

CAPITAL FUTURES CORPORATION
Parent-Company-Only Financial Report
For the Years Ended December 31, 2013 and 2012
(With Independent Auditors' Report Thereon)

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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, 2013 and 2012, January 1, 2012, and the related statements of comprehensive income, changes in equity and cash flows for the years then ended. The financial report is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial report based on our audits.

We conducted our audits in accordance with Rules Governing Certified Public Accountants' Certification of Financial Statements and Auditing Standards Generally Accepted in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial report. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial report presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial report referred to above present fairly, in all material respects, the financial position of Capital Futures Corporation as of December 31, 2013 and 2012, January 1, 2012, and the results of its financial performance 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 International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC interpretations endorsed by the Financial Supervisory Commission.

KPMG

Taipei, Taiwan, R.O.C.

March 14, 2014

Notice to Readers

The accompanying financial report is intended only to present the financial position, financial performance, and cash flows in accordance with IFRSs endorsed by the FSC and not those of any other jurisdictions. The standards, procedures, and practices to audit such financial report are those generally accepted and applied in the Republic of China.

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

CAPITAL FUTURES CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2013 and 2012
(Expressed in Thousands of New Taiwan Dollars, Except For Earnings Per Share)

| | 2013 | | 2012 | |
|---|-------------------|------------|----------------|------------|
| | Amount | % | Amount | % |
| Income | | | | |
| Commission income - brokerage (Note 6(13)) | \$ 937,455 | 93 | 932,901 | 97 |
| Gain on covering of borrowed securities | 202 | - | - | - |
| Securities commission income | 2,275 | - | 1,875 | - |
| Commission income - clearing and settlement | 12,656 | 1 | 9,622 | 1 |
| Gain on derivative financial instruments | 44,855 | 5 | 11,621 | 1 |
| Futures management revenue | 11 | - | 34 | - |
| Management fee revenue | 179 | - | 53 | - |
| Consulting fee revenue | 7,909 | 1 | 6,459 | 1 |
| Other operating revenue | (715) | - | 107 | - |
| | <u>1,004,827</u> | <u>100</u> | <u>962,672</u> | <u>100</u> |
| Expenses | | | | |
| Brokerage fees | 132,662 | 13 | 149,269 | 16 |
| Brokerage fees - proprietary trading | 13,919 | 1 | 3,228 | - |
| Financial costs | 2,512 | - | 3,279 | - |
| Futures commission expenses (Note 6(13)) | 217,164 | 22 | 142,647 | 15 |
| Clearing and settlement expenses | 106,623 | 11 | 108,647 | 11 |
| Employee benefit expenses (Note 6(13)) | 217,557 | 22 | 201,696 | 21 |
| Depreciation or amortization expenses (Note 6(13)) | 25,339 | 3 | 23,371 | 3 |
| Other operating expenses (Note 6(13)) | 175,325 | 17 | 164,898 | 17 |
| | <u>891,101</u> | <u>89</u> | <u>797,035</u> | <u>83</u> |
| Non-operating income and expenses | | | | |
| Share of profit (loss) of subsidiaries, associates and joint ventures using equity method | (4,108) | - | 437 | - |
| Other income and expenses (Note 6(13)) | 190,947 | 19 | 118,268 | 12 |
| | <u>186,839</u> | <u>19</u> | <u>118,705</u> | <u>12</u> |
| Net income before income tax | <u>300,565</u> | <u>30</u> | <u>284,342</u> | <u>29</u> |
| Income tax expenses (Note 6(10)) | (42,633) | (4) | (51,849) | (5) |
| Net income | <u>257,932</u> | <u>26</u> | <u>232,493</u> | <u>24</u> |
| Other comprehensive income: | | | | |
| Foreign currency translation adjustments | 5,051 | - | (2,113) | - |
| Unrealized gain (loss) on available-for-sale financial assets | 26,015 | 3 | (113) | - |
| Actuarial gain (loss) on defined benefit plans | (5,808) | (1) | (449) | - |
| Income tax relating to components of other comprehensive income (Note 6(10)) | (859) | - | 359 | - |
| Other comprehensive income (Net of tax) | <u>24,399</u> | <u>2</u> | <u>(2,316)</u> | <u>-</u> |
| Total comprehensive income | <u>\$ 282,331</u> | <u>28</u> | <u>230,177</u> | <u>24</u> |
| Basic earnings per share (Dollar) (Note 6(12)) | <u>\$ 2.58</u> | | <u>2.32</u> | |
| Dilutive earnings per share (Dollar) (Note 6(12)) | <u>\$ 2.57</u> | | <u>2.32</u> | |

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

CAPITAL FUTURES CORPORATION
STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2013 and 2012
(Expressed in Thousands of New Taiwan Dollars)

| | Retained earnings | | | | Other equity | | Total | |
|---|-------------------|-----------------|---------------|-----------------|-------------------------|-----------------------------------|---------|------------------------------------|
| | Common stock | Capital surplus | Legal reserve | Special reserve | Unappropriated earnings | Cumulative translation adjustment | | Unrealized gain/loss on securities |
| Beginning balance, January 1, 2012 | \$ 922,469 | 107,625 | 153,355 | 424,794 | 281,518 | - | (5,104) | 1,884,657 |
| Net income for 2012 | - | - | - | - | 232,493 | - | - | 232,493 |
| Other comprehensive income for the year ended December 31, 2012 | - | - | - | - | (449) | (1,754) | (113) | (2,316) |
| Total comprehensive income for the year ended December 31, 2012 | - | - | - | - | 232,044 | (1,754) | (113) | 230,177 |
| Appropriation of 2012 earnings (Note 1): | | | | | | | | |
| Legal reserve | - | - | 22,129 | - | (22,129) | - | - | - |
| Special reserve | - | - | - | 49,361 | (49,361) | - | - | - |
| Cash dividends | - | - | - | - | (212,168) | - | - | (212,168) |
| Write off reserve for bad debts transferred to special reserve | - | - | - | (22,531) | - | - | - | (22,531) |
| Ending balance, December 31, 2012 | 922,469 | 107,625 | 175,484 | 451,624 | 229,904 | (1,754) | (5,217) | 1,880,135 |
| Net income for 2013 | - | - | - | - | 257,932 | - | - | 257,932 |
| Other comprehensive income for the year ended December 31, 2013 | - | - | - | - | (5,808) | 4,192 | 26,015 | 24,399 |
| Total comprehensive income for the year ended December 31, 2013 | - | - | - | - | 252,124 | 4,192 | 26,015 | 282,331 |
| Appropriation of 2013 earnings (Note 2): | | | | | | | | |
| Legal reserve | - | - | 23,229 | - | (23,229) | - | - | - |
| Special reserve | - | - | - | 48,326 | (48,326) | - | - | - |
| Cash dividends | - | - | - | - | (82,100) | - | - | (82,100) |
| Capital increase out of retained earnings | 78,410 | - | - | - | (78,410) | - | - | - |
| Ending balance, December 31, 2013 | \$ 1,000,879 | 107,625 | 198,713 | 499,950 | 249,963 | 2,438 | 20,798 | 2,080,366 |

Note1 : The remuneration to directors and supervisors \$3,380 and the employee bonuses \$3,380 were both deducted from the statement of comprehensive income for the year ended December 31, 2012.

Note2 : The remuneration to directors and supervisors \$3,775 and the employee bonuses \$3,775 were both deducted from the statement of comprehensive income for the year ended December 31, 2013.

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

CAPITAL FUTURES CORPORATION
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2013 and 2012
(Expressed in Thousands of New Taiwan Dollars)

| | 2013 | 2012 |
|--|---------------------|------------------|
| Cash flows from operating activities: | | |
| Net income before income tax | \$ 300,565 | 284,342 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Income and expenses items with no effect on cash flow: | | |
| Depreciation expenses | 19,286 | 18,539 |
| Amortization expenses | 6,053 | 4,832 |
| Bad debts expenses | - | 320 |
| Gain on financial assets and liabilities measured at fair value through profit or loss | (34,240) | (1,803) |
| Interest expenses | 2,512 | 3,279 |
| Share of loss (profit) of subsidiaries, associates and joint ventures using equity method | 4,108 | (437) |
| Other income | - | (49) |
| Total income and expense items with no effect on cash flows | (2,281) | 24,681 |
| Net changes of assets and liabilities from operating activities: | | |
| Net changes of assets from operating activities: | | |
| Increase in financial assets measured at fair value through profit or loss | (321,914) | (39,117) |
| Decrease in customers margin accounts | 175,038 | 241,497 |
| Decrease in futures margin receivable | - | 122 |
| Increase in accounts receivable | (300) | (18,948) |
| Increase in accounts receivable-inter co. | (28) | (38) |
| Decrease (increase) in prepayments | (442) | 2,407 |
| Decrease (increase) in other receivable | (1,163) | 2,955 |
| Decrease (increase) in other receivable-inter co. | (10,507) | 10 |
| Decrease (increase) in other current assets | 930 | (286) |
| Decrease (increase) in clearing and settlement fund | (65,882) | 3,000 |
| Total net changes of assets from operating activities | (224,268) | 191,602 |
| Net changes of liabilities from operating activities: | | |
| Increase (decrease) in financial liabilities measured at fair value through profit or loss | 4,622 | (544) |
| Decrease in futures traders' equity | (173,103) | (225,535) |
| Increase (decrease) in accounts payable | (6,107) | 4,238 |
| Increase (decrease) in accounts payable-inter co. | 2,098 | (1,676) |
| Increase in advance receipts | 98 | 172 |
| Decrease in receipts under custody | (458) | (118) |
| Increase in other payables | 6,836 | 10,333 |
| Increase in other payables-inter co. | 12,519 | 356 |
| Decrease in provision for liabilities | (3) | (15) |
| Increase (decrease) in other liabilities- current | 233 | (16,647) |
| Total net changes of liabilities from operating activities | (153,265) | (229,436) |
| Total net changes of assets and liabilities from operating activities | (377,533) | (37,834) |
| Total adjustments | (379,814) | (13,153) |
| Cash flows from operating activities | (79,249) | 271,189 |
| Payment of interest | (2,494) | (3,302) |
| Payment of income tax | (50,220) | (58,671) |
| Net cash provided by (used in) operating activities | (131,963) | 209,216 |
| Cash flows from investing activities: | | |
| Purchase of investments under equity method | - | (199,948) |
| Purchase of property and equipment | (11,000) | (11,695) |
| Decrease (increase) in guaranty deposits paid | (12) | 2,659 |
| Purchase of Intangible assets | (6,270) | (32,390) |
| Net cash used in investing activities | (17,282) | (241,374) |
| Cash flows from financing activities: | | |
| Cash dividends | (82,100) | (212,168) |
| Net cash used in financing activities | (82,100) | (212,168) |
| Decrease in cash and cash equivalents | (231,345) | (244,326) |
| Cash and cash equivalents at beginning of year | 1,343,027 | 1,587,353 |
| Cash and cash equivalents at end of year | \$ 1,111,682 | 1,343,027 |

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

CAPITAL FUTURES CORPORATION

Notes to Financial Report

December 31, 2013 and 2012

(amounts expressed in thousands of new Taiwan dollars unless otherwise specified)

1. Company history

Capital Futures Corporation (the "Company") was incorporated on February 26, 1997 and registered under the Ministry of Economic Affairs, R.O.C. The address of the Company's registered office is 32th and B1 Fl. No. 97, Tun Hwa South Rd., Sec. 2, Taipei, Taiwan, R.O.C. The Company established the Taichung branch. Furthermore, the official listed date was on April 27, 2009. Managing the following business :

- (1) Futures business.
- (2) Futures advisory business.
- (3) Securities introducing brokerage.
- (4) Futures management business.

The parent company and ultimate controlling party is both Capital Securities Corporation.

2. Approval date and procedures of the financial report

The financial report was authorized for issuance by the Board of Directors on March 4, 2014.

3. New standards and interpretations not yet adopted

- (1) New standards and interpretations endorsed by the ROC Financial Supervisory Commissions ("FSC") but not yet in effect

In November 2009, the International Accounting Standards Board ("IASB") issued the International Financial Reporting Standard No. 9 "Financial Instruments" ("IFRS 9"), which is effective on January 1, 2013 (In December 2011, the IASB amended the effective date to January 1, 2015. Through the amendments to IFRS 9 published in November 2013, the IASB has removed the previous mandatory effective date to provide sufficient time for preparers of financial statements to make the transition to the new requirements, while the new effective date is not yet determined). This standard has been endorsed by the FSC; however, the effective date has not been announced. In accordance with FSC rules, early adoption is not permitted, and companies shall follow the guidance in the 2009 version of International Accounting Standard No. 39 "Financial Instruments" ("IAS 39"). Upon the adoption of this new standard, it is expected there will be significant impacts on the classification and measurement of financial instruments in the financial report.

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

(2) New standards and interpretations not yet endorsed by the FSC

A summary of the new standards and amendments issued by the IASB that may have an impact on the financial report not yet endorsed by the FSC :

| <u>Issue date</u> | <u>New standards and amendments</u> | <u>Description</u> | <u>Effective date per IASB</u> |
|-------------------|--|--|--------------------------------|
| May 12, 2011 | • IFRS 13 Fair Value Measurement | Replaces fair value measurement guidance of financial and non-financial items in other standards, and consolidates as one single guidance. The Company will need to evaluate the impact these differences may have on the measurement of assets or liabilities, with more disclosures on fair value being required by the amendment. | January 1, 2013 |

4. Summary of significant accounting policies

The Summary of significant accounting policies adopted in the financial report are set below. Unless stated otherwise, they apply consistently to all presentation periods in the financial report and opening IFRS balance sheet as of January 1, 2012, prepared for the purpose of conversion to IFRSs, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (hereafter IFRS endorsed by the FSC).

(1) Statement of compliance

The financial report has been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, the related rules of preparation financial reports of futures management business for annual financial report.

(2) Basis of preparation

(a) Basis of measurement

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

- a. Financial instruments measured at fair value through profit or loss (including derivative instruments);
- b. Available-for-sale financial assets that are measured at fair value; and
- c. The defined benefit asset is recognized as plan assets less the present value of the defined benefit obligation.

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

(b) Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the Company operates. The financial report is presented in New Taiwan Dollar, which is the Company's functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

(3) Foreign currency

(a) Foreign currency transaction

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

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

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

- a. available-for-sale equity investment;
- b. a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- c. qualifying cash flow hedges to the extent the hedge is effective.

(b) Foreign operations

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

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

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

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

An entity shall classify an asset as current when:

- (a) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- (b) It holds the asset primarily for the purpose of trading;
- (c) It expects to realize the asset within twelve months after the balance sheet date; or
- (d) The asset is cash and cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date.

An entity shall classify all other assets as non-current.

An entity shall classify a liability as current when:

- (a) It expects to settle the liability in the Company's normal operating cycle;
- (b) It holds the liability primarily for the purpose of trading;
- (c) The liability is due to be settled within twelve months after the balance sheet date; or
- (d) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

An entity shall classify all other liabilities as non-current.

(5) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents comprise of time deposit with maturity within 1 year, futures margin- excess margin and commercial paper that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments..

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

(6) Financial instruments

Financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instruments.

(a) Financial assets

The Company classifies financial assets into the following categories: financial assets measured at fair value through profit or loss, receivables, and available-for-sale financial assets.

a. Financial assets measured at fair value through profit or loss

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

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

b. Available-for sale financial assets

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

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

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

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

c. Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade-date accounting.

d. Impairment of financial assets

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

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

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

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

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

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

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

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

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

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

e. Derecognition of financial assets

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

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

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

A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts.

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

(b) Financial liabilities

a. Financial liabilities measured at fair value through profit or loss

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

b. Other financial liabilities

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

c. Derecognition of financial liabilities

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

d. Offsetting of financial assets and liabilities

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

(7) Investments in subsidiaries

When preparing parent-company-only financial report, the Company uses equity method in evaluating the control of an investee. Under equity method, the net income or loss for the period of parent-company-only financial report and other comprehensive income of parent-company-only financial report are the same as net income or loss for the period attributed to owners of parents of consolidated report and other comprehensive income attributed to owners of parents of consolidated report, respectively. The equity of the parent-company-only financial report is the same as the equity attributable to the owners of parents of the consolidated report.

Any change in ownership interest of the subsidiaries, not resulting in loss of control, is treated as equity transaction between the owners.

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

(8) Securities under repurchase / resell agreements

The Company engages in securities under repurchase / resell agreements trading and the nature of transaction substance is financing. When entering securities under resell agreements transactions, the company establishes an account "Investment in Bonds with resale agreements" with the actual amount of lending and recognises financing interest revenue by the interest period of resell agreements and no profit and loss is recognized.

(9) Customers margin accounts and future traders' equity

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 of the balance sheet. 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.

(10) Property and equipment

(a) Recognition and measurement

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

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

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

(b) Subsequent cost

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

(c) Depreciation

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

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

(b) Defined benefit plans

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

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

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

All actuarial gains and losses at January 1 2013, the date of transition to IFRS approved by the FSC, were recognized in retained earnings. The Company recognizes all actuarial gains and losses arising subsequently from defined benefit plans in other comprehensive income.

The Company recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, and any related actuarial gains or losses and past service cost that had not previously been recognized.

(c) Termination benefits

Termination benefits are recognized as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

(d) Short-term employee benefits

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

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

(15) Income tax

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

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

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

- (a) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.
- (b) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (c) Initial recognition of goodwill.

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

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

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

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

A deferred tax asset should be recognized for the carry-forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

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

(16) Earnings per share ("EPS")

The calculation of basic earnings per share is based on net income, divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on net income, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, such as employee bonus. 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.

(17) Segment information

The Company has disclosed the segment information on the consolidated financial report, thus, the Company does not disclose it on this financial report.

5. Major sources of accounting judgments, estimation and assumptions uncertainty

The management have use necessary judgments, estimations and assumptions to measure, evaluate and disclose the assets, liabilities, income and expenses when preparing the financial report in accordance with the IFRS endorsed by the FSC. Actual results could differ from these estimation.

Management continued to monitor the accounting estimations and assumptions, and recognized the changes in the accounting estimation during the period and the impact of the changes in the next period.

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

6. Summary of major accounts

(1) Cash and cash equivalents

| | December 31, 2013 | December 31, 2012 | January 12 2012 |
|------------------------------|------------------------------|------------------------------|----------------------------|
| Cash | \$ 50 | 50 | 50 |
| Demand deposits | 38,057 | 80,406 | 9,199 |
| Time deposits | 764,900 | 977,300 | 1,452,500 |
| Futures margin-excess margin | 206,683 | 206,744 | 122,604 |
| Commercial paper | 101,992 | 78,527 | 3,000 |
| Total | <u>\$ 1,111,682</u> | <u>1,343,027</u> | <u>1,587,353</u> |

(2) Financial assets and liabilities

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

| | December 31, 2013 | December 31, 2012 | January 12 2012 |
|---|------------------------------|------------------------------|----------------------------|
| Open-ended funds and money-market instruments | \$ 39,842 | 33,430 | - |
| Valuation adjustment | 1,543 | 1,802 | - |
| Brokerage investment in securities | 309,064 | - | - |
| Valuation adjustment | 34,499 | - | - |
| Call options | 16,723 | 13,064 | 9,523 |
| Futures margin-proprietary fund | 11,858 | 9,079 | 6,932 |
| Total | <u>\$ 413,529</u> | <u>57,375</u> | <u>16,455</u> |

If there is an increase in the securities price of 1% on the reporting date (assume that all other variables remain the same), the impact on comprehensive income for 2013 will increase \$3,436; conversely, if there is a decrease in the securities price of 1% on the reporting date and if it assumes that all other variables remain the same, there will be the same amount but opposite direction of influence.

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

| Investee Company | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|-----------------------------|------------------------------|------------------------------|----------------------------|
| CME GROUP | \$ 49,367 | 49,367 | 49,367 |
| Less: Valuation adjustments | 20,797 | (5,217) | (5,104) |
| Total | <u>\$ 70,164</u> | <u>44,150</u> | <u>44,263</u> |

If there is an increase in the securities price of 1% on the reporting date (assume that all other variables remain the same), the impact on comprehensive income for 2013 and 2012 will increase \$702 and \$442, respectively; conversely, if there is a decrease in the securities price of 1% on the reporting date and if it assumes that all other variables remain the same, there will be the same amount but opposite direction of influence.

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

(c) Financial assets measured at cost - non-current

| Investee Company | December 31, 2013 | | December 31, 2013 | | December 31, 2013 | |
|----------------------------------|-------------------|---------------|-------------------|------------|-------------------|------------|
| | Ownership ratio | Amount | Ownership ratio | Amount | Ownership ratio | Amount |
| Taiwan Futures Exchange Co., Ltd | 0.0045% | <u>\$ 128</u> | 0.0045% | <u>128</u> | 0.0045% | <u>128</u> |

(d) Financial liabilities measured at fair value through profit or loss-current

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|-------------|-------------------|-------------------|-----------------|
| Put options | <u>\$ 10,555</u> | <u>5,933</u> | <u>6,477</u> |

(3) Investments under equity method

Investments under equity method on the reporting date were as follows:

| | December 31, 2013 | December 31, 2012 | January 12 2012 |
|------------|-------------------|-------------------|-----------------|
| Subsidiary | <u>\$ 199,264</u> | <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 accounting figures of investee company, which is wholly controlled by the Company, are combined into consolidated financial report; please refer to the consolidated financial report of 2013.

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

(4) Property and equipment

For the years ended December 31, 2013 and 2012, the cost and accumulated depreciation of the property and equipment of the Company were as follows:

| | <u>Office equipment</u> | <u>Leasehold improvements</u> | <u>Total</u> |
|----------------------------------|-----------------------------|-----------------------------------|---------------|
| Cost: | | | |
| Balance at 1 January, 2013 | \$ 50,291 | 30,214 | 80,505 |
| Additions | 10,846 | 154 | 11,000 |
| Disposal / Discard | (12,864) | (325) | (13,189) |
| Balance at 31 December, 2013 | <u>\$ 48,273</u> | <u>30,043</u> | <u>78,316</u> |
| Balance at 1 January, 2012 | \$ 42,628 | 30,158 | 72,786 |
| Additions | 11,639 | 56 | 11,695 |
| Disposal / Discard | (3,976) | - | (3,976) |
| Balance at 31 December, 2012 | <u>\$ 50,291</u> | <u>30,214</u> | <u>80,505</u> |
| Accumulated depreciation: | | | |
| Balance at 1 January, 2013 | \$ 26,654 | 10,668 | 37,322 |
| Depreciation | 11,724 | 7,562 | 19,286 |
| Disposal / Discard | (12,864) | (325) | (13,189) |
| Balance at 31 December, 2013 | <u>\$ 25,514</u> | <u>17,905</u> | <u>43,419</u> |
| Balance at 1 January, 2012 | \$ 19,632 | 3,127 | 22,759 |
| Depreciation | 10,998 | 7,541 | 18,539 |
| Disposal / Discard | (3,976) | - | (3,976) |
| Balance at 31 December, 2012 | <u>\$ 26,654</u> | <u>10,668</u> | <u>37,322</u> |
| Carrying amounts: | | | |
| Balance at 31 December, 2013 | <u>\$ 22,759</u> | <u>12,138</u> | <u>34,897</u> |
| Balance at 31 December, 2012 | <u>\$ 23,637</u> | <u>19,546</u> | <u>43,183</u> |
| Balance at 1 January, 2012 | <u>\$ 22,996</u> | <u>27,031</u> | <u>50,027</u> |

As of December 31, 2013 and 2012, January 1, 2012, there was no property and equipment as collateral and pledge.

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

(5) Customers margin accounts

| <u>December 31, 2013</u> | <u>Foreign Currency (dollar)</u> | <u>Amount</u> |
|---|--------------------------------------|---------------------|
| Cash in bank | USD 73,146,250.58 | \$ 2,180,124 |
| | JPY 13,931,213.00 | 3,955 |
| | GBP 95,688.99 | 4,716 |
| | HKD 5,846,748.78 | 22,469 |
| | EUR 110,045.45 | 4,522 |
| | SGD 131,131.18 | 3,092 |
| | | <u>4,863,980</u> |
| Subtotal | | <u>7,082,858</u> |
| Balance of the futures clearing house | USD 2,026,994.50 | 60,414 |
| | | <u>897,139</u> |
| Subtotal | | <u>957,553</u> |
| Securities | | 4,679 |
| Subtotal | | <u>4,679</u> |
| Balance of other futures commission merchants | USD 12,970,264.05 | 386,579 |
| | JPY 170,587,031.00 | 48,429 |
| | GBP 241,695.20 | 11,911 |
| | HKD 27,789,849.46 | 106,796 |
| | EUR 471,235.67 | 19,363 |
| | SGD 123,698.64 | 2,917 |
| Subtotal | | <u>575,995</u> |
| Total | | <u>\$ 8,621,085</u> |

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

| <u>December 31,2012</u> | <u>Foreign Currency</u> <u>(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 |
| | | | <u>5,984,000</u> |
| Subtotal | | | <u>7,497,451</u> |
| Balance of the futures clearing house | USD | 6,426,994.50 | 186,640 |
| | | | <u>838,167</u> |
| Subtotal | | | <u>1,024,807</u> |
| Balance of other futures commission merchants | USD | 6,889,705.83 | 200,077 |
| | 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 |
| | | | <u>273,865</u> |
| Subtotal | | | <u>273,865</u> |
| Total | | | <u><u>\$ 8,796,123</u></u> |

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

| <u>January 1,2012</u> | <u>Foreign Currency</u> <u>(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 |
| | | | <u>5,223,196</u> |
| Subtotal | | | <u>7,706,448</u> |
| Balance of the futures clearing house | USD | 16,926,994.50 | 512,465 |
| | | | <u>578,865</u> |
| Subtotal | | | <u>1,091,330</u> |
| Balance of other futures commission merchants | USD | 5,407,277.52 | 163,705 |
| | 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 | | | <u>239,842</u> |
| Total | | | <u><u>\$ 9,037,620</u></u> |

As of December 31, 2013 and 2012, January 1, 2012, the difference between customers margin accounts and futures traders' equity are the commission revenue from the customers \$3,630, \$5,218 and \$4,137, respectively, futures tax of \$451, \$929 and \$1,054, respectively, interest revenue \$132, \$91 and \$238, respectively, temporary credits \$338, \$350 and \$379, respectively, remittance amount of the customers after the market closed \$4,432, \$4,330 and \$21,072, respectively.

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

(6) Intangible assets

For the years ended December 31, 2013 and 2012, the costs, amortization, and impairment loss of intangible assets were as follows:

| | The seats of foreign futures exchanges (Note) | Computer software | Total |
|------------------------------|---|----------------------|---------------|
| Cost: | | | |
| Balance at 1 January, 2013 | \$ 44,325 | 9,396 | 53,721 |
| Acquisition | - | 6,270 | 6,270 |
| Amortization | - | (5,877) | (5,877) |
| Balance at 31 December, 2013 | <u>\$ 44,325</u> | <u>9,789</u> | <u>54,114</u> |
| Balance at 1 January, 2012 | \$ 19,358 | 6,629 | 25,987 |
| Acquisition | 24,967 | 7,423 | 32,390 |
| Amortization | - | (4,656) | (4,656) |
| Balance at 31 December, 2012 | <u>\$ 44,325</u> | <u>9,396</u> | <u>53,721</u> |
| Carrying value: | | | |
| Balance at 31 December, 2013 | <u>\$ 44,325</u> | <u>9,789</u> | <u>54,114</u> |
| Balance at 31 December, 2012 | <u>\$ 44,325</u> | <u>9,396</u> | <u>53,721</u> |
| Balance at 1 January, 2012 | <u>\$ 19,358</u> | <u>6,629</u> | <u>25,987</u> |

Note : The Company obtained the seats of foreign futures Exchanges - NYMEX, COMEX, CBOT and CME for business development. In accordance with IAS No. 38 "Intangible Assets" endorsed by the FSC, the seats are regarded as intangible assets with an indefinite useful life.

(7) Futures traders' equity

| Currency | Foreign Currency Amount (dollar) | Amount |
|--------------------------|-------------------------------------|---------------------|
| December 31, 2013 | | |
| USD | 88,091,734.84 | \$ 2,625,574 |
| JPY | 184,297,214.00 | 52,322 |
| GBP | 337,275.11 | 16,621 |
| HKD | 33,626,674.30 | 129,227 |
| EUR | 581,123.28 | 23,878 |
| SGD | 254,822.97 | 6,009 |
| NTD | | 5,758,471 |
| Total | | <u>\$ 8,612,102</u> |

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

| Currency | Foreign Currency Amount (dollar) | Amount |
|--------------------------|-------------------------------------|---------------------|
| December 31, 2012 | | |
| 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 | | \$ 8,785,205 |

| Currency | Foreign Currency Amount (dollar) | Amount |
|------------------------|-------------------------------------|---------------------|
| January 1, 2012 | | |
| 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 | | \$ 9,010,740 |

(8) Operating lease

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|----------------------------|----------------------|----------------------|--------------------|
| Less than one year | \$ 9,710 | 15,557 | 15,557 |
| Between one and five years | 1,651 | 11,234 | 26,791 |
| Total | \$ 11,361 | 26,791 | 42,348 |

The Company leases warehouse and factory facilities under operating leases. The lease period is between 1 and 5 years, with an option to renew the lease. For the years ended December 31, 2013 and 2012, the renting expenses were \$17,270 and \$18,545, respectively.

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

(9) Employee benefits

(a) Defined benefit plans

| | <u>December 31, 2013</u> | <u>December 31, 2012</u> | <u>January 1, 2012</u> |
|---|------------------------------|------------------------------|----------------------------|
| Total present value of obligations | \$ (21,519) | (15,114) | (14,076) |
| Fair value of plan assets | 14,510 | 13,910 | 13,306 |
| Recognised liabilities for defined benefit obligations | <u>\$ (7,009)</u> | <u>(1,204)</u> | <u>(770)</u> |

The Company made defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pensions for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive an annual payment based on years of service and average salary for the six months prior to retirement.

a. Composition of plan assets

The Company set aside pension funds in accordance with the legislation from the Council of Labor Affairs and managed by the Pension Supervisory Committee. The annual budget for the allocation of the minimum income cannot be lower than the income calculated based on the interest rate of the banks' two-year time deposit in accordance with the legislation (Management and utilization of the Labor Pension Funds).

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$14,510 at the end of the reporting period. The utilization of the labor pension fund assets includes the asset allocation and yield of the fund. Please refer to the information published on the website by the Council of Labor Affairs and Labor Pension Supervisory Committee.

b. Movement in present value of obligation

Movement in present value of defined benefit obligation of the Company in 2013 and 2012 were as follows:

| | <u>2013</u> | <u>2012</u> |
|---|------------------|---------------|
| Defined benefit obligation on January 1 | \$ 15,114 | 14,076 |
| Current service cost and interest | 626 | 657 |
| Actuarial loss(gain) | 5,779 | 381 |
| Defined benefit obligation on December 31 | <u>\$ 21,519</u> | <u>15,114</u> |

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

c. Movement in fair value of plan assets

Movement in fair value of plan assets of the Company in 2013 and 2012 were as follows:

| | <u>2013</u> | <u>2012</u> |
|--|------------------|---------------|
| Fair value of plan assets on January 1 | \$ 13,910 | 13,306 |
| The amount contributed to plan | 420 | 472 |
| Expected return on plan assets | 209 | 200 |
| Actuarial loss(gain) | (29) | (68) |
| Fair value of plan assets on December 31 | <u>\$ 14,510</u> | <u>13,910</u> |

d. Expense recognized in profit or loss

The expenses recognized in profit or loss of the Company in 2013 and 2012 were as follows:

| | <u>2013</u> | <u>2012</u> |
|------------------------------|---------------|-------------|
| Current service cost | \$ 379 | 399 |
| Interest cost | 38 | 58 |
| | <u>\$ 417</u> | <u>457</u> |
| Actual return on plan assets | <u>\$ 180</u> | <u>132</u> |

e. Actuarial gains and losses recognized in other comprehensive income

Actuarial gains and losses recognized in other comprehensive income of the Company in 2013 and 2012 were as follows :

| | <u>2013</u> | <u>2012</u> |
|----------------------------------|-----------------|-------------|
| Cumulative amount on January 1 | \$ 449 | - |
| Recognised during the period | 5,808 | 449 |
| Cumulative amount on December 31 | <u>\$ 6,257</u> | <u>449</u> |

f. Actuarial assumptions

The following were the Company's principal actuarial assumptions:

| | <u>2013</u> | <u>2012</u> |
|---|-------------|-------------|
| Discount rate on December 31 | 1.59% | 1.63% |
| Expected return on plan assets on January 1 | 1.59% | 1.50% |
| Future salary increases | 2.42% | 2.30% |

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return was based exclusively on historical returns without adjustments.

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

g. Experience adjustments on historical information

| | <u>December 31, 2013</u> | <u>December 31, 2012</u> | <u>January 1, 2012</u> |
|--|------------------------------|------------------------------|----------------------------|
| Present value of defined benefit plans | \$ (21,519) | (15,114) | (14,076) |
| Fair value of plan assets | 14,510 | 13,910 | 13,306 |
| Net liabilities of defined benefit obligations | <u>\$ (7,009)</u> | <u>(1,204)</u> | <u>(770)</u> |
| Experience adjustments arising on the present value of defined benefit plans | <u>\$ (5,779)</u> | <u>(381)</u> | |
| Experience adjustments arising on the fair value of the plan assets | <u>\$ (29)</u> | <u>(68)</u> | |

The expected allocation payment made by the Company to the defined benefit plans for the one year period after the reporting date was \$416.

- h. When calculating the present value of the defined benefit obligations, the Company used judgments and estimations to determine the actuarial assumptions, including employee turnover rates and future salary changes, as of the reporting date. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligations.

The reporting date in 2013, the Company's accrued pension liabilities were \$7,009. If the discount rate had increased or decreased by 0.5%, the Company's accrued pension liabilities would have decreased by \$645 or increased by \$677, respectively.

(b) Defined contribution plans

The Company set aside 6% of the contribution of each employee's monthly wages to the labor pension personal account at the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Company set aside a fixed amount to the Bureau of the Labor Insurance without additional legal or constructive obligations.

The Company's pension costs under the defined contribution method were \$6,834 and \$6,355 in 2013 and 2012, respectively. Contribution was made to the Bureau of the Labor Insurance.

(10) Income taxes

(a) Income tax expense (benefit)

The amount of expense (benefit) of the Company in 2013 and 2012 were as follows:

| | <u>2013</u> | <u>2012</u> |
|----------------------------|------------------|---------------|
| Current income tax expense | <u>\$ 42,633</u> | <u>51,849</u> |

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The amount of income tax expense recognized in other comprehensive income of the Company in 2013 and 2012 were as follows:

| | 2013 | 2012 |
|--|-------------|-------------|
| Foreign currency translation adjustments | \$ (859) | 359 |

Reconciliation of income tax expense (benefit) and profit before tax of the Company for 2013 and 2012 were as follows:

| | 2013 | | 2012 | |
|--|---------------|---------------|---------------|---------------|
| | Rate % | Amount | Rate % | Amount |
| Net income before tax | | \$ 300,565 | | 284,342 |
| Income tax expense calculated in accordance with the domestic tax rate which the Company was located | 17 | 51,096 | 17 | 48,338 |
| Exempt income | 17 | (8,365) | 17 | 778 |
| Adjustments to prior year's income tax | - | 1,133 | - | (2,150) |
| 10% surtax on undistributed earnings | - | 23 | - | - |
| Others (comprised the difference effect between statutory rate and effective tax rate) | - | (1,254) | - | 4,883 |
| Total | | \$ 42,633 | | 51,849 |

(b) Deferred tax assets and liabilities

Deferred tax assets and liabilities of the Company in 2013 and 2012 were as follows:

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|--|------------------------------|------------------------------|----------------------------|
| liabilities: | | | |
| Foreign currency translation adjustments | \$ (499) | 359 | - |

(c) Income tax assessment status

The Company's income tax returns through 2011 were assessed by the Tax Authority.

(d) The information about imputation system was as follow:

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---------------------------|------------------------------|------------------------------|----------------------------|
| Undistributed earnings: | | | |
| Prior to 1997 | \$ 106 | 106 | 106 |
| After 1998 | 249,857 | 229,798 | 281,412 |
| | \$ 249,963 | 229,904 | 281,518 |
| Imputation credit account | \$ 55,302 | 51,956 | 63,060 |

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| | <u>2013(estimated)</u> | <u>2012(actual)</u> |
|--|------------------------|---------------------|
| Deductible rate for earnings distributed of dividends to ROC residents | <u>20.56%</u> | <u>20.56%</u> |

The above information was calculated based on the Tai-Tsai-Shuei No. 10204562810 issued by the Ministry of Finance, R.O.C. on October 17, 2013.

(11) Capital and other equity

On June 28, 2013, the Company's stockholders resolved to transfer un-appropriated earnings of \$78,410 and issued 7,841 thousand shares of common stock. The capital increase with effective date of August 19, 2013, was approved by the Financial Supervisory Commission, Executive Yuan on July 22, 2013.

As of December 31, 2013 and 2012, January 1, 2012, the authorized common stock amounted to \$1,200,000, with par value of \$10 dollar per share; the issued common stock shares were 100,088, 92,247 and 92,247 shares, respectively.

(a) 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.

(b) Retained earnings

a. Legal reverse

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.

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b. Special reserve

In accordance with Article 41 of the Securities and Exchange Law and Ruling No. 1010048029 issued by the Financial Supervisory Commission on November 1, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should equal to the current-period total net reduction of other equity. Similarly, a portion of undistributed prior period earnings shall be reclassified as a special earnings reserve (and does not qualify for earnings distribution) to account for cumulative changes to other equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other equity shall qualify for additional distributions.

In accordance with Ruling No. 1010032090 issued by the Financial Supervisory Commission on July 10, 2012, the balance of reserve for bad debt loss which have been provided but not written-off for January 1, 2013 required reclassifying to special reserve. The special reserve can only be used to offset an accumulated deficit and converted to common stock when it reaches an amount equal to at least one-half of the common stock.

c. Undistributed retained earnings

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

- A. Remuneration to directors and supervisors: 2%;
- B. Bonuses to employees: 2%;
- C. Bonuses to stockholders: 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, 2013 and 2012 was \$7,550 and \$6,760 respectively, and recognized in operating expenses for 2013 and 2012.

The Company's 2012 earnings distribution for employee bonuses, remuneration to directors and supervisors and cash dividends and stock dividends were \$3,344, \$3,344, \$82,100 and \$78,410 under the resolution of shareholders' meeting and the Board's meeting on June 28, 2013. Due to the above changes, the difference of employee bonuses \$3,380 and remuneration to directors and supervisors \$3,380 for 2012 financial statements was \$72 in total. The difference was accounted for as changes in accounting estimates and would be reflected in the statement of income in 2013.

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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. 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.

The relevant information on earnings distribution approved by the stockholders' meeting can be accessed through the Market Observation Post System or other sites.

(12) Earnings per share

The calculation of basic and dilutive earnings per share of the Company in 2013 and 2012 were as follows:

(a) Basic earnings per share

| | 2013 | 2012 |
|--|-------------------|----------------|
| Net income | <u>\$ 257,932</u> | <u>232,493</u> |
| Weighted-average number of common stock shares outstanding (thousands of shares) | <u>100,088</u> | <u>100,088</u> |
| Basic earnings per share (dollar) | <u>\$ 2.58</u> | <u>2.32</u> |

(b) Dilutive earnings per share

| | 2013 | 2012 |
|--|-------------------|----------------|
| Net income | <u>\$ 257,932</u> | <u>232,493</u> |
| Weighted-average number of common stock shares outstanding (thousands of shares) | 100,088 | 100,088 |
| Dilutive potential ordinary share (thousands of shares) | 137 | 129 |
| Weighted-average outstanding shares of dilutive earnings per share (thousands of shares) | <u>100,225</u> | <u>100,217</u> |
| Dilutive earnings per share (dollar) | <u>\$ 2.57</u> | <u>2.32</u> |

(13) Items of Comprehensive Income

(a) Commission income - brokerage

| | 2013 | 2012 |
|------------------|-------------------|----------------|
| Domestic futures | \$ 622,491 | 717,656 |
| Foreign futures | 314,964 | 215,245 |
| | <u>\$ 937,455</u> | <u>932,901</u> |

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(b) Futures commission expenses

| | <u>2013</u> | <u>2012</u> |
|-------------------------------------|-------------------|----------------|
| Re-consigned futures trading | \$ 99,637 | 58,015 |
| Futures introducing broker business | 117,527 | 84,632 |
| | <u>\$ 217,164</u> | <u>142,647</u> |

(c) Employee benefit, depreciation and amortization expenses

| | <u>2013</u> | <u>2012</u> |
|----------------------------|-------------------|----------------|
| Employee benefit expenses | | |
| Salary | \$ 193,497 | 180,169 |
| Labor and health insurance | 12,428 | 10,444 |
| Pension | 7,251 | 6,812 |
| Others | 4,381 | 4,271 |
| Depreciation | 19,286 | 18,539 |
| Amortization | 6,053 | 4,832 |
| | <u>\$ 242,896</u> | <u>225,067</u> |

(d) Other operating expenses

| | <u>2013</u> | <u>2012</u> |
|--------------------------------|-------------------|----------------|
| Postage expenses | \$ 13,557 | 12,463 |
| Taxes | 42,225 | 25,594 |
| Rental | 17,270 | 18,545 |
| Information technology service | 65,699 | 65,311 |
| Others | 36,574 | 42,985 |
| | <u>\$ 175,325</u> | <u>164,898</u> |

(e) Other income and expenses

| | <u>2013</u> | <u>2012</u> |
|--|-------------------|----------------|
| Interest revenue | \$ 102,100 | 116,380 |
| Dividend revenue | 7,786 | 2,310 |
| Net gain (loss) on non-operating financial instruments measured at fair value through profit or loss | 34,240 | 1,803 |
| Gain (loss) on foreign exchange | 2,410 | (3,675) |
| Gain (loss) on disposal of investments | 22,296 | - |
| Other non-operating revenue - recovery of MF Global bad debts | 23,564 | - |
| Other non-operating revenue - other | 2,348 | 1,461 |
| Other non-operating expense - other | (3,797) | (11) |
| | <u>\$ 190,947</u> | <u>118,268</u> |

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(14) Financial Instruments

(a) Credit risk

The carrying amount of financial assets represents the maximum credit exposure.

As of December 31, 2013 and 2012, January 1, 2012, the maximum credit exposure amounted to \$10,555,283, \$10,501,607 and \$10,963,849, respectively.

(b) Liquidity risk

The following table shows the contractual maturity of the Company's financial liabilities. The Company does not expect the cash flow occurring early than the contractual maturity date or the actual amount varying significantly.

| | Carrying amount | Contract cash flow | Within 6 months | 6-12 months | 1-2 year | 2-5 year | More than 5 year |
|--|---------------------|--------------------------|--------------------|----------------|-------------|-------------|------------------------|
| December 31, 2013 | | | | | | | |
| Financial liabilities measured at fair value through profit or loss | \$ 10,555 | 10,555 | 10,555 | - | - | - | - |
| Futures traders' equity | 8,612,102 | 8,612,102 | 8,612,102 | - | - | - | - |
| Accounts payable | 25,621 | 25,621 | 25,621 | - | - | - | - |
| Other payable | 89,534 | 89,534 | 89,534 | - | - | - | - |
| | <u>\$ 8,737,812</u> | <u>8,737,812</u> | <u>8,737,812</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

| | Carrying amount | Contract cash flow | Within 6 months | 6-12 months | 1-2 year | 2-5 year | More than 5 year |
|--|---------------------|--------------------------|--------------------|----------------|-------------|-------------|------------------------|
| December 31, 2012 | | | | | | | |
| Financial liabilities measured at fair value through profit or loss | \$ 5,933 | 5,933 | 5,933 | - | - | - | - |
| Futures traders' equity | 8,785,205 | 8,785,205 | 8,785,205 | - | - | - | - |
| Accounts payable | 29,630 | 29,630 | 29,630 | - | - | - | - |
| Other payable | 70,161 | 70,161 | 70,161 | - | - | - | - |
| | <u>\$ 8,890,929</u> | <u>8,890,929</u> | <u>8,890,929</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

| | Carrying amount | Contract cash flow | Within 6 months | 6-12 months | 1-2 year | 2-5 year | More than 5 year |
|--|---------------------|--------------------------|--------------------|----------------|-------------|-------------|------------------------|
| January 1, 2012 | | | | | | | |
| Financial liabilities measured at fair value through profit or loss | \$ 6,477 | 6,477 | 6,477 | - | - | - | - |
| Futures traders' equity | 9,010,740 | 9,010,740 | 9,010,740 | - | - | - | - |
| Accounts payable | 27,068 | 27,068 | 27,068 | - | - | - | - |
| Other payable | 59,496 | 59,496 | 59,496 | - | - | - | - |
| | <u>\$ 9,103,781</u> | <u>9,103,781</u> | <u>9,103,781</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

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(c) Exchange rate risk

a. Exposure of exchange rate risk

The Company's significant exposure to foreign currency risk of financial assets and liabilities were as follows:

| | December 31, 2013 | | |
|------------------------------|------------------------------|---------------|-----------------------|
| | Foreign Currency (dollar) | Exchange rate | New Taiwan Dollars |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 91,603,389.37 | 29.805 | 2,730,239 |
| EUR | 642,645.45 | 41.09 | 26,406 |
| GBP | 414,205.14 | 49.28 | 20,412 |
| JPY | 190,853,244.00 | 0.2839 | 54,182 |
| HKD | 36,719,861.70 | 3.843 | 141,114 |
| AUD | - | 26.585 | - |
| SGD | 295,689.08 | 23.58 | 6,972 |
| <u>Non-monetary items</u> | | | |
| USD | 2,354,113.84 | 29.805 | 70,164 |
| HKD | 51,851,132.68 | 3.843 | 199,264 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 88,091,734.84 | 29.805 | 2,625,574 |
| JPY | 184,297,214.00 | 0.2839 | 52,322 |
| HKD | 33,626,674.30 | 3.843 | 129,227 |
| GBP | 337,275.11 | 49.28 | 16,621 |
| EUR | 581,123.28 | 41.09 | 23,878 |
| SGD | 254,822.97 | 23.58 | 6,009 |

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| December 31, 2012 | | | |
|------------------------------|------------------------------|---------------|-----------------------|
| | Foreign Currency (dollar) | Exchange rate | New Taiwan Dollars |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 66,704,802.70 | 29.04 | 1,937,107 |
| EUR | 395,225.82 | 38.49 | 15,212 |
| GBP | 301,187.09 | 46.83 | 14,105 |
| JPY | 57,946,771.00 | 0.3364 | 19,493 |
| HKD | 26,300,963.38 | 3.747 | 98,549 |
| AUD | 138.04 | 30.165 | 4 |
| SGD | 11,222.31 | 23.76 | 267 |
| <u>Non-monetary items</u> | | | |
| USD | 1,520,302.68 | 29.04 | 44,150 |
| HKD | 52,928,031.90 | 3.75 | 198,321 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 63,333,663.49 | 29.04 | 1,839,210 |
| JPY | 47,964,932.00 | 0.3364 | 16,135 |
| HKD | 23,561,505.96 | 3.747 | 88,285 |
| GBP | 287,925.18 | 46.83 | 13,483 |
| EUR | 366,293.94 | 38.49 | 14,099 |
| SGD | 11,132.39 | 23.76 | 264 |
| January 1, 2012 | | | |
| | Foreign Currency (dollar) | Exchange rate | New Taiwan Dollars |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 101,893,487.57 | 30.275 | 3,084,826 |
| EUR | 128,592.18 | 39.18 | 5,038 |
| GBP | 253,413.55 | 46.73 | 11,859 |
| JPY | 30,100,001.00 | 0.3906 | 11,757 |
| HKD | 38,630,702.87 | 3.897 | 150,543 |
| AUD | 138.04 | 30.735 | 4 |
| SGD | 6,910.82 | 23.31 | 161 |
| <u>Non-monetary items</u> | | | |
| USD | 1,478,400.00 | 30.275 | 44,759 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 101,173,864.26 | 30.275 | 3,063,039 |
| JPY | 24,473,167.00 | 0.3906 | 9,559 |
| HKD | 37,107,456.74 | 3.897 | 144,608 |
| GBP | 242,569.02 | 46.73 | 11,335 |
| EUR | 126,597.77 | 39.18 | 4,960 |
| SGD | 6,278.41 | 23.31 | 146 |

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b. Sensitivity analysis

The currency risk of the Company arises mainly from cash and cash equivalents, customers' margin accounts, financial assets at fair value through profit or loss, available-for-sale financial assets and futures traders' equity, which are denominated in foreign currency. Foreign exchange gain or loss occurs as foreign currency was translated to NTD currency. For the years ended December 31, 2013 and 2012, with all other variable factors that remain constant, if NTD currency increases or decreases 1% contrary to other currency, the Company's comprehensive income will increase or decrease \$3,951 and \$3,557, respectively. The analytical basis was the same in 2013 and 2012.

(d) Sensitivity analysis in interest rates

For the years ended December 31, 2013 and 2012, with all other variable factors that remain constant, if the interest rate increases or decreases by 100 basis points, the Company's net income will increase or decrease by \$3,197 and \$3,255. This is mainly due to the Company's guaranty deposited for business operations in variable rates and settlement fund in variable rate.

(e) Fair value

a. Fair value and book value

The Company considers the carrying amounts of its financial assets and financial liabilities measured at amortized cost to be a reasonable approximation of fair value:

b. Valuation techniques and assumptions used in fair value determination

The Company uses the following methods to determine the fair value of its financial assets and liabilities:

- A. Corporate stocks from listed entities with standard terms and conditions and the fair value of financial assets and liabilities traded in active markets is based on quoted market prices.
- B. For all other financial assets and financial liabilities, the fair value is determined using a discounted cash flow analysis based on expected future cash flows.

c. Fair value hierarchy

The table below analyses financial instruments carried at fair value by the levels in the fair value hierarchy. The different levels have been defined as follows:

- A. Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- B. Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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C. Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs)

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|-------------------|----------------|----------------|----------------|
| December 31, 2013 | | | | |
| Financial assets at fair value through profit or loss | \$ 413,529 | - | - | 413,529 |
| Available-for-sale financial assets | 70,164 | - | - | 70,164 |
| | <u>\$ 483,693</u> | <u>-</u> | <u>-</u> | <u>483,693</u> |
| Financial liabilities at fair value through profit or loss | <u>\$ 10,555</u> | <u>-</u> | <u>-</u> | <u>10,555</u> |
| December 31, 2012 | | | | |
| Financial assets at fair value through profit or loss | \$ 57,375 | - | - | 57,375 |
| Available-for-sale financial assets | 44,150 | - | - | 44,150 |
| | <u>\$ 101,525</u> | <u>-</u> | <u>-</u> | <u>101,525</u> |
| Financial liabilities at fair value through profit or loss | <u>\$ 5,933</u> | <u>-</u> | <u>-</u> | <u>5,933</u> |
| January 1, 2012 | | | | |
| Financial assets at fair value through profit or loss | \$ 16,455 | - | - | 16,455 |
| Available-for-sale financial assets | 44,263 | - | - | 44,263 |
| | <u>\$ 60,718</u> | <u>-</u> | <u>-</u> | <u>60,718</u> |
| Financial liabilities at fair value through profit or loss | <u>\$ 6,477</u> | <u>-</u> | <u>-</u> | <u>6,477</u> |

There was no transfer in 2013 and 2012

(15) Financial risk management

(a) General description

The Company is exposed to below risks due to the application of financial instruments

- a. Credit risk
- b. Liquidity risk
- c. Market risk

The note expresses the exposure, measurement and management target, policy and procedure of the aforementioned risks. Detailed information about the financial instruments has been disclosed as each note to the financial statements.

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(b) Risk management structure

To effectively control risks, a management procedure is to build up from top to bottom that includes the Board of Directors, managers of all departments and the employees to participate. From the macroscopic perspective of the Company, qualitative and quantitative approaches are taken to recognize, evaluate, monitor and respond to various potential risks. As a result, the Company may make reasonable risky asset allocation and maximize returns for shareholders within a bearable risk range. On September 21, 2007, the Company deliberated this institution of risk management based on the "Principles of Futures Commission Merchant's Risk Management Practices" and the "Futures Commission Merchant's Self Checklist for the Establishment of Risk Management Mechanism" as promulgated in the letter ref. No. (Taiwan- Futures-Audit) 0940024340 of the Taiwan Futures Exchange. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board of Directors has established the Risk Management Committee, attributable to General Manager' Office and responsible for developing and monitoring Company's risk management policies. The committee reports regularly to the Board of Directors on its activities

(c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer of brokerage business fails to meet its contractual obligations of margin calls or settlement. According to futures trading practices, futures commission merchant can close position in accordance with the prior agreement of both parties due to the system designed such as advance customers margin, intraday in-time clearing and when customers fail to meet its contractual obligations of margin calls. Therefore, the influence is not significant to the credit risk of the Company. Moreover, most brokerage customers are the general investors and professional institutions. The object sources of investors and the amount of investment are widely dispersed, and thus, there is no situation such as concentration of credit risk.

Approaches taken to manage credit risk at current stage:

- a. Credit inquiry and assessment before trade: inquire client's credit and ascertain the legality before transaction
- b. Credit rating management: treat trades with special credit particularly.
- c. Credit supervision after transaction: regularly inspect client's profit and loss of positions. Evaluate and monitor credit enhancement (including collaterals) on a regular basis.
- d. Other effective risk reduction measures: collaterals, guarantee, credit risk netting and offset agreement.

Summarize information on expected credit loss (credit risk exposure amount, counterparty default probability and return rate) and unexpected credit loss, as well as quantify the credit VaR.

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(d) Liquidity risk

Liquidity risks are market liquidity risk and capital liquidity risk

a. Market liquidity risk:

Market liquidity risk is the risk which the Company can not immediately cover or offset the risk of derivative positions. When the condition of insufficient market depth or an unexpected event occurs, it's not easy to obtain trading opportunities or significant spread risk. Due to small trading volume, some domestic futures contracts have this liquidity risk. Therefore, when the proprietary segment of the Company engages in arbitrage trading, it should consider the liquidity risk of goods. Futures commodity liquidity can depend on daily trading volume and open interest (OI) to measure. The more the daily trading volume and open interest as well as the greater liquidity are, the relatively lower the liquidity risk is.

b. Capital liquidity risk:

Capital liquidity risk is the one that the Company fails to meet its contractual obligations when increasing margins is required by settlement or trading. Therefore, the Company should control and manage the allocation of capital in order to avoid the risk of capital liquidity and financial losses of the Company when proprietary segment of the Company engages in futures trading.

Liquidity risk management of the Company includes :

- a. Market liquidity risk management: To avoid loss caused by market liquidity risk, the Company stipulates capital amount budgeted for proprietary trade department in the annual operating plan. Also, a daily report on the Adjusted Net Capital (ANC) ratio is filed to the competent authority. As for other departments and proprietary trade, the risk control office supervises daily trade by comparing actual cash flow and the authorized amount.
- b. Capital liquidity risk management : The finance department is independent from other units in transferring financial resources. To control capital liquidity risk and to consider capital needs of various products for domestic and foreign markets, the finance department composes daily reports, such as the "Margin Withdrawal/Deposit List", "Securities Transaction Applications", and other management report forms. After reviewing and approving by the management, these reports will be implemented and filed.

(e) Market risk

Market risk is the possibility of loss resulting from trading due to futures price reversal of the Company's proprietary business. It means that the market price or fluctuation trend is not beneficial to the Company's profitability, which results in risky events happen.

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The Company's market risk management comprises trading strategy monitoring, loss up limit control, trading margin up limit control, remaining position up limit and open-delta value control, margins ratio control for domestic and foreign remaining positions, the implied volatility inspection of option price.

Quantitative Measurement on Market Risk was as follows:

- a. Statistic-based measurement: the Value at Risk (VaR) of linear products (stocks) is measured by the Variance Co-Variance (Risk Metrics Approach--EWMA), which calculates the maximal probable risk of portfolio under a certain confidence level for the next business day. The Value at Risk of non-linear products (options) is measured by the Delta-Gamma Approximations (the "Greeks"). After offsetting the risks of trade contracts, the measurement vehicle calculates the maximal probable risk of portfolio under a certain confidence level for the next business day. To test the accuracy, backtesting approach is taken to try finding out the violations within one year under pre-calculated VaR using the actual valued profit and loss of inventory positions for the previous day (P & L for T-1 day)
- b. Sensitivity analysis measures the sensitivity of the positions to individual risk factors (such as interest rate and exchange rate). The sensitivity analysis on exchange rate variation includes evaluation and analysis on the proprietary overseas capital and service fee revenue from foreign futures products
- c. Stress test emulates and measures the impacts on portfolio value at unusual market change, from which responding actions can be made. The portfolio stress test at current stage aims at the weighted index or targeted stock price within $\pm 15\%$ change

(16) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares, capital surplus, and retained earnings of the Company. The Board of Directors monitor the return on capital as well as the level of dividends to ordinary shareholders.

As of December 31, 2013, the Company didn't change the method of capital management.

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

7. Related-party transactions

- (1) Relationships between parents and subsidiaries

The Company's subsidiary was as follows:

| <u>location</u> | <u>December 31, 2013</u> | <u>December 31, 2012</u> | <u>January 1, 2012</u> |
|--|------------------------------|------------------------------|----------------------------|
| <u>Futures traders' equity</u> | | | |
| Capital Futures Corporation (HK) Hong kong | <u>100%</u> | <u>100%</u> | <u>0%</u> |

- (2) Parent Company and ultimate controlling party

Capital Securities Corporation is both the parent company of the consolidated entity and the ultimate controlling party of the Company. It owns 60.6 percent of all shares outstanding of the Company, and has issued the consolidated financial statements available for public use.

- (3) Key management personnel compensation

| | <u>2013</u> | <u>2012</u> |
|------------------------------|------------------|---------------|
| Short-term employee benefits | \$ 36,003 | 31,573 |
| Termination benefits | 691 | 619 |
| Total | <u>\$ 36,694</u> | <u>32,192</u> |

- (4) Other significant related party transactions

- (a) The amounts of futures trading between the Company and related parties in 2013 and 2012 were as follows:

| | <u>2013</u> | <u>2012</u> |
|---|------------------|--------------|
| <u>Commission income-brokerage</u> | | |
| Parent Company | \$ 2,615 | 6,988 |
| Subsidiary | 35,272 | - |
| | <u>\$ 37,887</u> | <u>6,988</u> |

| | <u>December 31, 2013</u> | <u>December 31, 2012</u> | <u>January 1, 2012</u> |
|---|------------------------------|------------------------------|----------------------------|
| <u>Futures traders' equity</u> | | | |
| Parent Company | 211,985 | 131,811 | 212,785 |
| Subsidiary | 222,874 | 276,370 | - |
| | <u>\$ 434,859</u> | <u>408,181</u> | <u>212,785</u> |
| <u>Customers margin accounts- other futures commission merchants</u> | | | |
| Subsidiary | <u>\$ 106,796</u> | <u>53,875</u> | <u>58,984</u> |
| <u>Futures margin</u> | | | |
| Subsidiary | <u>\$ 7,969</u> | <u>8,905</u> | <u>-</u> |

Transaction terms are the same as those with general clients.

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

Parent Company deposits margins to the Company for futures proprietary trading, and the Company paid the interest of excess margin annually. In 2013 and 2012, interest expense amounted to \$111 and \$104, respectively.

(b) Accounts payable and receivable

| | <u>December 31, 2013</u> | | <u>December 31, 2012</u> | | <u>January 1, 2012</u> | |
|-----------------------------------|--------------------------|------------|--------------------------|------------|------------------------|------------|
| | <u>Amount</u> | <u>%</u> | <u>Amount</u> | <u>%</u> | <u>Amount</u> | <u>%</u> |
| Accounts receivable | | | | | | |
| Parent Company | <u>\$ 204</u> | <u>100</u> | <u>176</u> | <u>100</u> | <u>138</u> | <u>100</u> |
| Accounts payable | | | | | | |
| Parent Company | <u>\$ 8,007</u> | <u>100</u> | <u>5,909</u> | <u>100</u> | <u>7,585</u> | <u>100</u> |
| Other receivables (Note 1) | | | | | | |
| Parent Company | <u>\$ 10,507</u> | <u>100</u> | <u>-</u> | <u>-</u> | <u>10</u> | <u>100</u> |
| Other payables (Note 2) | | | | | | |
| Parent Company | <u>\$ 13,040</u> | <u>100</u> | <u>521</u> | <u>100</u> | <u>165</u> | <u>100</u> |

(Note 1) Receivables for disposal of investments

(Note 2) Payables for purchase of investments

(c) Futures commission expenses

The Company delegated Parent Company to introducing brokers. In 2013 and 2012, futures commission expenses amounted to \$112,789 and \$79,714, respectively.

The Company delegated the subsidiary for reassigning foreign futures trading. In 2013 and 2012, futures commission expenses amounted to \$9,648 and \$5,164, respectively.

(d) Lease agreements

The Company leased its office from Parent Company. The rental expense was based on market price and paid monthly. In 2013 and 2012, rental expense both amounted to \$14,033, and the deposits collected for the contract both amounted to \$3,508.

(e) Information technology service

Computer information system service contract was signed between the Company and Parent company. In 2013 and 2012, the service fee amounted to \$23,161 and \$24,576, respectively.

(f) Commission income

The Company was delegated by Parent Company for securities introducing brokers. In 2013 and 2012, commission income amounted to 2,275 and \$1,875, respectively.

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

(g) Stock service fee

In 2013 and 2012, the Company paid the stock service fee to Parent Company amounted to \$317 and \$302, respectively.

(h) Human resource and legal service fees

In 2013 and 2012, the Company paid the human resource and legal service fee to Parent Company amounted to \$300 and \$1,325, respectively.

(i) Securities brokerage charge

In 2013 and 2012, the Company paid the securities brokerage charge to Parent Company amounted to \$800 and \$11, respectively.

(j) 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.

8. Pledged assets : None

9. Material contingent liability and unrecognized contract commitment : None

10. Significant catastrophic losses : None

11. Significant subsequent events : None

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

12. Disclosure of information as related to derivative financial instruments

As of December 31, 2013 and 2012, January 1, 2012, the open positions of futures and option contracts were as follows:

| December 31, 2013 | | | | | | |
|--------------------|---|----------------|------------------------|--|------------|------|
| 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 | 4 | \$ 6,684 | 6,882 | |
| | TAIEX Futures | Short | 146 | (252,156) | (252,084) | |
| | Mini-TAIEX Futures | Long | 363 | 156,563 | 156,689 | |
| | Electronic Sector Index Futures | Long | 8 | 9,909 | 9,904 | |
| | Finance Sector Index Futures | Long | 10 | 10,551 | 10,556 | |
| | XIF | Long | 3 | 3,635 | 3,629 | |
| | XIF | Short | 3 | (3,641) | (3,629) | |
| | Stock Futures | Long | 437 | 34,254 | 34,998 | |
| | Stock Futures | Short | 397 | (25,924) | (25,924) | |
| | H Futures | Long | 4 | 8,299 | 8,326 | |
| | HSI FUTURE | Short | 2 | (8,954) | (8,967) | |
| | Wheat Futures | Long | 1 | 900 | 902 | |
| | Soya bean Futures | Short | 1 | (1,937) | (1,926) | |
| | Silver Futures | Long | 1 | 2,934 | 2,887 | |
| | Platinum Futures | Long | 1 | 2,028 | 2,047 | |
| | Palladium Futures | Long | 1 | 2,119 | 2,141 | |
| | JPMorgan(Taiwan) Sector Index Futures | Long | 75 | 67,820 | 67,777 | |
| | Subtotal | | | 13,084 | | |
| Options contract : | | | | | | |
| | TAIEX Options (Call) | Long | 161 | 2,534 | 3,450 | |
| | TAIEX Options (Put) | Long | 595 | 1,930 | 787 | |
| | TAIEX Options (Call) | Short | 522 | (4,713) | (6,684) | |
| | TAIEX Options (Put) | Short | 206 | (1,363) | (365) | |
| | TXO Options (Call) | Long | 1,882 | 7,009 | 8,787 | |
| | TXO Options (Put) | Long | 2,141 | 3,514 | 3,579 | |
| | TXO Options (Call) | Short | 1,840 | (3,246) | (3,190) | |
| | TXO Options (Put) | Short | 1,648 | (500) | (316) | |
| | Finance Sector Index Options(Call) | Long | 20 | 41 | 96 | |
| | Finance Sector Index Options(Put) | Long | 20 | - | - | |
| | Stock Options (Call) | Long | 46 | 22 | 23 | |
| | Stock Options (Put) | Long | 50 | 1 | 1 | |
| | Subtotal | | | \$ 5,229 | | |
| Total | | | | \$ 18,313 | | |

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

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(Put) | 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 | 114 | |
| | 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 Individual Financial Report (Cont'd)

January 1, 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 | 40 | \$ 56,026 | 56,312 | |
| | HSI FUTURE | Short | 15 | (53,465) | (53,942) | |
| | Subtotal | | | 2,561 | | |
| Options contract : | TAIEX Options (Call) | Long | 1,024 | 8,065 | 8,937 | |
| | TAIEX Options (Put) | Long | 104 | 644 | 586 | |
| | TAIEX Options (Call) | Short | 1,044 | (4,764) | (5,959) | |
| | TAIEX Options (Put) | Short | 127 | (518) | (518) | |
| | Subtotal | | | 3,427 | | |
| Total | | | | \$ 5,988 | | |

13. Restrictions and enforcement of the Company's various financial ratios under futures trading law

The restrictions and enforcement of each financial ratio was calculated in accordance with Regulations Governing Futures Commission Merchants as follow:

| Art. | Calculation formula | Current Period | | Last Period | | Standard | Enforcement |
|------|--|---------------------------|---------|------------------------|---------|----------------|-----------------------------|
| | | Calculation | Ratio | Calculation | Ratio | | |
| 17 | <u>Stockholders' equity</u> (Total liabilities –futures traders' equity) | 2,080,366 / 154,302 | 13.48 | 1,880,135 / 135,726 | 13.85 | ≥ 1 | Satisfactory to requirement |
| 17 | <u>Current Assets</u> <u>Current Liabilities</u> | 10,168,171 / 8,758,896 | 1.16 | 10,206,890 / 8,919,727 | 1.14 | ≥ 1 | " |
| 22 | <u>Stockholders' equity</u> Minimum paid-in capital | 2,080,366 / 715,000 | 290.96% | 1,880,135 / 715,000 | 262.96% | ≥ 60% ≥ 40% | " |
| 22 | <u>Post-adjustment net capital</u> Total customer margin deposits required for open positions of customers | 1,594,056 / 1,194,275 | 133.47% | 1,499,021 / 943,962 | 158.80% | ≥ 20% ≥ 15% | " |

14. Unique risks to specific futures commission merchant services

Transactions in futures and options carry a high degree of risk because of the amount of initial margin is small relative to the value of the futures contract, meaning that transactions are heavily leveraged, the fluctuation of underlying markets is unpredictable, and the variance risk of the exchange rate is high. Futures industry thus bears higher operation risk than other industries. If the customers can't exercise the contract or maintain the proper margin, in order to dealing with such abrupt condition, the Company needs sufficient liquidity to cover the transactions and suffer the loss may occur.

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

15. Others : None

16. Disclosures Required

(1) Information on significant transactions

- (a) Loans to others : None
- (b) Endorsement and guarantees for others : None
- (c) Acquisition of real estate amounting to over NT\$100,000 thousands or 20% of paid-in capital : None
- (d) Disposal of real estate amounting to over NT\$100,000 thousands or 20% of paid-in capital : None
- (e) Discount of commissions of handling fees with related parties amounting to over NT\$5,000 thousands : None
- (f) Receivables from related parties amounting to over NT\$100,000 thousands or 20% of paid-in capital : None

(2) Information on investee company

| Names of investor company | Names of investee company | Address | Main business scope | Amount of Original Investment | | Ownership as of December 31, 2013 | | | Current income or loss of investee company | Recognized gain (loss) on investment | Note |
|-----------------------------|---------------------------|-----------|---|-------------------------------|-------------|-----------------------------------|---------|------------|--|--------------------------------------|------------|
| | | | | Current Period | Last Period | Number of shares | Ratio | Book value | | | |
| Capital Futures Corporation | CSC Futures (HK) | Hong Kong | Futures brokerage, Proprietary trading business | HKD 52,800 | HKD 52,800 | 50,000 | 100.00% | HKD 51,851 | HKD (1,077) | HKD (1,077) | Subsidiary |

(3) Information on investments in China: None.

17. Segment information

Please refer to the consolidated financial report for the year ended December 31, 2013.

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

18. First-time adoption of IFRSs

The financial statements of the Company as of December 31, 2012 were prepared in conformity with generally accepted accounting principles in the Republic of China. As described in Note 4(A), this financial report has been prepared accordance with Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants.

The accounting policies described in Note 4 have been applied to the comparative financial statements as of December 31, 2012, the balance sheet as of December 31, 2012 and balance sheet as of January 1, 2012, first IFRS adoption date.

For purposes of the first financial statements in 2012 under IFRSs, the Company regarded the amounts in the financial statements under the ROC GAAP as the initial point for adjustments. An explanation of how the transition to IFRSs has affected the reported financial position, financial performance, and cash flows of the Company is provided in the following tables and notes.

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

(1) Reconciliation of balance sheet

(a) The reconciliation of balance sheet on January 1, 2012:

| ROC GAAP | | Reconciliation | | IFRSs approved by the FSC | | |
|---|----------------------|---|----------------------------|---------------------------|---|-------|
| Item | Amount | Difference in recognition and measurement | Difference in presentation | Amount | Item | Note |
| Assets | | | | | | |
| Cash and cash equivalent | \$ 1,464,749 | - | 122,604 | 1,587,353 | Cash and cash equivalent | 3 |
| Financial assets measured at fair value through profit or loss-current | 139,059 | - | (122,604) | 16,455 | Financial assets measured at fair value through profit or loss-current | 3 |
| Customers margin account | 9,037,620 | - | - | 9,037,620 | Customers margin account | |
| Futures margin receivable | 3,153 | - | - | 3,153 | Futures margin receivable | |
| Accounts receivable | 6,686 | - | - | 6,686 | Accounts receivable | |
| Available-for-sale financial assets | 44,391 | - | (128) | 44,263 | Available-for-sale financial assets | 4 |
| Prepayments | 5,057 | - | - | 5,057 | Prepayments | |
| Other receivables | 8,498 | - | - | 8,498 | Other receivables | |
| Other current assets | 659 | - | - | 659 | Other current assets | |
| | - | - | 128 | 128 | Financial assets measured at cost-non-current | 4 |
| Premises and property | 50,027 | - | - | 50,027 | Property and equipment | |
| Intangible assets | 19,358 | - | 6,629 | 25,987 | Intangible assets | 5 |
| Guaranty deposited for business operation | 120,000 | - | - | 120,000 | Guaranty deposited for business operation | |
| Clearing and settlement fund | 131,000 | - | - | 131,000 | Clearing and settlement fund | |
| Guaranty deposits | 8,693 | - | - | 8,693 | Guaranty deposits | |
| Deferred debits | 7,085 | - | (6,629) | 456 | Deferred expenses | 5 |
| Deferred tax income assets-non-current | 5,669 | - | (5,669) | - | Deferred income tax assets | 8 |
| Total assets | \$ 11,051,704 | - | (5,669) | 11,046,035 | | |
| Liabilities | | | | | | |
| Financial liabilities measured at fair value through profit or loss-current | \$ 6,477 | - | - | 6,477 | Financial liabilities measured at fair value through profit or loss-current | |
| Futures traders' equity | 9,010,740 | - | - | 9,010,740 | Futures traders' equity | |
| Accounts payable | 27,068 | - | - | 27,068 | Accounts payable | |
| Advance receipts | 1,314 | - | - | 1,314 | Advance receipts | |
| Receipts under custody | 2,491 | - | - | 2,491 | Receipts under custody | |
| Other payables | 88,506 | 2,413 | (31,423) | 59,496 | Other payables | 1 - 6 |
| Other current liabilities | 21,599 | - | - | 21,599 | Other current liabilities | |
| | - | - | 31,423 | 31,423 | Current income tax liabilities | 6 |
| Accrued pension liabilities - non-current | 305 | 465 | - | 770 | Provision for liabilities | 2 - 7 |
| Reserve for bad debt | 33,359 | - | (33,359) | - | | 8 |
| Total liabilities | \$ 9,191,859 | 2,878 | (33,359) | 9,161,378 | | |
| Stockholders' equity | | | | | | |
| Capital stock | 922,469 | - | - | 922,469 | Equity | |
| Capital surplus | 107,625 | - | - | 107,625 | Capital surplus | |
| Retained earnings | | | | | Retained earnings | |
| Legal reserve | 153,355 | - | - | 153,355 | Legal reserve | |
| Special reserve | 397,104 | - | 27,690 | 424,794 | Special reserve | 8 |
| Unappropriated earnings | 284,396 | (2,878) | - | 281,518 | Unappropriated earnings | 1 - 2 |
| Other stockholders' equity | (5,104) | - | - | (5,104) | Other equity | |
| Total stockholders' equity | 1,859,845 | (2,878) | 27,690 | 1,884,657 | Total Equity | |
| Total Liabilities and Stockholders' Equity | \$ 11,051,704 | - | (5,669) | 11,046,035 | Total Liabilities and Equity | |

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

(b) The reconciliation of balance sheet on December 31, 2012:

| ROC GAAP | | Reconciliation | | IFRSs approved by the FSC | | |
|---|----------------------|---|----------------------------|---------------------------|---|-------|
| Item | Amount | Difference in recognition and measurement | Difference in presentation | Amount | Item | Note |
| Assets | | | | | | |
| Cash and cash equivalent | \$ 1,136,283 | - | 206,744 | 1,343,027 | Cash and cash equivalent | 3 |
| Financial assets measured at fair value through profit or loss-current | 264,119 | - | (206,744) | 57,375 | Financial assets measured at fair value through profit or loss-current | 3 |
| Customers margin account | 8,796,123 | - | - | 8,796,123 | Customers margin account | |
| Accounts receivable | 1,236 | - | - | 1,236 | Accounts receivable | |
| Investments under equity method | 198,321 | - | - | 198,321 | Investments under equity method | |
| Available-for-sale financial assets | 44,278 | - | (128) | 44,150 | Available-for-sale financial assets | 4 |
| Prepayments | 2,650 | - | - | 2,650 | Prepayments | |
| Other receivables | 5,533 | - | - | 5,533 | Other receivables | |
| Other current assets | 946 | - | - | 946 | Other current assets | |
| | - | - | 128 | 128 | Financial assets measured at cost-non-current | 4 |
| Premises and property | 43,183 | - | - | 43,183 | Property and equipment | |
| Intangible assets | 44,325 | - | 9,396 | 53,721 | Intangible assets | 5 |
| Guaranty deposited for | 120,000 | - | - | 120,000 | Guaranty deposited for | |
| Clearing and settlement fund | 128,000 | - | - | 128,000 | Clearing and settlement fund | |
| Guaranty deposits | 6,035 | - | - | 6,035 | Refundable deposits | |
| Deferred debits | 9,675 | - | (9,396) | 279 | Deferred expenses | 5 |
| Deferred tax income assets-non-current | 1,413 | - | (1,054) | 359 | Deferred income tax assets | 8 |
| Total assets | \$ 10,802,120 | - | (1,054) | 10,801,066 | | |
| Liabilities | | | | | | |
| Financial liabilities measured at fair value through profit or loss-current | \$ 5,933 | - | - | 5,933 | Financial liabilities measured at fair value through profit or loss-current | |
| Futures traders' equity | 8,785,205 | - | - | 8,785,205 | Futures traders' equity | |
| Accounts payable | 29,630 | - | - | 29,630 | Accounts payable | |
| Advance receipts | 1,486 | - | - | 1,486 | Advance receipts | |
| Receipts under custody | 2,373 | - | - | 2,373 | Receipts under custody | |
| Other payables | 87,907 | 2,240 | (19,986) | 70,161 | Other payables | 1 & 6 |
| Other current liabilities | 4,953 | - | - | 4,953 | Other current liabilities | |
| Accrued pension liabilities - non-current | 314 | 890 | - | 1,204 | Current income tax liabilities | 6 |
| Reserve for bad debt | 6,213 | - | (6,213) | - | Provision for liabilities | 2 & 7 |
| Total liabilities | \$ 8,924,014 | 3,130 | (6,213) | 8,920,931 | | 8 |
| Stockholders' equity | | | | | | |
| Capital stock | 922,469 | - | - | 922,469 | Capital | |
| Capital surplus | 107,625 | - | - | 107,625 | Capital surplus | |
| Retained earnings | - | - | - | - | Retained earnings | |
| Legal reserve | 175,484 | - | - | 175,484 | Legal reserve | |
| Special reserve | 446,465 | - | 5,159 | 451,624 | Special reserve | 8 |
| Unappropriated earnings | 233,034 | (3,130) | - | 229,904 | Unappropriated earnings | 1 & 2 |
| Other stockholders' equity | (6,971) | - | - | (6,971) | Other equity | |
| Total stockholders' equity | 1,878,106 | (3,130) | 5,159 | 1,880,135 | Total Equity | |
| Total Liabilities and Stockholders' Equity | \$ 10,802,120 | - | (1,054) | 10,801,066 | Total Liabilities and Equity | |

CAPITAL FUTURES CORPORATION
Notes To Individual Financial Report (Cont'd)

(2) Reconciliation of statement of comprehensive income

The reconciliation of statement of comprehensive income for the year ended December 31, 2012:

| ROC GAAP | | Reconciliation | | IFRSs approved by the FSC | | |
|---|-------------------|---|----------------------------|---------------------------|--|---------|
| Item | Amount | Difference in recognition and measurement | Difference in presentation | Amount | Item | Note |
| Income: | | | | | Income: | |
| Commission income-brokerage | \$ 932,901 | - | - | 932,901 | Commission income-brokerage | |
| Commission income-clearing and settlement | 9,622 | - | - | 9,622 | Commission income-clearing and settlement | |
| | - | | 34 | 34 | Futures management revenue | 9 |
| Gain on derivative financial instruments | 128,605 | - | (116,984) | 11,621 | Gain on derivative financial instruments | 9 |
| Consulting fee revenue | 6,459 | - | - | 6,459 | Consulting fee revenue | |
| Management fee revenue | 53 | - | - | 53 | Management fee revenue | |
| | - | - | 1,875 | 1,875 | Securities commission income | 9 |
| Other operating revenue | 2,016 | - | (1,909) | 107 | Other operating revenue | 9 |
| Non-operating revenue | 122,342 | - | (122,342) | - | | 9 |
| Expenses: | | | | | Expenses: | |
| Brokerage fees | (149,269) | - | - | (149,269) | Brokerage fees | |
| Brokerage fees-proprietary trading | (3,228) | - | - | (3,228) | Brokerage fees-proprietary trading | |
| Futures commission expenses | (142,647) | - | - | (142,647) | Futures commission expenses | |
| | - | | (3,279) | (3,279) | Financial costs | 9 |
| Clearing and settlement expenses | (108,647) | - | - | (108,647) | Clearing and settlement expenses | |
| Loss on derivative financial instruments | (116,984) | - | 116,984 | - | | 9 |
| Operating expenses | (390,162) | - | 390,162 | - | | 9 |
| | - | 197 | (201,893) | (201,696) | Employee benefit expenses | 1, 2, 9 |
| | - | - | (23,371) | (23,371) | Depreciation or amortization expenses | 9 |
| | - | - | (164,898) | (164,898) | Other operating expenses | 9 |
| Non-operating expenses | (6,965) | - | 6,965 | - | | 9 |
| | - | | 437 | 437 | Share of profit of subsidiaries, associates and joint ventures using equity method | 9 |
| | - | - | 118,268 | 118,268 | Other income and expenses | 9 |
| Continuing operations' income before tax | 284,096 | 197 | 49 | 284,342 | Net income before income tax | |
| Income tax expenses | (51,841) | - | (8) | (51,849) | Income tax expenses | |
| Continuing operations' income after tax | 232,255 | 197 | 41 | 232,493 | Net income after income tax | |
| Extraordinary gain | 41 | - | (41) | - | | |
| Net Income | \$ 232,296 | 197 | - | 232,493 | Net Income | |
| | | | | (2,113) | Other comprehensive income: | |
| | | | | (113) | Foreign currency translation adjustments | |
| | | | | (449) | Unrealized gain(loss) on available-for-sale financial assets | |
| | | | | 359 | Actuarial gain(loss) on defined benefit plans | |
| | | | | 359 | Income tax relating to components of other comprehensive income | |
| | | | | (2,316) | Other comprehensive income, net of tax | |
| | | | | 230,177 | Total comprehensive income | |

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(3) Significant adjustment of statement of cash flow

There was no significant difference between the statement of cash flow prepared under IFRSs endorsed by the FSC and ROC GAAP.

(4) Explanations for reconciliation

(a) Employee benefits

According to IAS 19 endorsed by the FSC, when employee provided services and increase their future deserved compensated absences, the related liabilities should be recognized when the right of compensated absences rise due to employees providing services. On January 1 and December 31, 2012, the effects of this reconciliation on related accounts were as follows: for other payables, \$2,413 and \$2,240, respectively; for unappropriated earnings, \$2,413 and \$2,240, respectively. Also, for the statement of comprehensive income for the year ended December 31, 2012, this reconciliation decreased the employee benefits expenses by \$ 173.

(b) Reconciliations to pension actuarial gain and loss and defined benefit obligations

According to the regulations related to employee benefits in IFRS 1 endorsed by the FSC, the Company applied the exemption, actuarial gain and loss should be recognized as other equity immediately at the date of transition to IFRSs on January 1, 2012. On January 1 and December 31, 2012, the effects of this reconciliation on related accounts were as follows: for provision and unappropriated earnings, \$465 and \$890, respectively. Also, for the statement of comprehensive income for the year ended December 31, 2012, this reconciliation decreased employee benefits expenses by \$24.

(c) Futures margin - excess margin

According to the definitions of cash and cash equivalents in IAS 7 endorsed by the FSC, futures margin - excess margin originally recognized in financial assets measured at fair value through profit or loss should be reclassified to cash and cash equivalents. The reclassification on January 1 and December 31, 2012 resulted in a decrease of 122,604 and \$206,744 in financial assets at fair value through profit and loss, respectively, and an increase of \$122,604 and \$206,744 in cash and cash equivalents, respectively.

(d) Non-listed or non-over-the-counter stocks (except emerging stock)

According to IAS 39 endorsed by the FSC, while investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, were measured at amortised cost. The reclassification on January 1 and December 31, 2012 resulted in a decrease of \$128 in originally recognized as the amount of available-for-sale financial assets, and an increase of \$128 in financial assets measured at cost.

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(e) Software

According to IAS 38 endorsed by the FSC, the software should be classified as intangible assets. The reclassification on January 1 and December 31, 2012 resulted in a decrease of \$6,629 and \$9,396 in deferred debits, respectively, and an increase of \$6,629 and NT\$9,396 in intangible assets, respectively

(f) Income tax

According to IAS 1 endorsed by the FSC, the Company should report current tax liabilities separately. On January 1 and December 31, 2012, the effects of this reconciliation on related accounts were as follows: for current tax liabilities, \$31,423 and \$19,986, respectively; for other payables, a decrease of \$31,423 and \$19,986, respectively.

(g) Provision for liabilities

According to IAS 1 endorsed by the FSC, the Company should report provision for liabilities without accrued pension liabilities. On January 1 and December 31, 2012, the effects of this reconciliation on related accounts were as follows: for accrued pension liability, a decrease of \$305 and \$314, respectively; for provision for liabilities, an increase of \$305 and \$314, respectively. The amount of liabilities as a whole was not affected by this reconciliation.

(h) Reverse for bad debts

Since 3% reserve for bad debt provided by the exclusive industry revenue required by the competent authority (it required stopping the provisions since June 30, 2003) was not in accordance with IAS 37 endorsed by the FSC, the Company reclassified the balance of reserve for bad debt and deferred income tax assets to special reserve. On January 1 and December 31, 2012, the effects of this reconciliation on related accounts were as follows: for reverse for bad debts, a decrease of \$33,359 and \$6,213, respectively; for deferred income tax assets, a decrease of \$5,669 and \$1,054, respectively; for special reserve, an increase of \$27,690 and \$5,159, respectively.

(i) Presentation of financial statements

- a. According to IAS 1 endorsed by the FSC, for enterprise, gain and loss resulted from a group of similar transaction should be presented as the net of the amount. For the year ended December 31, 2012, the effects of this reconciliation on related accounts were as follows: gain on derivative instruments \$128,605 and loss on derivative instruments \$116,984 were presented as gain on derivative instruments \$11,621.
- b. According to IAS 1 endorsed by the FSC and the Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants applied since 2013, the Company should recognize the expenses based on nature or function. For the year ended December 31, 2012, the effects of this reconciliation on related accounts were as follows: the operating expenses \$390,162 was reclassified as employee benefit expenses \$201,893, depreciation and amortization expenses \$23,371 and other operating expenses \$164,898.

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- c. According to IAS 3 "Gain from bargain purchase of business combination" endorsed by the FSC, the extraordinary gain \$41 was reclassified to other income and expenses \$49 and income tax expenses \$8.
 - d. According the Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants applied since 2013, the Company reclassified the commission income for securities introducing brokers \$1,875 which is initially recognized in other operating income to securities commission income; management revenue of foreign capital business \$34 which is initially recognized in other operating income to futures management revenue; interest expenses \$3,279 which is initially recognized in non-operating expenses to financial costs; investment income under the equity method \$437 which is originally recognized in non-operating revenue to share of profit of subsidiaries, associates and joint ventures using equity method; non-operating revenue \$121,954 and non-operating expenses \$3,686 to other income and expenses \$118,268.
- (5) According to IFRS 1 First-time Adoption of International Financial Reporting Standards, except optional exemptions or mandatory exceptions were applied, for the first time adopting IFRSs, the Company should prepare its financial statements following those accounting standards effective at the time of the adoption and make retrospective adjustments. The optional exemption applied by the Company was as follows: When using actuarial technique to measure termination benefit obligation, it is not recalculated retroactively due to actuarial gain and loss which were incurred by the variation of actuarial experience and assumption, the actuarial gain and loss were recognized immediately in equity.