

**CAPITAL FUTURES CORPORATION**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**  
**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, 2012 and 2011, 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, 2012 and 2011, 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 rules of preparation financial reports of futures management business, and accounting principles generally accepted in the Republic of China.

Please refer to the consolidated financial statements of Capital Futures Corporation as of December 31, 2012, for which have issued an unqualified opinion.

Taipei, Taiwan, R.O.C.  
March 25, 2013

### 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.

The 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 financial statements, the Chinese version shall prevail.

**CAPITAL FUTURES CORPORATION**  
**BALANCE SHEETS**  
**December 31, 2012 and 2011**

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

	December 31, 2012		December 31, 2011		December 31, 2011		December 31, 2010	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>ASSETS</b>								
<b>CURRENT ASSETS</b>								
Cash and cash equivalents (Notes 2 and 4(A))	\$ 1,136,283	11	1,464,749	14			6,477	-
Financial assets measured at fair value through profit or loss - current (Notes 2,4(B),4(K) and 5)	264,119	3	139,059	2			9,010,740	82
Customers margin accounts(Notes 2,4(C) and 5)	8,796,123	81	9,037,620	82			19,483	-
Futures margin receivable	-	-	3,153	-			7,585	-
Accounts receivable	1,060	-	6,548	-			1,314	-
Accounts receivable - inter co. (Note 5)	176	-	138	-			2,491	-
Prepayments	2,650	-	5,057	-			88,341	1
Other receivables	5,533	-	8,488	-			521	-
Other receivables - inter co. (Note 5)	-	-	10	-			21,599	-
Other current assets	946	-	659	-			4,933	-
	<u>10,206,890</u>	<u>95</u>	<u>10,665,481</u>	<u>98</u>			<u>8,917,487</u>	<u>83</u>
<b>FUNDS AND INVESTMENTS(Notes 2 and 4(D))</b>								
Long-term investments under equity method	198,321	2	-	-			314	-
Available-for-sale financial assets-non-current	44,278	-	44,391	-			6,213	-
	<u>242,599</u>	<u>2</u>	<u>44,391</u>	<u>-</u>			<u>6,527</u>	<u>-</u>
<b>PREMISES AND PROPERTY (Note 2 )</b>								
Equipment	50,291	1	42,628	-			922,469	8
Leasehold improvements	30,214	-	30,158	-			33,359	-
	<u>80,505</u>	<u>1</u>	<u>72,786</u>	<u>-</u>			<u>33,664</u>	<u>-</u>
Less: Accumulated depreciation	(37,322)	-	(22,789)	-			107,625	1
	<u>43,183</u>	<u>1</u>	<u>50,027</u>	<u>-</u>			<u>175,484</u>	<u>1</u>
<b>INTANGIBLE ASSETS (Notes 2 and 4(E))</b>								
OTHER ASSETS								
Guaranty deposit for business operation (Note 2 )	120,000	1	120,000	1			446,465	4
Cleaning and Settlement fund (Note 2 )	128,000	1	131,000	1			233,034	3
Guaranty deposits paid (Note 2 )	6,035	-	8,693	-			(1,754)	-
Deferred debits (Note 2 )	9,675	-	7,085	-			(5,217)	-
Deferred income tax assets- non-current (Notes 2 and 4(H))	1,413	-	5,669	-			1,878,106	17
	<u>265,123</u>	<u>2</u>	<u>272,447</u>	<u>2</u>			<u>1,859,845</u>	<u>17</u>
<b>TOTAL ASSETS</b>	<u>\$ 10,802,120</u>	<u>100</u>	<u>11,051,704</u>	<u>100</u>			<u>\$ 10,802,120</u>	<u>100</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>								
<b>CURRENT LIABILITIES</b>								
Financial liabilities measured at fair value through profit or loss-current (Notes 2 and 4(K))								
Futures traders' equity (Notes 2,4(F)and 5)								
Accounts payable								
Accounts payable-inter co. (Note 5)								
Advance receipts								
Receipts under custody								
Other payables								
Other payables - inter co. (Note 5)								
Other liabilities - current								
<b>OTHER LIABILITIES</b>								
Accrued pension liabilities- non-current (Notes 2 and 4(G))								
Reserve for bad debt (Note 2)								
<b>TOTAL LIABILITIES</b>								
<b>STOCKHOLDERS' EQUITY</b>								
Common stock, par value \$10 per share								
120,000 thousand shares authorized, 92,247 thousand shares issued and outstanding (Note 4 (I))								
Capital surplus - premium from stock issuance (Note 4 (I))								
Retained earnings (Notes 2,4(H)and 4(I))								
Legal reserve								
Special reserve								
Unappropriated earnings								
Other stockholder's equity								
Cumulative translation adjustment								
Unrealized gains/losses on securities (Notes 2 and 4(D))								
<b>TOTAL STOCKHOLDERS' EQUITY</b>								
<b>SIGNIFICANT COMMITMENTS AND CONTINGENCIES (Note 7)</b>								
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>								

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

**CAPITAL FUTURES CORPORATION**

**STATEMENTS OF INCOME**

For the years ended December 31, 2012 and 2011

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

	2012		2011	
	Amount	%	Amount	%
<b>Income</b>				
Commission income - brokerage (Note 5)	\$ 932,901	78	1,026,794	84
Commission income - clearing and settlement	9,622	1	4,429	-
Gain on derivative financial instruments (Note 4(K))	128,605	11	85,601	7
Consulting fee	6,459	-	4,519	-
Other operating revenue (Note 5)	2,069	-	3,179	-
Non-operating revenue (Note 4(L))	122,342	10	99,574	9
	<u>1,201,998</u>	<u>100</u>	<u>1,224,096</u>	<u>100</u>
<b>Expense</b>				
Brokerage fees	(149,269)	(12)	(160,348)	(13)
Brokerage fees - proprietary trading	(3,228)	-	(4,950)	-
Futures commission expenses (Note 5)	(142,647)	(12)	(196,163)	(16)
Clearing and settlement expenses	(108,647)	(9)	(114,619)	(9)
Loss on derivative financial instruments (Note 4(K))	(116,984)	(10)	(93,963)	(8)
Operating expenses (Note 5)	(390,162)	(33)	(364,847)	(30)
Non-operating expenses (Note 5)	(6,965)	(1)	(11,256)	(1)
	<u>(917,902)</u>	<u>(77)</u>	<u>(946,146)</u>	<u>(77)</u>
<b>Continuing operations' income before tax</b>	284,096	23	277,950	23
Less : Income tax expense (Notes 2 and 4(H))	(51,841)	(4)	(56,666)	(5)
<b>Continuing operations' income after tax</b>	232,255	19	221,284	18
Extraordinary gain, net of tax (less income tax expense \$8) (Note 4(D))	41	-	-	-
<b>Net income</b>	<u>\$ 232,296</u>	<u>19</u>	<u>221,284</u>	<u>18</u>
	<u>Before Tax</u>	<u>After Tax</u>	<u>Before Tax</u>	<u>After Tax</u>
<b>Basic earnings per share(dollar)(Note 4(J))</b>				
Continuing operations' income	\$ 3.08	2.52	3.01	2.40
Extraordinary gain	-	-	-	-
Net income	<u>\$ 3.08</u>	<u>2.52</u>	<u>3.01</u>	<u>2.40</u>
<b>Dilutive earnings per share(dollar)(Note 4(J))</b>				
Continuing operations' income	\$ 3.08	2.51	3.01	2.39
Extraordinary gain	-	-	-	-
Net income	<u>\$ 3.08</u>	<u>2.51</u>	<u>3.01</u>	<u>2.39</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, 2012 and 2011  
(New Taiwan Dollars in Thousands)

	Retained earnings				Other stockholders' equity		Total	
	Capital stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Cumulative translation adjustment		Unrealized gains/losses on securities
<b>Beginning balance, January 1, 2011</b>	\$ 846,302	107,625	135,539	271,078	201,190	-	-	1,561,734
Net income for 2011	-	-	-	-	221,284	-	-	221,284
Appropriation of 2010 earnings:								
Legal reserve	-	-	17,816	-	(17,816)	-	-	-
Special reserve	-	-	-	35,632	(35,632)	-	-	-
Cash dividends	-	-	-	-	(8,463)	-	-	(8,463)
Capital increase out of retained earnings	76,167	-	-	-	(76,167)	-	-	-
Unrealized gains/losses on available-for-sale financial assets	-	-	-	-	-	-	(5,104)	(5,104)
Transferred from reserve for trading losses and default losses	-	-	-	90,394	-	-	-	90,394
<b>Ending balance, December 31, 2011</b>	922,469	107,625	153,355	397,104	284,396	-	(5,104)	1,859,845
Net income for 2012	-	-	-	-	232,296	-	-	232,296
Appropriation of 2011 earnings:								
Legal reserve	-	-	22,129	-	(22,129)	-	-	-
Special reserve	-	-	-	49,361	(49,361)	-	-	-
Cash dividends	-	-	-	-	(212,168)	-	-	(212,168)
Unrealized gains/losses on available-for-sale financial assets	-	-	-	-	-	-	(113)	(113)
Foreign currency translation adjustments	-	-	-	-	-	(1,754)	-	(1,754)
<b>Ending balance, December 31, 2012</b>	\$ 922,469	107,625	175,484	446,465	233,034	(1,754)	(5,217)	1,878,106

Note : The remuneration to directors and supervisors and the employee bonuses were both deducted from the statement of income for the years ended December 31, 2012 and 2011. (Please refer to Note 4(I) for details.)

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

**CAPITAL FUTURES CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
For the years ended December 31, 2012 and 2011  
(New Taiwan Dollars in Thousands)

	2012	2011
<b>Cash flows from operating activities:</b>		
Net income	\$ 232,296	221,284
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Extraordinary gain	(49)	
Depreciation	18,539	12,164
Amortization	4,833	3,097
Bad debts	320	-
Investment income under the equity method	(437)	-
Loss on disposal of premises and property	-	986
Gain on disposal of investments	-	(38)
Valuation gain from financial assets	(1,802)	(954)
<b>Net changes of operating assets and liabilities:</b>		
<b>Net changes of operating assets:</b>		
Decrease (increase) in financial assets measured at fair value through profit or loss	(123,257)	79,807
Decrease (increase) in customers margin accounts	241,497	(3,146,830)
Decrease (increase) in futures margin receivable	122	(3,033)
Increase in accounts receivable	(18,948)	(5,886)
Increase in accounts receivable-inter co.	(38)	(33)
Decrease (increase) in prepayments	2,407	(2,352)
Decrease (increase) in other receivable	2,955	(1,664)
Decrease in other receivable-inter co.	10	335
Decrease in deferred income tax assets-non-current	4,615	-
Increase in other current assets	(286)	(35)
<b>Total net changes of operating assets</b>	<u>109,077</u>	<u>(3,079,691)</u>
<b>Net changes of operating liabilities:</b>		
Increase (decrease) in financial liabilities measured at fair value through profit or loss	(544)	5,735
Increase (decrease) in futures traders' equity	(225,535)	3,142,521
Increase (decrease) in accounts payable	4,238	(2,395)
Decrease in accounts payable-inter co.	(1,676)	(3,585)
Increase in advance receipts	172	1,242
Decrease in receipts under custody	(118)	(574)
Increase (decrease) in other payables	(956)	19,874
Increase in other payables-inter co.	356	25
Increase in accrued pension liabilities	9	14
Increase (decrease) in other liabilities- current	(16,647)	8,254
<b>Total net changes of operating liabilities</b>	<u>(240,701)</u>	<u>3,171,111</u>
<b>Net cash provided by operating activities</b>	<u>122,076</u>	<u>327,959</u>
<b>Cash flows from investing activities:</b>		
Purchase of available-for-sale financial assets	-	(49,367)
Purchase of long-term investments under equity method	(199,948)	-
Proceeds from capital reduction of investments under the equity method	-	144
Purchase of premises and property	(11,695)	(38,223)
Increase in clearing and settlement fund	3,000	(6,000)
Increase in guaranty deposits paid	2,658	(5,099)
Increase in deferred debits	(7,422)	(4,963)
Purchase of Intangible assets	(24,967)	(19,358)
<b>Net cash used in investing activities</b>	<u>(238,374)</u>	<u>(122,866)</u>
<b>Cash flows from financing activities:</b>		
Cash dividends	(212,168)	(8,463)
<b>Net cash used in financing activities</b>	<u>(212,168)</u>	<u>(8,463)</u>
<b>Net increase in cash and cash equivalents</b>	<u>(328,466)</u>	<u>196,630</u>
<b>Cash and cash equivalents at beginning of year</b>	<u>1,464,749</u>	<u>1,268,119</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 1,136,283</u>	<u>1,464,749</u>
Cash paid for interest	<u>\$ 3,302</u>	<u>2,548</u>
Cash paid for income tax	<u>\$ 58,671</u>	<u>45,510</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, 2012 AND 2011**  
**(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. On December 11, 2000, the Company established the Taichung branch. Furthermore, the Company was adopted Securities OTC Listings Review on December 23, 2008 and the official listed date was on April 27, 2009. Managing the following business :

- (A) Futures business.
- (B) Futures advisory business.
- (C) Securities introducing brokerage.
- (D) Futures management business.

The parent company is Capital Securities Corporation. The futures management business started operation on September 29, 2010. As of December 31, 2012 and 2011, the numbers of employees were 172 and 169, 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, the related rules of preparation financial reports of futures management business, 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 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. Financial instruments are recorded on trading date and initially recognized at fair value plus transaction costs. 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. During regular course of buying and selling these financial assets, trade date accounting is used.

These financial assets should be classified as current and non-current according to liquidity. Non-current financial assets should be reclassified under funds and investments as financial assets measured at fair value through profit or loss- non-current. Financial assets are classified as held for trading as follows:

- (a) Financial assets acquired primarily for the purpose of selling in the near term.

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

- (b) 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.
- (c) Derivative financial assets.

Financial assets held for trading should be stated under their respective categories, according to trading purpose, as open-ended funds, money-market instruments, option contract and futures margin fund. Financial assets measured at fair value through profit or loss should be measured at fair value. For open-ended funds, fair value refers to the net asset value of the fund on the balance sheet date. Margins are required when trading futures or options. Changes in the margin balance of futures and options due to daily valuation are reflected under "futures margin-proprietary trading" and "call options" or "put options." When offsetting a futures or options position, the settlement difference is included in current earnings, and the difference between the settlement prices and average prices of open positions at the balance sheet date is also included in current earnings.

The accounting treatments on the date of reclassification are summarized as follows:

- (a) 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.
  - (b) 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.
- (F) Long-term investments under equity method

Investments in equity securities are accounted for under the equity method if the Company owns 20% or more of the investee's voting shares and has significant operational influence over the investee. Gain or loss on sale of long-term equity investments is recognized upon sale, meanwhile capital surplus-non-subscription of newly issued investee shares have to be adjusted in the statement of income according to sales portion.

Assets and liabilities of foreign branches are translated by the spot rate at the balance sheet date, and stockholders' equity is translated by historical rate except for the beginning balance of retained earnings, which is translated by the prevailing rate then. Income statement accounts are translated by the weighted-average exchange rate of the period, with exchange difference reported as part of the cumulative translation adjustments to stockholders' equity.

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

(G) Available-for-sale financial assets

These financial instruments recorded on trading date, initially recognized at fair value with transaction costs and measured at fair value. The unrealized gain and loss thereon are recognized as an adjustment item of stockholders' equity. These financial assets should be classified as current and non-current according to liquidity. Non-current financial assets should be reclassified under funds and investments as financial assets measured at fair value through profit or loss- non-current. 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, financial policies are accounted for by the cost method at each balance date.

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.

(H) 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.

(I) 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.

(J) 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)**

(K) Allowance for Doubtful Accounts

The assessment for impairment of receivable by the Company is subject to the third amendment of SFAS No. 34 "Financial Instruments: Recognition and Measurement".

(L) 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

(M) Intangible Assets

Intangible assets of the company are the requirements for transacting business on an exchange. The accounting standard SFAS 37 requires an entity to choose the cost model as its accounting policy. After initial recognition, an intangible asset shall be carried at its cost less any accumulated impairment losses. The seats are regarded as intangible assets with an indefinite useful life.

(N) Deferred Debits and Amortization

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

(O) 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)**

(d) securities introducing brokerage: \$10,000.

Where a futures commission merchant applying for the establishment of branch offices, the deposit amount shall be increased by \$5,000 for each branch to be established.

(e) futures management business: \$25,000.

(P) 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.

(Q) 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.

(R) 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.

(S) 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.

(T) 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. On January 11, 2011, SFB regulations were revised by the Financial Supervisory Commission. According to the SFB Ruling Letter No.1000000289, both reserves for trading losses and default losses

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

are no longer required. The remaining balances of reserve for trading losses and default losses should be reclassified as special reserve in 2011. The special reserve can only be used to offset deficit or reclassified as capital when it reaches 50% of the amount of paid-in capital, and only half of the amount of such special reserve may be capitalized.

(U) 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.

(V) 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

(W) 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.

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

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

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.

**(X) 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.

**(Y) Operating Segment Financial Information**

Operating segments are components of the Company that have the following characteristics:

- (a) Engage in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the operating segments);
- (b) Whose operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and.
- (c) For which discrete financial information is available.

**(3) REASONS FOR AND EFFECT OF ACCOUNTING CHANGES :**

- (1) Since January 1, 2011, the Company adopted the third amendment of SFAS No. 34 "Financial Instruments: Recognition and Measurement". The initial recognition of receivables should apply to the regulations of recognition, sequent valuation and impairment. And troubled debt restructuring, or negotiated debt restructuring, or the negotiated debt instruments with new contracts or modification of term incurred, should be applied to the third amendment of SFAS No. 34. This change in accounting principles had no significant effect on net income and EPS for the year ended December 31, 2011.
- (2) Since January 1 2011, the Company adopted SFAS No. 41 "The disclosure of the information of operating segments". According to SFAS No. 41, the Company should disclose its financial information to enable user to evaluate the nature and financial effects of the business activities in which it engages and the economic environment in which it operates. The determination and the expression of operating segments are based on the information provided to the chief operating decision maker internally. The newly issued SFAS No. 41 supersedes SFAS No. 20 "Segment Reporting". This accounting change had no effect on the Company's financial statements for the year ended December 31, 2011.

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

**(4) SUMMARY OF MAJOR ACCOUNTS**

**(A) Cash and Cash Equivalents**

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Cash	\$ 50	50
Demand deposits	80,406	9,199
Time deposits	977,300	1,452,500
Cash equivalent		
Commercial paper	78,527	3,000
Total	<u>\$ 1,136,283</u>	<u>1,464,749</u>

As of December 31, 2012 and 2011, the due date of the commercial paper was on January 2, 2013 and January 2, 2012, respectively.

**(B) Financial Assets Measured at Fair Value through Profit or Loss-Current**

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Financial assets held for trading:		
Open-ended funds and money-market instruments	\$ 33,430	-
Valuation adjustment	1,802	-
Subtotal	<u>35,232</u>	<u>-</u>
Financial Instruments :		
Call options	13,064	9,523
Futures margin-proprietary fund	215,823	129,536
Subtotal	<u>228,887</u>	<u>139,059</u>
Total	<u>\$ 264,119</u>	<u>139,059</u>



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

(C) Customers Margin Accounts

<u>December, 31, 2012</u>	<u>Foreign Currency (dollar)</u>	<u>Amount</u>
Cash in bank	USD 50,078,093.32	\$ 1,454,268
	JPY 14,397,771.00	4,843
	GBP 92,718.28	4,342
	HKD 13,068,942.26	48,969
	EUR 23,424.12	902
	AUD 126.31	4
	SGD 5,164.27	123
		5,984,000
Subtotal		7,497,451
Balance of the futures	USD 6,426,994.50	186,646
Clearing house		838,167
Subtotal		1,024,807
Balance of other futures	USD 6,889,705.83	200,077
Commission merchants	JPY 35,053,611.00	11,792
	GBP 196,960.82	9,224
	HKD 10,503,222.92	39,355
	EUR 344,852.47	13,273
	SGD 6,058.04	144
Subtotal		273,865
Total		\$ 8,796,123

  

<u>December, 31, 2011</u>	<u>Foreign Currency (dollar)</u>	<u>Amount</u>
Cash in bank	USD 78,887,203.23	\$ 2,388,310
	JPY 9,860,520.00	3,851
	GBP 3,891.09	182
	HKD 23,327,632.05	90,908
	SGD 52.55	1
		5,223,196
Subtotal		7,706,448
Balance of the futures	USD 16,926,994.50	512,465
Clearing house		578,865
Subtotal		1,091,330
Balance of other futures	USD 5,407,277.52	163,705
Commission merchants	JPY 15,627,397.00	6,104
	GBP 238,712.93	11,155
	HKD 13,796,683.60	53,765
	EUR 126,597.77	4,961
	AUD 126.31	4
	SGD 6,358.27	148
Subtotal		239,842
Total		\$ 9,037,620

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

As of December 31, 2012 and 2011, the difference between customers margin accounts and futures traders' equity are the commission revenue from the customers \$5,218 and \$4,137, respectively, futures tax of \$929 and \$1,054, respectively, interest revenue \$91 and \$238, respectively, temporary credits \$350 and \$379, respectively, and remittance amount of the customers after the market closed \$4,330 and \$21,072, respectively.

(D) Funds and Investments

(a) Long-term investments under equity method

<u>Investee Company</u>	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	<u>Ownership ratio</u>	<u>Amount</u>	<u>Ownership ratio</u>	<u>Amount</u>
CSC Futures (HK)Ltd. (The original investment is \$199,948.)	100.00 %	<u>\$ 198,321</u>	- %	<u>-</u>

The reinvestment and capital increase of CSC Futures (H.K.) Ltd. were approved by the Financial Supervisory Commission, Executive Yuan, R.O.C. (letter No.1010027412) and Securities and Futures Commission of Hong Kong. As of October 31, 2012, the Company remit the amount of HKD \$22,800 for shares and HKD \$30,000 for capital increase and set transfer date as November 1, 2012. The amount \$49 (the difference between the long-term equity investment and initial cost) was recognized as extraordinary gain. According to the audited financial statements of the investee company, the Company recognized investment income of \$437. The accounting figures of investee company, which is wholly controlled by the Company, are combined into consolidated financial statement.

The invested company - Capital Futures Management Corp. applied for dissolution registration under the resolution of board's meeting on July 9, 2010, and set record date of dissolution as August 31, 2010. Capital Futures Management Corp. finished the procedure on September 13, 2010, and returned partial shares of stock to stockholders on December 10, 2010. The Company received the returned amount of \$53,136 proportionally. Capital Futures Management Corp. completed the settlement procedure on March 29, 2011 and returned the rest shares of stock to stockholders. The Company received the returned amount of \$144 proportionally and recognized the gains on disposal of investments amounted to \$38.

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

<u>Investee Company</u>	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	<u>Ownership ratio</u>	<u>Amount</u>	<u>Ownership ratio</u>	<u>Amount</u>
Taiwan Futures Exchange Corp.	0.0045%	\$ 128	0.0045%	128
CME GROUP (Note)	0.0090%	49,367	0.0090%	49,367
Less: Value adjustments		(5,217)		(5,104)
		<u>\$ 44,278</u>		<u>44,391</u>

Note: The purpose of holding the CME common stocks is to obtain the seats of foreign futures exchange.

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

(E) Intangible Assets

The Company obtained the seats of foreign futures Exchanges—NYMEX, COMEX, CBOT and CME for business development. In accordance with SFAS No.37 “Intangible Assets”, the seats are regarded as intangible assets with an indefinite useful life. As of December 31, 2012 and 2011, the book value of the intangible assets was \$44,325 and \$19,358.

(F) Futures Traders' Equity

Currency	Foreign Currency Amount (dollar)		Amount
<b>December 31, 2012</b>			
USD	63,333,663.49	\$	1,839,210
JPY	47,964,932.00		16,135
GBP	287,925.18		13,483
HKD	23,561,505.96		88,285
EUR	366,293.94		14,099
SGD	11,132.39		264
NTD			6,813,729
Total		<b>\$</b>	<b>8,785,205</b>
<b>December 31, 2011</b>			
USD	101,173,864.26	\$	3,063,039
JPY	24,473,167.00		9,559
GBP	242,569.02		11,335
HKD	37,107,456.74		144,608
EUR	126,597.77		4,960
SGD	6,278.41		146
NTD			5,777,093
Total		<b>\$</b>	<b>9,010,740</b>

(G) Pension Plan

(a) The Company reserves pension cost expense benefit in 2012 and 2011 were as follows:

	2012	2011
Provision for defined benefit plan	\$ 481	548
Provision for defined contribution plan	6,355	6,471
	<b>\$ 6,836</b>	<b>7,019</b>

(b) The contribution to the pension fund (interest included) in 2012 and 2011 amounted to \$603 and \$689 respectively. As of December 31, 2012 and 2011, the balances of pension fund were \$13,910 and \$13,307, respectively.

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

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

	<u>2012</u>	<u>2011</u>
Discount rate	1.63%	1.83%
Future salary increase rate	2.30%	2.50%
Projected long-term rate of return on pension assets	1.50%	1.50%

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

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Vested benefit obligation	\$ (11,038)	(1,179)
Non-vested benefit obligation	(2,620)	(11,207)
Accumulated benefit obligation	(13,658)	(12,386)
Effect of future salary increases	(1,457)	(1,690)
Expected benefit obligation	(15,115)	(14,076)
Fair value of pension fund assets	13,910	13,307
Funded status	(1,205)	(769)
Unrecognized net transitional benefit obligation	73	81
Unrecognized loss of pension fund	818	383
Accrued pension liabilities	<u>\$ (314)</u>	<u>(305)</u>

(e) In 2012 and 2011, components of net pension cost were as follows:

	<u>2012</u>	<u>2011</u>
Service cost	400	377
Interest cost	273	352
Actual return on pension fund assets	\$ (131)	(154)
Loss on pension fund assets	(69)	(35)
Expected return on pension fund assets	(200)	(189)
Amortization of unrecognized net transitional benefit obligation	8	8
Net pension cost	<u>481</u>	<u>548</u>

(H) Income Tax

(a) In 2012 and 2011, the Company's income tax rates were both 17%. The Company calculated the minimum tax expenses according to "Alternative Minimum Tax Rule."

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

- (b) The deferred tax assets (recognized as deferred tax assets— non-current) on December 31, 2012 and 2011 were as follows:

	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	<u>Amount</u>	<u>Tax Effects</u>	<u>Amount</u>	<u>Tax Effects</u>
Deductible temporary difference from provision for bad debt reserve	\$ 6,200	1,054	33,350	5,669
Deductible temporary difference from cumulative translation adjustment	2,113	359	-	-
	<u>\$ 8,313</u>	<u>1,413</u>	<u>33,350</u>	<u>5,669</u>

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

1. The composition of income tax expense in 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Current income tax	\$ 49,376	52,792
Deferred income tax expense-write-off bad debt reserve	4,615	-
Adjustments to prior years' income tax	(2,150)	(134)
10% surtax on undistributed earnings	-	4,008
Income tax expense	<u>\$ 51,841</u>	<u>56,666</u>

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

	<u>2012</u>	<u>2011</u>
Income tax computed on financial income at statutory tax rate	\$ 48,305	47,252
Income tax effects due to permanent differences	1,079	5,540
Current income tax payable	49,384	52,792
Tax of extraordinary gain	(8)	-
Current income tax	<u>\$ 49,376</u>	<u>52,792</u>

- (d) The Company's income tax returns through 2010 were assessed by the Tax Authority.

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

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

	<b>December 31, 2012</b>	<b>December 31, 2011</b>
1. Information regarding undistributed earnings:		
Undistributed earnings prior to 1997	\$ 106	106
Undistributed earnings after 1998	232,928	284,290
Total	<b>\$ 233,034</b>	<b>284,396</b>
2. Imputation credit account	<b>\$ 51,956</b>	<b>63,060</b>
3. Deductible rate for earnings distributed of cash dividends to ROC residents	<b>2012 (estimated) 20.56%</b>	<b>2011(actual) 24.60%</b>

(I) Earnings Distribution

(a) Capital

On June 22, 2011, the Company's stockholders resolved to transfer un-appropriated earnings of \$76,167 and issued 7,617 thousand shares of common stock. The capital increase with effective date of August 14, 2011, was approved by the Financial Supervisory Commission, Executive Yuan on July 18, 2011. As of December 31, 2011 the paid-in capital was \$922,469.

(b) Capital surplus

According to the Company Act, where the Company incurs no loss, it may distribute the capital surplus. Pursuant to the amendment of the Company Act which was published in January 2012, the Company can transfer realized capital surplus into capital or distribute cash dividends after the capital surplus be used to offset a deficient. In compliance with the resolution, realized capital surplus includes the income derived from the issuance of new shares at a premium and the income from endowments received by the company.

According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, when capital reserve is capitalized, the combined amount of any portions capitalized in any one year may not exceed 10% of paid-in capital.

(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%.

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

3. Dividends: 96%.

Net income after tax subtracted 10% legal reserve, 20% special reserve and multiplied by 4% of employee bonus and remuneration to directors and supervisors percentage was the estimation of the bonus and remunerations to supervisors. The estimation as of December 31, 2012 and 2010 was \$6,760 and \$6,420 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) Legal reserve

According to the Company Act, when the company allocating surplus profits after having paid all taxes and dues, shall first set aside 10 percent of said profits as legal reserve. Where such legal reserve amounts to the total authorized capital this provision should not apply. Where the company incurs no loss, the company is able to distribute new shares and cash dividends passed by the stockholders' meeting but the amount is no more than 25% of legal reserve.

- (e) The company's 2011 earnings distribution for employee bonuses, remuneration to directors and supervisors and cash dividends were \$4,420, \$4,420 and \$212,168 under the resolution of shareholders' meeting and the board's meeting on June 19, 2012. The shareholders' meeting authorized the board of directors and the board of directors authorized the chairman to set record date of earning distribution of cash dividends as July 23, 2012. Due to the above changes, the difference of employee bonuses \$3,210 and remuneration to directors and supervisors \$3,210 for 2011 financial statements was \$2,420 in total. The difference was accounted for as changes in accounting estimates and would be reflected in the statement of income in 2012.
- (f) The company's 2010 earnings distribution for employee bonuses, remuneration to directors and supervisors, cash dividends and stock dividends were \$1,763, \$1,763, \$8,463 and \$76,167 under the resolution of shareholders' meeting and the board's meeting on June 22, 2011. The shareholders' meeting authorized the board of directors and the board of directors authorized the chairman to set record date of earning distribution of cash dividends and stock dividends as July 19, 2011 and August 14, 2011. Due to the above changes, the difference of employee bonuses \$2,592 and remuneration to directors and supervisors \$2,591 for 2010 financial statements was \$1,657 in total. The difference was accounted for as changes in accounting estimates and would be reflected in the statement of income in 2011.
- (g) The company announces the information about the employee bonuses and remuneration to directors and supervisors on the Market Observation Post System.

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

(J) Earnings per Share

	2012		2011	
	<u>Before Tax</u>	<u>After Tax</u>	<u>Before Tax</u>	<u>After Tax</u>
Continuing operations' income	\$ 284,096	232,255	277,950	221,284
Extraordinary gain	49	41		
Net Income	<u>\$ 284,145</u>	<u>232,296</u>	<u>277,950</u>	<u>221,284</u>
Outstanding shares at end of year(thousands of shares)	<u>92,247</u>	<u>92,247</u>	<u>92,247</u>	<u>92,247</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	<u>92,247</u>	<u>92,247</u>	<u>92,247</u>	<u>92,247</u>
<b>Basic Earnings per share(dollar)</b>				
Continuing operations' income	\$ 3.08	2.52	3.01	2.40
Extraordinary gain	-	-	-	-
Net Income	<u>\$ 3.08</u>	<u>2.52</u>	<u>3.01</u>	<u>2.40</u>
Dilutive potential ordinary share (thousands of shares) (Note)	<u>129</u>	<u>129</u>	<u>150</u>	<u>150</u>
Weighted Average outstanding shares of dilutive earnings per share (thousands of shares)	<u>92,376</u>	<u>92,376</u>	<u>92,397</u>	<u>92,397</u>
<b>Dilutive earnings per share(dollar)</b>				
Continuing operations' income	\$ 3.08	2.51	3.01	2.39
Extraordinary gain	-	-	-	-
Net Income	<u>\$ 3.08</u>	<u>2.51</u>	<u>3.01</u>	<u>2.39</u>

(Note) The shares were calculated based on the closing price at the balance sheet date.



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

(K) Financial Instruments

(a) Information of Fair Value

1. As of December 31, 2012 and 2011, the fair value of the Company's financial assets and financial liabilities were as follows:

Financial Instruments	December 31, 2012			December 31, 2011		
	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
<b>Financial assets</b>						
Cash and cash equivalents	\$ 1,136,283	-	1,136,283	1,464,749	-	1,464,749
Financial assets measured at fair value through profit and loss-current	35,232	35,232	-	-	-	-
Derivatives Financial Instruments-call options	13,064	13,064	-	9,523	9,523	-
Derivatives Financial Instruments- futures margin	215,823	-	215,823	129,536	-	129,536
Customers margin accounts	8,796,123	-	8,796,123	9,037,620	-	9,037,620
Accounts receivable-net	6,769	-	6,769	18,337	-	18,337
Available-for sale financial asset	44,278	44,150	128	44,391	44,263	128
Guaranty deposit for business operation	120,000	-	120,000	120,000	-	120,000
Clearing and settlement fund	128,000	-	128,000	131,000	-	131,000
Guaranty deposits paid	6,035	-	6,035	8,693	-	8,693
<b>Financial liabilities</b>						
Financial liabilities measured at fair value through profit and loss-current						
Derivatives Financial Instruments-put options	5,933	5,933	-	6,477	6,477	-
Futures traders' equity	8,785,205	-	8,785,205	9,010,740	-	9,010,740
Accounts payable	117,537	-	117,537	115,574	-	115,574

2. Fair Value of Derivative Financial Instruments:

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

Derivatives Financial Instruments	December 31, 2012				
	Notional principal / Nominal amount	Credit Risk	Paid for (received from) Premium	Fair Value	Evaluation Adjustment
Futures-Long	\$ 43,400	-	-	43,395	(5)
Futures-Short	(135,047)	-	-	(135,153)	(106)
Options-Long	-	-	12,735	13,064	311
Options-Short	-	-	(6,628)	(5,933)	695

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

December 31, 2011					
Derivatives Financial Instruments	Notional principal / Nominal amount	Credit Risk	Paid for (received from) Premium	Fair Value	Evaluation Adjustment
Futures-Long	\$ 56,026	-	-	56,312	286
Futures-Short	(53,465)	-	-	(53,942)	(477)
Options-Long	-	-	8,709	9,523	814
Options-Short	-	-	(5,282)	(6,477)	(1,195)

(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, other payable, customers margin accounts and futures traders' equity, 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. If the available-for-sale financial assets have market value, taking this market value as the fair value, if don't, using the evaluation method to estimate. The investment of non-listed(or non-over-the-counter) stocks are accounted for by cost method.
4. 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) In 2012 and 2011, loss on the fair value of the Company's financial assets and liabilities ,which were determined by using certain valuation techniques, were \$111 and \$191, respectively.

(d) As of December 31, 2012 and 2011, the Company's financial assets with fair value risk due to interest rate fluctuation were \$899,800 and \$1,269,300, respectively. The Company's financial assets with cash flow risk due to interest rate fluctuation were \$325,500 and \$443,399, respectively.

(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.

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

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 counter-party 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, 2012</u>	<u>December 31, 2011</u>
Realized gain on futures	\$ 89,004	31,701
Unrealized gain on futures	134	286
Realized gain on options	36,866	52,800
Unrealized gain on options	2,601	814
Realized loss on futures	(76,621)	(46,601)
Unrealized loss on futures	(245)	(477)
Realized loss on options	(38,523)	(45,690)
Unrealized loss on options	(1,595)	(1,195)
Financial assets measured at fair value through profit and loss	228,887	139,059
Financial liabilities measured at fair value through profit and loss	(5,933)	(6,477)

(L) Non-operating revenue

	<u>2012</u>	<u>2011</u>
Interest revenue	\$ 116,380	95,191
Investment income	437	-
Dividend income	2,310	375
Gain on valuation of financial assets	1,803	954
Foreign exchange gains	-	618
Other income	1,412	2,436
Total	<u>\$ 122,342</u>	<u>99,574</u>

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

**(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
Capital Securities (Hong Kong) Ltd.	The ultimate parent company is the same as the Company's parent company
CSC Futures (HK) Ltd.	Subsidiary company
Taiwan International Securities Corporation	The ultimate parent company is the same as the Company's parent company (Note) Capital Securities had completed the merger with TIS on May 2, 2011.
All the Directors, Supervisors, President and Vice Presidents	Major Management personnel of the Company

(B) Significant Transactions with Related Parties

(a) Futures trading

	<u>2012</u>	<u>2011</u>
<b><u>Commission income- brokerage</u></b>		
Capital Securities Corporation	\$ 6,988	7,577
	<u>December 31, 2012</u>	<u>December 31, 2011</u>
<b><u>Futures traders' equity</u></b>		
Capital Securities Corporation	\$ 131,811	212,785
CSC Futures (HK) Ltd.	276,370	-
	<u>\$ 408,181</u>	<u>212,785</u>
<b><u>Customers margin accounts – other futures commission merchants</u></b>		
CSC Futures (HK) Ltd.	\$ 53,875	58,984
<b><u>Futures margin – proprietary fund</u></b>		
CSC Futures (HK) Ltd.	\$ 8,905	-

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 2012 and 2011, interest expense amounted to \$104 and \$125, respectively.

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

(b) Accounts payable and receivable

	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<b><u>Accounts receivable</u></b>				
Capital Securities Corporation	<u>\$ 176</u>	<u>100.00%</u>	<u>138</u>	<u>100.00%</u>
<b><u>Accounts payable</u></b>				
Capital Securities Corporation	<u>\$ 5,909</u>	<u>100.00%</u>	<u>7,585</u>	<u>100.00%</u>
<b><u>Other receivables</u></b>				
Capital Securities Corporation	<u>\$ -</u>	<u>-</u>	<u>10</u>	<u>100.00%</u>
<b><u>Other payables (Note)</u></b>				
Capital Securities Corporation	<u>\$ 521</u>	<u>100.00%</u>	<u>165</u>	<u>100.00%</u>

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

(c) Futures commission expenses

The Company delegated Capital Securities Corporation for introducing brokers. In 2012 and 2011, futures commission expenses amounted to \$79,714 and \$111,962, respectively.

The Company delegated CSC Futures (H.K.) Ltd. for reconsigning foreign futures trading. In 2012 and 2011, futures commission expenses amounted to \$5,164 and \$3,447, respectively.

The Company delegated Taiwan International Securities Corporation for introducing brokers. In 2011, futures commission expenses amounted to \$16,263.

(d) Lease agreements

The Company leased its office from Capital Securities Corporation. The rental expense was based on market price and paid monthly. In 2012 and 2011, rental expense amounted to \$14,033 and \$9,212, respectively, and the deposits collected for the contract both amounted to \$3,508.

(e) Information technology service

Capital Securities Corporation agreed to provide information technology service. In 2012 and 2011, the service fee amounted to \$24,576 and \$24,000, respectively.

(f) Commission income (accounted other operating revenue)

The Company was delegated by Capital Securities Corporation for securities introducing brokers. In 2012 and 2011, commission income amounted to 1,875 and \$2,855, respectively.

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

(g) Stock service fee

In 2012 and 2011, the Company paid the stock service fee to Capital Securities Corporation amounted to \$302 and \$292, respectively.

(h) Human resource and legal service fees

In 2012, the Company paid the human resource and legal service fee to Capital Securities Corporation amounted to \$1,325.

(i) Transaction of property

As of October 31, 2012, the Company acquires 100% interest of CSC Futures (HK) Ltd. from Capital Securities (Hong Kong) Ltd. amounted to \$86,338.

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

In 2012 and 2011, information on remunerations paid to directors, supervisors, presidents and vice presidents by the Company were as follows:

	2012	2011
Salaries	\$ 19,619	20,486
Incentives and compensation	9,995	7,483
Professional practice	2,800	716
Employee bonuses	650	530
Total	\$ 33,064	29,215

The amount mentioned above included the estimation of employee bonuses and remuneration to directors and supervisors. (Please refer to Note 4 (I) 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 August 1, 2011 to July 31, 2014. The monthly rental expense is \$1,169. As of December 31, 2011, the rental payable is \$22,219 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, 2011 to January 21, 2016. The monthly rental expense is \$127. As of December 31, 2012, the rental payable is \$4,572 for the left contract period.

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

(C) June 22, 2011, the Company was prosecuted for the misbehavior of its ex-employee's customer (Mr. Li) for illegally operated discretionary accounts for futures. Although the Company spontaneously reported to the authority, the concern is that the ex-employee may have some misbehavior related to his job and thus the Company was prosecuted for its contributory negligence (Plaintiff: Securities and Futures Investor Protection Center) and claimed for NT\$46,750,520. Due to the investors of this lawsuit are lower than 20 people, but if Securities and Futures Investor Protection Center intends to file a lawsuit for investors, the number of people must be over 20, the lawsuit was considered illegal for Securities and Futures Investor Protection Center being the plaintiff. The lawsuit was overruled and recorded in November 2011 by Taipei District Court. However, six investors were still unsatisfied and filed a lawsuit with Taiwan Shihlin District Court. They claimed that the Company shall be jointly responsible with its ex-employee Mr. Hsu and be liable for the compensation amounted to NT\$41,057,546. It is under the trial of Taiwan Shihlin District Court. In addition, the Company acquired a ruling (Tai Rong No. 1020115) on January 16, 2013 which stated that "the lawsuit resulted from the investors of this case who handed over their account and password of their transaction accounts to Mr. Li and enabled Mr. Li to conduct the illegal discretionary account operation. The job-related behavior of Mr. Hsu shall not be held liable for this action, and therefore Capital Futures Corporation is not responsible for the contributory negligence. Even if Capital Futures Corporation is held responsible for this illegal behavior, the investors are also considered partially responsible for the action and this allows Capital Futures Corporation to request the court to mitigate its obligation." As of March 18, 2013, Taiwan Shihlin District Court rejected the appeal and the request of provisional seizure. The criminal procedure is in process.

**(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, 2012 and 2011, the open positions of futures and options contracts were as follows:

**December 31, 2012**

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	17	\$ 26,128	26,101	
	Mini-TAIEX Futures	Long	35	13,443	13,435	
	Electronic Sector Index Futures	Short	73	(84,002)	(84,155)	
	Finance Sector Index Futures	Short	3	(2,522)	(2,519)	
	Non-Finance Non-Electronics Sub-Index Futures	Short	25	(26,348)	(26,348)	
	Stock Futures	Long	21	1,188	1,192	
	Stock Futures	Short	59	(2,953)	(2,953)	
	CL Futures	Long	1	2,641	2,667	
	Futures on EUD	Short	4	(19,222)	(19,178)	
	Subtotal			(91,647)		
	Options contract :	TAIEX Options (Call)	Long	585	5,869	6,610
TAIEX Options (Put)		Long	605	2,726	2,440	
TAIEX Options (Call)		Short	1,209	(1,692)	(1,529)	
TAIEX Options (Put )		Short	1,945	(2,236)	(1,905)	
TXO Options (Put)		Long	229	131	101	
TXO Options (Call)		Short	22	(10)	(5)	
TXO Options (Put)		Short	206	(110)	(64)	
Electronic Sector Index Options(Call)		Long	198	1,096	1,342	
Electronic Sector Index Options(Put)		Long	84	282	181	
Electronic Sector Index Options(Call)		Short	81	(297)	(284)	
Electronic Sector Index Options(Put)		Short	123	(927)	(841)	
Finance Sector Index Options(Call)		Long	72	179	241	
Finance Sector Index Options(Put)		Long	99	326	255	
Finance Sector Index Options(Call)		Short	82	(133)	(173)	
Finance Sector Index Options(Put)		Short	20	(15)	(3)	
CL Options(Call)		Short	12	(396)	(779)	
CL Options(Put)		Short	24	(744)	(289)	
Mini-S&P Options(Call)		Long	30	788	844	
Mini-S&P Options(Put)		Long	32	907	664	
Options on EUD(Call)		Long	9	109	158	
Options on EUD(Put)		Long	12	167	74	
Options on EUD(Call)		Short	5	(20)	(15)	
Options on JPY(Call)		Long	4	20	3	
Options on JPY(Put)		Long	3	72	144	
Options on Gold(Call)		Long	1	81	37	
Options on Silver(Put)		Short	2	(48)	(46)	
Subtotal				6,125		
Total				\$ (85,522)		



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

**December 31, 2011**

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :	TAIEX FUTURE	Long	40	\$ 56,026	56,312	
	HSI FUTURE	Short	15	(53,465)	(53,942)	
	Subtotal			2,561		
Options contract :	TAIEX option (Call)	Long	1,024	8,065	8,937	
	TAIEX option (Put)	Long	104	644	586	
	TAIEX option (Call)	Short	1,044	(4,764)	(5,959)	
	TAIEX option (Put )	Short	127	(518)	(518)	
	Subtotal			3,427		
Total				\$ 5,988		

The information related to derivative financial instruments in 2012 and 2011, please refer to Note 4 (K) "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	<u>Stockholders' equity</u> (Total liabilities – futures traders' equity- reserve for default losses - reserve for trading losses)	1,878,106/138,809	13.53	1,859,845/181,119	10.27	≥ 1	Satisfactory to requirement
17	<u>Current Assets</u> Current Liabilities	10,206,890/8,917,487	1.14	10,665,481/9,158,195	1.16	≥ 1	"
22	<u>Stockholders' equity</u> Minimum paid-in capital	1,878,106/715,000	262.67%	1,859,845/715,000	260.12%	≥ 60% ≥ 40%	"
22	<u>Post-adjustment net capital</u> Total customer margin deposits required for open positions of customers	1,499,926/943,962	158.90%	1,729,625/1,112,947	155.41%	≥ 20% ≥ 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.

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

**(12) OPERATING SEGMENT FINANCIAL INFORMATION**

The Company disclosed its operating segment information in the consolidated financial statements.

**(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: None.

Name of investing company	Investee Company	Location	Main Businesses	Amount of Original Investment		Ownership as of December 31, 2012			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 Corporation	CSC Futures (HK) Ltd.	Hong Kong	Futures dealing business	HKD 52,800	HKD -	50,000	100%	HKD 52,928	HKD 325	HKD 116	Subsidiary

- (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.
- (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.**

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

**(17) OTHER**

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

Categorized as: Nature	Year ended December 31, 2012			Year ended December 31, 2011		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Personnel expenses						
Payroll	-	180,342	180,342	-	176,897	176,897
Health and labor insurance expense	-	10,444	10,444	-	10,275	10,275
Pension expense	-	6,836	6,836	-	7,019	7,019
Other expense	-	3,089	3,089	-	3,021	3,021
Depreciation expense	-	18,539	18,539	-	12,164	12,164
Amortization expense	-	4,833	4,833	-	3,097	3,097

(B) Information regarding significant foreign assets and liabilities were as follows:

	December 31, 2012			December 31, 2011		
	Foreign	Exchange	NTD	Foreign	Exchange	NTD
	currency (dollar)	rate		currency (dollar)	rate	
<b><u>Financial assets</u></b>						
<b><u>Monetary Items</u></b>						
USD	\$ 66,704,802.70	29.04	1,937,107	101,395,848.19	30.275	3,069,760
EUR	395,225.82	38.49	15,212	128,592.18	39.18	5,038
GBP	301,187.09	46.83	14,105	253,413.55	46.73	11,859
JPY	54,946,771.00	0.3364	19,493	30,100,001.00	0.3906	11,757
HKD	26,300,963.38	3.747	98,549	37,291,558.87	3.897	145,325
AUD	138.04	30.165	4	138.04	30.735	4
SGD	11,222.31	23.76	267	6,910.82	23.31	161
<b><u>None-monetary Items</u></b>						
USD	1,520,302.68	29.04	44,150	1,959,659.38	30.275	59,329
HKD	52,928,031.90	3.747	198,321	1,339,144.00	3.897	5,218
<b><u>Financial liabilities</u></b>						
<b><u>Monetary Items</u></b>						
USD	\$ 63,333,663.49	29.04	1,839,210	101,173,864.26	30.275	3,063,039
EUR	366,293.94	38.49	14,099	126,597.77	39.18	4,960
GBP	287,925.18	46.83	13,483	242,569.02	46.73	11,335
JPY	47,964,932.00	0.3364	16,135	24,473,167.00	0.3906	9,559
HKD	23,561,505.96	3.747	88,285	37,107,456.74	3.897	144,608
SGD	11,132.39	23.76	264	6,278.41	23.31	146

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

- (C) On October 31, 2011, MF Global had filed for bankruptcy protection. MF Global Futures (Singapore) has been assigned a provisional liquidator. The impact of brokerage and dealer operation for the Company's customer margin accounts and futures margin were \$42,490 and \$3, 234, respectively. MF Global Futures (Singapore) had paid back partial customer margin accounts amounting of \$21,288 in April 2012; the Company reclassified the rest customer margin accounts and futures margin amounting of \$24,436 to accounts receivable. The board of directors authorized to write off the foregoing account receivable with bad debt reserve amounting of \$24,116 and recongize bad debts amounting of \$320 on December 25, 2012.
- (D) Under No.0990014302 letter issued by Financial Supervisory Commission, Executive Yuan, R.O.C., the Company disclosed pre-disclosure of IFRSs information in the consolidated financial statements.