surplus from endowment can increase capital in proportion to stock outstanding.

(c) According to the Company's Articles of Incorporation, after-tax earnings should first offset cumulative losses, and then 10% and 20% of the remainder should be appropriated as legal reserve and special reserve, respectively. The rest may be distributed in the ratio specified below:

1. Remuneration to directors and supervisors: 2%.
2. Employee bonuses: 2%.
3. Dividends: 96%.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

Net income after tax subtracted 10% legal reserve, 20% special reserve and multiplied by employee bonus and remuneration to directors and supervisors percentage of 4% was the estimation of the bonus and remunerations to supervisors. The estimation as of December 31, 2009 and 2008 was \$6,426 and \$6,548 respectively. Difference between the amount approved at the shareholders' meeting and the estimation were accounted for as changes in accounting estimates and will be reflected in the statement of income in the following year.

- (d) The legal reserves should not be used except for capitalizing and making good the deficit of the company .Where legal reserve is capitalized, the amount of the legal reserve should have aggregated up to 50% of issued common stock, and only one half of the amount of such legal reserve may be capitalized.
- (e) The company's 2008 earnings distribution for employee bonuses, remuneration to directors and supervisors, cash dividends and stock dividends were \$2,988, \$2,988, \$67,650 and \$75,768 under the resolution of shareholders' meeting and the board's meeting on May 27, 2009. The shareholders' meeting authorized the board of directors and the board of directors authorized the chairman to set record date of earning distribution as July 25, 2009. Due to the above changes, the difference of employee bonuses \$3,274 and remuneration to directors and supervisors \$3,274 for 2008 financial statements was \$572 in total. The difference was accounted for as changes in accounting estimates and would be reflected in the statement of income in 2009. The company's 2007 earnings distribution for employee bonuses, remuneration to directors and supervisors and cash dividends were \$2,639, \$2,639 and \$126,690 under the resolution of the shareholders' meeting on May 23, 2008.
- (f) If the above employee bonuses and remuneration to directors and supervisors were included in current expenses, then calculated after-tax basic earnings per share for 2007 would decrease from \$3.08 to \$2.99.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(I) Earnings Per Share

	2009		2008	
	Before Tax	After Tax	Before Tax	After Tax
Net Income(A)	<u>\$ 240,672</u>	<u>188,220</u>	<u>370,875</u>	<u>236,728</u>
Outstanding shares at end of year(thousands of shares)	<u>75,227</u>	<u>75,227</u>	<u>61,500</u>	<u>61,500</u>
Weighted-average number of common stock shares outstanding (thousands of shares)(B)	<u>73,128</u>	<u>73,128</u>	<u>61,500</u>	<u>61,500</u>
Capital increase from retained earnings in 2008- retroactively stated (thousands of shares) (C)	<u>-</u>	<u>-</u>	<u>68,388</u>	<u>68,388</u>
Basic Earnings per share (dollar) (A/B)	<u>\$ 3.29</u>	<u>2.57</u>	<u>5.01</u>	<u>3.85</u>
Basic Earnings per share – restroactively stated (A/C)	<u>\$ -</u>	<u>-</u>	<u>4.50</u>	<u>3.46</u>
Dilutive potential ordinary share (thousands of shares) (D)(note)	<u>81</u>	<u>81</u>	<u>178</u>	<u>178</u>
Weighted Average outstanding shares of dilutive earnings per share (thousands of shares)(E=B+D)	<u>73,209</u>	<u>73,209</u>	<u>61,678</u>	<u>61,678</u>
Dilutive earnings per share(dollar)(A/E)	<u>\$ 3.29</u>	<u>2.57</u>	<u>4.99</u>	<u>3.84</u>
Dilutive shares - Capital increase from retained earnings in 2008- retroactively stated (thousands of shares) (F=C+D)	<u>-</u>	<u>-</u>	<u>68,566</u>	<u>68,566</u>
Dilutive earnings per share(dollar)- restroactively stated (A/F)	<u>\$ -</u>	<u>-</u>	<u>4.49</u>	<u>3.45</u>

(Note) In 2009 and 2008, the shares were calculated based on the closing price and stockholder's equity at the balance sheet date, respectively.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(J) Financial Instruments

(a) Information of Fair Value

1. As of December 31, 2009 and 2008, the fair value of the Company's financial assets and financial liabilities were as follows:

	December 31, 2009			December 31, 2008		
	Book value	Quoted market price in active market	Determined by using certain valuation techniques	Book value	Quoted market price in active market	Determined by using certain valuation techniques
Financial Instruments						
Financial assets						
Cash and cash equivalents	\$ 1,038,597	-	1,038,597	899,592	-	899,592
Financial assets measured at fair value through profit and loss-current	19,759	19,759	-	-	-	-
Derivatives Financial Instruments-call options	2,605	2,605	-	2,330	2,330	-
Derivatives Financial Instruments- futures margin	270,591	270,591	-	152,471	152,471	-
Customers margin accounts	6,617,778	6,617,778	-	6,929,793	6,929,793	-
Accounts receivable-net	9,547	-	9,547	10,190	-	10,190
Pledged assets - current	10,000	-	10,000	10,000	-	10,000
Available-for sale financial asset	90	-	90	90	-	90
Guaranty deposit for business operation	80,000	-	80,000	80,000	-	80,000
Clearing and settlement fund	104,000	-	104,000	112,000	-	112,000
Guaranty deposits paid	2,949	-	2,949	2,590	-	2,590
Financial liabilities						
Futures traders' equity	6,604,978	6,604,978	-	6,925,281	6,925,281	-
Financial liabilities measured at fair value through profit and loss-current						
Derivatives Financial Instruments-put options	4,091	4,091	-	1,746	1,746	-
Accounts payable	105,076	-	105,076	133,193	-	133,193

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

2. Fair Value of Derivative Financial Instruments:

The derivatives financial transactions of the company are futures and options, the related information was as follows:

December 31, 2009					
Derivatives Financial Instruments	Notional principal / Nominal amount	Credit Risk	Paid for (received from) Premium	Fair Value	Evaluation Adjustment
Futures-Long	\$ 70,846	-	-	74,161	3,315
Futures-Short	(59,038)	-	-	(62,744)	(3,706)
Options-Long	-	-	2,123	2,605	482
Options-Short	-	-	(2,714)	(4,091)	(1,377)

December 31, 2008					
Derivatives Financial Instruments	Notional principal / Nominal amount	Credit Risk	Paid for (received from) Premium	Fair Value	Evaluation Adjustment
Futures-Long	\$ 19,487	-	-	19,530	43
Futures-Short	(25,708)	-	-	(25,207)	501
Options-Long	-	-	2,678	2,330	(348)
Options-Short	-	-	(2,034)	(1,746)	288

(b) Methods and assumptions used in estimating the fair value of financial instruments were specified below:

1. The carrying amounts of cash and cash equivalents, futures margin, futures margin receivable, accounts receivable, other receivable, notes and accounts payable and other payable, approximate their fair values because of the short maturities of these instruments.
2. Market quotes of financial assets and liabilities are used as their fair values if available; otherwise financial or other information will be used to establish their fair values.
3. Financial instruments such as guaranty deposit for business operation, clearing and settlement fund, guaranty deposits paid are necessary for the continuing operation of the Company. Since it is not difficult to estimate the fair value until the exchange of assets, the carrying amounts approximate their fair values.

(c) The fair value of the Company's financial assets and liabilities, which were determined by using certain valuation techniques, did not recognize any gain or loss on the financial statements in 2009 and 2008.

(d) As of December 31, 2009 and 2008, the Company's financial assets with cash flow risk due to interest rate fluctuation were \$906,357 and \$229,952, respectively.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(e) Financial Risk Information:

1. Market risk

Market risk of trading futures and options results from the fluctuation of stock index. Since the fair values of futures and options are available, and stop-loss points are established to manage risk, the Company can confine loss to a predictable range. Therefore there is no significant market risk.

2. Credit risk

As the Company's futures and options contracts are traded through Futures Exchange Corporation and all investor have to maintain proper margins according to the fluctuation of the market price. The Company does not expect the counterparty will default. Therefore, the credit risk is low.

3. Liquidity risk

The Company has sufficient operating funds to meet the liquidity requirement.. The futures and options contract are all traded through Futures Exchange Corporation and with quoted market price .The risk of selling the contracts in the active market rapidly with quoted market price is low.

4. Purpose for holding derivative financial instruments

The futures and options contract are all held for trading.

5. Presentation of financial derivatives

The margins and premiums of the futures and options contract are reflected as "futures margin-proprietary trading ", "call options" and "put options" in the financial statements. When offsetting the futures or options position, the settlement difference is included in current year's earnings.

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Realized gain on futures	\$ 135,997	430,662
Unrealized gain on futures	-	544
Realized gain on options	62,226	120,653
Unrealized gain on options	482	-
Realized loss on futures	(108,417)	(280,535)
Unrealized loss on futures	(391)	-
Realized loss on options	(55,016)	(181,798)
Unrealized loss on options	(1,377)	(60)
Financial assets measured at fair value through profit and loss	273,196	154,801
Financial liabilities measured at fair value through profit and loss	4,091	1,746

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(K) Non-operating revenue

	<u>2009</u>	<u>2008</u>
Interest revenue	\$ 111,469	179,958
Gain on sale of investments	1,606	-
Dividend income	545	204
Other income	1,580	4,620
Total	<u>\$ 115,200</u>	<u>184,782</u>

(5) RELATED PARTY TRANSACTIONS

(A) Name of Related Party and Relationship with the Company

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
Capital Securities Corporation	Parent company
CSC Futures (H.K.) Ltd.	The ultimate parent company is the same as the Company's.
All the Directors, Supervisors, President and Vice Presidents	Major Management personnel of the Company

(B) Significant Transactions with Related Parties

(a) Futures trading

	<u>2009</u>	<u>2008</u>
<u>Commission income- brokerage</u>		
Capital Securities Corporation	<u>\$ 990</u>	<u>80</u>
<u>Commission income - clearing and settlement</u>		
Capital Securities Corporation	<u>\$ 25</u>	<u>120</u>
<u>Consulting fee</u>		
Capital Securities Corporation	<u>\$ 1,120</u>	<u>-</u>
	<u>December 31,2009</u>	<u>December 31,2008</u>
<u>Futures traders' equity</u>		
Capital Securities Corporation	<u>\$ 56,834</u>	<u>107,141</u>
<u>Customers margin accounts – other futures commission merchants</u>		
CSC Futures (H.K.) Ltd.	<u>\$ 31,568</u>	<u>20,317</u>

Transaction terms are the same as those with general clients.

Capital Securities Corporation deposits margins to the Company for futures proprietary trading, and the Company paid the interest of excess margin annually. In 2009 and 2008, interest expense amounted to \$59 and \$107, respectively.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(b) Bond transactions

Bonds purchase under repurchase agreements

	December 31, 2009		2009	December 31, 2008		2008
	Par value	Sell price	Interest revenue	Par value	Sell price	Interest revenue
Capital Securities Corporation	\$ -	-	-	-	-	3

Transaction terms are the same as those with general clients.

(c) Accounts payable and receivable

	December 31, 2009		December 31, 2008	
	Amount	%	Amount	%
<u>Accounts receivable</u>				
Capital Securities Corporation	\$ 5	100%	-	-
<u>Accounts payable</u>				
Capital Securities Corporation	\$ 8,666	100%	12,444	100%
<u>Other receivables</u>				
Capital Securities Corporation	\$ 16	100%	-	-
<u>Other payables (Note)</u>				
Capital Securities Corporation	\$ 714	100%	513	100%

(Note) Other payables were receipts under custody and payments for other between related parties.

(d) Futures commission expenses - reassignment & introducing brokers

The Company delegated Capital Securities Corporation for introducing brokers. In 2009 and 2008, futures commission expenses amounted to \$115,442 and \$123,074, respectively.

The Company delegated CSC Futures (H.K.) Ltd. for reassigning foreign futures trading. In 2009 and 2008, futures commission expenses amounted to \$2,061 and \$1,902, respectively.

(e) Lease agreements

The Company leased its office from Capital Securities Corporation. The rental expense was based on market price and paid monthly. In 2009 and 2008, both rental expense amounted to \$5,572, and the deposit collected for the contract both amounted to \$900.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(f) Information technology service

Capital Securities Corporation. agreed to provide information technology service. In 2009 and 2008, the service fee amounted to \$23,445 and \$11,798, respectively.

(C) Remunerations of directors, supervisors, presidents and vice presidents

In 2009 and 2008, information on remunerations paid to directors, supervisors, presidents and vice presidents by the Company were as follows:

	<u>2009</u>	<u>2008</u>
Salaries	\$ 19,769	16,398
Incentives and compensation	6,783	13,480
Professional practice	548	-
Employee bonuses	1,320	2,319
Total	<u>\$ 28,420</u>	<u>32,197</u>

The amount mentioned above included the estimation of employee bonuses and remuneration to directors and supervisors. (The estimation please refer to Note 4 (H) for details.)

(6) PLEDGED ASSETS : NONE.

(7) SIGNIFICANT COMMITMENTS AND CONTINGENCIES

- (A) The Company has a lease contract for the Taipei business office, and the lease period is from April 26, 2007 to April 25, 2010. The monthly rental expense is \$464. As of December 31, 2009, the rental payable is \$1,393 for the left contract period.
- (B) The Company has a lease contract for the Taichung business office, and the lease period is from January 21, 2010 to January 20, 2011. The monthly rental expense is \$72. As of December 31, 2009, the rental payable is \$864 for the left contract period.
- (C) The Company outsources its information technology service to Capital Securities Corporation for the period from July 1, 2009 to June 30, 2010. The monthly service expense is \$1,828 with tax. As of December 31, 2009, the payable is \$10,968 with tax for the left contract period.

(8) SIGNIFICANT CATASTROPHIC LOSSES : NONE.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(9) DISCLOSURE OF INFORMATION AS RELATED TO DERIVATIVE FINANCIAL INSTRUMENTS

As of December 31, 2009 and 2008, the open positions of futures and options contracts were as follows:

December 31, 2009

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	71	\$ 70,846	74,161	
	TAIEX Futures	Short	62	(59,038)	(62,744)	
	Subtotal			11,808		
Options contract :	TAIEX option (Call)	Long	392	986	2,540	
	TAIEX option (Put)	Long	220	1,137	65	
	TAIEX option (Call)	Short	344	(1,442)	(3,715)	
	TAIEX option (Put)	Short	616	(1,272)	(376)	
	Subtotal			(591)		
Total				\$ 11,217		

December 31, 2008

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	25	\$ 18,545	18,566	
	TAIEX Futures	Short	49	(21,033)	(20,600)	
	(JPY) Energy Futures	Short	3	(1,873)	(1,791)	
	Precious metal Futures	Short	1	(488)	(482)	
	Rubber Futures	Short	3	(739)	(743)	
	(USD) Gold (mini) Futures	Long	1	942	964	
	Mini-NQ	Short	2	(1,575)	(1,591)	
	Subtotal			(6,221)		
Options contract :	TAIEX option (Call)	Long	17	418	347	
	TAIEX option (Put)	Long	248	2,260	1,983	
	TAIEX option (Call)	Short	5	(21)	(22)	
	TAIEX option (Put)	Short	560	(2,013)	(1,724)	
	Subtotal			664		
Total				\$ (5,577)		

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

The information related to derivative financial instruments in 2009 and 2008, please refer to Note 4 (10) "Disclosure of Financial Instruments".

(10) RESTRICTIONS AND ENFORCEMENT OF THE COMPANY'S VARIOUS FINANCIAL RATIOS UNDER FUTURES TRADING LAW

Art.	Calculation formula	Current Period		Last Period		Standard	Enforcement
		Calculation	Ratio	Calculation	Ratio		
17	$\frac{\text{Stockholders' equity}}{\text{(Total liabilities - futures traders' equity - reserve for default losses - reserve for trading losses)}}$	1,421,185/153,052	9.29	1,131,490/172,458	6.56	≥ 1	Satisfactory to requirement
17	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	7,973,032/6,724,194	1.19	8,006,097/7,063,887	1.13	≥ 1	"
22	$\frac{\text{Stockholders' equity}}{\text{Minimum paid-in capital}}$	1,421,185/615,000	231.09%	1,131,490/615,000	183.98%	$\geq 60\%$ $\geq 40\%$	"
22	$\frac{\text{Post-adjustment net capital}}{\text{Total customer margin deposits required for open positions of customers}}$	1,401,057/1,384,083	101.23%	1,109,147/834,006	132.99%	$\geq 20\%$ $\geq 15\%$	"

(11) UNIQUE RISKS TO SPECIFIC FUTURES COMMISSION MERCHANT SERVICES

Transactions in futures and options carry a high degree of risk because of the amount of initial margin is small relative to the value of the futures contract, meaning that transactions are heavily leveraged, the fluctuation of underlying markets is unpredictable, and the variance risk of the exchange rate. 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 Company needs sufficient liquidity to cover the transactions and suffer the loss may occurred.

The unique risk of the Company consigned to proceed with futures and option trading is the drastic fluctuation of market price may occur the unexpected loss. Per SFB rule, the Company has already provided default indemnity reserve of 2% of brokerage commissions on a monthly basis (From July 1, 1999 to June 30, 2003, provision may be suspended as SFB regulations), bad debt reserve of 3% of sales turnover of the principal lines (stop accrue from June 30, 2003 as SFB regulations) and 10% of realized net gains on futures trading as reserve for futures trading losses.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(12) BUSINESS SEGMENT FINANCIAL INFORMATION

(A) Statement of income according to segment:

2009 Items	Futures Brokerage Business		Futures Proprietary Business		Total	
	Amount	%	Amount	%	Amount	%
Profit or loss classified according to the segment						
Segment revenue						
Commission income-broking	\$ 825,529	67.87	-	-	825,529	67.87
Commission income-clearing and settlement	72,946	6.00	-	-	72,946	6.00
Gain on derivative financial instruments	-	-	198,705	16.34	198,705	16.34
Consulting fee	1,792	0.15	-	-	1,792	0.15
Other operating revenue	529	0.04	1,577	0.13	2,106	0.17
Non-operating revenue	112,752	9.27	2,448	0.20	115,200	9.47
Total	<u>1,013,548</u>	<u>83.33</u>	<u>202,730</u>	<u>16.67</u>	<u>1,216,278</u>	<u>100.00</u>
Segment expense						
Brokerage fees	145,085	11.93	3,587	0.29	148,672	12.22
Futures commission expenses	171,178	14.07	1,566	0.13	172,744	14.20
Clearing and settlement expenses	156,643	12.88	2,232	0.18	158,875	13.06
Loss on derivative financial instruments	-	-	165,201	13.58	165,201	13.58
Futures management expenses	3	-	-	-	3	-
Payroll	132,962	10.93	11,058	0.91	144,020	11.84
Depreciation and amortization	7,924	0.65	1,223	0.10	9,147	0.75
Other operating expenses	157,998	12.99	11,173	0.92	169,171	13.91
Non-operating expenses	3,324	0.27	246	0.02	3,570	0.29
Total	<u>7,751,117</u>	<u>63.72</u>	<u>196,286</u>	<u>16.13</u>	<u>9,711,403</u>	<u>79.85</u>
Profit or loss for each segment	<u>238,431</u>	<u>19.61</u>	<u>6,444</u>	<u>0.54</u>	<u>244,875</u>	<u>20.15</u>
Revenue and expenses were indirectly occurred by each segment						
Other expenses					<u>(4,203)</u>	<u>(0.35)</u>
Total					<u>(4,203)</u>	<u>(0.35)</u>
Continuing operations' income before tax					240,672	19.80
Income tax expense					<u>(52,452)</u>	<u>(4.31)</u>
Continuing operations' income after tax					188,220	15.48
Net income					<u>188,220</u>	<u>15.48</u>

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

2008 Items	Futures Brokerage Business		Futures Proprietary Business		Total	
	Amount	%	Amount	%	Amount	%
Profit or loss classified according to the segment						
Segment revenue						
Commission income-broking	\$ 750,580	49.38	-	-	750,580	49.38
Commission income-clearing and settlement	17,466	1.15	-	-	17,466	1.15
Gain on derivative financial instruments	-	-	551,859	36.31	551,859	36.31
Consulting fee	5,336	0.35	-	-	5,336	0.35
Other operating revenue	433	0.03	9,373	0.62	9,806	0.65
Non-operating revenue	182,863	12.03	1,919	0.13	184,782	12.16
Total	<u>956,678</u>	<u>62.94</u>	<u>563,151</u>	<u>37.06</u>	<u>1,519,829</u>	<u>100.00</u>
Segment expense						
Brokerage fees	116,991	7.70	4,765	0.31	121,756	8.01
Futures commission expenses	187,301	12.32	1,046	0.07	188,347	12.39
Clearing and settlement expenses	90,027	5.92	2,980	0.20	93,007	6.12
Loss on derivative financial instruments	-	-	462,393	30.43	462,393	30.43
Futures management expenses	1	-	-	-	1	-
Payroll	120,613	7.94	13,275	0.87	133,888	8.81
Depreciation and amortization	13,879	0.91	915	0.06	14,794	0.97
Other operating expenses	134,461	8.85	34,111	2.24	168,572	11.09
Non-operating expenses	23,860	1.57	3,339	0.22	27,199	1.79
Total	<u>687,133</u>	<u>45.21</u>	<u>522,824</u>	<u>34.40</u>	<u>1,209,957</u>	<u>79.61</u>
Profit or loss for each segment	<u>269,545</u>	<u>17.73</u>	<u>40,327</u>	<u>2.66</u>	<u>309,872</u>	<u>20.39</u>
Revenue and expenses were indirectly occurred by each segment						
Other expenses					<u>(1,997)</u>	<u>(0.13)</u>
Total					<u>(1,997)</u>	<u>(0.13)</u>
Continuing operations' income before tax					307,875	20.26
Income tax expense					<u>(71,147)</u>	<u>(4.68)</u>
Continuing operations' income after tax					236,728	15.58
Net income					<u><u>236,728</u></u>	<u><u>15.58</u></u>

**CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)**

- (B)
- (a) Information by industry: The Company is engaged solely in the futures business.
 - (b) Information by geographical region: None.
 - (c) Export sales information: None.
 - (d) Important customers' information: None.

(13) SIGNIFICANT SUBSEQUENT EVENTS : NONE

(14) INFORMATION RELATED TO SIGNIFICANT TRANSACTIONS

- (A) Loans to others: None.
- (B) Endorsements and guarantee for others: None.
- (C) Acquisition of real estate over \$100,000 or 20% of paid-in capital: None.
- (D) Disposal of real estate over \$100,000 or 20% of paid-in capital: None.
- (E) Discount on commissions of transactions with related parties over \$5,000: None.
- (F) Receivables from related parties over \$100,000 or 20% of paid-in capital: None.

(15) INFORMATION ON REINVESTMENT BUSINESS

- (A) Disclosure required of investee companies:

Numbers of shares and amounts are in thousands

Name of investing company	Investee Company	Location	Main Business	Amount of Original Investment		Ownership as of December 31, 2009			Current income or loss of investee company	Investment gain or loss recognized by the Company	Note
				Ending Balance	Beginning Balance	Number of shares	Ratio	Carrying value			
Capital Futures Corp.	Capital Futures Management Corp.	4F-1, No. 97, Sung-Jen Rd, Taipei, Taiwan, R.O.C	Futures management	61,500	61,500	6,150	61.50%	55,300	(6,834)	(4,203)	Subsidiary

Note 1: The carrying values of investee company are recognized by equity method and investment gains or losses are included.

Note 2: Calculated with reference to the investee' audited financial statements and valued at the equity method.

- (B) Loans to others: None.
- (C) Endorsements and guarantee for others: None.
- (D) Acquisition of real estate over \$100,000 or 20% of paid-in capital: None.
- (E) Disposal of real estate over \$100,000 or 20% of paid-in capital: None.

CAPITAL FUTURES CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

- (F) Discount on commissions of transactions with related parties over \$5,000: None.
- (G) Receivables from related parties over \$100,000 or 20% of paid-in capital: None.

(16) INFORMATION ON INVESTMENTS IN CHINA: NONE

(17) OTHER

- (A) Information regarding personnel, depreciation, and amortization expense is as follows:

Categorized as: Nature	Year ended December 31, 2009			Year ended December 31, 2008		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Personnel expenses						
Payroll	-	144,020	144,020	-	133,888	133,888
Health and labor insurance expense	-	7,384	7,384	-	6,441	6,441
Pension expense	-	5,580	5,580	-	5,317	5,317
Other expense	-	2,688	2,688	-	2,263	2,263
Depreciation expense	-	5,508	5,508	-	10,899	10,899
Amortization expense	-	3,639	3,639	-	3,895	3,895