

**CAPITAL SECURITIES CORPORATION
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2015 AND 2014

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

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Independent Accountants' Review Report

The Board of Directors
Capital Securities Corporation

We have reviewed the accompanying consolidated balance sheets of Capital Securities Corporation and its subsidiaries as of March 31, 2015 and 2014 and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the three months ended March 31, 2015 and 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our review.

Except for the third and fourth paragraphs, we have reviewed these consolidated financial statements in accordance with Statement of Auditing Standards No. 36 "Review of Financial Statements." A review consists primarily of making inquiries of company personnel and applying analytical procedures to financial data. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is to express an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

The related information of certain subsidiaries under the equity method in the accompanying consolidated financial statements were based on the investees' financial statements for the same period which were not reviewed by independent accountants. The total assets of these investees as of March 31, 2015 and 2014 were \$7,882,196 thousand and \$3,267,606 thousand, constituting 8.30% and 4.01% of total consolidated assets, respectively; the total liabilities of these investees as of March 31, 2015 and 2014 were \$5,460,912 thousand and \$945,112 thousand, constituting 8.78% and 1.88% of total consolidated liabilities, respectively; the total comprehensive loss of these investees for the three-month periods ended March 31, 2015 and 2014 were \$22,037 thousand and \$14,836 thousand, constituting (3.84%) and (2.82)% of total consolidated comprehensive income, respectively.

As described in Note 6(6) of the consolidated statements, the investments under equity method amounting to \$118,098 thousands and \$104,351 thousands as of March 31, 2015 and 2014, respectively, and share of profits of associates and joint venture under equity method amounting to \$14,831 thousands and \$14,864 thousands for the three months periods ended March 31, 2015 and 2014, respectively, were based on their unreviewed financial statements for the same reporting period.

Based on our review, except for the effect on the consolidated financial statements which described in the first paragraph, if the financial statements of investee company were reviewed by independent accountants as explained in the third and fourth paragraphs, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above in order for them to be in conformity with the "Regulations Governing the Preparation of Financial Reports by Securities Firms" and International Accounting Standard No. 34, "Interim Financial Reporting" as endorsed by the Financial Supervisory Commission.

KPMG
Taipei, Taiwan, R.O.C.
May 13, 2015

Notice to Readers

The accompanying consolidated financial statements are 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 review such consolidated financial statements are those generally accepted and applied in the Republic of China.

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed In Thousands of New Taiwan Dollars, Except Earnings Per Share Data)
(Unaudited)

	For the three months ended March 31,			
	2015		2014	
	Amount	%	Amount	%
Income:				
Brokerage commissions (Note 6(22))	\$ 798,367	48	881,290	53
Revenue from securities business money lending	7	-	16	-
Revenue from securities lendings	11,564	1	13,674	1
Underwriting commissions (Note 6(22))	86,206	5	41,952	3
Commissions on wealth management business	15,392	1	10,306	1
Net gains on sale of trading securities (Note 6(22))	328,649	20	461,974	28
Securities management, distribution, and management fees	34,219	2	34,344	2
Interest revenue (Note 6(22))	359,033	22	339,887	20
Net gains on measurement of trading securities at fair value through profit or loss (Note 6(22))	128,121	8	113,460	7
Net gains (losses) on covering of borrowed securities and bonds with resale agreements	(60,336)	(4)	(40,822)	(2)
Net gains on measurement of borrowed securities and bonds with resale agreements	2,766	-	22,840	1
Net gains (losses) on stock warrants issued (Notes 6(22) and 6(24))	182,230	11	(96,175)	(6)
Futures commission revenue	25,134	2	15,936	1
Net gains (losses) on derivative instruments - futures (Note 6(24))	(170,839)	(10)	981	-
Net gains (losses) on derivative instruments - OTC (Note 6(24))	(110,542)	(7)	(157,953)	(10)
Management fee revenue	203	-	64	-
Advisory commissions	1,825	-	2,047	-
Other operating revenue	12,904	1	13,583	1
	<u>1,644,903</u>	<u>100</u>	<u>1,657,404</u>	<u>100</u>
Expenses:				
Brokerage fees	74,833	5	75,673	5
Brokerage and clearing fees - proprietary trading	5,030	-	5,524	-
Clearing and exchange fees - refinancing	724	-	860	-
Clearing and exchange fees - underwriting	1,435	-	1,010	-
Financial costs	46,510	3	40,569	2
Commission expense - futures	47,564	3	34,008	2
Clearing and settlement expenses	24,342	1	20,092	1
Other operating expenditure	1,546	-	1,773	-
Employee benefits expenses (Note 6(22))	624,475	38	631,575	38
Depreciation and amortization expenses (Note 6(22))	54,274	3	58,164	4
Other operating expenses (Note 6(22))	344,423	21	328,855	20
	<u>1,225,156</u>	<u>74</u>	<u>1,198,103</u>	<u>72</u>
Other income and expenses :				
Share of profits of associates and joint venture (Note 6(6))	14,831	1	14,864	1
Other gains and losses (Note 6(22))	247,150	15	89,621	5
	<u>261,981</u>	<u>16</u>	<u>104,485</u>	<u>6</u>
Net income before income tax	681,728	42	563,786	34
Income tax expense (Note 6(19))	(91,222)	(6)	(68,879)	(4)
Net income	<u>590,506</u>	<u>36</u>	<u>494,907</u>	<u>30</u>
Other comprehensive income:				
To be reclassified to profit or loss in subsequent periods				
Exchange differences on translation of foreign operations	(25,612)	(1)	41,051	2
Unrealized gains (losses) on available-for-sale financial assets, net	4,760	-	(2,493)	-
Income tax benefit related to components of other comprehensive income	4,756	-	(6,979)	-
Subtotal of items that may be subsequently reclassified into profit or loss	<u>(16,096)</u>	<u>(1)</u>	<u>31,579</u>	<u>2</u>
Other comprehensive income for the period, net of income tax	<u>(16,096)</u>	<u>(1)</u>	<u>31,579</u>	<u>2</u>
Total comprehensive income for the period	<u>\$ 574,410</u>	<u>35</u>	<u>526,486</u>	<u>32</u>
Net income attributable to				
Shareholders of the parent	\$ 567,407	35	478,796	29
Non-controlling interests	23,099	1	16,111	1
	<u>\$ 590,506</u>	<u>36</u>	<u>494,907</u>	<u>30</u>
Total comprehensive income attributable to:				
Shareholders of the parent	\$ 550,998	34	509,782	31
Non-controlling interests	23,412	1	16,704	1
	<u>\$ 574,410</u>	<u>35</u>	<u>526,486</u>	<u>32</u>
Basic earnings per share (Note 6(21))	<u>\$ 0.24</u>		<u>0.20</u>	
Dilutive earnings per share (Note 6(21))	<u>\$ 0.24</u>		<u>0.20</u>	

The accompanying notes are an integral part of the consolidated financial statements.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014
(Expressed In Thousands of New Taiwan Dollars)
(Unaudited)

	Equity attributable to shareholders of the parent									Total Equity
	Retained earnings					Others		Equity attributable to shareholders of the parent	Non-controlling interests	
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences on translation of foreign operations	Unrealized gains (losses) on financial assets available-for-sale			
Beginning balance, January 1, 2014	\$ 23,690,730	2,705,473	605,958	1,628,318	1,423,960	(19,525)	12,603	30,047,517	819,676	30,867,193
Net income for the three months ended March 31, 2014	-	-	-	-	478,796	-	-	478,796	16,111	494,907
Other comprehensive income for the three months ended March 31, 2014	-	-	-	-	-	32,497	(1,511)	30,986	593	31,579
Total comprehensive income for the three months ended March 31, 2014	-	-	-	-	478,796	32,497	(1,511)	509,782	16,704	526,486
Ending balance, March 31, 2014	\$ 23,690,730	2,705,473	605,958	1,628,318	1,902,756	12,972	11,092	30,557,299	836,380	31,393,679
Beginning balance, January 1, 2015	\$ 23,690,730	2,711,760	753,136	1,756,283	2,089,222	76,558	20,791	31,098,480	1,103,640	32,202,120
Net income for the three months ended March 31, 2015	-	-	-	-	567,407	-	-	567,407	23,099	590,506
Other comprehensive income for the three months ended March 31, 2015	-	-	-	-	-	(19,218)	2,809	(16,409)	313	(16,096)
Total comprehensive income for the three months ended March 31, 2015	-	-	-	-	567,407	(19,218)	2,809	550,998	23,412	574,410
Changes of non-controlling interests	-	-	-	-	-	-	-	-	2,201	2,201
Ending balance, March 31, 2015	\$ 23,690,730	2,711,760	753,136	1,756,283	2,656,629	57,340	23,600	31,649,478	1,129,253	32,778,731

The accompanying notes are an integral part of the consolidated financial statements.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014
(Expressed In Thousands of New Taiwan Dollars)
(Unaudited)

	For the three months ended March 31,	
	2015	2014
Cash flows from operating activities:		
Income before income tax for the period	\$ 681,728	563,786
Adjustments for:		
Income and expenses items with no effect on cash flows:		
Depreciation expense	44,231	47,426
Amortization expense	10,043	10,738
Net gains on financial assets or liabilities at fair value through profit or loss	(128,121)	(113,460)
Interest expense	46,510	40,569
Interest income (including financial income)	(396,510)	(365,207)
Dividend income	(2,008)	(1,941)
Share of profit of associates and joint ventures	(14,831)	(14,864)
Gains on disposal of property and equipment	-	(2,999)
Losses (gains) on non-operating financial instruments at fair value through profit or loss	(6,531)	48,315
Net changes of income and expense items with no effect on cash flows	(447,217)	(351,423)
Changes in assets and liabilities from operating activities:		
Net changes of assets from operating activities:		
Increase in financial assets at fair value through profit or loss	(4,880,353)	(4,639,078)
Increase in bonds purchased under resale agreements	-	(1,524,076)
Increase in receivable for securities provided as collateral	(5,031,590)	(1,488,216)
Decrease in refinancing margin	15,007	96,223
Decrease in receivable on refinancing collateral	24,001	76,389
Decrease in customer margin account	193,807	161,383
Decrease in collateral for securities borrowed	330,372	246,781
Decrease in security borrowing margin	302,946	1,037,075
Decrease in notes receivable	2,094	873
Decrease (increase) in accounts receivable	(391,308)	248,043
Decrease (increase) in prepayments	(45,469)	13,895
Decrease (increase) in other receivables	(5,094)	6,754
Decrease (increase) in current tax assets	(4,778)	119
Decrease (increase) in other current assets	(1,560,074)	460,457
Decrease in guarantee deposited for business operations	278,997	5,351
Decrease in settlement fund	7,503	14,304
Decrease (increase) in refundable deposits	(73,877)	150,792
Increase in other non-current assets	(37,700)	(1,080)
Total net changes of assets from operating activities:	(10,875,516)	(5,134,011)
Net changes of liabilities from operating activities:		
Increase (decrease) in financial liabilities at fair value through profit or loss	(803,161)	1,473,381
Increase in bonds sold under repurchase agreements	2,284,005	2,421,468
Decrease in guaranty deposited for short sales	(1,416,734)	(915,600)
Decrease in proceeds payable from short sales	(1,602,465)	(1,295,128)
Decrease in securities lending refundable deposits	(1,619,288)	(1,020,315)
Decrease in futures traders' equity	(271,420)	(168,081)
Decrease in notes payable	(678)	(387)
Increase in accounts payable	3,034,808	1,231,596
Decrease in advance receipts	(5,322)	(132,656)
Increase (decrease) in receipts under custody	1,503,528	(425,181)
Decrease in other payables	(133,224)	(198,501)
Increase in other current liabilities	21,158	73,335
Increase (decrease) in other financial liabilities	1,203,086	(184,329)
Increase in other non-current liabilities	872	2,900
Total net changes of liabilities from operating activities	2,195,165	862,502
Total net changes in assets and liabilities from operating activities	(8,680,351)	(4,271,509)
Total Cash generated from adjustment items	(9,127,568)	(4,622,932)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)
FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014
(Expressed In Thousands of New Taiwan Dollars)
(Unaudited)

	For the three months ended March 31,	
	2015	2014
Cash generated by operating activities	\$ (8,445,840)	(4,059,146)
Interest received	331,698	356,343
Dividends received	2,125	1,941
Interest paid	(49,215)	(40,915)
Income tax paid	(37,808)	(7,487)
Net cash used in operating activities	(8,199,040)	(3,749,264)
Cash flows from investing activities:		
Decrease in financial assets measured at cost	-	23,395
Increase of deferred debits	(452)	(266)
Proceeds from disposal of property and equipment	-	349
Acquisitions of property and equipment	(27,248)	(19,595)
Proceeds from disposal of property and equipment	-	5,500
Acquisitions of intangible assets	(28,929)	(8,520)
Net cash flows provided by (used in) investing activities	(56,629)	863
Cash flows from financing activities:		
Increase (decrease) in short-term borrowing	4,267,104	(400,000)
Decrease in long-term liabilities - current portion	(500,000)	-
Increase in commercial paper payable	3,398,924	2,899,197
Increase in long-term borrowings	1,300,000	-
Change in non-controlling interests	2,201	-
Net cash provided by financing activities	8,468,229	2,499,197
Effect of exchange rate changes on cash and cash equivalents	(23,310)	34,426
Increase (decrease) in cash and cash equivalents	189,250	(1,214,778)
Cash and cash equivalents, beginning of the year	4,227,583	4,554,344
Cash and cash equivalents, end of this period	\$ 4,416,833	3,339,566

The accompanying notes are an integral part of the consolidated financial statements.

**Notes to consolidated financial statements as of March 31, 2015 and 2014 are reviewed only,
not audited in accordance with generally accepted auditing standards**

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2015 AND 2014**

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS UNLESS OTHERWISE STATED)

1. OVERVIEW

Capital Securities Corporation (the “Company”) was registered under the Ministry of Economic Affairs, R.O.C. on June 21, 1988, The address of the Company’s registered office is 4 Fl. No. 101, Sung-Jen Road, Taipei, Taiwan, R.O.C. As of March 31, 2015, the composition of the consolidated financial statements includes the Company and the subsidiaries (the “Group”). As of March 31, 2015, the Company has 63 branches nationwide.

The Company is authorized to conduct the following businesses:

- (1) Underwriting of marketable securities;
- (2) Trading of marketable securities on a proprietary basis on stock exchange;
- (3) Brokerage of marketable securities on stock exchange;
- (4) Trading of marketable securities at the Company’s branches;
- (5) Brokerage of marketable securities at the Company’s branches;
- (6) Margin loan, short sale and refinancing;
- (7) Securities registration agency services;
- (8) Dealership of foreign marketable securities;
- (9) Short-term bills service;
- (10) Accessory services of futures trading;
- (11) Futures trading on a proprietary basis;
- (12) Securities business money lending;
- (13) Managing the unexpended balance of clients' securities accounts within their authorization;
- (14) Trust business;
- (15) Offshore securities business; and;
- (16) Other relevant services as approved by the authority in charge.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT'D)

2. APPROVAL DATE AND PROCEDURES OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were authorized for issuance by the board of directors on May 11, 2015.

3. NEW STANDARDS AND INTERPRETATIONS

(1) The impact of the adoption of the new standards, amendments and interpretations to International Financial Reporting Standard (“IFRS”) endorsed by the Financial Supervisory Commission (“FSC”).

The Group adopted the 2013 version of IFRSs (IFRS 9 Financial instruments is excluded) endorsed by the FSC from 2015 in preparing financial statements. The new standards and amendments issued by the International Accounting Standards Board (“IASB”) were as follows:

<u>Newly issued, Revised accounting standards and interpretations</u>	<u>Effective date per IASB</u>
• Amendments to IFRS 1 Limited Exemption from Comparative IFRS7 Disclosures for First - time Adopters	July 1, 2010
• Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First - time Adopters	July 1, 2011
• Amendments to IFRS 1 Government Loans	January 1, 2013
• Amendments to IFRS 7 Disclosure - Transfers of Financial Assets	July 1, 2011
• Amendments to IFRS 7 Disclosure - Offsetting Financial Assets and Financial Liabilities	January 1, 2013
• IFRS 10 Consolidated Financial Statements	January 1, 2013 (Investment Entities amendments, effective January 1, 2014)
• IFRS 11 Joint Arrangements	January 1, 2013
• IFRS 12 Disclosure of Interests in Other Entities	January 1, 2013
• IFRS 13 Fair Value Measurement	January 1, 2013
• Amendments to IAS 1 Presentation of Items of Other Comprehensive Income	July 1, 2012
• Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets	January 1, 2012
• Revision to IAS 19 Employee Benefits	January 1, 2013
• Revision to IAS 27 Separate Financial Statements	January 1, 2013
• Amendments to IAS 32 Offsetting of Financial Assets and Financial Liabilities	January 1, 2014
• Interpretations to IFRS 20 Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013

Except for the following items, the Group believes that the adoption of aforementioned 2013 IFRSs version may not have a significant effect on the consolidated financial statements.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

A. Amendments to IAS 19, “Employee Benefits”

The amendments to IAS 19 require the Group to calculate a “net interest” amount by applying the discount rate to the net defined benefit liability or asset to replace the interest cost and expected return on planned assets used in current IAS19. In addition, the amendments eliminate the accounting treatment of either corridor approach or the immediate recognition of actuarial gains and losses to profit or loss when it incurs, and instead, required to recognize all actuarial gains and losses immediately through other comprehensive income. The past service cost, on the other hand, will be expensed immediately when it incurs and no longer be amortized over the average period before vested on a straight-line basis. A liability and expense for termination benefits is recognized not only when the Group is demonstrably committed to terminating the employment of employees, but also at the earlier of the following dates when the Group can no longer withdraw the offer or when the Group recognizes costs for a restructuring. The Group is not expecting the standard to have significant impact on the financial position and the results of operations. Moreover, the amendments also require a broader disclosure for defined benefit plans.

The Group has changed the related accounting policy in measuring and disclosing net defined benefit liability, pension cost and actuarial gains and losses.

B. Amendments to IAS 1, “Presentation of Financial Statements”

The amendments change the presentation of other comprehensive income. That section is required to present line items which are classified by their nature, and grouped between those items that will or will not be reclassified to profit and loss in subsequent periods. The other comprehensive items shown pre-tax amounts, and the related tax also need to be presented separately with the above two categories. The Group has changed the presentation of other comprehensive income section accordance with the guidelines, and be consistent from period to period.

C. IFRS 12, “Disclosure of Interests in Other Entities”

The Standard integrates and makes consistent the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group will increase disclosures on the consolidated and unconsolidated entities in accordance with the standard.

D. IFRS 13, “Fair Value Measurement”

The Standard defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurement. The Group has increased relevant disclosure regarding fair value and has postponed the adoption of the fair value measurement of the new standard. However, the Group is not required to provide comparative information in terms of the new disclosure. The postponement of the new measurement rules from 2015 does not have significant impact over the Group’s fair value measurement of asset and liability items..

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (2) The standards and interpretations new issued but not yet endorsed by the FSC

A summary of the new standards, amendments and interpretations issued by the IASB, but not yet endorsed by the FSC:

<u>Newly issued, Revised accounting standards and interpretations</u>	<u>Effective date per IASB</u>
• IFRS 9 Financial Instruments	January 1, 2018
• Amendment to IFRS 10 and IAS 28 “Sales or Contributions of Assets between an Investor and its Associate or Joint Venture”	January 1, 2016
• Amendment to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
• Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
• IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
• IFRS 15 “Revenue from Contracts with Customers”	January 1, 2017
• Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
• Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
• Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plant”	January 1, 2016
• Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
• Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
• Amendment to IAS 36 “Recoverable Amount Disclosures for Non-Financial Assets”	January 1, 2014
• Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
• Annual Improvements to IFRSs 2010–2012 and 2011–2013 Cycle	July 1, 2014
• Annual Improvements to IFRSs 2012–2014 Cycle	January 1, 2016
• Interpretations to IFRS 21 “Levies”	January 1, 2014

The Group continues in evaluating the impact on its financial position and financial performance as a result of the initial adoption of the above standards or interpretations. The related impact will be disclosed when the Group completes the evaluation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (1) Statement of compliance

The consolidated financial statements have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Firms", and the IAS 34 "Interim Financial Reporting" endorsed by the FSC and do not include all of the information required for full annual consolidated financial statements prepared in accordance with the IFRSs, IAS and interpretations endorsed by the FSC.

Except as described below, the significant accounting policies adopted in the accompanying consolidated financial statements are the same as the consolidated financial statements as of and for the year ended December 31, 2014. Please refer to Note 4 of the consolidated financial statements as of and for the year ended December 31, 2014 for the detail

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

disclosures of significant accounting policies.

The Group has adopted the 2013 version of IFRSs endorsed by the FSC from 2015.

(2) Basis of preparation

Except for Note 3(1), principle of preparing consolidated financial statements are the same as the consolidated financial statements as of and for the year ended December 31, 2014. Please refer to Note 4(3) of the consolidated financial statements as of and for the year ended December 31, 2014.

A. Subsidiaries listed in the consolidated financial statement were as follows:

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			Mar 31, 2015	Dec 31, 2014	Mar 31, 2014	
The Company	Capital Investment Management Corp.	Engaged in providing advice on securities investment and securities investment consultancy	100.00%	100.00%	100.00%	Established in February, 1990 with the paid-in capitals amounted to \$70,000.
"	CSC International Holdings Ltd.	Long-term equity investment business	100.00%	100.00%	100.00%	Established in March, 1996, with the paid-in capitals amounted to US\$45,000 thousand
"	Capital Futures Corp.	Engaged in domestic and foreign futures business	59.01%	59.01%	60.60%	Established in February, 1997 with the paid-in capitals amounted to \$1,199,979.
"	Taiwan International Futures Corp.	Management and consulting business	99.99%	99.99%	99.99%	Liquidation in progress.
"	Taiwan International Securities (B.V.I) Corp.	Holding company for international securities business	100.00%	100.00%	100.00%	The paid-in capitals amounted to US\$9,516 thousand.
"	Taiwan International Securities Investment Consulting Corp.	Management and consulting business	99.92%	99.92%	99.92%	Liquidation in progress.
Capital Futures Corp.	CSC Futures (HK) Ltd.	Futures dealing business	100.00%	100.00%	100.00%	Established in December, 1998. Acquired 100% of the equity on November 1, 2012, disposed 5% on April 2, 2014 and reacquired 5% on December 23, 2014. As of March 31, 2015, the paid-in capitals amounted to HKD\$120,000 thousand.
"	Capital International Technology Corp.	Management, consulting and information service business	100.00%	100.00%	- %	Established in December, 2014. As of March 31, 2015, the paid-in capitals amounted to \$50,000
Capital International Technology Corp.	Capital True Partner Co., Ltd.	Management, consulting and information service business	51.00%	- %	- %	Established on August 20, 2008. Acquired 51% of the equity on February 9, 2015 and held controlling interest. As of March 31, 2015, the paid-in capitals amounted to CNY\$1,000 thousand.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			Mar 31, 2015	Dec 31, 2014	Mar 31, 2014	
CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	Established in May, 1994.
"	Capital Securities (Hong Kong) Ltd.	Long-term equity investment business	100.00%	100.00%	100.00%	The board of directors of the Company resolved to cease operation on October 30, 2012.
"	CSC Finance Ltd.	Securities financing business	100.00%	100.00%	100.00%	The board of directors of the Company resolved to cease operation on October 30, 2012.
"	CSC Asia Ltd.	Provision of corporate advisory services	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 66.67% and 33.33% equity, respectively	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 66.67% and 33.33% equity, respectively	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 66.67% and 33.33% equity, respectively	The board of directors of the Company resolved to cease operation on October 30, 2012.
Capital Securities (Hong Kong) Ltd.	CSC Securities (HK) Ltd.	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	Established in May, 1994.
"	CSC Asia Ltd.	Provision of corporate advisory services	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 66.67% and 33.33% equity, respectively	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 66.67% and 33.33% equity, respectively	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 66.67% and 33.33% equity, respectively	The board of directors of the Company resolved to cease operation on October 30, 2012.
"	CSC Financial Services Ltd.	Securities financing business	100.00%	100.00%	100.00%	The board of directors of the Company resolved to cease operation on October 30, 2012.
CSC Securities (HK) Ltd.	Capital Securities Nominee Ltd.	Agency service	100.00%	100.00%	100.00%	Established in April, 1995. Acquired equity from Capital Securities (Hong Kong) Ltd. on January 17, 2013.
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Long-term equity investment business	100.00%	100.00%	100.00%	Not complied with the requirement of Financial Resources Rules (the "FRR") of the Hong Kong Securities and Futures Commission, the operations remain stagnant currently.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			Mar 31, 2015	Dec 31, 2014	Mar 31, 2014	
TIS Securities (HK) Limited	Taiwan International Capital (HK) Ltd.	Direct investment	100.00%	100.00%	100.00%	Not complied with the requirement of FRR of the Hong Kong Securities and Futures Commission, the operations remain stagnant currently.

B. Subsidiaries not listed in the consolidated financial statement

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			Mar 31, 2015	Dec 31, 2014	Mar 31, 2014	
The Company	Capital Insurance Agency Corp.	Manages personal insurance agent business	100.00%	100.00%	100.00%	Established in November 2000. The company acquired 100% of the equity and gained a controlling interest. The paid-in capitals amounted to \$7,400. As of March 31, 2015 and December 31 and March 31, 2014, the total assets constituted 0.07%, 0.08% and 0.14% of the Group's total assets. The operation revenues in the first quarters of 2015 and 2014 were merely 0.93% and 2.27% of the consolidated revenues, which were so immaterial they were excluded from the consolidated financial statement.
	Capital Insurance Advisory Corp.	Engaged in personal insurance brokerage, property insurance brokerage and manages personal insurance agent business	100.00%	100.00%	100.00%	Established in November 2000. The company acquired 100% of the equity and gained a controlling interest. The paid-in capitals amounted to \$3,890. As of March 31, 2015 and December 31 and March 31, 2014, the total assets constituted 0.08%, 0.08% and 0.02% of the Group's total assets. The operation revenues in the first quarters of 2015 and 2014 were merely 2.13% and 0.98% of the consolidated revenues, which were so immaterial they were excluded from the consolidated financial statement.

(3) Income tax

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

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

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(4) Employee benefits

A. Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

B. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group'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 Group'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 Group. An economic benefit is available to the Group 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 immediately in profit or loss.

The Group recognizes all actuarial gains and losses arising subsequently from defined benefit plans in other comprehensive income.

The Group recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gains or losses 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 that had not previously been recognized.

C. Termination benefits

Termination benefits are recognized as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminating the employment of employees 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 Group has made an offer of voluntary redundancy, it is probable that the

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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.

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 Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

5. MAJOR SOURCES OF ACCOUNTING ASSUMPTIONS, JUDGEMENTS AND ESTIMATION UNCERTAINTY

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

In these consolidated financial statements, judgments and key sources of estimation uncertainty used by management in the application of critical accounting policies are expected to be consistent with those of Note 5 of the consolidated financial statements as of and for the year ended December 31, 2014.

6. SUMMARY OF MAJOR ACCOUNTS

Except as described below, the description of significant accounts in the accompanying consolidated financial statements is not materially different from the consolidated financial statements as of and for the year ended December 31, 2014. Please refer to Note 6 of the consolidated financial statements as of and for the year ended December 31, 2014 for the detailed disclosures of these significant accounts.

(1) Cash and cash equivalents

	<u>March 31, 2015</u>	<u>December 31, 2014</u>	<u>March 31, 2014</u>
Cash	\$ 3,148	3,113	3,019
Bank deposits			
Checking accounts	46,129	50,580	52,621
Demand deposits	116,972	187,026	144,674
Time deposits	1,929,560	1,854,383	1,115,500
Foreign currency deposits	1,462,195	1,369,921	1,262,840
Subtotal	<u>3,554,856</u>	<u>3,461,910</u>	<u>2,575,635</u>
Futures margin-excess margin	858,829	762,560	326,306
Commercial papers	-	-	434,606
Subtotal	<u>858,829</u>	<u>762,560</u>	<u>760,912</u>
Total	<u>\$ 4,416,833</u>	<u>4,227,583</u>	<u>3,339,566</u>

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(2) Financial assets

A. Financial assets at fair value through profit or loss - current:

	<u>March 31, 2015</u>	<u>December 31, 2014</u>	<u>March 31, 2014</u>
Open-ended funds and money-market instruments			
Open-ended funds and money-market instruments	\$ 262,756	522,282	344,938
Valuation adjustment	19,098	10,569	2,808
Subtotal	<u>281,854</u>	<u>532,851</u>	<u>347,746</u>
Securities invested by securities broker			
Securities invested by securities broker	261,498	531,039	85,364
Valuation adjustment	6,192	8,010	61
Subtotal	<u>267,690</u>	<u>539,049</u>	<u>85,425</u>
Trading securities - proprietary trading:			
Listed stocks	1,273,571	1,246,079	1,117,890
OTC stocks	183,951	231,959	274,158
Emerging market stocks	342,042	366,836	298,003
Convertible corporate bonds	490,020	511,164	833,668
Government bonds	6,207,115	1,203,375	5,719,745
Corporate bonds	10,084,308	9,832,713	8,369,407
Financial debentures	1,554,797	1,698,780	631,946
Foreign stocks	320,325	314,143	214,890
Overseas bonds	377,224	288,848	333,648
Emerging fund	6,056	7,452	-
Other	29,989	79,861	29,989
	<u>20,869,398</u>	<u>15,781,210</u>	<u>17,823,344</u>
Valuation adjustment	44,230	6,630	4,243
Subtotal	<u>20,913,628</u>	<u>15,787,840</u>	<u>17,827,587</u>
Trading securities - underwriting:			
Listed stocks	3,094	2,730	39,015
OTC stocks	8,649	8,648	-
Convertible corporate bonds	97,600	106,300	3,416
Financial debentures	-	-	35,200
	<u>109,343</u>	<u>117,678</u>	<u>77,631</u>
Valuation adjustment	4,384	(496)	2,699
Subtotal	<u>113,727</u>	<u>117,182</u>	<u>80,330</u>
Trading securities - hedging:			
Listed stocks	3,054,833	2,585,889	1,734,601
OTC stocks	730,087	923,311	873,660
Convertible corporate bonds	4,120,130	3,872,940	3,316,972
Overseas funds	6,030	-	-
	<u>7,911,080</u>	<u>7,382,140</u>	<u>5,925,233</u>
Valuation adjustment	265,336	181,804	339,935
Subtotal	<u>8,176,416</u>	<u>7,563,944</u>	<u>6,265,168</u>
Derivatives:			
Call options	51,257	263,894	30,957
Futures margin - proprietary fund	238,503	189,165	310,617
IRS asset swaps	23,883	25,952	25,013
Asset swap options - long position	21,819	9,881	16,273
Structured notes	187	76	16
Currency swaps	1,744	45,318	4,931
Subtotal	<u>337,393</u>	<u>534,286</u>	<u>387,807</u>
Total	<u>\$ 30,090,708</u>	<u>25,075,152</u>	<u>24,994,063</u>

As of March 31, 2015, December 31, 2014 and March 31, 2014, the par value of trading securities - bonds under repurchase agreement of the Group was \$16,975,500, \$13,462,900 and \$14,951,030, respectively (please refer to Note 6(13) for details).

B. Financial assets at fair value through profit and loss - non-current:

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	<u>March 31, 2015</u>	<u>December 31, 2014</u>	<u>March 31, 2014</u>
Financial assets held for trading:			
Government bonds	\$ 189,791	191,990	210,031
Valuation adjustment	(1,096)	(2,728)	(1,013)
Total	<u>\$ 188,695</u>	<u>189,262</u>	<u>209,018</u>

As of March 31, 2015, December 31, 2014 and March 31, 2014, the Group took advantage of government bonds as margin of bills business, interest rate swaps, structured notes and settlement fund guarantee deposits (please refer to Note 8 for details).

C. Available-for-sale financial assets - non-current:

<u>Investee Company</u>	<u>March 31, 2015</u>	<u>December 31, 2014</u>	<u>March 31, 2014</u>
CME GROUP	\$ 50,193	50,193	50,193
Valuation adjustment	40,234	35,394	18,605
Total	<u>\$ 90,427</u>	<u>85,587</u>	<u>68,798</u>

D. Financial assets measured at cost - non-current:

<u>Non- listed (or non-over-the-counter)</u>	<u>March 31, 2015</u>	
	<u>Ownership ratio</u>	<u>Amount</u>
Taiwan Depository & Clearing Corp.	1.29%	\$ 18,661
Taiwan Futures Exchange Corp.	2.86%	58,126
Taiwan Stock Exchange Corporation	0.06%	12,242
Global Securities Finance Corporation	6.05%	202,681
Chou Chin Industrial Co., Ltd.	0.05%	-
Jong-Yih Industrial Development Co., Ltd.	0.68%	1,369
Reliance Securities Investment Trust Co., Ltd	3.02%	9,767
Top Taiwan III Venture Capital Co., Ltd.	7.00%	78,008
Prudence Venture Investment Corp.	1.50%	39,127
Total		<u>\$ 419,981</u>

<u>Non- listed (or non-over-the-counter)</u>	<u>December 31, 2014</u>	
	<u>Ownership ratio</u>	<u>Amount</u>
Taiwan Depository & Clearing Corp.	1.29%	\$ 18,661
Taiwan Futures Exchange Corp.	2.86%	58,126
Taiwan Stock Exchange Corporation	0.06%	12,242
Global Securities Finance Corporation	6.05%	202,681
Chou Chin Industrial Co., Ltd.	0.05%	-
Jong-Yih Industrial Development Co., Ltd.	0.68%	1,369
Reliance Securities Investment Trust Co., Ltd	3.02%	9,767
Top Taiwan III Venture Capital Co., Ltd.	7.00%	78,008
Prudence Venture Investment Corp.	1.50%	39,127
Total		<u>\$ 419,981</u>

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

<u>Non-listed (or non-over-the-counter)</u>	<u>March 31, 2014</u>	
	<u>Ownership ratio</u>	<u>Amount</u>
Taiwan Depository & Clearing Corp.	1.29%	\$ 18,661
Taiwan Futures Exchange Corp.	2.86%	58,126
Taiwan Stock Exchange Corporation	0.06%	12,242
Global Securities Finance Corporation	6.05%	414,342
Chou Chin Industrial Co., Ltd.	0.05%	-
Jong-Yih Industrial Development Co., Ltd.	0.68%	1,369
Reliance Securities Investment Trust Co., Ltd	3.02%	9,767
Top Taiwan III Venture Capital Co., Ltd.	7.00%	85,008
Prudence Venture Investment Corp.	1.50%	44,257
Total		<u>\$ 643,772</u>

On March 24, 2014, the investee Taiwan Integrated Shareholder's Service Corp. was merged by Taiwan Depository and Clearing Corporation. Taiwan Integrated Shareholder's Service Corporation dissolved and the Company received proceeds from the disposal which amounted to \$24,312. For the year 2014, Top Taiwan III Venture Capital Co., Ltd. refunded the proceeds of capital reduction amounted to \$7,000 each year, Prudence Venture Investment Corp. refunded the proceeds of capital reductions which amounted to \$5,130 and Global Securities Finance Corporation refunded the proceeds of capital reduction which amounted to \$211,661.

- E. The Group uses Value at Risk (VAR) to monitor and measure the market risk of its investment in equity stocks. VAR refers to the unexpected loss of financial instruments derived from the changes in market risk factors within certain time periods and confidence level. The table below discloses the VAR, which is the estimation of potential loss per day and is covered by 99% of the adverse changes in market prices. In the table below by using this assumption, 2.5 out of 250 days VAR will exceed the disclosed amounts due to the changes in market price. For the three months ended March 31, 2015 and 2014 VAR (99%, per day) of equity stocks were as follows:

<u>Type of market risk</u>	<u>March 31, 2015</u>	<u>March 31, 2014</u>	<u>For the three months ended March 31,</u>					
			<u>2015</u>			<u>2014</u>		
			<u>Mean</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Mean</u>	<u>Maximum</u>	<u>Minimum</u>
Equity stocks	45,212	42,297	54,348	66,511	43,324	39,450	47,839	29,771

(3) Bonds purchased under resale agreements

	<u>March 31, 2015</u>	<u>December 31, 2014</u>	<u>March 31, 2014</u>
Bonds purchased under resell agreements	\$ -	-	<u>2,082,470</u>
Resell price under the agreements	\$ -	-	<u>2,082,815</u>
Interest rate	-	-	<u>0.35% ~0.76%</u>

As of March 31, 2014, the Group's appropriated bonds purchased under resale agreements was \$540,261 (Par value \$540,000) for repurchase agreement transactions purpose. As of March 31, 2014, the Group's appropriated bonds purchased under resale agreements is \$1,542,209 (Par value 1,550,000) for short sales (please refers to Note 8 for details).

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(4) Accounts Receivable

	<u>March 31, 2015</u>	<u>December 31, 2014</u>	<u>March 31, 2014</u>
Receivable on securities purchased by customers	\$ 35,322	59,827	321,478
Settlement	-	1,513,355	1,627,509
Interests receivable	551,803	489,022	428,286
Receivables on securities sold	6,414,168	4,634,230	5,183,517
Others	217,207	66,477	62,910
Subtotal	<u>7,218,500</u>	<u>6,762,911</u>	<u>7,623,700</u>
Less: allowance for doubtful accounts	(4,645)	(3,029)	(3,029)
Total	<u><u>\$ 7,213,855</u></u>	<u><u>6,759,882</u></u>	<u><u>7,620,671</u></u>

(5) Customer margin account

<u>March 31, 2015</u>	<u>Foreign Currency (Dollars)</u>		<u>Amount</u>
Cash in bank	USD	88,915,929.92	\$ 2,783,069
	JPY	53,619,330.00	13,962
	GBP	196,953.03	9,107
	HKD	36,131,825.17	145,828
	EUR	711,089.70	23,928
	AUD	50,424.39	1,201
	SGD	101,001.89	2,299
Subtotal			<u>8,465,826</u>
Futures clearing house	USD	11,206,994.50	350,779
	HKD	36,790,323.05	148,486
	EUR	700,000.00	23,555
			<u>1,410,897</u>
Subtotal			<u>1,933,717</u>
Other futures commission merchants	USD	31,578,751.96	988,415
	JPY	290,477,522.00	75,640
	GBP	250,948.29	11,604
	HKD	16,731,185.82	67,527
	EUR	1,190,457.44	40,059
	AUD	194,724.29	4,637
	KRW	1,541,303,764.00	44,390
	SGD	236,073.26	5,373
	CNY	450,160.91	2,271
	MYR	(47,808.69)	(392)
	THB	4,595,405.07	4,441
Subtotal			<u>1,248,815</u>
Securities			<u>2,278</u>
Total			<u><u>\$ 11,650,636</u></u>

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

<u>December 31, 2014</u>	<u>Foreign Currency (Dollars)</u>		<u>Amount</u>
Cash in bank	USD	98,209,552.28	\$ 3,108,333
	JPY	10,348,145.00	2,738
	GBP	118,488.67	5,838
	HKD	57,692,167.40	235,384
	EUR	140,802.20	5,417
	AUD	36,325.07	941
	SGD	112,534.79	2,694
			<u>5,423,045</u>
Subtotal			<u>8,784,390</u>
Futures clearing house	USD	3,026,994.50	95,804
	HKD	31,531,169.26	128,647
	EUR	700,000.00	26,929
	CNY	1.10	-
			<u>1,817,282</u>
Subtotal			<u>2,068,662</u>
Other futures commission merchants	USD	26,955,013.09	853,126
	JPY	199,163,569.00	52,699
	GBP	387,987.11	19,116
	HKD	2,662,940.88	10,865
	EUR	709,791.96	27,306
	AUD	61,970.08	1,605
	KRW	716,514,293.00	20,922
	SGD	1,841,099.86	4,410
	CNY	(412.00)	(2)
	THB	74,348.19	72
		<u>(670)</u>	
Subtotal			<u>989,449</u>
Securities			<u>1,942</u>
Total			<u>\$ 11,844,443</u>

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

<u>March 31, 2014</u>	<u>Foreign Currency (Dollars)</u>		<u>Amount</u>
Cash in bank	USD	55,412,568.67	\$ 1,688,421
	JPY	13,817,208.00	4,090
	GBP	144,094.03	7,307
	HKD	31,645,101.35	124,270
	EUR	54,235.36	2,274
	SGD	102,542.45	2,478
			<u>4,551,108</u>
Subtotal			<u>6,379,948</u>
Futures clearing house	USD	2,026,994.50	61,763
	HKD	14,685,310.40	57,669
			<u>1,060,720</u>
Subtotal			<u>1,180,152</u>
Other futures commission merchants	USD	17,999,576.62	547,818
	JPY	161,944,267.00	47,935
	GBP	282,040.77	14,302
	HKD	1,115,816.03	4,382
	EUR	507,105.04	21,263
	KRW	1,506,644,641.00	43,693
	SGD	182,584.98	4,413
Subtotal			<u>683,806</u>
Securities			<u>6,044</u>
Total			<u><u>\$ 8,249,950</u></u>

As of March 31, 2015, December 31, 2014 and March 31, 2014, the difference between customers margin accounts and futures traders' equity were the commission revenue from the customers \$17,663, \$7,391 and \$10,311, respectively, futures transaction tax of \$820, \$725 and \$524, respectively, interest revenue \$1,008, \$855 and \$636, respectively, temporary receipts \$261, \$153 and \$1,229, respectively, remittance amount of the customers after the market closed \$12,517, \$15,178 and \$10,696, respectively and other of \$146,367, \$76,721 and \$36,990, respectively.

(6) Investments under equity method

	<u>March 31, 2015</u>	<u>December 31, 2014</u>	<u>March 31, 2014</u>
Subsidiaries			
Capital Insurance Advisory Corp.	\$ 55,716	45,245	95,661
Capital Insurance Agency Corp.	62,382	58,021	8,690
	<u>\$ 118,098</u>	<u>103,266</u>	<u>104,351</u>

For the three months ended March 31, 2015 and 2014, the Group's share of gains or losses of the subsidiaries were as follows:

	<u>For the three months ended March 31,</u>	
	<u>2015</u>	<u>2014</u>
Based on the self-prepared financial statements	<u>\$ 14,831</u>	<u>14,864</u>

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Under the equity accounting method, the financial information of the investments in associates which are individually immaterial is summarized as following:

	<u>March 31, 2015</u>	<u>December 31, 2014</u>	<u>March 31, 2014</u>
Total assets	<u>\$ 144,184</u>	<u>128,524</u>	<u>128,688</u>
Total liabilities	<u>\$ 26,086</u>	<u>25,258</u>	<u>24,337</u>

	<u>For the three months ended March 31,</u>	
	<u>2015</u>	<u>2014</u>
Revenue	<u>\$ 50,308</u>	<u>53,878</u>
Net income	<u>\$ 14,831</u>	<u>14,864</u>

(7) Property and equipment

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
Carrying amount:					
January 1, 2015	<u>\$ 3,901,181</u>	<u>1,256,748</u>	<u>193,830</u>	<u>38,448</u>	<u>5,390,207</u>
March 31, 2015	<u>\$ 3,828,133</u>	<u>1,243,852</u>	<u>194,701</u>	<u>42,725</u>	<u>5,309,411</u>
March 31, 2014	<u>\$ 4,094,561</u>	<u>1,361,371</u>	<u>195,334</u>	<u>42,010</u>	<u>5,693,276</u>

As of March 31, 2015, December 31, 2014 and March 31, 2014, the property and equipment were provided as collateral or pledge, please refer to Note 8 for details.

There was no significant acquisition, disposal and impairment loss or reversal of impairment losses of property and equipment of the Group in the periods between January 1 and March 31 in 2015 and 2014. For the three months ended March 31 of 2015, \$96,756 of land and buildings were reclassified as investment property. Please refer to Note 6(22) for details of the depreciation expense occurring in this period and Note 6(7) of the consolidated financial statements as of and for the year ended December 31, 2014 for other relevant information.

(8) Investment property

	<u>Land and improvements</u>	<u>Buildings</u>	<u>Total</u>
January 1, 2015	<u>\$ 1,230,412</u>	<u>433,533</u>	<u>1,663,945</u>
March 31, 2015	<u>\$ 1,303,460</u>	<u>430,764</u>	<u>1,734,224</u>
March 31, 2014	<u>\$ 1,037,032</u>	<u>370,715</u>	<u>1,407,747</u>
Fair value			
January 1, 2015			<u>\$ 2,555,269</u>
March 31, 2015			<u>\$ 2,835,952</u>
March 31, 2014			<u>\$ 2,127,312</u>

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

There was no significant acquisition, disposal and impairment loss or reversal of impairment losses of investment properties of the Group in the periods between January 1 and March 31 in 2015 and 2014. For the three months ended March 31 of 2015, \$96,756 of land and buildings were reclassified as investment property. Please refer to Note 6(22) for details of the depreciation expense occurring in this period and Note 6(8) of the consolidated financial statements as of and for the year ended December 31, 2014 for other relevant information.

(9) Intangible assets

A. Goodwill

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized goodwill. As of March 31, 2015, December 31, 2014 and March 31, 2014, the book value was all \$3,126,698.

Due to the needs of operation expansion, the subsidiary Capital International Technology Corp. acquired 51% of the equity of Capital True Partner Co., Ltd. The excess of the acquisition cost over the fair value of the investee's net identifiable assets was recognized as goodwill. As of March 31, 2015 the book value was \$22,088.

B. Other intangible assets - Customer relationships

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized other intangible assets - customer relationships as \$17,082. As of March 31, 2015, December 31, 2014 and March 31, 2014, the amortized book value was \$3,701 and \$4,555 and \$7,118, respectively.

C. Other intangible assets - Operation franchise

The Company acquired the operation of securities corporation operation franchise during 1994 to 2005 and expected the franchise will generate continuing cash inflows. In accordance with IAS 38 "Intangible Assets," the franchise is regarded as intangible assets with an indefinite useful life. As of March 31, 2015, December 31, 2014 and March 31, 2014, the book value of the operation franchise was all \$389,999.

D. Other intangible assets - The memberships of foreign futures Exchanges

The subsidiaries obtained the memberships of foreign futures Exchanges - NYMEX, COMEX, CBOT and CME for business development. In accordance with IAS 38 "Intangible Assets" endorsed by the FSC, the memberships are regarded as intangible assets with an indefinite useful life. As of March 31, 2015, December 31, 2014 and March 31, 2014, the book value of the intangible assets was \$46,328, \$46,350 and \$46,288, respectively.

E. Other intangible assets - Computer software

Computer software was booked at cost and amortized by using the straight-line method over the estimated useful lives. As of March 31, 2015, December 31, 2014 and March 31, 2014, the book value was \$35,905 and \$37,502 and \$29,090, respectively.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(10) Short-term loans

Nature of borrowings	March 31, 2015	December 31, 2014	March 31, 2014
Collateralized loan	\$ 3,989,104	380,000	380,000
Credit loans	2,935,000	2,277,000	1,239,000
Total	<u>\$ 6,924,104</u>	<u>2,657,000</u>	<u>1,619,000</u>

Short-term loans were based on floating interest rates. As of March 31, 2015, December 31, 2014 and March 31, 2014, the loan interest rate range was 0.90%~1.54%, 0.90%~1.79% and 0.90%, respectively.

The Group had provided the land, buildings, and certificates of time deposits as collateral. For more information about the collateral as of March 31, 2015, December 31, 2014 and March 31, 2014, please refer to Note 8.

(11) Commercial paper payable

	March 31, 2015	December 31, 2014	March 31, 2014
Commercial paper payable	\$ 5,150,000	1,750,000	5,200,000
Less: Unamortized discount	(1,359)	(283)	(1,221)
Net amount	<u>\$ 5,148,641</u>	<u>1,749,717</u>	<u>5,198,779</u>

Commercial paper payables were based on floating interest rates. As of March 31, 2015, December 31, 2014 and March 31, 2014, the interest rate was 0.848%~0.958%, 0.858%~0.908% and 0.806%, respectively.

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

	March 31, 2015	December 31, 2014	March 31, 2014
Bond purchased under resale agreements - short sales	\$ -	-	1,541,404
Valuation adjustment on bonds purchased under resale agreements - short sales	-	-	637
Subtotal	-	-	1,542,041
Liabilities on sale of borrowed securities	437,194	995,472	214,898
Redeem liabilities on sale of borrowed securities	-	-	(11,986)
Valuation adjustment	45,611	48,377	25,540
Subtotal	482,805	1,043,849	228,452
Settlement coverage bonds payable of short sale	-	99,749	-
Valuation adjustment on settlement coverage bonds payable of short sale	-	17	-
Subtotal	-	99,766	-
Stock warrants issued	11,426,712	8,277,524	9,371,004
Stock warrants repurchased	(10,767,430)	(7,644,334)	(8,740,005)
Subtotal	659,282	633,190	630,999
Put options	56,050	275,648	15,065
Equity derivatives	-	-	3
IRS asset swaps	2,200	249	327
Asset swap options - short position	388,644	348,450	385,111
Structured notes	7,745	3,085	17,946
Currency swaps	4,783	503	-
Interest rate swaps	3,740	3,670	730
Subtotal	463,162	631,605	419,182
Total	<u>\$ 1,605,249</u>	<u>2,408,410</u>	<u>2,820,674</u>

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(13) Bonds sold under repurchase agreements

	<u>March 31, 2015</u>	<u>December 31, 2014</u>	<u>March 31, 2014</u>
Bonds sold under repurchase agreements	<u>\$ 16,894,187</u>	<u>14,610,182</u>	<u>15,536,727</u>
Agreed-upon repurchase amounts	<u>\$ 16,900,486</u>	<u>14,621,088</u>	<u>15,543,281</u>
Interest rates	<u>0.45% ~0.85%</u>	<u>0.45% ~3.89%</u>	<u>0.33% ~0.85%</u>

(14) Futures traders' equity

<u>Currency</u>	<u>Foreign currency (Dollars)</u>	<u>Amount</u>
March 31, 2015		
USD	129,106,466.33	\$ 4,041,032
JPY	340,534,256.00	88,675
GBP	446,486.38	20,646
HKD	73,064,142.24	294,887
EUR	2,587,755.43	87,078
KRW	1,433,743,400.00	41,292
SGD	(9,248.85)	(211)
THB	4,421,684.00	4,274
MYR	(58,320.00)	(479)
CNY	448,386.00	2,262
AUD	244,464.18	5,822
NTD		6,886,722
Total		<u>\$ 11,472,000</u>
December 31, 2014		
USD	126,307,566.60	\$ 3,997,634
JPY	207,166,581.00	54,816
GBP	506,011.91	24,931
HKD	89,121,275.90	363,615
EUR	1,550,660.37	59,654
KRW	666,162,325.00	19,452
SGD	(47,953.55)	(1,148)
CNY	(460.00)	(2)
AUD	98,277.15	2,546
NTD		7,221,922
Total		<u>\$ 11,743,420</u>
March 31, 2014		
USD	75,056,355.59	\$ 2,286,967
JPY	173,103,198.00	51,239
GBP	423,185.86	21,460
HKD	41,694,077.48	163,733
EUR	551,208.64	23,112
KRW	1,458,395,028.08	42,293
SGD	98,069.83	2,370
NTD		5,598,390
Total		<u>\$ 8,189,564</u>

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(15) Accounts payable

	<u>March 31, 2015</u>	<u>December 31, 2014</u>	<u>March 31, 2014</u>
Payable of securities sold by customers	\$ 51,405	51,767	244,475
Settlement price	907,816	-	-
Payable of settlements	7,599,460	5,303,861	8,534,533
Others	346,648	514,893	140,805
Total	<u>\$ 8,905,329</u>	<u>5,870,521</u>	<u>8,919,813</u>

(16) Long-term borrowings

As of March 31, 2015, December 31, 2014 and March 31, 2014, the Company's long-term borrowings were as follows:

	<u>March 31, 2015</u>	<u>December 31, 2014</u>	<u>March 31, 2014</u>
Long-term borrowings	\$ 1,300,000	500,000	-
Less: Long-term liabilities - current portion	-	(500,000)	-
Non-current portion of long-term debt	<u>\$ 1,300,000</u>	<u>-</u>	<u>-</u>
Collateral	Real estate	Real estate	-
Interest rate range	1.080%	1.080%	-

Hua Nan Bank approved a three years long-term borrowing of \$4,000,000 to the Company. The credit line would not be diminished gradually, and would be assessed annually. The credit line bears a floating interest rate.

(17) Operating leases

The Group has no material incremental operating leases contracts for the three months ended March 31, 2015 and 2014. Please refer to Note 6(17) of the consolidated financial statements as of and for the year ended December 31, 2014 for the related information.

(18) Employee benefit

A. Defined benefit plans

Subsequent to December 31, 2014, there is apparently no evidence of any material market volatility, material curtailment, reimbursement and settlement or other material one-time events. Therefore, pension cost in the consolidated financial statements is measured and disclosed according to the respective actuarial report for the years ended December 31, 2013 and 2014.

For the three months ended March 31, 2015 and 2014, the Group's pension costs recognized in profit or loss were \$4,637 and \$4,844, respectively.

B. Defined contribution plan

The Group contributed \$22,081 and \$21,739 under defined contribution plan to the Bureau of the Labor Insurance for the three months ended March 31, 2015 and 2014, respectively.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

C. For the three months ended March 31, 2015 and 2014, the pension costs contributed by overseas subsidiaries in compliance with local ordinance were \$977 and \$564, respectively.

D. Provision for employee benefits liabilities

	March 31, 2015	December 31, 2014	March 31, 2014
Compensated absences	\$ 46,793	46,793	46,900

(19) Income tax

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

A. The detail of income tax expense for the three months ended March 31, 2015 and 2014 were as follows:

	For the three months ended March 31,	
	2015	2014
Current income tax expense	\$ 39,571	31,050
Deferred income tax expense		
Unrealized losses on derivative financial instruments	(25,014)	(35,071)
Unrealized losses on foreign investments under equity method	(639)	(2,660)
Amortization of operation franchise	-	1,703
Amortization of goodwill	26,577	26,577
Decrease in tax losses carried forward	50,727	49,192
Adjustments of deferred income tax assets and liabilities	-	(1,912)
	51,651	37,829
	\$ 91,222	68,879

B. The amount of income tax expense or benefit recognized in other comprehensive income for the three months ended March 31, 2015 and 2014 were as follows:

	For the three months ended March 31,	
	2015	2014
Foreign exchange difference from translating financial statements of foreign operations	\$ 4,756	(6,979)

C. As of March 31, 2015, net operating losses available for carried forward to offset against future taxable income were as follows:

Loss Year	Amount	Expiration Year
2011(Assessed)	\$ 2,650,031	2021

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

D. Income tax assessment status

- a. The Company's income tax returns through 2011 were assessed by the Tax Authority.
- b. Subsidiary - Capital Investment Management Corp.'s income tax returns through 2013 were assessed by the Tax Authority.
- c. Subsidiary - Capital Futures Corp.'s income tax returns through 2012 were assessed by the Tax Authority.
- d. Subsidiary - Taiwan International Securities Investment Consulting Corp.'s income tax returns for the liquidation date as of June 30, 2012 were assessed by the Tax Authority.
- e. Subsidiary - Taiwan International Futures Corp.'s income tax returns for the liquidation date as of September 18, 2008 were assessed by the Tax Authority.
- f. The income tax returns of the merged entity, Taiwan International Securities Corp., have been assessed by the Tax Authority through 2010.

E. The information about imputation system is as follows:

	<u>March 31, 2015</u>	<u>December 31, 2014</u>	<u>March 31, 2014</u>
Undistributed earnings after 1998	<u>\$ 2,656,629</u>	<u>2,089,222</u>	<u>1,902,756</u>
Imputation credit account	<u>\$ 3,450,690</u>	<u>3,383,514</u>	<u>3,629,028</u>

	<u>2014 (Estimated)</u>	<u>2013 (Actual)</u>
Deductible ratio for earnings distributed to ROC residents	<u>23.24%</u>	<u>26.09%</u>

The above imputation information was calculated according to the Ruling No. 10204562810 issued by the Ministry of Finance on October 17, 2013.

F. Income tax administrative relief

- a. Since income tax of securities trading and amortization of intangible assets withheld for year 2010 were assessed differently from those reported by the Company, additional tax of \$19,150 was levied, and the Company has filed for administrative relief. The additional tax was accrued based on conservative concept. Since income from securities trading and amortization of intangible assets withheld for 2011 were assessed differently from those reported by the Company, additional tax losses carried forward of \$123,042 was levied, and the Company has filed for administrative relief. The additional tax was accrued based on conservative concept.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(20) Capital and other equity

A. Capital stock

As of March 31, 2015, December 31, 2014 and March 31, 2014, the Company had authorized capital of \$30,000,000 and issued common stock of \$2,369,073 thousand shares with a par value of \$10 dollars per share.

B. Capital surplus

In accordance with the ROC Company Act amended in January 2012, realized capital surplus can only be used to cover accumulated deficit or to issue new shares or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. The aforementioned capital surplus includes share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital surplus to be capitalized shall not exceed 10 percent of the paid-in capital each year.

C. Retained earnings

a. Legal reserve

In accordance with Company Act amended in January 2012, 10 percent of the current year's earnings after tax should be set aside as legal reserve, until the cumulative balance equals to the total amount of paid-in capital. If the Company incurs no loss for the year, the distribution of the legal reserve, either by issuing new shares or by cash, shall be decided at the shareholders' meeting, and only the portion of legal reserve which exceeds 25 percent of the paid-in capital may be distributed.

b. Special reserve

In accordance with Article 41 of the Securities and Exchange Law, 20 percent of the current year's earnings after tax should be set aside as special reserve. Ruling No. 1010028514 issued by the Financial Supervisory Commission on June 29, 2012, an equivalent amount of special reserve should be set aside from earnings after tax of the current year and the undistributed earnings of the prior period based on the decreased amount of stockholders' equity. For the cumulative deduction in stockholders' equity of the prior period, the equal amount of special reserve set aside based on undistributed earnings should not be distributed. If there is any reversal of the deduction in stockholders' equity, the earnings may be distributed based on the reversal proportion.

c. Unappropriated earnings

According to the Company's Articles of Incorporation, after-tax earnings should first offset accumulated deficit, and then 10% and 20% of the remainder should be appropriated as legal reserve and special reserve, respectively. The shareholders' meeting may declare dividends after retaining a certain portion of earnings. The rest may be distributed in the ratio specified below:

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (1) Remuneration to directors and supervisors: 1%~4%.
- (2) Employees bonuses: 1%~3%.
- (3) Dividends to stockholders: 93%~98%.

The estimation of employee bonuses and remunerations to directors and supervisors was calculated based on the income after tax of the year deducted by legal reserve and special reserve and multiplied by the distribution rates of employee bonuses and remunerations to directors and supervisors which are regulated in the Company's articles of incorporation. The estimated employee bonuses of \$10,838 and \$10,511 and remunerations to directors and supervisors of \$18,063 and \$14,015, respectively and was recognized in operating expense for the three months ended March 31, 2015 and 2014.

To continue its expansion and increase profitability, and maintain its capital adequacy ratio, the Company adopts the residual dividend policy. The amount of earnings to distribute after retaining earnings must be higher than 10% of the distributable balance. According to the budget plan, stock dividends are distributed to retain necessary funds first, and may then be paid as cash dividends subsequently. Cash dividends cannot be less than 10%.

According to the resolution of shareholders' meeting on June 18, 2014, the Company's 2013 earnings distribution for employee bonuses, remuneration to directors and supervisors and cash dividends were \$14,377, \$25,436 and \$1,066,083, respectively. Due to the above changes, the difference between employee bonuses of \$32,585 and remuneration to directors and supervisors of \$43,447 for 2013 financial statements was \$36,219 in total. The difference was accounted for as changes in accounting estimates and would be reflected in the statement of income in 2014.

According to the resolution of the board of directors' meeting on May 11, 2015, the Company's 2014 earnings distribution for employee bonuses, remuneration to directors and supervisors and cash dividends were \$22,210, \$37,017 and \$1,421,444, respectively. The stockholders had not resolved the distribution of earnings mentioned above. The information about the appropriations is available at the Market Observation Post System website. The differences between the amounts approved in the shareholders' meeting and those recognized in the consolidated financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in 2015.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(21) Earnings per share

The basic earnings per share and dilutive earnings per share for the three months ended March 31, 2015 and 2014 were calculated as follows:

	For the three months ended March 31,	
	2015	2014
Net income attributable to ordinary shareholders of the Company	<u>\$ 567,407</u>	<u>478,796</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	<u>2,369,073</u>	<u>2,369,073</u>
Basic earnings per share (dollar)	<u>\$ 0.24</u>	<u>0.20</u>
Assumed conversion of all dilutive potential ordinary shares - employees' bonus (thousands of shares) (Note)	<u>1,057</u>	<u>938</u>
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	<u>2,370,130</u>	<u>2,370,011</u>
Dilutive earnings per share (dollar)	<u>\$ 0.24</u>	<u>0.20</u>

Note: The shares were calculated based on the closing price at the reporting date.

(22) Items of comprehensive income statement

A. Brokerage commissions

	For the three months ended March 31,	
	2015	2014
Brokerage commission from TSE market	\$ 343,538	436,264
Brokerage commission from OTC market	128,627	191,906
Handling fee from security financing	10,992	16,726
Futures commission income - brokerage	283,660	200,915
Overseas subsidiaries	16,600	15,789
Others	14,950	19,690
	<u>\$ 798,367</u>	<u>881,290</u>

B. Underwriting commissions

	For the three months ended March 31,	
	2015	2014
Revenues from underwriting securities on a firm commitment basis	\$ 34,985	12,297
Handling fee revenues from underwriting securities on best- efforts basis	219	270
Processing fee revenues from underwriting operations	42,267	7,093
Revenues from underwriting consultation	1,835	5,117
Others	6,900	17,175
	<u>\$ 86,206</u>	<u>41,952</u>

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

C. Net gains or losses on sale of trading securities

	For the three months ended March 31,	
	2015	2014
Revenue from securities sold - proprietary trading	\$ 107,274,328	95,254,664
Cost of securities sold - proprietary trading	(107,116,442)	(95,110,437)
Subtotal	<u>157,886</u>	<u>144,227</u>
Revenue from securities sold - underwriting	85,470	75,125
Cost of securities sold - underwriting	(80,002)	(64,799)
Subtotal	<u>5,468</u>	<u>10,326</u>
Revenue from securities sold - hedging	9,519,307	8,518,107
Cost of securities sold - hedging	(9,354,012)	(8,210,686)
Subtotal	<u>165,295</u>	<u>307,421</u>
Total	<u>\$ 328,649</u>	<u>461,974</u>

D. Interest revenue

	For the three months ended March 31,	
	2015	2014
Interest revenue - margin loans	\$ 296,454	274,758
Interest revenue - bonds	46,854	43,647
Overseas subsidiaries	6,189	11,640
Others	9,536	9,842
	<u>\$ 359,033</u>	<u>339,887</u>

E. Net gains on valuation of trading securities measured at fair value through profit or loss

	For the three months ended March 31,	
	2015	2014
Trading securities - Proprietary	\$ 39,692	(10,688)
Trading securities - Underwriting	4,880	50
Trading securities - Hedging	83,532	124,098
Settlement coverage bonds payable of short sales	17	-
	<u>\$ 128,121</u>	<u>113,460</u>

F. Net gains (losses) on stock warrants issued

	For the three months ended March 31,	
	2015	2014
Gains on changes in fair value of stock warrants	\$ 5,847,846	3,029,864
Gains on exercise of stock warrants before maturity	1,112,978	3,417,914
Losses on changes in fair value of stock warrants repurchased	(6,760,353)	(6,519,325)
Gains on expiration of stock warrants	11,883	1,928
Stock warrants issuance expenses	(30,124)	(26,556)
	<u>\$ 182,230</u>	<u>(96,175)</u>

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

G. Employee benefits, depreciation and amortization expenses

	For the three months ended March 31,	
	2015	2014
Employee benefit expenses		
Salary expense	\$ 534,559	542,652
Health and labor insurance expense	46,861	40,723
Pension expense	27,695	27,147
Others	15,360	21,053
Depreciation expense	44,231	47,426
Amortization expense	10,043	10,738
	\$ 678,749	689,739

H. Other operating expenses

	For the three months ended March 31,	
	2015	2014
Rental expense	\$ 52,272	53,136
Taxes	90,071	85,288
Information technology expense	46,954	42,664
Postage expense	33,418	30,481
Professional service fee	7,161	7,693
Other expenses	114,547	109,593
	\$ 344,423	328,855

I. Other gains and losses

	For the three months ended March 31,	
	2015	2014
Financial revenue	\$ 37,477	25,320
Exchange gains (losses)	(146)	(12,081)
Net gains on disposal of investment	129,131	50,516
Net gains (losses) on measurement of non-operating instruments at fair value through profit or loss	6,531	(48,315)
Net gains on disposal of property and equipment	-	2,999
Dividend revenue	2,008	1,941
Others	72,149	69,241
	\$ 247,150	89,621

(23) Financial instruments

A. Credit risk

a. Credit risk exposure

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

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As of March 31, 2015, December 31, 2014 and March 31, 2014, the maximum credit exposure amounted to \$68,202,180, \$58,415,368 and \$56,775,643, respectively.

b. Impairment losses

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

	March 31, 2015		December 31, 2014		March 31, 2014	
	Total amount	Impairment	Total amount	Impairment	Total amount	Impairment
Not past due	\$ 31,972,740	67,525	26,478,290	65,924	27,097,611	64,020
Past due 0~30 days	182	182	117	117	206	-
Past due 31~120 days	90	90	209	209	5,317	2,208
Past due 121~360 days	162	162	113	113	194	194
Past due more than one year	707	707	688	688	628	628
	\$ 31,973,881	68,666	26,479,417	67,051	27,103,956	67,050

Allowance for doubtful debts under receivables is recorded for the debt expense or impairment losses. Where a claim becomes definitely uncollectible, the allowance for doubtful debts should be written off to financial assets account. As of March 31, 2015, December 31, 2014 and March 31, 2014, the impairment losses of account receivables were recognized \$68,666, \$67,051 and \$67,050, respectively.

B. Liquidity risk

The following table shows the effect of contract maturity on financial liabilities. The Group predicts the cash flow occurring point or the actual amount of this maturity analysis will not be significantly earlier or different.

March 31, 2015	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 482,805	482,805	482,805	-	-	-	-
Stock warrants issued	659,282	659,282	633,936	25,346	-	-	-
Put options - futures	56,050	56,050	56,050	-	-	-	-
Value of swap contracts	10,723	10,723	5,332	460	(429)	5,360	-
Put options	388,644	388,644	68,922	35,801	205,441	78,480	-
Short-term borrowings	6,924,104	6,924,104	6,924,104	-	-	-	-
Commercial paper payable	5,148,641	5,150,000	5,150,000	-	-	-	-
Bonds sold under repurchase agreements	16,894,187	16,915,505	16,915,505	-	-	-	-
Securities financing refundable deposits	815,256	815,256	815,256	-	-	-	-
Deposits payable for securities financing	991,508	991,508	991,508	-	-	-	-
Securities lending refundable deposits	635,476	635,476	635,476	-	-	-	-
Futures traders' equity	11,472,000	11,472,000	11,472,000	-	-	-	-
Notes payable and accounts payable	347,116	347,116	347,116	-	-	-	-
Receipts under custody	1,629,231	1,629,231	1,629,231	-	-	-	-
Other payables	692,165	692,165	688,015	4,150	-	-	-
Long-term borrowings	1,300,000	1,300,000	-	-	-	1,300,000	-
Structured notes	3,464,361	3,464,361	3,256,024	62,744	120,378	25,215	-
	\$ 51,911,549	51,934,226	50,071,280	128,501	325,390	1,409,055	-

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December 31, 2014	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 1,043,849	1,043,849	1,043,849	-	-	-	-
Settlement coverage bonds payable of short sale	99,766	99,766	99,766	-	-	-	-
Stock warrants issued	633,190	633,190	560,487	72,703	-	-	-
Put options - futures	275,648	275,648	275,648	-	-	-	-
Value of swap contracts	4,422	4,422	(353)	396	639	3,740	-
Put options	348,450	348,450	38,817	54,326	192,673	62,634	-
Short-term borrowings	2,657,000	2,657,000	2,657,000	-	-	-	-
Commercial paper payable	1,749,717	1,750,000	1,750,000	-	-	-	-
Bonds sold under repurchase agreements	14,610,182	14,621,088	14,621,088	-	-	-	-
Securities financing refundable deposits	2,231,990	2,231,990	2,231,990	-	-	-	-
Deposits payable for securities financing	2,593,973	2,593,973	2,593,973	-	-	-	-
Securities lending refundable deposits	2,254,764	2,254,764	2,254,764	-	-	-	-
Futures traders' equity	11,743,420	11,743,420	11,743,420	-	-	-	-
Notes payable and accounts payable	532,062	532,062	532,062	-	-	-	-
Receipts under custody	125,703	125,703	125,703	-	-	-	-
Other payables	827,935	827,935	824,756	3,179	-	-	-
Long term liabilities - current portion	500,000	500,000	500,000	-	-	-	-
Structured notes	2,256,615	2,256,615	2,030,527	113,523	95,377	17,188	-
	\$ 44,488,686	44,499,875	43,883,497	244,127	288,689	83,562	-

March 31, 2014	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Financial liabilities at fair value through profit or loss - current							
Bond purchased under resale agreements - short sales	\$ 1,542,041	1,542,041	1,542,041	-	-	-	-
Liabilities on sale of borrowed securities	228,452	228,452	228,452	-	-	-	-
Stock warrants issued	630,999	630,999	609,302	21,697	-	-	-
Put options - futures	15,065	15,065	15,065	-	-	-	-
Equity derivatives	3	3	3	-	-	-	-
Value of swap contracts	1,057	1,057	(528)	(1,145)	1,679	1,051	-
Put options	385,111	385,111	62,644	57,606	143,473	121,388	-
Short-term borrowings	1,619,000	1,619,000	1,619,000	-	-	-	-
Commercial paper payable	5,198,779	5,200,000	5,200,000	-	-	-	-
Bonds sold under repurchase agreements	15,536,727	15,543,281	15,543,281	-	-	-	-
Securities financing refundable deposits	1,451,147	1,451,147	1,451,147	-	-	-	-
Deposits payable for securities financing	1,713,788	1,713,788	1,713,788	-	-	-	-
Securities lending refundable deposits	759,602	759,602	759,602	-	-	-	-
Futures traders' equity	8,189,564	8,189,564	8,189,564	-	-	-	-
Notes payable and accounts payable	141,276	141,276	141,276	-	-	-	-
Receipts under custody	137,737	137,737	137,737	-	-	-	-
Other payables	651,430	651,430	648,648	2,677	105	-	-
Structured notes	1,522,135	1,522,135	156,912	77,528	1,268,227	19,468	-
	\$ 39,723,913	39,731,688	38,017,934	158,363	1,413,484	141,907	-

C. Currency risk

a. Currency risk exposure

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

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				March 31, 2015		
				Foreign Currency	Exchange Rate	Amount
<u>Financial assets</u>						
<u>Monetary Item</u>						
	USD	\$	159,954	31.30		5,006,561
	HKD		115,685	4.04		467,369
	EUR		2,860	33.65		96,246
	JPY		345,321	0.2604		89,922
	GBP		448	46.24		20,711
	AUD		245	23.82		5,841
	SGD		344	22.76		7,831
	CNY		90,778	5.04		457,884
	KRW		1,541,304	0.0288		44,390
	THB		459	0.97		445
	MYR		(48)	8.21		(394)
<u>Non-Monetary Item</u>						
	USD		12,427	31.30		388,966
	HKD		71,960	4.04		290,718
	CNY		222,691	5.040		1,123,255
<u>Financial liabilities</u>						
<u>Monetary Item</u>						
	USD		155,266	31.30		4,859,819
	HKD		73,064	4.04		295,179
	EUR		2,588	33.65		87,078
	JPY		340,534	0.2604		88,675
	GBP		446	46.24		20,646
	AUD		244	23.82		5,823
	SGD		(9)	22.76		(211)
	KRW		1,433,743	0.0288		41,292
	THB		4,422	0.97		4,289
	MYR		(58)	8.21		(479)
	CNY		448	5.04		2,262
				December 31, 2014		
				Foreign Currency	Exchange Rate	Amount
<u>Financial assets</u>						
<u>Monetary Item</u>						
	USD	\$	132,108	31.65		4,181,228
	HKD		110,316	4.08		450,090
	EUR		1,689	38.47		64,988
	JPY		212,151	0.2646		56,135
	GBP		514	49.27		25,333
	AUD		122	25.91		3,154
	SGD		330	23.94		7,890
	KRW		716,514	0.0290		20,779
	CNY		91,417	5.092		465,496
	CAD		6	27.27		177
	CHF		1	31.98		16
	ZAR		7	2.74		19
	THB		74	0.97		72
<u>Non-Monetary Item</u>						
	USD		11,729	31.65		371,209
	HKD		73,465	4.08		299,737
	CNY		338,838	5.092		1,725,362

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

		December 31, 2014		
		Foreign Currency	Exchange Rate	Amount
<u>Financial liabilities</u>				
<u>Monetary Item</u>				
	USD	\$ 203,653	31.65	6,445,624
	HKD	89,121	4.08	363,615
	EUR	1,551	38.47	59,654
	JPY	207,167	0.2646	54,816
	GBP	506	49.27	24,931
	AUD	98	25.91	2,546
	KRW	666,162	0.0290	19,319
	SGD	(48)	23.94	(1,148)
	CNY	188,071	5.092	957,656
		March 31, 2014		
		Foreign Currency	Exchange Rate	Amount
<u>Financial assets</u>				
<u>Monetary Item</u>				
	USD	\$ 82,084	30.47	2,501,104
	HKD	137,451	3.93	540,183
	EUR	680	41.93	28,526
	JPY	176,039	0.2960	52,108
	GBP	428	50.71	21,690
	AUD	14	28.14	383
	SGD	357	24.17	8,632
	CNY	76,088	4.90	372,831
	KRW	1,506,645	0.0288	43,421
	CAD	6	27.55	163
<u>Non-Monetary Item</u>				
	USD	11,059	30.47	336,962
	HKD	56,677	3.93	222,739
	CNY	134,154	4.90	657,356
<u>Financial liabilities</u>				
<u>Monetary Item</u>				
	USD	107,298	30.47	3,269,357
	HKD	41,694	3.93	163,858
	EUR	551	41.93	23,112
	JPY	173,103	0.2960	51,239
	GBP	423	50.71	21,460
	KRW	1,458,395	0.0288	42,031
	SGD	98	24.17	2,370

Because there are a variety of functional currencies, the Group discloses a summary of its information on exchange gain or loss. The realized and unrealized exchange loss amounted to \$146 and \$12,081 for the three months ended March 31, 2015 and 2014, respectively.

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b. Sensitivity analysis

The Group's exposure to foreign currency risk arises mainly from cash and cash equivalents, other receivables, security borrowing margin, financial assets measured at fair value through profit or loss, customers margin accounts, futures traders' equity and securities lending refundable deposits, which are denominated in different foreign currencies. Foreign exchange gains or losses occur when translating the foreign currency assets to NTD assets. For the three months ended March 31, 2015 and 2014, given other factors remain constant, if NTD increase or decrease 5% contrary to other currencies, the net income will increase or decrease by \$107,708 and \$50,326 respectively.

D. Sensitivity analysis of interest rate risk

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and non-derivative financial instruments on the reporting date. For floating rate instruments, the sensitivity analysis assumes the liabilities are outstanding for the whole year at the reporting date. The Group's internal reports to key management level showed the increases or decreases in the interest rates and the exposure to changes in interest rates on 20 basis points so as to allow key management to evaluate the reasonableness of the changes in the interest rates.

If the interest rate increases or decreases 0.2% (20 basis points) with all other variable factors remain constant, the Group's net income will decrease or increase by \$2,037 and \$312 for the three months ended March 31, 2015 and 2014, this is mainly due to the Group's borrowing, investment, and saving in floating rates

E. Fair value and hierarchy information

a. Fair value information

1. General description

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Initially, financial instruments should be measured at fair value, which mostly refers to transaction price. Except for those measured at amortized cost, financial instruments are subsequently measured at fair value. A quoted market in an active market provides the most reliable evidence of fair value. If the market is not active, the Group determines the fair value of financial instruments in accordance with (a) the calculation of valuation techniques, (b) valuation provided by the professional electronic information company and commonly used by market participants, or (c) quoted prices of the counter party.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

2. Definition of fair value hierarchy

A) Level 1

The input of Level 1 is the public quote of the same financial instrument in an active market. An active market is a market that meets all the conditions listed below: Products traded in the market is of homogeneity; it is able to reach buyer and seller anytime in the market and the price information can be accessed by the public. Taiwan government bonds, equity instruments, debt instruments and derivative instruments with public quote in an active market possessed by the Group belong to Level 1.

B) Level 2

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

C) Level 3

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

b. Not based on fair value measurement

As of March 31, 2015, December 31, 2014 and March 31, 2014, the fair value information of the financial assets and financial liabilities of the Group was as follows:

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1. Fair value information

	March 31, 2015		December 31, 2014		March 31, 2014	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets :						
Cash and cash equivalents	\$ 4,416,833	4,416,833	4,227,583	4,227,583	3,339,566	3,339,566
Bonds purchased under resale agreements	-	-	-	-	2,082,470	2,082,470
Accrued receivable	32,558,358	32,558,358	27,735,151	27,735,151	27,616,539	27,616,539
Customer margin account	11,650,636	11,650,636	11,844,443	11,844,443	8,249,950	8,249,950
Pledged assets - current	577,319	577,319	471,000	471,000	471,000	471,000
Financial assets measured at cost - non-current	419,981	419,981	419,981	419,981	643,772	643,772
Investments under equity method	118,098	118,098	103,266	103,266	104,351	104,351
Other assets - non-current	1,879,659	1,879,659	2,091,837	2,091,837	2,106,270	2,106,270
Financial liabilities :						
Short-term borrowings	\$ 6,924,104	6,924,104	2,657,000	2,657,000	1,619,000	1,619,000
Commercial paper payable	5,148,641	5,148,641	1,749,717	1,749,717	5,198,779	5,198,779
Bonds sold under repurchase agreements	16,894,187	16,894,187	14,610,182	14,610,182	15,536,727	15,536,727
Accrued payable	12,241,311	12,241,311	13,978,460	13,978,460	13,777,705	13,777,705
Futures traders' equity	11,472,000	11,472,000	11,743,420	11,743,420	8,189,564	8,189,564
Other financial liabilities - current	3,311,024	3,311,024	2,140,965	2,140,965	234,440	234,440
Long-term liabilities - current portion	-	-	500,000	500,000	-	-
Long-term borrowings	1,300,000	1,300,000	-	-	-	-
Other financial liabilities - non-current	145,592	145,592	112,565	112,565	1,269,749	1,269,749
Other liabilities - non-current	337,611	337,611	337,611	337,611	340,939	340,939

2. Hierarchy information of fair value

	March 31, 2015			
	Total	Level 1	Level 2	Level 3
Investment property	2,835,952	-	-	2,835,952

3. Valuation techniques used in estimating the fair values of financial instruments

- A) For short term financial instruments, the fair values are determined based on their book value because of their short maturities. The method is applied to cash and cash equivalents, bonds purchased under resale agreements, accrued receivable, customer margin account, other current assets, other assets - non-current, short term borrowings, commercial paper payable, bonds sold under repurchase agreements, accrued payable, futures traders' equity, other financial liabilities - current, other financial liabilities - non-current, and other liabilities - non-current.
- B) Financial assets measured at cost and equity investments in unlisted stocks do not have the quoted market prices in an active market and the variability in the range of reasonable fair values is significant or the probabilities of the various estimates within the range cannot be reasonably assessed, so the fair value is unable to be reliably measured. Therefore, the Group considers the book value as a reasonable approximation of fair value.
- C) The investment properties were evaluated and estimated using Market Method based on the market evidence of transaction price of similar properties.

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c. Based on fair value measurement

1. Hierarchy information of fair value

The Group's financial instruments measured at fair value are evaluated on a recurring basis. The financial assets and liabilities measured at fair value as of March 31, 2015, December 31, 2014 and March 31, 2014 were as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>March 31, 2015</u>				
Financial assets at fair value through profit or loss	\$ 13,079,437	16,862,573	-	29,942,010
Available-for-sale financial assets	90,427	-	-	90,427
Derivative financial assets	289,760	47,633	-	337,393
	<u>\$ 13,459,624</u>	<u>16,910,206</u>	<u>-</u>	<u>30,369,830</u>
Financial liabilities at fair value through profit or loss	\$ 1,142,087	-	-	1,142,087
Derivative financial liabilities	56,050	407,112	-	463,162
	<u>\$ 1,198,137</u>	<u>407,112</u>	<u>-</u>	<u>1,605,249</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2014</u>				
Financial assets at fair value through profit or loss	\$ 10,719,554	14,010,574	-	24,730,128
Available-for-sale financial assets	85,587	-	-	85,587
Derivative financial assets	453,059	81,227	-	534,286
	<u>\$ 11,258,200</u>	<u>14,091,801</u>	<u>-</u>	<u>25,350,001</u>
Financial liabilities at fair value through profit or loss	\$ 1,776,805	-	-	1,776,805
Derivative financial liabilities	275,648	355,957	-	631,605
	<u>\$ 2,052,453</u>	<u>355,957</u>	<u>-</u>	<u>2,408,410</u>
<u>March 31, 2014</u>				
Financial assets at fair value through profit or loss	\$ 11,088,742	13,726,532	-	24,815,274
Available-for-sale financial assets	68,798	-	-	68,798
Derivative financial assets	341,574	46,233	-	387,807
	<u>\$ 11,499,114</u>	<u>13,772,765</u>	<u>-</u>	<u>25,271,879</u>
Financial liabilities at fair value through profit or loss	\$ 2,401,492	-	-	2,401,492
Derivative financial liabilities	15,065	404,117	-	419,182
	<u>\$ 2,416,557</u>	<u>404,117</u>	<u>-</u>	<u>2,820,674</u>

2. Valuation techniques

A) Non-derivative financial instruments

Financial instruments are initially recognized at fair value. For active markets, fair value is measured according to quoted prices. Publicly listed and over-the-counter traded equity instruments of primary stock exchanges along with central government bonds that are popular securities all regard active market quotes as the basis of fair value.

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

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

B) Derivative financial instruments

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

d. Transfer between Level 1 and Level 2

There is no significant transfer between Level 1 and Level 2 for the three months end March 31, 2015 and 2014.

e. Fair value adjustments

Limits of financial valuation models and unobservable inputs

Financial valuation techniques do not necessarily completely reflect all relevant elements of financial or non-financial instruments held by the Group. Thus, the outputs of financial valuation models may need necessary adjustments in line with important relevant elements. The valuation models and adjustment parameters was verified to ensure valuation procedures and results are in accordance with the requirements, so the valuation adjustments are pertinent and appropriate. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market condition.

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F. Transfer of financial assets

The transferred financial assets of the Group that are not qualified for de-recognition in the daily operation are mainly debt securities under repurchased agreements or equity securities under securities lending agreement. Since the right to receive cash flow is transferred and it reflects the associated liabilities to repurchase transferred financial assets at fixed price in future period, the Group cannot use, sell or pledge these transferred financial assets during the valid transaction period. However, the Group still bear the interest rate risk and credit risk, transferred financial assets are not fully derecognized. Financial assets that do not meet criteria for de-recognition and related financial liabilities are as below:

March 31, 2015					
Types of financial assets	Carrying amount of the transferred financial assets	Carrying amount of relevant financial liabilities	Fair value of the transferred financial assets (Note)	Fair value of relevant financial liabilities (Note)	Fair value net position (Note)
Under repurchase agreements	\$ 18,945,529	16,894,187	-	-	-

Note: The counterparties in repurchase agreements hold the right of recourse not merely on the transferred assets against the Company; hence according to IFRS 7 pg.42 D(d), disclosure of the fair values of transferred assets and their relevant liabilities and fair value net position is not mandatory.

G. Offsetting of financial assets and financial liabilities

The Group did not hold any financial instruments contract which meet Section 42 of the FSC endorsed by IAS 32, therefore, the financial assets and financial liabilities will be offset on the balance sheet.

The Group has transactions, such as repurchase and resell agreements, that are or are similar to net settled master netting arrangements but do not meet the offsetting criteria. The above transactions are settled on a net basis after offsetting financial assets with financial liabilities if both parties of the transaction choose to use net settlement; the above transactions are settled on a gross basis if both parties do not choose to use net settlement. However, if one party defaults, the other party can choose to use net settlement.

The offsetting of financial assets and liabilities information is as below:

March 31, 2015					
Financial assets under offsetting or general agreement of net amount settlement or similar norms					
Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offsetting in the balance sheet	Net amount of financial assets presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
(a)	(b)	(c)=(a)-(b)	Financial instruments (Note)	Cash received as collaterals	(e)=(c)-(d)
Derivative financial assets	\$ 47,633	-	47,633	-	-
	-	-	-	-	47,633

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

March 31, 2015

	Financial liabilities under offsetting or general agreement of net amount settlement or similar norms					
	Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offsetting in the balance sheet	Net amount of financial liabilities presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
				Financial instruments	Cash received as collaterals	
(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)	
Derivative financial liabilities	\$ 407,112	-	407,112	-	-	407,112
Under repurchase agreements	16,894,187	-	16,894,187	16,894,187	-	-
Total	\$ 17,301,299	-	17,301,299	16,894,187	-	407,112

December 31, 2014

	Financial assets under offsetting or general agreement of net amount settlement or similar norms					
	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offsetting in the balance sheet	Net amount of financial assets presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
				Financial instruments	Cash received as collaterals	
(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)	
Derivative financial assets	\$ 81,227	-	81,227	-	-	81,227

December 31, 2014

	Financial liabilities under offsetting or general agreement of net amount settlement or similar norms					
	Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offsetting in the balance sheet	Net amount of financial liabilities presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
				Financial instruments	Cash received as collaterals	
(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)	
Derivative financial liabilities	\$ 355,957	-	355,957	-	-	355,957
Under repurchase agreements	14,610,182	-	14,610,182	14,610,182	-	-
Total	\$ 14,966,139	-	14,966,139	14,610,182	-	355,957

March 31, 2014

	Financial assets under offsetting or general agreement of net amount settlement or similar norms					
	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offsetting in the balance sheet	Net amount of financial assets presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
				Financial instruments	Cash received as collaterals	
(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)	
Derivative financial assets	\$ 46,233	-	46,233	-	-	46,233
Under repurchase agreements	2,082,470	-	2,082,470	2,082,470	-	-
Total	\$ 2,128,703	-	2,128,703	2,082,470	-	46,233

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

March 31, 2014

	Financial liabilities under offsetting or general agreement of net amount settlement or similar norms					
	Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offsetting in the balance sheet	Net amount of financial liabilities presented in the balance sheets	Related amount not offset in the balance sheet (d)		
				Financial instruments	Cash received as collaterals	Net amount
(a)	(b)	(c)=(a)-(b)	(Note)			(e)=(c)-(d)
Derivative financial liabilities	\$ 404,117	-	404,117	-	-	404,117
Under repurchase agreements	15,536,727	-	15,536,727	15,536,727	-	-
Total	\$ 15,940,844	-	15,940,844	15,536,727	-	404,117

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

(24) Financial risk management

There is no material change in object and policy of financial risk management in comparison to Note 6(24) of the consolidated financial statements as of and for the year ended December 31, 2014.

As of March 31, 2015, December 31, 2014 and March 31, 2014, the related financial risk and the presentation of the Group's financial derivatives were as follows:

Stock warrants

A. Notional principal (nominal amount) and credit risk

Financial Instruments	March 31, 2015		December 31, 2014		March 31, 2014	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Stock warrants issued	\$ 21,499,208	-	41,313,589	-	10,485,696	-

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

B. Market risk

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

C. Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand.

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

securities prices. However, under the assumption of good market liquidity, cash flow risk is assessed to be low.

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

D. Type, purpose, and strategy of financial derivatives held

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

E. Presentation of financial derivatives

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

For the three months ended March 31, 2015 and 2014:

(1) Gains (losses) on valuation

	For the three months ended March 31,		Account
	2015	2014	
Stock warrants issued	\$ 4,427,929	3,539,664	Gains (losses) on stock warrants issued
Stock warrants repurchased	(4,309,564)	(3,627,007)	Gains (losses) on stock warrants issued

(2) Gains (losses) on sale

	For the three months ended March 31,		Account
	2015	2014	
Security borrowing	\$ (61,780)	(41,058)	Gains (losses) on covering of borrowed securities and bonds with resale
Trading securities - hedging	78,182	167,874	Gains (losses) on sale of trading
Futures	(72,072)	(8,507)	Gains (losses) on derivative financial instruments - futures

(3) Gains (losses) on maturity

	For the three months ended March 31,		Account
	2015	2014	
Stock warrants issued	\$ 2,544,778	2,910,042	Gains (losses) on stock warrants issued
Stock warrants repurchased	(2,450,789)	(2,892,318)	Gains (losses) on stock warrants issued

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Futures

A. Notional principal (nominal amount) and credit risk

Financial Instruments	March 31, 2015		December 31, 2014		March 31, 2014	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Taiex Futures	\$ 1,495,996	-	1,869,019	-	189,993	-
HSI Futures	-	-	14,383	-	4,335	-
Mini-TAIEX Futures	17,198	-	168,381	-	82,784	-
Electronic Sector Index Futures	13,696	-	14,672	-	-	-
Finance Sector Index Futures	57,195	-	54,853	-	-	-
Non-Finance Non-Electronics Sub-Index Futures	160,798	-	42,206	-	-	-
Stock Futures	88,451	-	37,077	-	32,773	-
Mini DJ index Futures	-	-	16,945	-	9,966	-
Wheat Futures	-	-	4,004	-	1,065	-
Soy bean Futures	-	-	6,604	-	6,656	-
H stock index Futures	-	-	-	-	3,976	-
Copper Futures	-	-	4,516	-	-	-
Crude oil Futures	-	-	5,097	-	-	-
Gold Futures	-	-	15,036	-	15,706	-
A50 Index Futures	16,707	-	16,106	-	1,645	-
JPMorgan (Taiwan) Sector Index Futures	-	-	-	-	127,640	-
S&P Futures	3,226	-	143,280	-	-	-
JPY dollar Futures	-	-	3,318	-	-	-
AUD dollar Futures	-	-	5,153	-	-	-
Natural gas Futures	-	-	1,931	-	-	-
Platinum Futures	-	-	-	-	4,301	-
Silver Futures	-	-	-	-	3,015	-
CHF dollars Futures	-	-	4,039	-	-	-
Sugar No.11 Futures	-	-	1,044	-	-	-
Mini - S&P	-	-	-	-	8,469	-
U.S. 5-Year T-Note Futures	172,389	-	-	-	-	-
U.S. 10-Year T-Note Futures	16,121	-	-	-	-	-
Taiex Options	66,623	-	174,945	-	21,421	-
Stock Options	27,378	-	302,876	-	25,165	-
Taiex Weekly Options	10,178	-	6,182	-	-	-
Electronic Sector Index Options	2,101	-	1,936	-	-	-
Finance Sector Index Options	2,485	-	2,659	-	-	-
S&P Sector Index Options	2,531	-	18,737	-	-	-
Gold Options	1,050	-	295	-	5	-
For non-trading purpose:						
Stock Futures	1,471,086	-	900,101	-	386,308	-
Taiex Futures	309,967	-	194,735	-	454,397	-
A50 Index Futures	328,631	-	-	-	-	-
Taiex Options	-	-	2,062	-	729	-
Taiex Weekly Options	-	-	-	-	119	-
Stock Options	-	-	19	-	-	-

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

B. Market risk

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

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

C. Liquidity risk, cash flow risk, and the amount, period and uncertainty of future cash demand

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

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

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

D. Presentation of financial derivatives

For the three months ended March 31, 2015 and 2014, gains (losses) on futures and options transactions amounted to (\$170,839) and \$981, respectively, and were reflected as gains or losses on derivative financial instruments - futures. As of March 31, 2015 and 2014, futures margin - proprietary fund amounted to \$238,503 and \$310,617, respectively, and were reflected as financial assets at fair value through profit or loss - current.

As of March 31, 2015 and 2014, the balance of call options which recognized as financial assets at fair value through profit or loss - current amounted to \$51,257 and \$30,957, respectively, put options which recognized as financial liabilities at fair value through profit or loss - current amounted to \$56,050 and \$15,065, respectively.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Derivative financial instruments - OTC

A. Interest rate financial derivatives

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

Financial Instruments	March 31, 2015		December 31, 2014		March 31, 2014	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
NT dollar interest swaps	\$ 52,400,000	-	53,440,000	-	53,290,065	-

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

(2) Market risk

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

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

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

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

For trading NT dollar interest rate swaps, the interest receivables or payables are derived through multiplying of its notional principals by interest rate differences on the settlement dates; and the amount is insignificant. Given that there is no physical transfer of principals on maturity, there is no liquidity risk, cash flow risk, or significant cash demand associated.

(4) Type, purpose, and strategy of financial derivatives held

The Group entered into non-trading NT dollar interest rate swaps with banks to hedge against interest rate fluctuations of claims and obligations. The Group's strategy is to avoid most of the market risk. Financial derivatives exhibiting highly negative correlation with the fair value of hedged items are used as hedging instruments and evaluated periodically.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The Group engages in trading NT dollar interest rate swaps to gains from the differences in interest rates upon evaluation of the trending of interest rates.

B. Structured notes

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

Financial Instruments	March 31, 2015		December 31, 2014		March 31, 2014	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Equity-linked notes	\$ 39,272	-	16,000	-	15,000	-
Principal guaranteed notes	3,085,652	-	1,932,968	-	1,193,040	-
Credit-linked notes	333,800	-	304,800	-	310,000	-

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

(2) Market risk

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

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

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

C. Convertible bond asset-backed swaps

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

Financial Instruments	March 31, 2015		December 31, 2014		March 31, 2014	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Convertible bond asset-backed swaps	\$ 1,192,900	-	1,038,100	-	1,087,500	-
Convertible bond options	3,027,000	-	2,857,500	-	2,188,300	-

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

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

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(2) Market risk

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

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

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

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

The underlying assets of Convertible bond option transaction in which the Group engages in were acquired through underwriting or proprietary trading. Prior to issuing convertible bond options, the Group has collected premium or margins from investors; therefore there is no significant liquidity risk.

D. Options

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

<u>Financial Instruments</u>	<u>March 31, 2015</u>		<u>December 31, 2014</u>		<u>March 31, 2014</u>	
	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>
For trading purpose:						
Equity options	\$ -	-	-	-	10,000	-

The counterparties that the Group entered into for derivative transactions were all well-known financial institutions with good credit ratings. The Group does not expect the counter-party to default and hence, credit risk is low.

(2) Market risk

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(3) Liquidity risk, cash flow risk, and the amount of future cash demand

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

E. Presentation of derivative financial instruments – OTC

As of March 31, 2015, December 31, 2014 and March 31, 2014, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options and convertible bond asset-backed swaps were presented on the balance sheets as follows:

	<u>March 31, 2015</u>	<u>December 31, 2014</u>	<u>March 31, 2014</u>
Financial assets at fair value through profit or loss - current			
IRS asset swaps	\$ 23,883	25,952	25,013
Currency swaps	1,744	45,318	4,931
Asset swap options - long position	21,819	9,881	16,273
Structured notes	187	76	16
Total	<u>\$ 47,633</u>	<u>81,227</u>	<u>46,233</u>
Financial liabilities at fair value through profit or loss - current			
Asset swap options - short position	\$ 388,644	348,450	385,111
IRS asset swaps	2,200	249	327
Equity derivatives	-	-	3
Structured notes	7,745	3,085	17,946
Currency swaps	4,783	503	-
Interest rate swaps	3,740	3,670	730
Total	<u>\$ 407,112</u>	<u>355,957</u>	<u>404,117</u>
Other financial liabilities - current			
Structured notes principal value	<u>\$ 3,311,024</u>	<u>2,140,965</u>	<u>234,440</u>
Other financial liabilities - non-current			
Structured notes principal value	<u>\$ 145,592</u>	<u>112,565</u>	<u>1,269,749</u>

For the three months ended March 31, 2015 and 2014, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options and convertible bond asset-backed swaps were presented on statements of income as follows:

	<u>For the three months ended March 31,</u>			
	<u>2015</u>		<u>2014</u>	
	<u>Gains (losses) on derivative financial instruments - OTC</u>	<u>Unrealized Gains (losses)</u>	<u>Gains (losses) on derivative financial instruments - OTC</u>	<u>Unrealized Gains (losses)</u>
Interest rate swaps	\$ (878)	(3,740)	(1,797)	(731)
Equity derivatives	56	-	682	716
Structured notes	(10,510)	(5,660)	(5,641)	(4,155)
IRS asset swaps	144	379	164	454
Asset swap options	(84,528)	(48,661)	(158,724)	(138,651)
Currency swaps	(14,826)	(3,038)	7,363	-
Total	<u>\$ (110,542)</u>	<u>(60,720)</u>	<u>(157,953)</u>	<u>(142,367)</u>

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(25) Capital management

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

As of March 31, 2015, the Company maintains no change of its capital management.

7. RELATED PARTY TRANSACTIONS

(1) Parent company and ultimate controlling party

The Company is the ultimate controlling party of the Group.

(2) Key management personnel transactions

A. Key management personnel compensation:

	For the three months ended March 31,	
	2015	2014
Short-term employee benefits	\$ 71,326	64,787
Post-employment benefits	463	485
Termination benefits	1,056	-
Total	\$ 72,845	65,272

B. Bond transactions- bonds sold under repurchase agreements

Bonds sold under repurchase agreements between key management personnel of March 31, 2015, December 31, 2014 and March 31, 2014 were as follows:

	March 31, 2015		December 31, 2014		March 31, 2014	
	Par value	Purchase price	Par value	Purchase price	Par value	Purchase price
Key management personnel	\$ 57,500	59,021	56,400	60,914	59,300	63,623

Total financial expenses	For the three months ended March 31,	
	2015	2014
Key management personnel	\$ 102	130

C. Structured notes transactions

As of March 31, 2015, December 31, 2014 and March 31, 2014, the balances of structured notes transactions with key management personnel were \$23,600, \$22,200 and \$23,900, respectively.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(3) Significant transactions with related parties

A. Bond transactions- bonds sold under repurchase agreements

Bonds sold under repurchase agreements between subsidiaries and affiliates of March 31, 2015, December 31, 2014 and March 31, 2014 were as follows:

	March 31, 2015		December 31, 2014		March 31, 2014	
	Par value	Purchase price	Par value	Purchase price	Par value	Purchase price
Subsidiaries	\$ 20,500	21,112	12,500	13,089	12,200	13,146
Affiliates	4,900	4,900	11,000	11,300	29,600	30,905
Total	\$ 25,400	26,012	23,500	24,389	41,800	44,051

Total financial expense	For the three months ended March 31,	
	2015	2014
Subsidiaries	\$ 27	27
Affiliates	18	57
Total	\$ 45	84

Transaction terms are the same as those with general clients.

B. Lease agreements

a. Lease revenue

	For the three months ended March 31,	
	2015	2014
Subsidiaries	\$ 259	259

b. Guarantee deposits received

	March 31, 2015	December 31, 2014	March 31, 2014
Subsidiaries	\$ 200	200	200

C. Insurance commission income

The Group assists subsidiaries to recruit insurance contracts and charge commission income. The details were as follows:

a. Commission revenue

	For the three months ended March 31,	
	2015	2014
Subsidiaries	\$ 2,375	5,819

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

b. Accounts receivable

	March 31, 2015	December 31, 2014	March 31, 2014
Subsidiaries	\$ 381	311	472

J. Brokerage commissions

The investors of CSC Securities (HK) Ltd. traded of market securities with the Company through the trust account named “Capital Securities Nominee Limited” for the three months ended March 31, 2015 and 2014, the brokerage commissions were \$2,122 and \$923, respectively.

L. The Company issued Letter of Comfort to the banks which loaned to subsidiaries.

8. PLEDGED ASSETS

The following assets were pledged as collateral or restricted in use on March 31, 2015, December 31, 2014 and March 31, 2014:

	March 31, 2015	December 31, 2014	March 31, 2014	The collateral use
Restricted assets - current	\$ 577,319	471,000	471,000	Bank borrowings, commercial paper, accounts settled, money trust (Annotation 1) and guaranty deposited for business operations (Annotation 2)
Restricted assets - non - current	234,541	184,508	196,585	Trust to a impartial third party (Note 12(4)) and the amount of provisional seizure (Note 9(13))
Trading securities and bonds purchased under resale agreements	16,975,500	13,462,900	17,041,030	Repurchase agreement
Property and equipment	4,096,670	4,178,183	4,615,552	Bank borrowings
Financial assets at fair value through profit or loss - non-current	188,695	189,262	209,018	Guaranty deposited for bills, interest rate swaps business, structured notes business and settlement fund
Investment property	896,997	825,570	418,461	Bank borrowings
Total	\$ 22,969,722	19,311,423	22,951,646	

Annotation 1 : Money trust received form the client by the subsidiary TIS Securities (HK) limited

Annotation 2 : According to the request of Financial Supervisory Commission No. 09600744341, the guaranty deposit for business operations which Taiwan International Futures Corp. deposited can't be transferred to the its own working capital temporarily for protecting creditors.

9. SIGNIFICANT CONTINGENT LIABILITY AND UNRECOGNIZED CONTRACT COMMITMENT

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	March 31, 2015		December 31, 2014		March 31, 2014	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities procured through margin purchase	1,072,393	\$ 10,723,930	1,058,730	10,587,300	1,078,133	10,781,330
Collateral for margin purchase	3,992	39,920	5,985	59,850	4,343	43,430
Collateral for short sales	3,998	39,980	7,293	72,930	7,600	76,000
Lending securities to customers through short sales	18,229	182,290	49,606	496,060	36,623	366,230

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

	March 31, 2015		December 31, 2014		March 31, 2014	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities borrowed from securities finance companies	3	\$ 30	573	5,730	929	9,290
Collateral for refinancing margin	-	-	217	2,170	65	650

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

	March 31, 2015	December 31, 2014	March 31, 2014
Promissory notes	<u>\$ 21,340,000</u>	<u>20,820,000</u>	<u>20,720,000</u>
Promissory notes	<u>USD 80,000</u>	<u>USD 80,000</u>	<u>USD 50,000</u>

- (4) The Company designated Mr. Liu as a consultant to assist expanding brokerage business and entered into a non-competition agreement with him. The Company paid the consulting fee according to the actual operating performance. During March, 2011, Mr. Liu and the Company re-signed a supplementary to replace the old agreement and the major difference is the annual consulting fee is fixed for \$16,000. The effective period is from January 1, 2011 to March 31, 2016. The Company already recognized \$4,000 both as miscellaneous expense for the three months ended March 31, 2015 and 2014.
- (5) Securities and Futures Investors Protection Center claims against the Company for compensation of \$2,004; due to the fact that the Company, being the underwriter of client's year 2002 cash capital increase case had provided false information on the contents disclosed in the prospectus. The case is under the trial of Taiwan Shilin District Court. According to the opinion from the attorney of the Company, the case had no impact to the Company.
- (6) The client, Mr. Wu, declared that a resigned employee of Tung-Hu branch stole and sold off his stocks and withdrew his deposit illegally. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation for damages of \$36,000 with additional interests. Based on Year 2008 Chung Su No.684 verdict, the Taiwan Taipei District Court ruled in favor of the Company. Mr. Wu was unwilling accept the result and appealed to the high court. This case is currently under the review of the Taiwan High Court. According to the opinion from the attorney of the Company, the case is a personal financial dispute between customer and the former employee and had no impact to the Company.
- (7) The client, Mr. Chen, declared that Entie Securities Finance Ltd. (the Company's merged entity) did not return the remaining amount of the transaction and requested the Company to reimburse \$1,826 and related interests. Taiwan High Court ruled in favor of the Company. The client was not willing to accept the verdict and filed an appeal. It is currently under the review of the Taiwan Supreme Court.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (8) According to the documentation No. 0990030563 verdict of Financial Supervisory Commission (dated June 14, 2010), Taiwan International Securities Corporation (hereinafter known as "TISC") is suspected to violate the Regulations Governing Securities Firms due to some employees selling private placed products of Genesis Growth Income Preferred Shares B1 issued by GVEC (Genesis Voyager Equity Corporation, Danny Pang as related party) privately. According to the understanding and inspection of TISC, some employees may have been selling the aforementioned product and the suspected sales amount is US\$15 million. However, relevant evidence is still under inspection and the legal responsibilities are pending clarification. Some investors instituted proceedings towards TISC and claimed damages amounting to US\$7,956,873 (including claim amount US\$280,000 towards Taiwan International Securities Investment Consulting Corp.). As of March 31, 2015, the damages claimed for amounted to US\$2,152,075 which is favorable to the Company instead of US\$5,026,873; and the investors reached compromises to waive off the appeal rights. Since the case is currently on trial, the possible loss remains uncertain at the moment according to the opinion from the attorney of the Company. Nevertheless, the Company had signed an agreement with the Unitech Printed Circuit Board Corp. and the other nine companies which were the original major shareholders of TISC on May 2, 2011, the date of merger with TISC. According to this agreement, the maximum claim damage compensation afford by the Company is \$173,000, thus the Company recognized this amount as other liabilities.
- (9) Ding-Li Assets Management Co., Ltd. (hereinafter known as "Ding-Li") acquired the financing creditor's right of Mr. Huang and two other person and claimed that employees of Chang-Li Securities Corp. and Da-Yong Securities Corp. opened these three people's accounts without their consent. Since Chang-Li Securities Corp. and Da-Yong Securities Corp. were acquired by the Company, Ding-Li filed a lawsuit on December 17, 2014 to claim against the Company; amounting to \$1,800 As of March 31, 2015. The case is currently under the review of the Taiwan Taipei District Court.
- (10) The original shareholder of Taiwan International Securities Corporation (hereinafter known as "TISC"), China Development Financial Holdings (hereinafter known as "CDFH"), possessed a different point of view towards the election motion of 2009 shareholder's meeting and instituted a proceeding in terms of the existence of fiduciary relation toward the TISC. On June 4, 2010, Taiwan Taipei District Court ruled that the fiduciary relation between TISC and aforementioned board of directors and supervisors was not existed based on Year 2009 No. 1086 verdict. The CDFH and TISC both appealed to the verdict. On July 12, 2011, Taiwan High Court ruled that the CDFH has no legal interests in demanding such judgment after the Company merged the TISC and reversed the original judgment and dismissed all the related appeals based on Year 2010 No. 507 verdict. The CDFH appealed to Taiwan Supreme Court. Taiwan Supreme Court reversed the case to Taiwan High Court based on July 19, Year 2012 No 1093 verdict that the original verdict was in contravention of the laws because the distributing method of the remuneration for directors and supervisors was not explained.
- (11) The Company provided the Letter of Comfort for its subsidiary CSC International Holdings Ltd. and CSC securities (HK) Ltd.
- (12) The client of a former employee of the subsidiary, Capital Futures Corporation (hereinafter known as "CFC"), illegally conducted future transactions. CFC discovered the incident and reported to the competent authority. Due to the former employee might have certain illegal behavior that was related to his duty in CFC, CFC was under a lawsuit for its joint liability

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(Plaintiff: Securities and Futures Investors Protection Center) for compensation. Because the future traders of the lawsuit are less than 20 people as regulated in the law, the lawsuit was ruled not legitimate and was confirmed overruled by Taipei District Court in November 2011. The other six clients appealed for a criminal case with supplementary civil action and requested the Company and its employee Mr. Hsu for joint compensation. The case was confirmed overruled by Taiwan High Court in May 2013 and interlocutory appeal is not accepted. However, CFC received an indictment from a client in January 2015, based on relevant evidence and previous verdicts, CFC believed that there is no need to compensate and therefore it did not recognize any liability and authorize no lawyer. CFC attended the court in April 29, 2015, and the Taiwan Taipei District Court ruled in favor of CFC.

- (13) In October 2005, the former account executive of the Company's subsidiary - Taiwan International Futures Corporation (hereinafter known as "TIFC") was suspected for deceiving futures investors and causing a material loss. Several investors institute proceedings towards TIFC and claim joint responsibility of compensation for damages. After viewing by TIFC and its attorney, those litigations were classified by actual situations and relevant matters, thereon adopted different solutions. As of March 31, 2015, sixteen litigations with civic claim were filed (including seven cases with ancillary civil action transferred from Taiwan Taipei District Court Criminal Division to Taiwan Taipei District Court Civic Division). Two litigations had been settled and dismissed. Eleven litigations were ruled in favor of TIFC by Taiwan Supreme Court, Taiwan High Court and Taiwan Taipei District Court, respectively. Two litigations were ruled by Supreme Court that the resigned-employee and TIFC should be jointly responsible for the compensation for damages, and TIFC had indemnified \$52,701 for the investor. One litigation was ruled a partial victory and a partial defeat by Taiwan Taipei District Court on December 22, 2008, Taiwan High Court on May 25, 2010, Taiwan Supreme on June 30, 2011, and Taiwan High Court on February 19, 2014. TIFC has appealed and Taiwan Supreme Court remanded the case to Taiwan High Court on July 14, 2014. As of March 31, 2015, TIFC has paid \$162,812 for compensation and the estimated losses amounted to \$254,389 in other liabilities -non-current.

The alleged damages amounted to \$284,139 for those two litigations are still on trial. In addition, the plaintiffs of those four cases applied to the court for provisional seizure and the amount of provisional seizure and execution fees were \$222,991.

As of March 31, 2015, the objects of provisional seizure were as follows:

	<u>Provisional Seizure Amount</u>	
Bank deposit	\$	88,821
Clearing and Settlement fund		15,121
Accounts receivable		9
Other accounts receivable		4
	<u>\$</u>	<u>103,955</u>

The Financial Supervisory Commission Executive Yuan voided TIFC's business license on December 27, 2007. Thus, the shareholders' special meeting of TIFC decided to dissolve the company on September 18, 2008. Mr. Kuo, a certified public accountant, and Mr. Liu, a lawyer were designated as liquidators. TIFC is still in the process of liquidation.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

10. SIGNIFICANT CATASTROPHIC LOSS : NONE

11. SIGNIFICANT SUBSEQUENT EVENTS :

In order to attract strategic investors, the subsidiary, Capital Futures Corporation, signed Equity Transfer Agreement on January 1, 2015 and sold 5%, which equals 6,000 thousand shares, of the shares of CSC Futures (HK) Ltd. to True Partner Holding Limited, the price for each share was HKD 1 and the total proceeds from the shares sold amounted to HKD 6,000 thousands. The base date of the transfer is determined on April 30, 2015.

The Board of Directors of the subsidiary, Capital Futures Corporation, resolved to invest USD \$1,123 thousands to acquire 49% equity of True Partner Advisor Hong Kong Limited on April 27, 2015. As of May 13, 2015, the date of the accompanying independent accountants' review report, the base date of the transfer is pending to be determined by both sides.

The Board of Directors resolved to invest amounting USD \$38,710 thousands in CSC International Holdings Ltd. on January 28, 2015. The investment is currently under the review of the Authority.

The Board of Directors resolved to establish the venture capital company with investment \$1,000,000. The investment is currently under the review of the Authority.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

12. OTHERS

- (1) As of March 31, 2015, December 31, 2014, March 31, 2014, the open positions of futures and option contracts were as follows:

A. March 31, 2015

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	Taix Futures	Long	588	\$ 1,135,871	1,138,727	
	Taix Futures	Short	329	(670,092)	(673,188)	
	Mini-Taix Futures	Short	36	(17,198)	(17,248)	
	Electronic Sector Index Futures	Short	9	(13,696)	(13,703)	
	Non-Finance Non-Electronics Sub-Index Futures	Long	788	131,345	131,995	
	Non-Finance Non-Electronics Sub-Index Futures	Short	25	(29,453)	(29,468)	
	Stock Futures	Long	523	123,369	124,895	
	Stock Futures	Short	8,349	(1,436,168)	(1,435,672)	
	Finance Sector Index Futures	Short	51	(57,195)	(57,271)	
	S&P Futures	Short	1	(3,226)	(3,201)	
	A50 Index Futures	Short	935	(345,338)	(348,033)	
	US 5-Year T-Note Futures	Long	46	172,389	173,080	
	US 10-Year T-Note Futures	Long	4	16,121	16,139	
	Subtotal			(993,271)		
Options contract :						
	Taix Options (Call)	Long	3,594	8,454	9,673	
	Taix Options (Put)	Long	14,113	19,614	17,339	
	Taix Options (Call)	Short	6,942	(21,677)	(19,851)	
	Taix Options (Put)	Short	11,405	(16,877)	(13,448)	
	Stock Options (Call)	Long	2,381	4,295	8,005	
	Stock Options (Put)	Long	10,346	15,157	8,763	
	Stock Options (Call)	Short	1,828	(6,002)	(13,595)	
	Stock Options (Put)	Short	728	(1,924)	(1,373)	
	Taix Weekly Options (Call)	Long	4,070	1,640	1,778	
	Taix Weekly Options (Put)	Long	10,456	1,883	847	
	Taix Weekly Options (Call)	Short	3,291	(3,061)	(2,821)	
	Taix Weekly Options (Put)	Short	1,168	(3,594)	(2,789)	
	Gold option (Call)	Long	286	586	189	
	Gold option (Put)	Long	106	266	235	
	Gold option (Call)	Short	28	(91)	(66)	
	Gold option (Put)	Short	61	(107)	(87)	
	Electronic Sector Index Options (Call)	Long	257		102	
	Electronic Sector Index Options (Put)	Long	144	534	1,260	
	Electronic Sector Index Options (Call)	Short	208	(552)	(152)	
	Electronic Sector Index Options (Put)	Short	252	(397)	(438)	
	Finance Sector Index Options (Call)	Long	476	1,196	1,360	
	Finance Sector Index Options (Put)	Long	493	896	759	
	Finance Sector Index Options (Call)	Short	55	(68)	(55)	
	Finance Sector Index Options (Put)	Short	39	(325)	(201)	
	S&P Sector Index Options (Call)	Long	107	850	248	
	S&P Sector Index Options (Put)	Long	11	508	699	
	S&P Sector Index Options (Call)	Short	22	(642)	(735)	
	S&P Sector Index Options (Put)	Short	13	(531)	(439)	
	Subtotal			649		
Total				\$ (992,622)		

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

B. December 31, 2014

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/ Short	Number of contracts			
Futures contract :						
	Taixex Futures	Long	62	\$ 228,649	229,455	
	Taixex Futures	Short	964	(1,835,105)	(1,835,101)	
	Mini-Taixex Futures	Long	365	168,381	169,378	
	Electronic Sector Index Futures	Long	10	14,672	14,792	
	Finance Sector Index Futures	Short	51	(54,853)	(55,192)	
	Non-Finance Non-Electronics Sub-Index Futures	Long	37	42,206	42,162	
	Stock Futures	Long	1,276	194,200	197,026	
	Stock Futures	Short	3,998	(742,978)	(759,364)	
	HSI Futures	Long	3	14,383	14,473	
	Mini DJ index futures	Short	6	(16,945)	(16,856)	
	Wheat Futures	Short	4	(4,004)	(3,733)	
	Soy bean Futures	Short	4	(6,604)	(6,479)	
	Copper Futures	Short	2	(4,516)	(4,471)	
	Gold Futures	Short	4	(15,036)	(14,991)	
	Crude oil Futures	Short	3	(5,097)	(5,058)	
	AUD dollars Futures	Short	2	(5,153)	(5,141)	
	JPY dollars Futures	Long	1	3,318	3,303	
	CHF dollars Futures	Short	1	(4,039)	(3,986)	
	Sugar No.11 Futures	Long	2	1,044	1,029	
	Natural gas Futures	Short	2	(1,931)	(1,829)	
	A50 Index Futures	Short	46	(16,106)	(16,832)	
	S&P Futures	Long	44	143,280	141,280	
	Subtotal			(1,902,234)		

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/ Short	Number of contracts			
Options contract :						
	Taix Options (Call)	Long	16,832	\$ 37,986	79,495	
	Taix Options (Put)	Long	10,509	25,936	11,831	
	Taix Options (Call)	Short	3,087	(48,673)	(67,453)	
	Taix Options (Put)	Short	12,706	(64,411)	(35,779)	
	Stock Options (Call)	Long	19,875	74,565	110,259	
	Stock Options (Put)	Long	57,443	96,330	54,772	
	Stock Options (Call)	Short	26,307	(71,790)	(123,807)	
	Stock Options (Put)	Short	8,044	(60,210)	(26,400)	
	Taix Weekly Options (Call)	Long	51	7	8	
	Taix Weekly Options (Put)	Long	1,474	231	252	
	Taix Weekly Options (Call)	Short	1,711	(2,714)	(2,755)	
	Taix Weekly Options (Put)	Short	2,009	(3,230)	(2,776)	
	Electronic Sector Index Options (Call)	Long	280	360	605	
	Electronic Sector Index Options (Put)	Long	301	1,143	320	
	Electronic Sector Index Options (Call)	Short	66	(297)	(496)	
	Electronic Sector Index Options (Put)	Short	32	(136)	(54)	
	Finance Sector Index Options (Call)	Long	493	1,418	2,974	
	Finance Sector Index Options (Put)	Long	586	1,088	372	
	Finance Sector Index Options (Call)	Short	118	(153)	(62)	
	S&P Sector Index Options (Call)	Long	34	685	758	
	S&P Sector Index Options (Put)	Long	65	658	2,124	
	S&P Sector Index Options (Call)	Short	53	(5,540)	(11,994)	
	S&P Sector Index Options (Put)	Short	155	(11,854)	(3,982)	
	Gold option (Call)	Long	24	48	58	
	Gold option (Put)	Long	20	80	66	
	Gold option (Call)	Short	1	(1)	(1)	
	Gold option (Put)	Short	169	(166)	(89)	
	Subtotal			(28,640)		
Total				\$ (1,930,874)		

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

C. March 31, 2014

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	Taix Futures	Long	42	\$ 86,328	86,782	
	Taix Futures	Short	315	(558,062)	(565,428)	
	Mini-Taix Futures	Long	190	82,784	83,505	
	Stock Futures	Long	836	74,327	74,781	
	Stock Futures	Short	2,462	(344,754)	(355,555)	
	Gold Futures	Short	4	(15,706)	(15,647)	
	JPMorgan (Taiwan) Sector Index Futures	Short	135	(127,640)	(128,463)	
	HSI Future	Short	1	(4,335)	(4,347)	
	Mini DJ index Futures	Long	4	9,966	9,978	
	Wheat Futures	Long	1	1,065	1,062	
	Soy bean Futures	Long	3	6,656	6,691	
	Silver Futures	Short	1	(3,015)	(3,009)	
	Mini - S&P	Long	3	8,469	8,522	
	H Stock Index Futures	Long	2	3,976	3,959	
	A50 Index Futures	Short	63	(1,645)	(1,634)	
	Platinum Futures	Long	2	4,301	429	
	Subtotal			(777,285)		
Options contract :						
	Taix Options (Call)	Long	2,648	6,014	11,844	
	Taix Options (Put)	Long	1,134	7,922	2,972	
	Taix Options (Call)	Short	2,423	(2,792)	(4,850)	
	Taix Options (Put)	Short	501	(5,422)	(1,819)	
	Stock Options (Call)	Long	1,752	3,683	3,563	
	Stock Options (Put)	Long	4,347	12,569	12,574	
	Stock Options (Call)	Short	743	(5,027)	(1,665)	
	Stock Options (Put)	Short	39	(3,886)	(6,602)	
	Gold option (Put)	Short	10	(5)	(7)	
	Taix Weekly Options (Put)	Long	60	68	4	
	Taix Weekly Options (Call)	Short	60	(51)	(122)	
	Subtotal			13,073		
Total				\$ (764,212)		

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (2) Restrictions and enforcement of the Group's various financial ratios under futures trading law

A. Subsidiary - Capital Futures Corp.

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	Stockholders' equity	2,751,622	12.51	2,122,762	14.51	≥ 1	Satisfactory to requirement
	(Total liabilities –futures traders' equity)	219,972		146,318			
17	Current Assets	13,572,780	1.15	9,491,956	1.14	≥ 1	"
	Current Liabilities	11,756,064		8,298,769			
22	Stockholders' equity	2,751,622	384.84%	2,122,762	296.89%	≥ 60%	"
	Minimum paid-in capital	715,000		715,000		≥ 40%	
22	Post-adjustment net capital	1,929,995	87.19%	1,433,937	106.05%	≥ 20%	"
	Total customer margin deposits required for open positions of customers	2,213,607		1,352,071		≥ 15%	

- B. The Department of Managed Futures Enterprises of the subsidiary Capital Futures Corp. commenced with conducting discretionary futures trading business on September 29, 2010. In accordance with the Regulations Governing Managed Futures Enterprises Article 31 and the Financial Supervisory Commission issued No. Financial-Supervisory-Futures-10100480292, the ratio between the total transaction amount of discretionary futures trading business and its net value should be within the limitations listed below:

Art.	Calculation formula	Current Period		Last Period		Standard	Enforcement
		Calculation	Multiple	Calculation	Multiple		
31	Total transaction amount of discretionary futures trading business	40,000	0.43	2,122,762	14.51	≤ 10	Satisfactory to requirement
	Net value	93,222		146,318			

- (3) 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 futures firm needs sufficient liquidity to cover the transactions and suffer the loss may occur.

- (4) Taiwan International Securities Corp. (hereinafter known as "TISC"), the Company's merged entity, entrusted \$182,000 to an impartial third party on the merging date with First Securities Co., Ltd. and Far East Securities Co., Ltd. In relations to the agreement of indemnification to the stockholders with aforementioned companies arising from the fraud matter of Taiwan International Futures Corporation (hereinafter known as "TIFC"). Such deposit shall be allocated by the trustee to the stockholders who are merged in proportion of their shareholdings in TISC, after being decided by the court or accommodated by the investors of TIFC.

As of March 31, 2015, TIFC had reached partial consensus with its investors, and the accumulated amount of compensation was \$162,812. According to the indemnification to

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

the former stockholders of First Securities Co., Ltd. and Far Eastern Securities Co., Ltd, the Company needs to pay all of the compensation to the company participating in the merger. As of March 31, 2015, the trust amount of the impartial third party is \$130,586 and the accumulated compensation expense is \$51,414.

13. DISCLOSURES REQUIRED

(1) Information on significant transaction:

The followings are the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group:

- A. Loans to others: Exhibit 1.
- B. Endorsements and guarantee for others: None.
- C. Acquisition of real estate over \$100 million or 20% of paid-in capital: None.
- D. Disposal of real estate over \$100 million or 20% of paid-in capital: None.
- E. Discount on commissions of transactions with related parties over \$5 millions: None.
- F. Receivables from related parties over \$100 million or 20% of paid-in capital: None.
- G. Details of material transactions between parent company and subsidiaries: Exhibit 2.

(2) Information on reinvestment business: Exhibit 3.

(3) Information on investments in China:

A. Investment in Mainland China and related information :

Name of the investee in Mainland China	Major operations	Issued capital	Method of investment (Note 1)	Accumulated remittance as of January 1, 2015	Remittance or recoverable investment this period		Accumulated remittance as of March 31, 2015	Net gains or losses of investee	Direct or indirect shareholdings (%) by the company	Investment gains or losses recognized during this period (Note 2)	Ending balance of investment	Investment income remitted back as of March 31, 2015
					Remittance amount	Recoverable amount						
Capital True Partner Co., Ltd.	Management, consulting and information service business	5,013	A	-	24,372	-	24,372	(1,734)	30.10%	(522) B (3)	13,864	-

Note 1: Investment methods are classified into the following three categories:

- A. Directly invest in a company in Mainland China.
- B. Through investing in an existing company in the third area, which then invested in the investee in Mainland China (Please indicate the investee name of the third area).
- C. Other.

Note 2: Investment gains and losses recognized during the period

- A. It should be indicated if the investee was still in the incorporation arrangements and had not yet any profit during this period.
- B. Indicate the basis for investment gains and losses recognition in the number of one of the following three categories:
 - (1) The financial statements that are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.
 - (2) The financial statements that are audited and attested by R.O.C. parent company's CPA.
 - (3) The financial statements that are provided by the investee without audited by CPA.

Note 3: Above information is expressed in New Taiwan Dollars.

B. Quota for investment in China: None.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

14. SEGMENT INFORMATION:

(1) Operating segment information

The operating segments are consistent with the internal reports provided to the chief operating decision-maker. The Group's operating segments are classified into brokerage, underwriting, dealing, derivative instrument and reinvestment according to the sources of revenue. The remaining operating results which have not reached the threshold requirements are consolidated in 'other operating segments'. Sources of income from products and services rendered by each segment are as follows:

- A. Brokerage segment: Engaged in brokerage trading, margin trading, and securities lending business.
- B. Underwriting segment: Engaged in providing advisory on initial public offering or to register on the emerging or listed market, securities underwriting and sales, corporate finance, mergers and acquisitions.
- C. Dealing segment: Engaged in trading securities and related listed stock instruments on a proprietary basis.
- D. Derivative instrument segment: Engaged in the investment, consultancy and issuance of derivative instruments.
- E. Capital Futures Corporation: Engaged in the business of domestic futures brokerage services, trading on a proprietary basis, futures consultancy and managed futures enterprises.

(2) Measurement of segment information

All of the Group's operating segments' accounting policies are no material difference from the ones described in Note 4 "significant accounting policies". The Group evaluates segment performance based on the net profit before tax of various operating segments. Income and expense attributable to each operating segment are directly attributed to the profits and losses of the corresponding operating segment. Indirect expenses and expenses from logistic support segment that cannot be directly attributed are listed under 'other segments'.

(3) Information about segments' gains or losses, assets and liabilities

	For the three months ended March 31, 2015							
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$ 859,002	133,147	269,532	185,852	53,071	198,087	(53,788)	1,644,903
Inocme	\$ 325,825	75,049	210,904	138,885	(105,322)	70,877	(34,490)	681,728
Assets	\$ -	-	-	-	-	-	-	-

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

For the three months ended March 31, 2014

	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$ 1,000,775	90,351	202,236	111,836	56,006	244,926	(48,726)	1,657,404
Income	\$ 388,099	26,970	155,422	73,377	(115,581)	48,092	(12,593)	563,786
Assets	\$ -	-	-	-	-	-	-	-

Note 1: Internal segment revenues are eliminated on consolidation.

Note 2: The Group's segment assets and liabilities are not provided to the chief operating decision maker, so such items are not required to be disclosed.

(4) Information about products and services

The Group identified the reportable segments based on the type of products and service provided and the general information is already to be disclosed. Thus, no additional disclosure is required.

(5) Information about geographical areas

The Group received revenue from any single foreign customer is insignificant and there is no need to disclose the information.

(6) Information about major customers

The Group does not receive revenue from any single customer which exceeds 10% or more of operating income and there is no need to disclose the information.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
(Amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

Exhibit 1: Loans to others

(In thousands dollars)

No.	Name of the company providing Loans to Others	Party to Transactions	Account Classification	Related Party	Maximum Balance of this Period	Ending Balance	Capital Employed	Range of interest Rate	Type of Loans	Amount of Transactions	Purposes of the Borrowers	Allowance of Doubtful Accounts	Collateral		Limit on loans to a single business	Limit on the Amount of Loans
													Name	Value		
1	CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Account receivables - Related party	Yes	US 22,288	US 22,288	US 22,288	-	2	-	Operations	-		-	US 56,212	US 56,212
2	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Other receivables - Related party	Yes	US 3,380	US 3,405	US 3,380	-	2	-	Operations & repayment of financing	-		-	US 3,405	US 3,405
3	TIS Securities (HK) Limited	Taiwan International Capital (HK) Ltd.	Other receivables	Yes	HK 1,463	HK 1,463	HK 1,463	-	2	-	Repayment of financing	-		-	HK 1,463	HK 1,463

Note: Type of Loans

1. Business transactions
2. Necessaries of short-term financing

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
(Amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

Exhibit 2: Disclosure required of investee companies

Ref No.	Name of investee company (Notes 1 and 2)	Area	Primary business operation	Original investment amount		Equity Ownership by the company (Note 3)			Net gains or losses of investee during this period	Investment gain or loss recognized during this period	Note
				Balance on March 31, 2015	Balance on December 31, 2014	Shares	Ratio	Book value			
0	Capital Investment Management Corp.	Taipei ,Taiwan, R.O.C.	Engaged in providing advice on securities investment and related matters , or securities investment consultancy analyzing the published materials on securities investments.	72,515	72,515	7,000,000	100.00%	109,211	4,344	4,344	The transaction has been written off in the consolidated financial statements
0	Capital Futures Corp.	Taipei ,Taiwan, R.O.C.	Engaged in domestic and foreign futures business.	649,610	649,610	70,810,918	59.01%	1,623,732	58,427	34,478	"
0	CSC International Holdings Ltd.	British Virgin Island	Long-term equity investment business.	1,339,555	1,339,555	45,000,000	100.00%	1,753,136	(3,606)	(3,606)	"
0	Capital Insurance Advisory Corp.	Taipei ,Taiwan, R.O.C.	Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business.	3,890	3,890	389,000	100.00%	55,716	10,471	10,471	Subsidiary
0	Capital Insurance Agency Corp.	Taipei ,Taiwan, R.O.C.	Manages personal insurance agent business.	7,400	7,400	740,000	100.00%	62,382	4,360	4,360	"
0	Taiwan International Futures Corp. (Note 4)	Taipei ,Taiwan, R.O.C.	Liquidation in progress.	429,990	429,990	11,999,721	99.99%	-	-	-	The transaction has been written off in the consolidated financial statements
0	Taiwan International Securities (B.V.I) Corp.	British Virgin Island	Holding company for international securities business.	1,394,817	1,394,817	300	100.00%	1,332	(156)	(156)	"
0	Taiwan International Securities Investment Consulting Corp. (Note 5)	Taipei ,Taiwan, R.O.C.	Liquidation in progress.	9,992	9,992	999,200	99.92%	13,722	(46)	(46)	"
1	CSC Asia Ltd. (Note 7)	Hong Kong	Liquidation in progress.	HK10,000 thousand	HK10,000 thousand	1,000,000	66.67%	HK1,437 thousand	HK-	-	"
1	Capital Securities (Hong Kong) Ltd. (Note 7)	Hong Kong	Long-term equity investment businesses.	HK48,644 thousand	HK48,644 thousand	4,864,400	100.00%	HK53,286 thousand	HK15 thousand	-	"
1	CSC Securities (HK) Ltd.	Hong Kong	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hone Kong.	HK89,600 thousand	HK89,600 thousand	89,600,000	70.00%	HK118,481 thousand	HK345 thousand	-	"
1	CSC Finance Ltd. (Note 7)	Hong Kong	Liquidation in progress.	HK42,439 thousand	HK42,439 thousand	42,439,000	100.00%	HK33,060 thousand	HK-	-	"
2	CSC Securities (HK) Ltd.	Hong Kong	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong.	HK38,400 thousand	HK38,400 thousand	38,400,000	30.00%	HK50,778 thousand	HK345 thousand	-	"
2	CSC Asia Ltd. (Note 7)	Hong Kong	Liquidation in progress.	HK5,000 thousand	HK5,000 thousand	500,000	33.33%	HK-	HK-	-	"
2	CSC Financial Service Ltd. (Note 7)	Hong Kong	Liquidation in progress.	HK5,000 thousand	HK5,000 thousand	5,000,000	100.00%	HK5,799 thousand	HK-	-	"
3	TIS Securities (HK) Limited (Note 6)	Hong Kong	Liquidation in progress.	HK265,000 thousand	HK265,000 thousand	265,000,000	100.00%	HK(26,072) thousand	HK(37) thousand	-	"
4	Taiwan International Capital (HK) Ltd. (Note 6)	Hong Kong	Liquidation in progress.	HK2	HK2	2	100.00%	HK(49,205) thousand	HK(8) thousand	-	"
5	CSC Futures (HK) Ltd.	Hong Kong	Futures dealing business.	474,348	474,348	120,000,000	100.00%	442,465	(19,389)	-	"
5	Capital International Technology Co., Ltd.	Taipei ,Taiwan, R.O.C.	Management, consulting and information service business	50,000	50,000	5,000,000	100.00%	49,062	(931)	-	"
6	Capital Securities Nominee Ltd.	Hong Kong	Agency services.	HK2	HK2	2	100.00%	HK-	HK-	-	"

Note 1: (0) Capital Securities Corporation (1) CSC International Holdings Ltd.(2) Capital Securities (Hong Kong) Ltd.(3) Taiwan International Securities (B.V.I) Corp. (4)TIS Securities (HK) Limited. (5) Capital Futures Corp. (6) CSC Securities (HK) Ltd.

Note 2: Includes the Company's investment in overseas business and its reinvestments in other businesses, etc.

Note 3: Book value is the investment balance according to equity method, including investment income (loss), cash dividends, and cumulative translation adjustment, etc.

Note 4: The stockholders' special meeting of Taiwan International Securities Corp. resolved to dissolve the investee company on September 18, 2008 and the liquidation procedure is ongoing.

Note 5: The stockholders' special meeting resolved to dissolve on June 27, 2012 and the liquidation procedure is ongoing.

Note 6: The board of directors of the Company resolved to dissolve the investee company on December 30, 2011.

Note 7: The board of directors of Company resolved to cease operation on October 30, 2012.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
(Amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

Exhibit 3: Significant transactions between parent company and subsidiaries for the three months ended March 31, 2015

(In thousands dollars)

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Transaction details			Percentage(%) of total consolidated revenue or total assets
				General ledger account	Amount	Transaction terms	
1	Capital Futures Corp.	Capital Securities Corp.	2	Customer margin account	454,405		0.48%
1	Capital Futures Corp.	Capital Securities Corp.	2	Futures traders' equity	454,405		0.48%
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts payable	280		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts receivable	12,117		0.01%
0	Capital Securities Corp.	Capital Futures Corp.	1	Other receivables	92		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Bonds sold under repurchase agreements	99,011		0.10%
0	Capital Securities Corp.	Capital Futures Corp.	1	Guarantee deposits received	3,508		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Future commission revenue	27,428	General transactions	1.67%
0	Capital Securities Corp.	Capital Futures Corp.	1	Lease revenue	3,335	General transactions	0.20%
0	Capital Securities Corp.	Capital Futures Corp.	1	Revenue from securities management, distribution, and management fees	96	General transactions	0.01%
0	Capital Securities Corp.	Capital Futures Corp.	1	Financial costs	169	General transactions	0.01%
0	Capital Securities Corp.	Capital Futures Corp.	1	Other operating revenue	1	General transactions	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Securities commission expense - introducing brokers	733	General transactions	0.04%
0	Capital Securities Corp.	Capital Futures Corp.	1	Interest revenue	1	General transactions	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Operating expense	1,326	General transactions	0.08%
0	Capital Securities Corp.	Capital Futures Corp.	1	non-operating revenues	4,580	General transactions	0.28%
0	Capital Securities Corp.	Capital Futures Corp.	1	Brokerage commissions	153	General transactions	0.01%
0	Capital Securities Corp.	Capital International Technology Co., Ltd.	1	Bonds sold under repurchase agreements	15,012		0.02%
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Professional service fees	20,500	General transactions	1.25%
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Lease revenue	300	General transactions	0.02%
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Guarantee deposits received	30		- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Lease revenue	30	General transactions	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Other non-operating revenues	30	General transactions	- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Guarantee deposits received	171		- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Lease revenue	249	General transactions	0.02%
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Other non-operating revenues	150	General transactions	0.01%
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other receivables	33		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Receipts under custody	182		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Commission expense	19	General transactions	- %
2	CSC International Holdings Ltd.	CSC Futures (HK) Ltd.	3	Other receivables	4,394		- %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Customer margin account	74,195		0.08%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Accounts payable	977		- %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Cash equivalents	4,583		- %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures traders' equity	767,776		0.81%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Commission expense - futures	4,205	General transactions	0.26%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Brokerage commissions	8,465	General transactions	0.51%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Operating expense	4,957	General transactions	0.30%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Financial costs	17	General transactions	- %
3	Capital Securities (Hong Kong) Ltd.	CSC Financial Services Ltd.	3	Other payables	HK 5,799		0.02%
4	CSC Securities (HK) Ltd.	CSC International Holdings Ltd.	3	Other payables	USD 22,287		0.73%
2	CSC International Holdings Ltd.	CSC Asia Ltd.	3	Other payables	USD 185		0.01%
2	CSC International Holdings Ltd.	CSC Finance Ltd.	3	Other payables	USD 4,263		0.14%
4	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	3	Other receivables	HK 26,209		0.11%
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other operating revenue	HK 870	General transactions	0.21%

Note 1: The numbers in the Ref No. column represent as follows:

- (1) 0 stands for the parent company.
- (2) Subsidiaries are coded from No 1 per respective companies.

Note 2: Transaction relationship with the counterparties are as follows:

- (1) Parent company to subsidiaries.
- (2) Subsidiaries to parent company.
- (3) Subsidiaries to subsidiaries.