

**CAPITAL SECURITIES CORPORATION
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

AND

INDEPENDENT ACCOUNTANTS' AUDIT REPORT

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

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Independent Accountants' Audit Report

The Board of Directors
Capital Securities Corporation

We have audited the accompanying consolidated balance sheets of Capital Securities Corporation and its subsidiaries as of June 30, 2015, December 31, 2014 and June 30, 2014, and the related consolidated statements of comprehensive income for the three months and six months ended June 30, 2015 and 2014, as well as the consolidated statements of changes in equity and cash flows for the six months ended June 30, 2015 and 2014. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Capital Securities Corporation and its subsidiaries as of June 30, 2015, December 31, 2014 and June 30, 2014, and the results of their operations for the three months and six months ended June 30, 2015 and 2014, as well as their cash flows for the six months ended June 30, 2015 and 2014, in conformity with the "Regulations Governing the Preparation of Financial Reports by Securities Firms", and IAS 34 "Interim Financial Reporting" endorsed by the Financial Supervisory Commission.

We have audited the parent company only financial statements of Capital Securities Corporation as of and for the six-month periods ended June 30, 2015 and 2014 on which we have issued an unqualified opinion thereon.

KPMG
Taipei, Taiwan, R.O.C.
August 27, 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' audit 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 BALANCE SHEETS
(Expressed In Thousands of New Taiwan Dollars)

ASSETS	June 30, 2015		December 31, 2014		June 30, 2014		LIABILITIES AND STOCKHOLDERS' EQUITY	June 30, 2015		December 31, 2014		June 30, 2014	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
Current Assets							Current Liabilities						
Cash and cash equivalents (Note 6(1))	\$ 4,506,023	5	4,227,583	5	3,727,018	5	Short-term borrowings (Note 6(10))	\$ 3,018,720	3	2,657,000	3	3,940,366	5
Financial assets at fair value through profit or loss - current (Note 6(2))	31,428,953	33	25,075,152	30	24,054,671	29	Commercial paper payable (Note 6(11))	5,298,724	6	1,749,717	2	7,047,995	9
Financial assets available for sale - current (Note 6(2))	1,471,555	1	-	-	-	-	Financial liabilities at fair value through profit or loss - current (Note 6(12))	2,353,132	2	2,408,410	3	1,772,925	2
Bonds purchased under resale agreements (Notes 6(3) and 8)	304,689	-	-	-	340,684	-	Bonds sold under repurchase agreements (Note 6(13))	21,745,640	23	14,610,182	17	12,044,068	15
Receivable for securities provided as collateral	19,527,047	21	19,569,465	23	21,194,017	26	Guarantee deposited for short sales	1,353,719	2	2,231,990	3	1,404,599	2
Refinancing margin	29,161	-	15,527	-	8,219	-	Proceeds payable from short sales	1,627,203	2	2,593,973	3	1,657,887	2
Receivable on refinancing collateral	54,403	-	24,434	-	6,858	-	Securities lending refundable deposits	161,127	-	2,254,764	3	512,323	1
Customer margin account (Note 6(5))	12,810,103	13	11,844,443	14	9,273,397	11	Futures traders' equity (Note 6(5))	12,627,163	14	11,743,420	14	9,126,630	11
Collateral for securities borrowed	699,787	1	649,413	1	134,341	-	Notes payable	90	-	1,146	-	90	-
Security borrowing margin	632,344	1	593,827	1	123,121	-	Accounts payable (Note 6(14))	7,092,639	8	5,870,521	7	8,563,825	10
Notes receivable	7,128	-	4,024	-	7,860	-	Advance receipts	20,384	-	19,833	-	17,227	-
Accounts receivable (Note 6(4))	8,041,916	9	6,759,882	8	8,201,660	10	Receipts under custody	115,146	-	125,703	-	128,408	-
Prepayments	69,803	-	38,819	-	35,384	-	Other payables	2,230,476	2	827,935	1	1,911,903	2
Other receivables	98,372	-	83,019	-	283,206	-	Other financial liabilities - current (Note 6(23))	3,161,528	3	2,140,965	3	1,022,496	1
Current income tax assets	42,177	-	35,560	-	22,089	-	Current income tax liabilities	153,141	-	198,131	-	263,654	-
Other current assets	712,448	1	610,381	1	665,061	1	Provisions - current (Note 6(17))	46,793	-	46,793	-	46,900	-
	<u>80,435,909</u>	<u>85</u>	<u>69,531,529</u>	<u>83</u>	<u>68,077,586</u>	<u>82</u>	Long-term liabilities - current portion (Note 6(15))	-	-	500,000	1	-	-
							Other current liabilities	37,560	-	15,777	-	13,671	-
								<u>61,043,185</u>	<u>65</u>	<u>49,996,260</u>	<u>60</u>	<u>49,474,967</u>	<u>60</u>
Non-current Assets							Non-current Liabilities						
Financial assets at fair value through profit or loss - non-current (Notes 6(2) and 8)	188,388	-	189,262	-	208,389	-	Other financial liabilities -non-current (Note 6(23))	161,298	-	112,565	-	786,268	1
Financial assets measured at cost - non-current (Note 6(2))	411,231	-	419,981	1	634,072	1	Deferred income tax liabilities	609,605	1	543,990	1	467,486	1
Financial assets available for sale - non-current (Note 6(2))	87,602	-	85,587	-	64,636	-	Other non-current liabilities	834,183	1	833,408	1	816,150	1
Investments accounted for equity method (Note 6(6))	81,253	-	103,266	-	72,400	-		<u>1,605,086</u>	<u>2</u>	<u>1,489,963</u>	<u>2</u>	<u>2,069,904</u>	<u>3</u>
Property and equipment (Notes 6(7) and 8)	5,356,608	6	5,390,207	6	5,677,033	7	Total Liabilities	<u>62,648,271</u>	<u>67</u>	<u>51,486,223</u>	<u>62</u>	<u>51,544,871</u>	<u>63</u>
Investment property (Notes 6(8) and 8)	1,730,781	2	1,663,945	2	1,405,172	2	Equity Attributable to Shareholders of the Parent						
Intangible assets (Note 6(9))	3,621,787	4	3,605,104	4	3,590,932	4	Common stock (Note 6(19))	23,690,730	25	23,690,730	28	23,690,730	29
Deferred income tax assets	521,901	1	581,309	1	724,863	1	Capital surplus						
Other non-current assets	1,889,986	2	2,118,153	3	2,182,054	3	Premium from stock issuance	1,940,208	2	1,940,208	2	1,940,208	2
	<u>13,889,537</u>	<u>15</u>	<u>14,156,814</u>	<u>17</u>	<u>14,559,551</u>	<u>18</u>	Treasury stock transactions	107,031	-	107,031	-	107,031	-
							Paid-in capital from merger	658,234	1	658,234	1	658,234	1
							Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,461	-	-	-	143	-
							Changes in ownership interests in subsidiaries	6,287	-	6,287	-	6,287	-
							Retained earnings						
							Legal reserve	955,667	1	753,136	1	753,136	1
							Special reserve	2,154,422	2	1,756,283	2	1,756,283	2
							Unappropriated earnings (Note 6(18))	992,483	1	2,089,222	3	1,170,933	1
							Exchange differences on translation of foreign operations	32,304	-	76,558	-	(17,988)	-
							Unrealized gains on financial assets available-for-sale	21,418	-	20,791	-	8,630	-
								<u>30,560,245</u>	<u>32</u>	<u>31,098,480</u>	<u>37</u>	<u>30,073,627</u>	<u>36</u>
							Non-controlling interests	1,116,930	1	1,103,640	1	1,018,639	1
							Total Equity	<u>31,677,175</u>	<u>33</u>	<u>32,202,120</u>	<u>38</u>	<u>31,092,266</u>	<u>37</u>
TOTAL ASSETS	<u>\$ 94,325,446</u>	<u>100</u>	<u>\$ 83,688,343</u>	<u>100</u>	<u>82,637,137</u>	<u>100</u>	TOTAL LIABILITIES AND EQUITY	<u>\$ 94,325,446</u>	<u>100</u>	<u>\$ 83,688,343</u>	<u>100</u>	<u>\$ 82,637,137</u>	<u>100</u>

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

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

	For the three months ended June 30,				For the six months ended June 30,			
	2015		2014		2015		2014	
	Amount	%	Amount	%	Amount	%	Amount	%
Income:								
Brokerage commissions (Note 6(21))	\$ 937,592	55	957,189	52	1,735,959	52	1,838,479	53
Revenues from securities business money lending	44	-	22	-	51	-	38	-
Revenue from securities lendings	6,029	-	10,054	-	17,593	-	23,728	1
Underwriting commissions (Note 6(21))	36,552	2	36,626	2	122,758	4	78,578	2
Commissions on wealth management business	15,010	1	10,183	-	30,402	1	20,489	1
Net gains on sale of trading securities (Note 6(21))	445,280	26	523,525	28	773,929	23	985,499	28
Securities management, distribution, and management fees	35,162	2	34,827	2	69,381	2	69,171	2
Interest revenue (Note 6(21))	387,682	23	355,345	19	746,715	22	695,232	20
Dividend revenue	31,522	2	29,392	2	31,522	1	29,392	1
Net gains (losses) on measurement of trading securities at fair value through profit or loss (Note 6(21))	(391,583)	(23)	139,168	8	(263,462)	(8)	252,628	7
Net losses on covering of borrowed securities and bonds with resale agreements	(42,501)	(3)	(23,915)	(1)	(102,837)	(3)	(64,737)	(2)
Net gains on measurement of borrowed securities and bonds with resale agreements	68,569	4	23,662	1	71,335	2	46,502	1
Net gains (losses) on stock warrants issued (Notes 6(21) and 6(23))	61,616	4	(187,059)	(10)	243,846	7	(283,234)	(8)
Futures commission revenues	31,040	2	16,516	1	56,174	2	32,452	1
Net gains (losses) on derivative instruments - futures (Note 6(23))	(6,636)	-	(91,079)	(5)	(177,475)	(5)	(90,098)	(3)
Net gains (losses) on derivative instruments - OTC (Note 6(23))	62,249	4	(7,697)	-	(48,293)	(1)	(165,650)	(5)
Management fee revenue	124	-	88	-	327	-	152	-
Advisory commissions	2,260	-	2,305	-	4,085	-	4,352	-
Other operating revenues	21,062	1	12,425	1	33,966	1	26,008	1
	<u>1,701,073</u>	<u>100</u>	<u>1,841,577</u>	<u>100</u>	<u>3,345,976</u>	<u>100</u>	<u>3,498,981</u>	<u>100</u>
Expenses:								
Brokerage fees	98,958	6	83,355	5	173,791	5	159,028	5
Brokerage and clearing fees - proprietary trading	6,555	-	4,287	-	11,585	-	9,811	-
Clearing and exchange fees - refinancing	749	-	215	-	1,473	-	1,075	-
Clearing and exchange fees - underwriting	937	-	485	-	2,372	-	1,495	-
Financial costs	55,422	3	42,608	2	101,932	3	83,177	2
Commission expense - futures	49,270	3	31,733	2	96,834	3	65,741	2
Clearing and settlement expenses	31,836	2	20,532	1	56,178	2	40,624	1
Other operating expenditure	4,261	-	1,910	-	5,807	-	3,683	-
Employee benefits expenses (Note 6(21))	631,176	37	698,251	38	1,255,651	38	1,329,826	38
Depreciation and amortization expenses (Note 6(21))	54,552	3	55,154	3	108,826	3	113,318	3
Other operating expenses (Note 6(21))	415,286	25	362,304	20	759,709	23	691,159	20
	<u>1,349,002</u>	<u>79</u>	<u>1,300,834</u>	<u>71</u>	<u>2,574,158</u>	<u>77</u>	<u>2,498,937</u>	<u>71</u>
Other income and expenses :								
Share of profits of associates and joint venture (Note 6(6))	20,209	1	17,998	1	35,040	1	32,862	1
Other gains and losses (Note 6(21))	102,111	6	100,778	6	349,261	11	190,399	5
	<u>122,320</u>	<u>7</u>	<u>118,776</u>	<u>7</u>	<u>384,301</u>	<u>12</u>	<u>223,261</u>	<u>6</u>
Net income before income tax	<u>474,391</u>	<u>28</u>	<u>659,519</u>	<u>36</u>	<u>1,156,119</u>	<u>35</u>	<u>1,223,305</u>	<u>35</u>
Income tax expense (Note 6(18))	<u>(74,488)</u>	<u>(4)</u>	<u>(39,643)</u>	<u>(2)</u>	<u>(165,710)</u>	<u>(5)</u>	<u>(108,522)</u>	<u>(3)</u>
Net income	<u>399,903</u>	<u>24</u>	<u>619,876</u>	<u>34</u>	<u>990,409</u>	<u>30</u>	<u>1,114,783</u>	<u>32</u>
Other comprehensive income:								
To be reclassified to profit or loss in subsequent periods								
Exchange differences on translation of foreign operations	(33,517)	(2)	(40,809)	(2)	(59,129)	(2)	242	-
Unrealized net gains (losses) on available-for-sale financial assets	(3,321)	-	(4,095)	-	1,439	-	(6,588)	-
Income tax benefit related to components of other comprehensive income (Note 6(18))	6,243	-	6,938	-	10,999	-	(41)	-
Subtotal of items that may be subsequently reclassified into profit or loss	<u>(30,595)</u>	<u>(2)</u>	<u>(37,966)</u>	<u>(2)</u>	<u>(46,691)</u>	<u>(2)</u>	<u>(6,387)</u>	<u>-</u>
Other comprehensive income for the period, net of income tax	<u>(30,595)</u>	<u>(2)</u>	<u>(37,966)</u>	<u>(2)</u>	<u>(46,691)</u>	<u>(2)</u>	<u>(6,387)</u>	<u>-</u>
Total comprehensive income for the period	<u>\$ 369,308</u>	<u>22</u>	<u>581,910</u>	<u>32</u>	<u>943,718</u>	<u>28</u>	<u>1,108,396</u>	<u>32</u>
Net income attributable to:								
Shareholders of the parent	\$ 357,968	22	609,403	33	925,375	28	1,088,199	31
Non-controlling interests	41,935	2	10,473	1	65,034	2	26,584	1
	<u>\$ 399,903</u>	<u>24</u>	<u>619,876</u>	<u>34</u>	<u>990,409</u>	<u>30</u>	<u>1,114,783</u>	<u>32</u>
Total comprehensive income attributable to:								
Shareholders of the parent	\$ 330,750	20	575,981	32	881,748	26	1,085,763	31
Non-controlling interests	38,558	2	5,929	-	61,970	2	22,633	1
	<u>\$ 369,308</u>	<u>22</u>	<u>581,910</u>	<u>32</u>	<u>943,718</u>	<u>28</u>	<u>1,108,396</u>	<u>32</u>
Basic earnings per share (Note 6(20))	<u>\$</u>	<u>0.15</u>	<u>\$</u>	<u>0.26</u>	<u>\$</u>	<u>0.39</u>	<u>\$</u>	<u>0.46</u>
Dilutive earnings per share (Note 6(20))	<u>\$</u>	<u>0.15</u>	<u>\$</u>	<u>0.26</u>	<u>\$</u>	<u>0.39</u>	<u>\$</u>	<u>0.46</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 SIX MONTHS ENDED JUNE 30, 2015 AND 2014
(New Taiwan Dollars in Thousands)

	Equity attributable to shareholders of the parent									
	Common stock	Capital surplus	Retained earnings			Other		Equity attributable to shareholders of the parent	Non-controlling interests	Total Equity
			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 six months ended June 30, 2014	-	-	-	-	1,088,199	-	-	1,088,199	26,584	1,114,783
Other comprehensive income for the six months ended June 30, 2014	-	-	-	-	-	1,537	(3,973)	(2,436)	(3,951)	(6,387)
Total comprehensive income for the six months ended June 30, 2014	-	-	-	-	1,088,199	1,537	(3,973)	1,085,763	22,633	1,108,396
Legal reserve	-	-	147,178	-	(147,178)	-	-	-	-	-
Special Reserve	-	-	-	294,357	(294,357)	-	-	-	-	-
Cash dividends	-	-	-	-	(1,066,083)	-	-	(1,066,083)	-	(1,066,083)
Special reserve for deduction of stockholders' equity	-	-	-	(166,392)	166,392	-	-	-	-	-
Difference between consideration and carrying amount of subsidiaries disposed	-	143	-	-	-	-	-	143	-	143
Changes in ownership interests in subsidiaries	-	6,287	-	-	-	-	-	6,287	-	6,287
Changes in non-controlling interests	-	-	-	-	-	-	-	-	176,330	176,330
Ending balance, June 30, 2014	\$ 23,690,730	2,711,903	753,136	1,756,283	1,170,933	(17,988)	8,630	30,073,627	1,018,639	31,092,266
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 six months ended June 30, 2015	-	-	-	-	925,375	-	-	925,375	65,034	990,409
Other comprehensive income for the six months ended June 30, 2015	-	-	-	-	-	(44,254)	627	(43,627)	(3,064)	(46,691)
Total comprehensive income for the six months ended June 30, 2015	-	-	-	-	925,375	(44,254)	627	881,748	61,970	943,718
Legal reserve	-	-	202,531	-	(202,531)	-	-	-	-	-
Special Reserve	-	-	-	405,061	(405,061)	-	-	-	-	-
Cash dividends	-	-	-	-	(1,421,444)	-	-	(1,421,444)	-	(1,421,444)
Reversal of special reserve for deduction of stockholders' equity	-	-	-	(6,922)	6,922	-	-	-	-	-
Difference between consideration and carrying amount of subsidiaries disposed	-	1,461	-	-	-	-	-	1,461	-	1,461
Changes in non-controlling interests	-	-	-	-	-	-	-	-	(48,680)	(48,680)
Ending balance, June 30, 2015	\$ 23,690,730	2,713,221	955,667	2,154,422	992,483	32,304	21,418	30,560,245	1,116,930	31,677,175

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014
(New Taiwan Dollars in Thousands)

	For the six months ended June 30,	
	2015	2014
Cash flows from operating activities:		
Income before income tax for the period	\$ 1,156,119	1,223,305
Adjustments for:		
Income and expenses items with no effect on cash flows:		
Depreciation expense	88,699	92,943
Amortization expense	20,127	20,375
Net losses (gains) on financial assets or liabilities at fair value through profit or loss	263,462	(252,628)
Interest expense	101,932	83,177
Interest revenue (including financial revenue)	(823,316)	(749,900)
Dividend revenue	(39,915)	(57,436)
Share-based payments	-	6,604
Share of profits of associates and joint ventures	(35,040)	(32,862)
Gains on disposal of property and equipment	-	(3,001)
Losses (gains) on non-operating financial instruments at fair value through profit or loss	(9,044)	58,093
Net changes of income and expense items with no effect on cash flows	(433,095)	(834,635)
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	(6,607,380)	(3,721,049)
Increase in financial assets available-for-sale	(1,472,098)	-
Decrease (increase) in bonds purchased under resale agreements	(304,689)	217,710
Decrease (increase) in receivable for securities provided as collateral	42,418	(3,306,619)
Decrease (increase) in refinancing margin	(13,634)	181,895
Decrease (increase) in receivable on refinancing collateral	(29,969)	151,294
Increase in customer margin account	(965,660)	(623,607)
Decrease (increase) in collateral for securities borrowed	(50,374)	235,489
Decrease (increase) in security borrowing margin	(38,517)	1,165,112
Decrease (increase) in notes receivable	(3,104)	696
Increase in accounts receivable	(1,251,707)	(325,082)
Decrease (increase) in prepayments	(30,606)	9,241
Increase in other receivables	(78,970)	(172,899)
Decrease (increase) in current tax assets	(6,325)	119
Decrease (increase) in other current assets	(102,067)	481,570
Decrease (increase) in guarantee deposited for business operations	252,127	(6,786)
Decrease (increase) in settlement fund	6,962	20,598
Decrease in refundable deposits	10,472	93,037
Decrease (increase) in other non-current assets	(48,293)	2,293
Total net changes of assets from operating activities:	(10,691,414)	(5,596,988)
Net changes of liabilities from operating activities:		
Increase (decrease) in financial liabilities at fair value through profit or loss	(55,278)	570,115
Increase (decrease) in bonds sold under repurchase agreements	7,135,458	(1,071,191)
Decrease in guaranty deposited for short sales	(878,271)	(962,148)
Decrease in proceeds payable from short sales	(966,770)	(1,351,029)
Decrease in securities lending refundable deposits	(2,093,637)	(1,267,594)
Increase in futures traders' equity	883,743	531,579
Decrease in notes payable	(1,056)	(768)
Increase in accounts payable	1,216,170	882,210
Increase (decrease) in advance receipts	552	(133,678)
Decrease in receipts under custody	(10,926)	(434,510)
Increase (decrease) in other payables	49,288	(24,675)
Increase in other current liabilities	20,494	14,820
Increase in other financial liabilities	1,069,296	120,246
Increase in other non-current liabilities	775	2,700
Total net changes of liabilities from operating activities	6,369,838	(3,123,923)
Total net changes of assets and liabilities from operating activities	(4,321,576)	(8,720,911)
Total Cash generated from adjustment items	(4,754,671)	(9,555,546)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)
FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014
(New Taiwan Dollars in Thousands)

	<u>For the six months ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Cash generated by operating activities	(3,598,552)	(8,332,241)
Interest received	807,611	759,353
Dividends received	11,446	18,147
Interest paid	(104,303)	(141,508)
Income tax paid	(74,676)	(30,648)
Net cash used in operating activities	<u>(2,958,474)</u>	<u>(7,726,897)</u>
Cash flows from investing activities:		
Acquisition of long term investments under equity method	(23,160)	-
Increase of deferred debits	(627)	(1,171)
Proceeds from capital reduction of financial assets carried at cost	8,750	33,095
Acquisitions of property and equipment	(115,585)	(47,798)
Proceeds from disposal of property and equipment	-	5,845
Acquisitions of intangible assets	(10,228)	(8,759)
Net cash flows used in investing activities	<u>(140,850)</u>	<u>(18,788)</u>
Cash flows from financing activities:		
Increase in short-term borrowing	361,720	1,921,366
Decrease in long-term liabilities - current portion	(500,000)	-
Increase in commercial paper payable	3,549,007	4,748,413
Acquisition Of ownership interests in subsidiaries	-	226,013
Disposal of ownership interests in subsidiaries without losing control	24,216	24,034
Net cash provided by financing activities	<u>3,434,943</u>	<u>6,919,826</u>
Effect of exchange rate changes on cash and cash equivalents	(57,179)	(1,467)
Increase (decrease) in cash and cash equivalents	278,440	(827,326)
Cash and cash equivalents, beginning of the year	4,227,583	4,554,344
Cash and cash equivalents, end of this period	<u>\$ 4,506,023</u>	<u>3,727,018</u>

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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 June 30, 2015, the composition of the consolidated financial statements includes the Company and the subsidiaries (the “Group”). As of June 30, 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 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 August 27, 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 Items of Other Comprehensive Income”

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, 2018
• 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 Cycle 2010-2012 and 2011-2013	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 disclosures of significant accounting policies.

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

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
			Jun 30,2015	Dec 31,2014	Jun 30,2014	
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%	59.01%	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-	95.00%	100.00%	95.00%	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, then re-disposed 5% on April 30, 2015. As of June 30, 2015, the paid-in capitals amounted to HKD\$120,000 thousands.
"	Capital International Technology Corp	Management, consulting and information service business	100.00%	100.00%	- %	Established in December, 2014. As of June 30, 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 June 30, 2015, the paid-in capitals amounted to CNY\$1,000 thousands.

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

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			Jun 30,2015	Dec 31,2014	Jun 30,2014	
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. owns 70% and 30% of the equity, respectively	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. owns 70% and 30% of the equity, respectively	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. owns 70% and 30% of the 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. own 70% and 30% equity, respectively	CSC International Holdings Ltd. own 70% and 30% equity, respectively	CSC International Holdings Ltd. own 70% and 30% equity, respectively	Established in May, 1994.
"	CSC Asia Ltd.	Provision of corporate advisory services	CSC International Holdings Ltd. own 66.67% and 33.33% equity, respectively	CSC International Holdings Ltd. own 66.67% and 33.33% equity, respectively	CSC International Holdings 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
			Jun 30,2015	Dec 31,2014	Jun 30,2014	
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 statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			Jun 30,2015	Dec 31,2014	Jun 30,2014	
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 June 30, 2015, December 31, 2014 and June 30, 2014, the total assets constituted 0.08%, 0.08% and 0.14% of the Group's total assets. For the six months end June 30, 2015 and 2014, the operation revenue were merely 1.03% and 1.758% of the consolidated revenue which were so immaterial, thus they were excluded from the consolidated financial statement.
	Capital Insurance Advisory Corp.	Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business	100.00%	100.00%	100.00%	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 June 30, 2015, December 31, 2014 and June 30, 2014, the total assets constituted 0.10%, 0.08% and 0.04% of the Group's total assets. For the six months end June 30, 2015 and 2014, the operation revenue were merely 2.38% and 1.65% of the consolidated revenue which were so immaterial, thus 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 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 offer will be accepted, and the number of acceptances can be estimated reliably. If

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

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>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
Cash	\$ 3,227	3,113	2,988
Bank deposits			
Checking accounts	45,806	50,580	53,417
Demand deposits	168,744	187,026	179,597
Time deposits	2,110,649	1,854,383	2,120,775
Foreign currency deposits	1,154,656	1,369,921	981,536
Subtotal	<u>3,479,855</u>	<u>3,461,910</u>	<u>3,335,325</u>
Futures margin-excess margin	1,022,941	762,560	310,754
Commercial papers	-	-	77,951
Subtotal	<u>1,022,941</u>	<u>762,560</u>	<u>388,705</u>
Total	<u>\$ 4,506,023</u>	<u>4,227,583</u>	<u>3,727,018</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>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
Open-ended funds and money-market instruments			
Open-ended funds and money-market instruments	\$ 287,762	522,282	397,797
Valuation adjustment	32,112	10,569	3,394
Subtotal	<u>319,874</u>	<u>532,851</u>	<u>401,191</u>
Securities invested by securities broker			
Securities invested by securities broker	145,968	531,039	326,116
Valuation adjustment	(3,520)	8,010	(4,227)
Subtotal	<u>142,448</u>	<u>539,049</u>	<u>321,889</u>
Trading securities - proprietary trading:			
Listed stocks	1,379,062	1,246,079	1,522,502
OTC stocks	503,023	231,959	347,877
Emerging market stocks	277,968	366,836	291,951
Convertible corporate bonds	352,930	511,164	811,520
Government bonds	5,712,471	1,203,375	1,287,102
Corporate bonds	11,573,509	9,832,713	8,623,160
Financial debentures	1,297,639	1,698,780	621,296
Foreign stocks	480,659	314,143	231,503
Overseas bonds	394,783	288,848	304,634
Emerging fund	6,123	7,452	-
Other	45,790	79,861	329,285
	<u>22,023,957</u>	<u>15,781,210</u>	<u>14,370,830</u>
Valuation adjustment	(27,977)	6,630	31,034
Subtotal	<u>21,995,980</u>	<u>15,787,840</u>	<u>14,401,864</u>
Trading securities - underwriting:			
Listed stocks	1,404	2,730	161,645
OTC stocks	3,323	8,648	2,307
Convertible corporate bonds	98,400	106,300	2,000
	<u>103,127</u>	<u>117,678</u>	<u>165,952</u>
Valuation adjustment	4,676	(496)	37,023
Subtotal	<u>107,803</u>	<u>117,182</u>	<u>202,975</u>
Trading securities - hedging:			
Listed stocks	3,739,886	2,585,889	3,127,591
OTC stocks	732,271	923,311	1,532,117
Convertible corporate bonds	3,998,906	3,872,940	3,305,428
Foreign stocks	3,833	-	-
	<u>8,474,896</u>	<u>7,382,140</u>	<u>7,965,136</u>
Valuation adjustment	(55,963)	181,804	419,088
Subtotal	<u>8,418,933</u>	<u>7,563,944</u>	<u>8,384,224</u>
Derivatives:			
Call options	82,786	263,894	114,011
Futures margin - proprietary fund	313,060	189,165	192,172
IRS asset swaps	24,739	25,952	22,064
Asset swap options - long position	21,190	9,881	12,424
Structured notes	310	76	1,857
Currency swaps	1,830	45,318	-
Subtotal	<u>443,915</u>	<u>534,286</u>	<u>342,528</u>
Total	<u><u>\$ 31,428,953</u></u>	<u><u>25,075,152</u></u>	<u><u>24,054,671</u></u>

As of June 30, 2015, December 31, 2014 and June 30, 2014, the par value of trading securities - bonds under repurchase agreement were \$21,556,584, \$13,462,900 and \$11,364,200, respectively (please refer to Note 6(13) for details).

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

B. Financial assets available for sale - current:

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
Foreign bonds	\$ 1,472,101	-	-
Valuation adjustment	(546)	-	-
Total	<u>\$ 1,471,555</u>	<u>-</u>	<u>-</u>

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

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
Financial assets held for trading:			
Government bonds	\$ 189,791	191,990	210,031
Valuation adjustment	(1,403)	(2,728)	(1,642)
Total	<u>\$ 188,388</u>	<u>189,262</u>	<u>208,389</u>

As of June 30, 2015, December 31, 2014 and June 30, 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).

D. Financial assets available for sale – non-current:

<u>Investee Company</u>	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
CME Group	\$ 50,193	50,193	50,193
Valuation adjustment	37,409	35,394	14,443
Total	<u>\$ 87,602</u>	<u>85,587</u>	<u>64,636</u>

E. Financial assets measured at cost - non-current

<u>Non-listed (or non-over-the-counter)</u>	<u>June 30, 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%	71,008
Prudence Venture Investment Corp.	1.50%	37,377
Total		<u>\$ 411,231</u>

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

<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>

<u>Non-listed (or non-over-the-counter)</u>	<u>June 30, 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%	78,008
Prudence Venture Investment Corp.	1.50%	41,557
Total		<u>\$ 634,072</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 six months ended June 30 2015 and for the year 2014, Top Taiwan III Venture Capital Co., Ltd. refunded the proceeds of capital reduction amounted to \$7,000 during both period, Prudence Venture Investment Corp. refunded the proceeds of capital reductions which amounted to \$1,750 and \$5,130 respectively and Global Securities Finance Corporation refunded the proceeds of capital reduction which amounted to \$0 and \$211,661, respectively.

- F. 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 six months ended June 30 2015 and 2014, VAR (99%, per day) of equity stocks are were follows:

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

Type of market risk	For the six months ended June 30,							
	June 30, 2015	June 30, 2014	2015			2014		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	90,980	59,790	61,706	97,751	43,324	49,644	71,381	29,771

(3) Bonds purchased under resale agreements

	June 30, 2015	December 31, 2014	June 30, 2014
Bonds purchased under resell agreements	\$ 304,689	-	340,684
Resell price under the agreements	\$ 304,691	-	340,815
Interest rate	0.25%	-	0.72%-0.73%

As of June 30, 2015, December 31, 2014 and June 30, 2014, the Group's appropriated bonds purchased under resale agreements were \$304,689 (Par value \$300,000), \$0 (Par value \$0) and \$340,684 (Par value \$340,000) for repurchase agreement transactions purpose, respectively (please refers to Note 8 for details).

(4) Accounts Receivable

	June 30, 2015	December 31, 2014	June 30, 2014
Receivable on securities purchased by customers	\$ 48,973	59,827	91,642
Settlement	-	1,513,355	1,885,096
Interests receivable	504,035	489,022	408,061
Receivables on securities sold	7,345,973	4,634,230	5,747,091
Others	147,080	66,477	72,799
Subtotal	8,046,061	6,762,911	8,204,689
Less: allowance for doubtful accounts	(4,145)	(3,029)	(3,029)
Total	\$ 8,041,916	6,759,882	8,201,660

(5) Customer margin account / Future traders' equity

	June 30, 2015	December 31, 2014	June 30, 2014
Customer margin account			
Cash in bank	\$ 9,691,441	8,784,390	7,158,235
Futures clearing house	1,712,561	2,068,662	1,345,356
Other futures commission merchants	1,404,153	989,449	758,534
Securities	1,948	1,942	11,272
Subtotal	12,810,103	11,844,443	9,273,397
Adjustment items:			
Commission revenue	(21,954)	(7,391)	(9,537)
Future transaction tax	(801)	(725)	(647)
Interest revenue	(1,293)	(855)	(1,714)
Temporary receipts	(792)	(153)	(106)
Remittance amount of the customers after the market closed	(6,976)	(15,178)	(7,895)
Other	(151,124)	(76,721)	(126,868)
Futures traders' equity	\$ 12,627,163	11,743,420	9,126,630

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

(6) Investments under equity method

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
Subsidiaries			
Capital Insurance Advisory Corp.	\$ 37,228	45,245	22,578
Capital Insurance Agency Corp.	44,025	58,021	49,822
Total	<u>\$ 81,253</u>	<u>103,266</u>	<u>72,400</u>

For the six months ended June 30, 2015 and 2014, the Group's share of gains or losses of the subsidiaries were as follows:

	<u>For the six months ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Based on the self-prepared financial statements	<u>\$ 35,040</u>	<u>32,862</u>

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

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
Total assests	<u>\$ 167,009</u>	<u>128,524</u>	<u>150,483</u>
Total liabilities	<u>\$ 85,756</u>	<u>25,258</u>	<u>78,083</u>

	<u>For the six months ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Revenue	<u>\$ 114,826</u>	<u>119,392</u>
Net income	<u>\$ 35,040</u>	<u>32,862</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>
June 30, 2015	<u>\$ 3,828,133</u>	<u>1,231,610</u>	<u>258,465</u>	<u>38,400</u>	<u>5,356,608</u>
June 30, 2014	<u>\$ 4,094,561</u>	<u>1,347,677</u>	<u>193,628</u>	<u>41,167</u>	<u>5,677,033</u>

As of June 30, 2015, December 31, 2014 and June 30, 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 for the six months ended June 30, 2015 and 2014. For the six months ended June 30 of 2015, \$73,719 of land and buildings were reclassified as investment property. Please refer to Note 6(21) 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.

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

(8) Investment property

	Land and improvements	Buildings	Total
January 1, 2015	\$ 1,230,412	433,533	1,663,945
June 30, 2015	\$ 1,303,460	427,321	1,730,781
June 30, 2014	\$ 1,037,032	368,140	1,405,172
<u>Fair value</u>			
January 1, 2015			\$ 2,555,269
June 30, 2015			\$ 2,835,952
June 30, 2014			\$ 2,127,312

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.

There was no significant acquisition, disposal and impairment loss or reversal of impairment losses of investment properties of the Group for the six months ended June 30, 2015 and 2014. For the six months ended June 30 of 2015, \$73,719 of land and buildings were reclassified as investment property. Please refer to Note 6(21) 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 June 30, 2015, December 31, 2014 and June 30, 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 June 30, 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 June 30, 2015, December 31, 2014 and June 30, 2014, the amortized book value was \$2,847, \$4,555 and \$6,264, 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 June 30, 2015, December 31, 2014 and June 30, 2014, the book value of the operation franchise was all \$389,999.

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

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 June 30, 2015, December 31, 2014 and June 30, 2014, the book value of the intangible assets was \$46,300, \$46,350 and \$46,251, 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 June 30, 2015, December 31, 2014 and June 30, 2014, the book value was \$33,855, \$37,502 and \$21,720, respectively.

(10) Short-term loans

<u>Nature of borrowings</u>	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
Collateralized loan	\$ 1,924,944	380,000	380,000
Credit loans	1,093,776	2,277,000	3,560,366
Total	<u>\$ 3,018,720</u>	<u>2,657,000</u>	<u>3,940,366</u>

Short-term loans were based on floating interest rates. As of June 30, 2015, December 31, 2014 and June 30, 2014, the loan interest rate range was 0.90%~2.09%, 0.90%~1.79% and 0.75%~2.10%, respectively.

The Group had provided the land, buildings, and certificates of time deposits as collateral. For more information about the collateral as of June 30, 2015, December 31, 2014 and June 30, 2014, please refer to Note 8.

(11) Commercial paper payable

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
Commercial paper payable	\$ 5,300,000	1,750,000	7,050,000
Less: Unamortized discount	(1,276)	(283)	(2,005)
Net amount	<u>\$ 5,298,724</u>	<u>1,749,717</u>	<u>7,047,995</u>

Commercial paper payables were based on floating interest rates. As of June 30, 2015, December 31, 2014 and June 30, 2014, the interest rate was 0.808%~0.838%, 0.858%~0.908% and 0.897%, respectively.

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

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

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
Bond purchased under resale agreements - short sales	\$ 304,980	-	-
Valuation adjustment	(156)	-	-
Subtotal	<u>304,824</u>	<u>-</u>	<u>-</u>
Liabilities on sale of borrowed securities	937,081	995,472	175,510
Redeem liabilities on sale of borrowed securities	(4,772)	-	(6,396)
Valuation adjustment	(22,802)	48,377	2,515
Subtotal	<u>909,507</u>	<u>1,043,849</u>	<u>171,629</u>
Settlement coverage bonds payable of short sales	-	99,749	-
Valuation adjustment	-	17	-
Subtotal	<u>-</u>	<u>99,766</u>	<u>-</u>
Stock warrants issued	14,090,779	8,277,524	10,625,063
Stock warrants repurchased	(13,357,222)	(7,644,334)	(9,477,410)
Subtotal	<u>733,557</u>	<u>633,190</u>	<u>1,147,653</u>
Put options	113,360	275,648	95,904
IRS asset swaps	5,198	249	835
Asset swap options - short position	273,352	348,450	343,243
Structured notes	10,905	3,085	11,403
Currency swaps	11	503	1,512
Interest rate swaps	2,418	3,670	746
Subtotal	<u>405,244</u>	<u>631,605</u>	<u>453,643</u>
Total	<u>\$ 2,353,132</u>	<u>2,408,410</u>	<u>1,772,925</u>

(13) Bonds sold under repurchase agreements

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
Bonds sold under repurchase agreements	<u>\$ 21,745,640</u>	<u>14,610,182</u>	<u>12,044,068</u>
Agreed-upon repurchase amounts	<u>21,745,446</u>	<u>14,621,088</u>	<u>12,050,774</u>
Interest rates	<u>0.45%~0.85%</u>	<u>0.45%~3.89%</u>	<u>0.45%~0.85%</u>

(14) Accounts payable

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
Payable of securities sold by customers	\$ 48,347	51,767	365,351
Settlement price	250,784	-	-
Payable of settlements	6,402,946	5,303,861	7,911,433
Others	390,562	514,893	287,041
Total	<u>\$ 7,092,639</u>	<u>5,870,521</u>	<u>8,563,825</u>

(15) Long-term borrowings

As of June 30, 2015, December 31, 2014 and June 30, 2014, the Company's long-term borrowings are as follows:

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
Long-term borrowings	\$ -	500,000	-
Less: Long-term liabilities -current portion	-	(500,000)	-
Non-current portion of long-term debt	<u>\$ -</u>	<u>-</u>	<u>-</u>
Collateral	-	Real estate	-
Interest rate range	- %	1.08%	-

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

Hua Nan Bank approved a three-year 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.

(16) Operating leases

The Group has no material incremental operating leases contracts for the six months ended June 30, 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.

(17) 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, 2014 and 2013.

For the three and six months ended, June 30, 2015 and 2014, the Group's pension costs recognized in profit or loss were \$4,564, \$4,768, \$9,201 and \$9,612, respectively.

B. Defined contribution plan

The Group contributed \$21,220, \$21,624, \$43,301 and \$43,363 under defined contribution plan to the Bureau of the Labor Insurance for the three and six months ended June 30, 2015 and 2014, respectively.

C. For the three and six months ended June 30, 2015 and 2014, the pension costs contributed by overseas subsidiaries in compliance with local ordinance were \$1,087, \$499, \$2,064 and \$1,063, respectively.

D. Provision for employee benefits liabilities

	June 30, 2015	December 31, 2014	June 30, 2014
Compensated absences	\$ 46,793	46,793	46,900

(18) 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 of the Group for the three and six months ended June 30, 2015 and 2014, were as follows:

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

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Current income tax expense (benefit)	\$ (9,885)	5,360	29,686	36,410
Deferred income tax expense				
Unrealized gains (losses) on derivative financial instruments	46,175	(14,586)	21,161	(49,657)
Unrealized gains (losses) on foreign investments under equity method	2,937	1,566	2,298	(1,094)
Amortization of operation franchise	-	(2,067)	-	(364)
Amortization of goodwill	26,577	26,577	53,154	53,154
Decrease in tax loss carried forward	16,803	24,779	67,530	73,971
Adjustments of the prior year's deferred income tax assets and liabilities	(8,119)	(1,986)	(8,119)	(3,898)
	<u>84,373</u>	<u>34,283</u>	<u>136,024</u>	<u>72,112</u>
Income tax expenses	<u>\$ 74,488</u>	<u>39,643</u>	<u>165,710</u>	<u>108,522</u>

- B. The amount of income tax expense or benefit recognized in other comprehensive income for the three and six months ended, June 30, 2015 and 2014 were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Foreign exchange difference from translating financial statements of foreign operations	<u>\$ (6,243)</u>	<u>(6,938)</u>	<u>(10,999)</u>	<u>41</u>

- C. As of June 30, 2015, net operating losses available for carried forward to offset against future taxable income were as follows:

<u>Loss Year</u>	<u>Amount</u>	<u>Expiration Year</u>
2011(Assessed)	<u>\$ 2,598,949</u>	2021

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.

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

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:

	June 30, 2015	December 31, 2014	June 30, 2014
Undistributed earnings after 1998	\$ 992,483	2,089,222	1,170,933
Imputation credit account	3,479,387	3,427,193	3,696,646

	2014 (Actual)	2013 (Actual)
Deductible ratio for earnings distributed to ROC residents	23.24%	26.09%

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

Since income tax of securities trading and amortization of intangible assets withheld for year 2009 to 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 was assessed differently from that 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.

(19) Capital and other equity

A. Capital stock

As of June 30, 2015, December 31, 2014 and June 30, 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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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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. Undistributed 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:

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

In accordance with the amended Company Act which was published in May 2015, employee bonuses and remuneration to directors and supervisors are no longer a part of the composition of appropriation and distribution of earnings. The Company will amend the articles of incorporation accordingly within the period prescribed by the authority.

The estimation of employee bonuses and remunerations to directors and supervisors was calculated based on the income after tax up to June 30, 2014 deducted by 10% legal reserve and 20% 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 Company estimated employee bonuses of \$23,781 and remunerations to directors and supervisors of \$31,709 respectively and was recognized in operating expense for the six months ended June 30, 2014.

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

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 22, 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. Due to the above changes, the difference between employee bonuses of \$23,487 and remuneration to directors and supervisors of \$39,144 for 2014 financial statements was \$3,404 in total. The difference was accounted for as changes in accounting estimates and would be reflected in the statement of income in 2015.

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 under the resolution of shareholders' meeting on June 18, 2014. Due to the above changes, the difference of employee bonuses \$32,585 and remuneration to directors and supervisors \$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.

(20) Earnings per share

The basic earnings per share and dilutive earnings per share for the three and six months ended June 30, 2015 and 2014 were calculated as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Net income attributable to ordinary shareholders of the Company	<u>\$ 357,968</u>	<u>609,403</u>	<u>925,375</u>	<u>1,088,199</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	<u>2,369,073</u>	<u>2,369,073</u>	<u>2,369,073</u>	<u>2,369,073</u>
Basic earnings per share (dollar)	<u>\$ 0.15</u>	<u>0.26</u>	<u>0.39</u>	<u>0.46</u>
Assumed conversion of all dilutive potential ordinary shares - employees' bonus (thousands of shares) (Note)	<u>406</u>	<u>1,139</u>	<u>1,463</u>	<u>2,077</u>
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	<u>2,369,479</u>	<u>2,370,212</u>	<u>2,370,536</u>	<u>2,371,150</u>
Dilutive earnings per share (dollar)	<u>0.15</u>	<u>0.26</u>	<u>0.39</u>	<u>0.46</u>

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

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

(21) Items of comprehensive income statement

A. Brokerage commissions

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Brokerage commission from TSE market	\$ 390,821	476,277	734,359	912,541
Brokerage commission from OTC market	147,249	210,411	275,876	402,317
Handling fee from security financing	15,671	19,512	26,663	36,238
Futures commission income - brokerage	330,399	215,401	614,059	416,316
Overseas subsidiaries	35,211	14,827	51,811	30,616
Others	18,241	20,761	33,191	40,451
	\$ 937,592	957,189	1,735,959	1,838,479

B. Underwriting commissions

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Revenue from underwriting securities on a firm commitment basis	\$ 7,176	7,847	42,161	20,144
Handling fee revenues from underwriting securities on best-efforts basis	606	229	825	499
Processing fee revenues from underwriting operations	3,425	4,351	45,692	11,444
Revenue from underwriting consultation	2,760	1,430	4,595	6,547
Others	22,585	22,769	29,485	39,944
	\$ 36,552	36,626	122,758	78,578

C. Net gains or losses on sale of trading securities

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Revenue from securities sold - proprietary trading	\$ 84,252,034	94,758,895	191,526,362	190,013,559
Cost of securities sold - proprietary trading	(84,139,289)	(94,566,298)	(191,255,731)	(189,676,735)
Subtotal	112,745	192,597	270,631	336,824
Revenue from securities sold - underwriting	49,834	98,977	135,304	174,102
Cost of securities sold - underwriting	(45,616)	(89,266)	(125,618)	(154,065)
Subtotal	4,218	9,711	9,686	20,037
Revenue from securities sold - hedging	12,385,039	13,088,876	21,904,346	21,606,983
Cost of securities sold - hedging	(12,056,722)	(12,767,659)	(21,410,734)	(20,978,345)
Subtotal	328,317	321,217	493,612	628,638
Total	\$ 445,280	523,525	773,929	985,499

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

D. Interest revenue

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Interest revenue - margin loans	\$ 289,971	289,188	586,425	563,946
Interest revenue - bonds	65,218	44,894	112,072	88,541
Foreign subsidiaries	21,575	10,956	27,764	22,596
Others	10,918	10,307	20,454	20,149
	<u>\$ 387,682</u>	<u>355,345</u>	<u>746,715</u>	<u>695,232</u>

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

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Trading securities - Proprietary	\$ (70,575)	25,692	(30,883)	15,004
Trading securities - Underwriting	292	34,324	5,172	34,374
Trading securities - Hedging	(321,299)	79,152	(237,767)	203,250
Settlement coverage bonds payable of short sale	(1)	-	16	-
	<u>\$ (391,583)</u>	<u>139,168</u>	<u>(263,462)</u>	<u>252,628</u>

F. Net gains (losses) on stock warrants issued

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Gains on changes in fair value of stock warrants	\$ 8,292,284	27,414	14,140,130	3,057,278
Gains on exercise of stock warrants before maturity	1,504,650	6,753,742	2,617,628	10,171,656
Losses on changes in fair value of stock warrants repurchased	(9,710,360)	(6,937,813)	(16,470,713)	(13,457,138)
Gains on expiration of stock warrants	7,831	2,311	19,714	4,239
Stock warrants issuance expenses	(32,789)	(32,713)	(62,913)	(59,269)
	<u>\$ 61,616</u>	<u>(187,059)</u>	<u>243,846</u>	<u>(283,234)</u>

G. Employee benefits, depreciation and amortization expenses

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Employee benefit expenses				
Salary expense	\$ 547,081	614,008	1,081,640	1,156,660
Health and labor insurance expense	40,356	46,124	87,217	86,847
Pension expense	26,871	26,891	54,566	54,038
Others	16,868	11,228	32,228	32,281
Depreciation expense	44,468	45,517	88,699	92,943
Amortization expense	10,084	9,637	20,127	20,375
	<u>\$ 685,728</u>	<u>753,405</u>	<u>1,364,477</u>	<u>1,443,144</u>

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

H. Other operating expenses

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Rental expense	\$ 46,279	51,945	98,551	105,081
Taxes	103,828	115,674	193,899	200,962
Information technology expense	48,553	41,363	95,507	84,027
Postage expense	35,198	30,157	68,616	60,638
Professional service fee	9,272	6,732	16,433	14,425
Other expenses	172,156	116,433	286,703	226,026
	\$ 415,286	362,304	759,709	691,159

I. Other gains and losses

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Financial revenue	\$ 39,124	29,348	76,601	54,668
Exchange gains (losses)	(34,681)	(28,932)	(34,827)	(41,013)
Net gains (losses) on disposal of investment	25,055	(8,422)	154,186	42,094
Net gains (losses) on measurement of non- operating instruments at fair value through profit or loss	2,513	(9,778)	9,044	(58,093)
Revenue from bank's allocation fee	37,511	37,421	75,864	74,513
Gains on reversal of prior year's liabilities	584	36,819	10,099	51,432
Dividend revenue	6,385	26,103	8,393	28,044
Others	25,620	18,219	49,901	38,754
	\$ 102,111	100,778	349,261	190,399

J. Remuneration to employees, directors and supervisors

For the six months ended June 30, 2015, the estimated amounts of employee bonuses and remuneration to director and supervisor to be distributed were \$14,616 and \$24,360, respectively, which were calculated based on the Company's net profit before tax and the earnings allocation percentage as stated under the Company's articles of incorporation. It is recognized as operating expense for the six months ended June 30, 2015. If the actual amounts were subsequently decided after the approval and the issuance date of the financial statements in the following year differ from the estimated amounts, the differences are accounted for as changes in accounting estimates and recognized in profit or loss in the following year.

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

(22) Financial instruments

A. Credit risk

a. Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of June 30, 2015, December 31, 2014 and June 30, 2014, the maximum credit exposure amounted to \$66,853,251, \$58,415,368 and \$61,736,936, respectively.

b. Impairment losses

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

	June 30, 2015		December 31, 2014		June 30, 2014	
	Total amount	Impairment	Total amount	Impairment	Total amount	Impairment
Not past due	\$ 27,760,271	92,936	26,478,290	65,924	29,744,153	65,270
Past due 0~30 days	73	73	117	117	375	375
Past due 31~120 days	107	107	209	209	583	583
Past due 121~360 days	1	1	113	113	151	151
Past due more than one year	33	33	688	688	670	670
	\$ 27,760,485	93,150	26,479,417	67,051	29,745,932	67,049

Allowance for doubtful debts under receivables is recorded for the debt expense or impairment loss. Where a claim becomes definitely uncollectible, the allowance for doubtful debts should be written off to financial assets account. As of June 30, 2015, December 31, 2014 and June 30, 2014, the impairment losses of account receivables were recognized \$93,150, \$67,051 and \$67,049, 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.

	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
June 30, 2015							
Financial liabilities at fair value through profit or loss - current							
Bond purchased under resale agreements - short sales	\$ 304,824	304,824	304,824	-	-	-	-
Liabilities on sale of borrowed securities	909,507	909,507	909,507	-	-	-	-
Stock warrants issued	733,557	733,557	654,572	78,806	179	-	-
Put options - futures	113,360	113,360	113,360	-	-	-	-
Value of swap contracts	7,627	7,627	(859)	4,377	(3,945)	7,969	85
Put options	273,352	273,352	29,346	41,055	132,460	70,491	-
Short-term borrowings	3,018,720	3,018,720	3,018,720	-	-	-	-
Commercial paper payable	5,298,724	5,300,000	5,300,000	-	-	-	-
Bonds sold under repurchase agreements	21,745,640	21,754,446	21,754,446	-	-	-	-
Guarantee deposited for short sales	1,353,719	1,353,719	1,353,719	-	-	-	-
Proceeds payable from short sales	1,627,203	1,627,203	1,627,203	-	-	-	-
Securities lending refundable deposits	161,127	161,127	161,127	-	-	-	-
Futures traders' equity	12,627,163	12,627,163	12,627,163	-	-	-	-
Notes payable and accounts payable	416,767	416,767	416,767	-	-	-	-
Receipts under custody	115,146	115,146	115,146	-	-	-	-
Other payables	2,230,476	2,230,476	2,227,053	3,423	-	-	-
Structured notes	3,333,731	3,333,731	3,149,617	22,816	129,283	32,015	-
	\$ 54,270,643	54,280,725	53,761,711	150,477	257,977	110,475	85

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

	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
December 31, 2014							
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 sales	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	-	-	-	-
Guarantee deposited for short sales	2,231,990	2,231,990	2,231,990	-	-	-	-
Proceeds payable from short sales	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	-
June 30, 2014							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 171,629	171,629	171,629	-	-	-	-
Stock warrants issued	1,147,653	1,147,653	1,059,320	88,333	-	-	-
Put options - futures	95,904	95,904	95,904	-	-	-	-
Value of swap contracts	3,093	3,095	(35)	(1,137)	10,296	(6,029)	-
Put options	343,243	343,243	16,407	73,389	137,278	116,169	-
Short-term borrowings	3,940,366	3,940,366	3,940,366	-	-	-	-
Commercial paper payable	7,047,995	7,050,000	7,050,000	-	-	-	-
Bonds sold under repurchase agreements	12,044,068	12,050,774	12,050,774	-	-	-	-
Guarantee deposited for short sales	1,404,599	1,404,599	1,404,599	-	-	-	-
Proceeds payable from short sales	1,657,887	1,657,887	1,657,887	-	-	-	-
Securities lending refundable deposits	512,323	512,323	512,323	-	-	-	-
Futures traders' equity	9,126,630	9,126,630	9,126,630	-	-	-	-
Notes payable and accounts payable	741,763	741,763	741,763	-	-	-	-
Receipts under custody	128,408	128,408	128,408	-	-	-	-
Other payables	1,911,903	1,911,903	1,908,687	3,175	41	-	-
Structured notes	1,820,167	1,820,167	944,252	79,194	764,169	32,552	-
	\$ 42,097,631	42,106,344	40,808,914	242,954	911,784	142,692	-

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

C. Currency risk

a. Currency risk exposure

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

June 30, 2015			
Financial assets	Foreign		
	Currency	Exchange Rate	Amount
<u>Monetary Item</u>			
USD	\$	163,242	30.86
HKD		29,165	3.98
EUR		3,199	34.46
JPY		246,495	0.2524
GBP		303	48.48
AUD		589	23.69
SGD		414	22.96
CNY		101,974	4.973
KRW		1,936,841	0.0279
THB		445	0.919
MYR		377	7.8535
CHF		8	33.11
<u>Non-Monetary Item</u>			
USD		62,999	30.86
HKD		66,704	3.98
CNY		253,255	4.973
<u>Financial liabilities</u>			
<u>Monetary Item</u>			
USD	\$	207,898	30.86
HKD		71,311	3.98
EUR		2,869	34.46
JPY		240,914	0.2524
GBP		300	48.48
AUD		589	23.69
SGD		60	22.96
KRW		1,761,017	0.0279
THB		145	0.919
MYR		356	7.8535
CNY		23,253	4.973
CHF		8	33.11

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

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
<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

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

June 30, 2014					
		Foreign Currency	Exchange Rate	Amount	
<u>Financial assets</u>					
<u>Monetary Item</u>					
		USD	\$ 97,743	29.87	2,919,595
		HKD	67,798	3.85	261,022
		EUR	1,251	40.78	51,033
		JPY	239,191	0.2946	70,466
		GBP	576	50.87	29,276
		AUD	142	28.09	3,997
		SGD	293	23.93	7,000
		CNY	124,880	4.811	600,799
		KRW	977,214	0.0300	29,316
		CAD	6	27.97	178
<u>Non-Monetary Item</u>					
		USD	\$ 11,086	29.87	331,143
		HKD	61,531	3.85	236,893
		CNY	129,652	4.811	623,756
<u>Financial liabilities</u>					
<u>Monetary Item</u>					
		USD	\$ 106,752	29.87	3,188,680
		HKD	46,941	3.85	180,722
		EUR	1,113	40.78	45,378
		JPY	234,933	0.2946	69,211
		GBP	571	50.87	29,070
		KRW	958,639	0.0300	28,759
		SGD	(82)	23.93	(1,957)
		CNY	1	4.81	6
		AUD	108	28.09	3,031

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 \$34,827 and \$41,013 for the six months ended June 30, 2015 and 2014, respectively.

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, customer margin account, 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 six months ended June 30, 2015 and 2014, given other factors remain constant, if NTD increase or decrease 5% contrary to other currencies, the net income and other comprehensive income will increase or decrease by \$36,088, \$67,295, \$61,070 and \$0, respectively.

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

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 and other comprehensive income for the six months ended June 30, 2015 and 2014 will decrease or increase by \$1,790, \$916, \$633 and \$0, respectively. This is mainly due to the Group's borrowing, investment, and saving in floating rates

E. Fair value information and hierarchy

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.

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

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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 June 30, 2015, December 31, 2014 and June 30, 2014, the fair value information of the financial assets and financial liabilities of the Group was as follows:

1. Fair value information

	June 30, 2015		December 31, 2014		June 30, 2014	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets :						
Cash and cash equivalents	\$ 4,506,023	4,506,023	4,227,583	4,227,583	3,727,018	3,727,018
Bonds purchased under resale agreements	304,689	304,689	-	-	340,684	340,684
Net receivables	29,132,335	29,132,335	27,735,151	27,735,151	29,981,371	29,981,371
Customer margin account	12,810,103	12,810,103	11,844,443	11,844,443	9,273,397	9,273,397
Pledged assets - current	612,850	612,850	471,000	471,000	471,000	471,000
Financial assets measured at cost - non-current	411,231	411,231	419,981	419,981	634,072	634,072
Investments under equity method	81,253	81,253	103,266	103,266	72,400	72,400
Other assets - non-current	1,839,801	1,839,801	2,091,837	2,091,837	2,161,260	2,161,260
Financial liabilities :						
Short-term borrowings	\$ 3,018,720	3,018,720	2,657,000	2,657,000	3,940,366	3,940,366
Commercial paper payable	5,298,724	5,298,724	1,749,717	1,749,717	7,047,995	7,047,995
Bonds sold under repurchase agreements	21,745,640	21,745,640	14,610,182	14,610,182	12,044,068	12,044,068
Accounts payable	12,618,395	12,618,395	13,978,460	13,978,460	14,314,281	14,314,281
Futures traders' equity	12,627,163	12,627,163	11,743,420	11,743,420	9,126,630	9,126,630
Other financial liabilities - current	3,161,528	3,161,528	2,140,965	2,140,965	1,022,496	1,022,496
Long-term liabilities - current portion	-	-	500,000	500,000	-	-
Other financial liabilities - non-current	161,298	161,298	112,565	112,565	786,268	786,268
Other liabilities - non-current	337,611	337,611	337,611	337,611	340,938	340,938

2. Hierarchy information of fair value

	June 30, 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

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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.

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 June 30, 2015, December 31, 2014 and June 30, 2014 were as follows:

	Level 1	Level 2	Level 3	Total
June 30, 2015				
Financial assets at fair value through				
profit or loss	\$ 12,139,404	19,034,022	-	31,173,426
Financial assests available for sale	87,602	1,471,555	-	1,559,157
Derivative financial assets	395,846	48,069	-	443,915
	\$ 12,622,852	20,553,646	-	33,176,498
Financial liabilities at fair value through				
profit or loss	\$ 1,947,888	-	-	1,947,888
Derivative financial liabilities	113,360	291,884	-	405,244
	\$ 2,061,248	291,884	-	2,353,132
December 31, 2014				
Financial assets at fair value through				
profit or loss	\$ 10,719,554	14,010,574	-	24,730,128
Financial assests available for sale	85,587	-	-	85,587
Derivative financial assets	453,059	81,227	-	534,286
	\$ 11,258,200	14,091,801	-	25,350,001
Financial liabilities at fair value through				
profit or loss	\$ 1,776,805	-	-	1,776,805
Derivative financial liabilities	275,648	355,957	-	631,605
	\$ 2,052,453	355,957	-	2,408,410
June 30, 2014				
Financial assets at fair value through				
profit or loss	\$ 10,273,168	13,839,536	-	24,112,704
Financial assests available for sale	64,636	-	-	64,636
Derivative financial assets	114,011	36,345	-	150,356
	\$ 10,451,815	13,875,881	-	24,327,696
Financial liabilities at fair value through				
profit or loss	\$ 1,319,282	-	-	1,319,282
Derivative financial liabilities	95,904	357,739	-	453,643
	\$ 1,415,186	357,739	-	1,772,925

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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.

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 six months ended June 30, 2015 and 2014.

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e. Fair value adjustments

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

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 bears the interest rate risk and credit risk, so transferred financial assets are not fully derecognized. Financial assets that do not meet criteria for de-recognition and related financial liabilities are as below:

June 30, 2015					
Financial assets	Book value of transferred financial assets	Book value of related financial liabilities	Fair value of transferred financial assets (note)	Fair value of relevant financial liabilities (Note)	Net fair value (note)
Repurchase agreement attached	\$ 21,645,763	21,745,640	-	-	-

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. Off-setting between financial assets and liabilities

The Group did not hold any financial instruments contracts 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

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settlement.

The offsetting of financial assets and liabilities is as below:

June 30, 2015						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial assets (a)	Gross amount of recognized financial liabilities offsetting in the balance sheet (b)	Net amount of financial assets presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net (e)=(c)-(d)
				Financial instruments (Note)	Cash guarantee	
Derivative financial assets	\$ 48,069	-	48,069	-	-	48,069
June 30, 2015						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets offsetting in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net (e)=(c)-(d)
				Financial instruments (Note)	Cash guarantee	
Derivative financial liabilities	\$ 291,884	-	291,884	-	-	291,884
Repurchase agreement	21,745,640	-	21,745,640	21,745,640	-	-
	\$ 22,037,524	-	22,037,524	21,745,640	-	291,884
December 31, 2014						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial assets (a)	Gross amount of recognized financial liabilities offsetting in the balance sheet (b)	Net amount of financial assets presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net (e)=(c)-(d)
				Financial instruments (Note)	Cash guarantee	
Derivative financial assets	\$ 81,227	-	81,227	-	-	81,227

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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)		
	(a)	(b)	(c)=(a)-(b)	Financial instruments (Note)	Cash guarantee	Net (e)=(c)-(d)
Derivative financial liabilities	\$ 355,957	-	355,957	-	-	355,957
Repurchase agreement	14,610,182	-	14,610,182	14,610,182	-	-
	\$ 14,966,139	-	14,966,139	14,610,182	-	355,957

June 30, 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)		
	(a)	(b)	(c)=(a)-(b)	Financial instruments (Note)	Cash guarantee	Net (e)=(c)-(d)
Derivative financial assets	\$ 36,345	-	36,345	-	-	36,345

June 30, 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)		
	(a)	(b)	(c)=(a)-(b)	Financial instruments (Note)	Cash guarantee	Net (e)=(c)-(d)
Derivative financial liabilities	\$ 357,739	-	357,739	-	-	357,739
Repurchase agreement	12,044,068	-	12,044,068	12,044,068	-	-
	\$ 12,401,807	-	12,401,807	12,044,068	-	357,739

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

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(23) 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 June 30, 2015, December 31, 2014 and June 30, 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:

<u>Financial Instruments</u>	<u>June 30, 2015</u>		<u>December 31, 2014</u>		<u>June 30, 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:						
Stock warrants issued	\$ 24,407,205	-	41,313,589	-	21,932,848	-

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 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.

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E. Presentation of financial derivatives

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

(a) For the three and six months ended June 30, 2015:

(1) Gains (losses) on valuation

	For the three months ended June 30, 2015	For the six months ended June 30, 2015	Account
Stock warrants issued	\$ 4,432,838	8,860,767	Gains (losses) on stock warrants issued
Stock warrants repurchased	(4,442,520)	(8,752,084)	Gains (losses) on stock warrants issued

(2) Gains (losses) on sale

	For the three months ended June 30, 2015	For the six months ended June 30, 2015	Account
Security borrowing	\$ (42,501)	(104,281)	Gains (losses) on covering of borrowed securities and bonds with resale
Trading securities - hedging	246,433	324,615	Gains (losses) on sale of trading
Futures	(58,429)	(130,501)	Gains (losses) on derivative financial instruments - futures

(3) Gains (losses) on maturity

	For the three months ended June 30, 2015	For the six months ended June 30, 2015	Account
Stock warrants issued	\$ 5,371,927	7,916,705	Gains (losses) on stock warrants issued
Stock warrants repurchased	(5,267,840)	(7,718,629)	Gains (losses) on stock warrants issued

(b) For the three and six months ended June 30, 2014:

(1) Gains (losses) on valuation

	For the three months ended June 30, 2014	For the six months ended June 30, 2014	Account
Stock warrants issued	\$ 1,588,340	5,128,004	Gains (losses) on stock warrants issued
Stock warrants repurchased	(1,767,825)	(5,394,832)	Gains (losses) on stock warrants issued

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(2) Gains (losses) on sale

	For the three months ended June 30, 2014	For the six months ended June 30, 2014	Account
Security borrowing	\$ (21,567)	(62,625)	Gains (losses) on covering of borrowed securities and bonds with resale
Trading securities - hedging	265,986	433,860	Gains (losses) on sale of trading
Futures	(99,653)	(108,160)	Gains (losses) on derivative financial instruments - futures

(3) Gains (losses) on maturity

	For the three months ended June 30, 2014	For the six months ended June 30, 2014	Account
Stock warrants issued	\$ 5,195,127	8,105,169	Gains (losses) on stock warrants issued
Stock warrants repurchased	(5,169,988)	(8,062,306)	Gains (losses) on stock warrants issued

Futures

A. Notional principal (nominal amount) and credit risk:

Financial Instruments	June 30, 2015		December 31, 2014		June 30, 2014	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Taiox Futures	\$ 1,801,871	-	1,869,019	-	1,021,025	-
HSI Futures	-	-	14,383	-	4,411	-
Mini-TAIEX Futures	16,508	-	168,381	-	-	-
Electronic Sector Index Futures	108,303	-	14,672	-	21,877	-
Finance Sector Index Futures	71,628	-	54,853	-	67,676	-
Non-Finance Non-Electronics						
Sub-Index Futures	13,352	-	42,206	-	-	-
Stock Futures	210,334	-	37,077	-	-	-
Mini DJ index Futures	-	-	16,945	-	2,502	-
Wheat Futures	-	-	4,004	-	864	-
Soy bean Futures	3,059	-	6,604	-	3,487	-
H stock index Futures	-	-	-	-	3,966	-
Copper Futures	-	-	4,516	-	-	-
Crude oil Futures	-	-	5,097	-	9,400	-
Gold Futures	18,251	-	15,036	-	23,637	-
A50 Index Futures	48,248	-	16,106	-	17,652	-
S&P Futures	25,372	-	143,280	-	-	-
JPY dollar Futures	-	-	3,318	-	-	-
AUD dollar Futures	-	-	5,153	-	-	-
Natural gas Futures	-	-	1,931	-	-	-
Platinum Futures	-	-	-	-	4,393	-
Heating oil Futures	9,771	-	-	-	-	-
CHF dollars Futures	-	-	4,039	-	-	-
Sugar No.11 Futures	2,110	-	1,044	-	-	-
Unleaded gasoline Futures	7,917	-	-	-	-	-
U.S. 5-Year T-Note Futures	18,418	-	-	-	-	-
U.S. 10-Year T-Note Futures	77,979	-	-	-	-	-
Taiox Options	142,684	-	174,945	-	96,891	-
Stock Options	23,318	-	302,876	-	139,402	-

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Financial Instruments	June 30, 2015		December 31, 2014		June 30, 2014	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
Taix Weekly Options	15,023	-	6,182	-	1,477	-
Electronic Sector Index Options	3,600	-	1,936	-	1,934	-
Finance Sector Index Options	4,163	-	2,659	-	1,698	-
S&P Sector Index Options	2,463	-	18,737	-	-	-
Gold Options	269	-	295	-	-	-
For non-trading purpose:						
Stock Futures	1,468,702	-	900,101	-	927,699	-
Taix Futures	98,862	-	194,735	-	318,813	-
A50 Index Futures	53,165	-	-	-	-	-
Taix Options	5,127	-	2,062	-	3,674	-
Stock Options	-	-	19	-	614	-

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.

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 six months ended June 30, 2015 and 2014, losses on futures and options transactions amounted to \$177,475 and \$90,098 respectively, and were reflected as gains or losses on derivative financial instruments - futures. As of June 30, 2015 and 2014,

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futures margin - proprietary fund amounted to \$313,060 and \$192,172, respectively, and were reflected as financial assets at fair value through profit or loss - current.

As of June 30, 2015 and 2014, the balance of call options which recognized as financial assets at fair value through profit or loss - current amounted to \$82,786 and \$114,011, respectively. Put options which recognized as financial liabilities at fair value through profit or loss - current amounted to \$113,360 and \$95,904, respectively.

Derivative financial instruments – OTC

A. Interest rate financial derivatives

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

Financial Instruments	June 30, 2015		December 31, 2014		June 30, 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	\$ 55,400,000	-	53,440,000	-	52,840,000	-

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

(2) Market risk:

Non-trading NT dollar interest rate swaps are primarily held for hedging. 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.

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

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

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

B. Structured notes

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

Financial Instruments	June 30, 2015		December 31, 2014		June 30, 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	\$ 25,000	-	16,000	-	104,805	-
Principal guaranteed notes	3,015,393	-	1,932,968	-	1,435,750	-
Credit-linked notes	286,600	-	304,800	-	277,500	-

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	June 30, 2015		December 31, 2014		June 30, 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	\$ 1,252,900	-	1,038,100	-	1,137,200	-
Convertible bond options	3,007,300	-	2,857,500	-	2,155,600	-

Counterparties to convertible bond asset-backed swaps are institutions with good credit ratings. The Group swaps a predetermined interest rate with the interest

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

payable and interest expense arising from the convertible bond with counterparties. Since the counterparties are governed by relevant regulatory authorities, and the Group maintains good credit risk control over counterparties, the credit risks is minimal.

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

(2) Market risk:

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

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

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

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

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. Presentation of derivative financial instruments - OTC

As of June 30, 2015, December 31, 2014 and June 30, 2014, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options, forward bonds, and convertible bond asset-backed swaps were presented on the balance sheets as follows:

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
Financial assets at fair value through profit or loss - current			
IRS asset swaps	\$ 24,739	25,952	22,064
Currency swaps	1,830	45,318	-
Asset swap options - long position	21,190	9,881	12,424
Structured notes	310	76	1,857
Total	<u>\$ 48,069</u>	<u>81,227</u>	<u>36,345</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
Financial liabilities at fair value through profit or loss - current			
Asset swap options - short position	\$ 273,352	348,450	343,243
IRS asset swaps	5,198	249	835
Structured notes	10,905	3,085	11,403
Currency swaps	11	503	1,512
Interest rate swaps	2,418	3,670	746
Total	<u>\$ 291,884</u>	<u>355,957</u>	<u>357,739</u>
Other financial liabilities - current			
Structured notes principal value	<u>\$ 3,161,528</u>	<u>2,140,965</u>	<u>1,022,496</u>
Other financial liabilities - non-current			
Structured notes principal value	<u>\$ 161,298</u>	<u>112,565</u>	<u>786,268</u>

For the six months ended June 30, 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 June 30, 2015</u>		<u>For the six months ended June 30, 2015</u>	
	<u>Gains (losses) on derivative financial instrumnets - OTC</u>	<u>Unrealized Gains (losses)</u>	<u>Gains (losses) on derivative financial instrumnets - OTC</u>	<u>Unrealized Gains (losses)</u>
Interest rate swaps	\$ 625	1,322	(253)	(2,418)
Equity derivatives	56	-	112	-
Structured notes	(12,357)	(989)	(22,867)	(6,649)
IRS asset swaps	131	48	275	427
Asset swap options	65,090	138,180	(19,438)	89,519
Currency swaps	8,704	4,857	(6,122)	1,819
Total	<u>\$ 62,249</u>	<u>143,418</u>	<u>(48,293)</u>	<u>82,698</u>

	<u>For the three months ended June 30, 2014</u>		<u>For the six months ended June 30, 2014</u>	
	<u>Gains (losses) on derivative financial instrumnets - OTC</u>	<u>Unrealized Gains (losses)</u>	<u>Gains (losses) on derivative financial instrumnets - OTC</u>	<u>Unrealized Gains (losses)</u>
Interest rate swaps	\$ (1,352)	(15)	(3,149)	(746)
Equity derivatives	683	(716)	1,365	-
Structured notes	(6,706)	2,590	(12,347)	(1,565)
IRS asset swaps	(232)	42,698	(68)	43,152
Asset swap options	285	36,886	(158,439)	(101,765)
Currency swaps	(375)	-	6,988	-
Total	<u>\$ (7,697)</u>	<u>81,443</u>	<u>(165,650)</u>	<u>(60,924)</u>

(24) 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 June 30, 2015, the Company maintains no change of its capital management.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

7. Related Party Transactions

(1) Parent company and ultimate controlling party

The Company is the ultimate controlling party of the consolidated Group.

(2) Key management personnel transactions

A. Key management personnel compensation:

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Short-term employee benefits	\$ 22,591	34,312	93,917	99,099
Post-employment benefits	438	489	901	974
Share-based payment	-	2,773	-	2,773
Termination benefit	-	-	1,056	-
Total	\$ 23,029	37,574	95,874	102,846

B. Bond transactions- bonds sold under repurchase agreements

Bonds sold under repurchase agreements between key management personnel as of June 30, 2015, December 31, 2014 and June 30, 2014 were as follows:

	June 30, 2015		December 31, 2014		June 30, 2014	
	Par value	Purchase price	Par value	Purchase price	Par value	Purchase price
Key management personnel	\$ 58,500	59,088	56,400	60,914	40,600	43,390

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Total financial expenses				
Key management personnel	\$ 104	102	206	232

C. Structured notes transactions

As of June 30, 2015, December 31, 2014 and June 30, 2014, the balances of structured notes transactions with key management personnel were \$22,100, \$22,200 and \$64,800, respectively.

(3) Significant transactions with related parties

A. Bond transactions- bonds sold under repurchase agreements

Bonds sold under repurchase agreements between subsidiaries and affiliates of June 30, 2015, December 31, 2014 and June 30, 2014 were as follows:

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

	June 30, 2015		December 31, 2014		June 30, 2014	
	Purchase		Purchase		Purchase	
	Par value	price	Par value	price	Par value	price
Subsidiaries	\$ 48,400	49,157	12,500	13,089	17,800	19,171
Affiliates	4,200	4,200	11,000	11,300	2,600	2,652
Total	\$ 52,600	53,357	23,500	24,389	20,400	21,823

Total financial expense	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
	Subsidiaries	\$ 52	30	79
Affiliates	9	48	27	105
Total	\$ 61	78	106	162

Transaction terms are the same as those with general clients.

B. Lease agreements

a. Lease revenue

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
	Subsidiaries	\$ 259	259	518

b. Guarantee deposits received

	June 30, 2015	December 31, 2014	June 30, 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 June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
	Subsidiaries	\$ 1,807	2,193	4,182

b. Accounts receivable

	June 30, 2015	December 31, 2014	June 30, 2014
Subsidiaries	\$ 895	311	816

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

D. 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” As of June 30, 2015, December 31, 2014 and June 30, 2014, the brokerage commissions were \$1,516, \$1,693, \$3,638 and \$2,616, respectively.

E. 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 June 30, 2015, December 31, 2014 and June 30, 2014:

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>	<u>The collateral use</u>
Restricted assets - current	\$ 612,850	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	185,763	184,508	189,396	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	21,856,584	13,462,900	11,704,200	Repurchase agreement
Property and equipment	4,088,876	4,178,183	4,606,616	Bank borrowings
Financial assets at fair value through profit or loss - non-current	188,388	189,262	208,389	Guaranty deposited for bills, interest rate swaps business, structured notes business and settlement fund
Investment property	894,703	825,570	417,310	Bank borrowings
Total	<u>\$ 27,827,164</u>	<u>19,311,423</u>	<u>17,596,911</u>	

Annotation 1 : Money trust received from 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:

	<u>June 30, 2015</u>		<u>December 31, 2014</u>		<u>June 30, 2014</u>	
	<u>Shares (in thousands)</u>	<u>Par value</u>	<u>Shares (in thousands)</u>	<u>Par value</u>	<u>Shares (in thousands)</u>	<u>Par value</u>
Securities procured through margin purchase	913,434	\$ 9,134,337	1,058,730	10,587,300	1,090,292	10,902,915
Collateral for margin purchase	15,219	152,194	5,985	59,850	3,339	33,391
Collateral for short sales	7,724	77,240	7,293	72,930	7,320	73,200
Lending securities to customers through short sales	29,260	292,600	49,606	496,060	22,827	228,270

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

	June 30, 2015		December 31, 2014		June 30, 2014	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities borrowed from securities finance companies	449	\$ 4,490	573	5,730	153	1,530
Collateral for refinancing margin	1,318	13,180	217	2,170	15	150

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

	June 30, 2015	December 31, 2014	June 30, 2014
Promissory notes	<u>\$ 21,190,000</u>	<u>20,820,000</u>	<u>21,390,000</u>
Promissory notes	<u>USD 80,000</u>	<u>80,000</u>	<u>70,000</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. The effective period is from January 1, 2011 to June 30, 2016 and the annual consulting fee is fixed for \$16,000. The pay should be done by the end of March every year. Miscellaneous expense for the six months ended June 30, 2015 and 2014 were both \$8,000.
- (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.
- (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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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 June 30, 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. 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) 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 June 30, 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

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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 June 30, 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 June 30, 2015, the objects of provisional seizure were as follows:

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

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.

(13) According to the Article 17 of Enforcement Rules of the Trust Enterprise Act, the balance sheet, income statement and list of trust properties of trust accounts were declared as follows:

a. Balance sheet of trust accounts

Balance Sheet of Trust Accounts							
June 30, 2015, December 31, 2014 and June 30, 2014							
Trust Assets	June 30, 2015	December 31, 2014	June 30, 2014	Trust Liabilities	June 30, 2015	December 31, 2014	June 30, 2014
Bank deposits	\$ 963,696	813,907	593,306	Accounts payable	\$ 466	337	320
Short-term investment				Trust capital	9,993,868	10,996,632	5,982,174
Funds	8,158,578	9,459,615	4,413,909	Accumulated earnings or deficit	250,555	311,901	177,473
Stocks	811,875	724,537	683,808				
Securities lent	253,050	278,386	455,044				
Accounts receivable	57,690	32,425	13,900				
Total Assets	\$ 10,244,889	11,308,870	6,159,967	Total Liabilities	\$ 10,244,889	11,308,870	6,159,967

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b. Income statement of trust accounts

Income Statement of Trust Accounts
For the Six Months Ended June 30, 2015 and 2014

	For the six months ended June 30,	
	2015	2014
Revenue		
Interest revenue	\$ 1,758	1,350
Cash dividends revenue	42,620	12,365
Rental revenue	3,677	4,738
Realized investment gain	160,441	72,620
Unrealized investment gain	345,260	242,623
Unrealized foreign exchange gain	47,563	3,331
Foreign exchange gain	25,926	9,575
Other revenue	7,105	-
Subtotal	<u>634,350</u>	<u>346,602</u>
Expense		
Administrative fee	658	881
Commission expenses	26,300	13,182
Realized investment loss	54,420	48,357
Unrealized investment loss	277,402	86,321
Unrealized foreign exchange loss	36,296	17,263
Foreign exchange loss	21,509	5,738
Supplementary insurance premium	9	-
Subtotal	<u>416,594</u>	<u>171,742</u>
Net income before tax	217,756	174,860
Income tax expense	(152)	(129)
Net income after income tax	<u>\$ 217,604</u>	<u>174,731</u>

c. List of trust properties

List of Trust Properties
June 30, 2015, December 31, 2014 and June 30, 2014

Investment items	June 30, 2015	December 31, 2014	June 30, 2014
Bank deposits	\$ 963,696	813,907	593,306
Short-term investment			
Stocks	811,875	724,537	683,808
Securities lent	253,050	278,386	455,044
Funds	8,158,578	9,459,615	4,413,909
Total	<u>\$ 10,187,199</u>	<u>11,276,445</u>	<u>6,146,067</u>

10. SIGNIFICANT CATASTROPHIC LOSS : NONE

11. SIGNIFICANT SUBSEQUENT EVENTS :

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 and got the approval by the FSC No. 1040027513 on July 16, 2015. As of August 27, 2015,

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the date of the accompanying independent accountants' audit report, the base date of the transfer is pending to be determined by both sides.

Subsidiary - Capital Futures Corp. was approved by the FSC to conduct securities proprietary trading business on July 7, 2015.

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 on May 11, 2015. The investment is currently under the review of the Authority.

12. OTHERS

(1) As of June 30, 2015, December 31, 2014, June 30, 2015, the open positions of futures and option contracts were as follows::

A. June 30, 2015

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	502	\$ 972,722	946,270	
	Taixex Futures	Short	507	(928,011)	(933,995)	
	Mini-Taixex Futures	Long	36	16,508	16,580	
	Electronic Futures	Long	4	5,706	5,677	
	Electronic Futures	Short	71	(102,597)	(102,240)	
	Non-Finance Non-Electronics Sub-Index Futures	Long	12	13,352	13,443	
	Stock Futures	Long	1,543	291,851	288,912	
	Stock Futures	Short	8,662	(1,387,185)	(1,379,350)	
	Finance Sector Index Futures	Long	8	9,284	9,283	
	Finance Sector Index Futures	Short	53	(62,344)	(62,434)	
	Sugar No.11 Futures	Long	5	2,110	2,155	
	Gold Futures	Short	5	(18,251)	(18,081)	
	Unleaded gasoline Futures	Long	3	7,917	7,969	
	Soy bean Futures	Long	2	3,059	3,201	
	Heating oil Futures	Long	4	9,771	9,798	
	S&P Futures	Long	5	25,372	25,163	
	A50 Index Futures	Short	269	(101,413)	(108,328)	
	U.S. 5-Year T-Note Futures	Short	5	(18,418)	(18,401)	
	U.S. 10-Year T-Note Futures	Short	20	(77,979)	(77,873)	
	Subtotal			(1,338,546)		

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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 :						
	Taixex Options (Call)	Long	9,787	\$ 22,122	13,945	
	Taixex Options (Put)	Long	11,632	31,416	41,452	
	Taixex Options (Call)	Short	8,862	(44,617)	(30,131)	
	Taixex Options (Put)	Short	6,830	(49,656)	(63,715)	
	Stock Options (Call)	Long	223	3,610	3,940	
	Stock Options (Put)	Long	320	11,470	15,062	
	Stock Options (Call)	Short	54	(4,388)	(3,940)	
	Stock Options (Put)	Short	32	(3,850)	(3,630)	
	Taixex Weekly Options (Call)	Long	5,600	1,533	1,271	
	Taixex Weekly Options (Put)	Long	2,002	4,318	3,626	
	Taixex Weekly Options (Call)	Short	2,631	(6,891)	(2,951)	
	Taixex Weekly Options (Put)	Short	1,478	(2,281)	(3,926)	
	Gold option (Call)	Long	4	9	6	
	Gold option (Put)	Long	62	108	90	
	Gold option (Call)	Short	28	(86)	(59)	
	Gold option (Put)	Short	19	(66)	(70)	
	Electronic Sector Index Options(Call)	Long	781	2,338	2,169	
	Electronic Sector Index Options(Put)	Long	212	134	99	
	Electronic Sector Index Options(Put)	Short	240	(1,128)	(1,169)	
	Finance Sector Index Options(Call)	Long	969	1,174	768	
	Finance Sector Index Options(Put)	Long	562	275	145	
	Finance Sector Index Options(Call)	Short	225	(724)	(381)	
	Finance Sector Index Options(Put)	Short	580	(1,990)	(1,562)	
	S&P Sector Index Options(Call)	Long	3	174	25	
	S&P Sector Index Options(Put)	Long	1	79	188	
	S&P Sector Index Options(Call)	Short	16	(1,413)	(969)	
	S&P Sector Index Options(Put)	Short	6	(797)	(857)	
	Subtotal			(39,127)		
Total				\$ (1,377,673)		

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 :						
	Taix Futures	Long	62	\$ 228,649	229,455	
	Taix Futures	Short	964	(1,835,105)	(1,835,101)	
	Mini-Taix 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 :						
	Taixex Options (Call)	Long	16,832	\$ 37,986	79,495	
	Taixex Options (Put)	Long	10,509	25,936	11,831	
	Taixex Options (Call)	Short	3,087	(48,673)	(67,453)	
	Taixex 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)	
	Taixex Weekly Options (Call)	Long	51	7	8	
	Taixex Weekly Options (Put)	Long	1,474	231	252	
	Taixex Weekly Options (Call)	Short	1,711	(2,714)	(2,755)	
	Taixex 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. June 30, 2014

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	Taiex Futures	Long	58	\$ 104,591	106,203	
	Taiex Futures	Short	487	(1,235,247)	(1,245,218)	
	Electronic Sector Index Futures	Long	15	21,877	22,017	
	Finance Sector Index Futures	Long	66	67,676	68,165	
	Stock Futures	Long	794	107,969	107,957	
	Stock Futures	Short	6,107	(819,730)	(828,221)	
	Gold Futures	Long	6	23,637	23,689	
	HSI Future	Short	1	(4,411)	(4,451)	
	Mini DJ index Futures	Long	1	2,502	2,500	
	Wheat Futures	Long	1	(864)	(862)	
	Soy bean Futures	Long	1	1,746	1,728	
	Soy bean Futures	Short	1	(1,741)	(1,728)	
	Cruil oil Futures	Long	1	3,145	3,147	
	Cruil oil Futures	Short	2	(6,255)	(6,294)	
	H stock Index Futures	Long	2	3,966	3,946	
	A50 Index Futures	Short	690	(17,652)	17,666	
	Platinum Futures	Long	2	4,393	4,429	
	Subtotal			(1,744,398)		
Options contract :						
	Taiex Options (Call)	Long	4,972	\$ 25,440	27,953	
	Taiex Options (Put)	Long	7,611	22,395	12,703	
	Taiex Options (Call)	Short	3,670	(14,601)	(24,626)	
	Taiex Options (Put)	Short	2,823	(38,129)	(25,037)	
	Stock Options (Call)	Long	14,390	25,345	34,628	
	Stock Options (Put)	Long	35,242	67,137	35,631	
	Stock Options (Call)	Short	12,103	(29,487)	(28,385)	
	Stock Options (Put)	Short	8,765	(17,979)	(13,375)	
	Taiex Weekly Options (Call)	Long	637	792	2,456	
	Taiex Weekly Options (Put)	Long	684	279	93	
	Taiex Weekly Options (Call)	Short	79	(50)	(105)	
	Taiex Weekly Options (Put)	Short	264	(424)	(291)	
	Electronic Sector Index Options(Call)	Long	213	212	396	
	Electronic Sector Index Options(Put)	Long	563	275	42	
	Electronic Sector Index Options(Call)	Short	174	(972)	(1,911)	
	Electronic Sector Index Options(Put)	Short	124	(475)	(172)	
	Finance Sector Index Options(Call)	Long	23	28	28	
	Finance Sector Index Options(Put)	Long	474	137	81	
	Finance Sector Index Options(Call)	Short	639	(1,150)	(1,739)	
	Finance Sector Index Options(Put)	Short	135	(383)	(263)	
	Subtotal			38,390		
Total				\$ (1,706,008)		

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	2,669,823	5.86	2,429,958	7.47	≥ 1	Satisfactory to requirement
	(Total liabilities –futures traders' equity)	455,671		325,097			
17	Current Assets	15,118,471	1.13	11,107,210	1.16	≥ 1	"
	Current Liabilities	13,358,519		9,552,138			
22	Stockholders' equity	2,669,823	239.45%	2,429,958	339.85%	≥ 60%	"
	Minimum paid-in capital	1,115,000		715,000		≥ 40%	
22	Post-adjustment net capital	1,903,619	82.69%	1,574,405	97.95%	≥ 20%	"
	Total customer margin deposits required for open positions of customers	2,302,162		1,607,385		≥ 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	27,000	0.29	14,000	0.15	≤ 10	Satisfactory to requirement
	Net value	92,788		94,780			

(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.

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

As of June 30, 2015, TIFC had reached partial consensus with its investors, and the accumulated amount of compensation was \$162,812. According to the indemnification to 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 June 30, 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 \$300 million or 20% of paid-in capital: None.
- D. Disposal of real estate over \$300 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 June 30, 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 June 30, 2015
					Remittance amount	Recoverable amount						
Capital True Partner Co., Limited	Management, consulting and information service business	5,013	C	-	24,372	-	24,372	(2,619)	30.10%	(995) B(2)	13,378	-

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

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

Note 2: Investment gains and losses recognized during the period

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

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

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

B. Quota for investment in China:

Unit: NT\$ thousand

Company Name	Accumulative remittance from Taiwan to Mainland China as of June 30, 2015	Amount of investment approved by Investment Commission, Ministry of Economic Affairs (MOEA)	Limit on the amount of investment in Mainland China by MOEA
Capital True Partner Co., Limited	24,372	24,372	30,810

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'.

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

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

For the three months ended June 30, 2015								
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$ 928,818	84,862	147,890	102,503	89,230	410,947	(63,177)	1,701,073
Income	\$ 329,990	31,364	60,663	40,612	(28,245)	120,781	(80,774)	474,391
Assets	\$ -	-	-	-	-	-	-	-

For the three months ended June 30, 2014								
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$ 1,072,351	121,635	276,625	122,617	56,241	257,458	(65,350)	1,841,577
Income	\$ 468,485	49,365	210,187	61,682	(126,910)	17,424	(20,714)	659,519
Assets	\$ -	-	-	-	-	-	-	-

For the six months ended June 30, 2015								
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$ 1,787,820	218,009	417,422	288,355	142,301	609,034	(116,965)	3,345,976
Income	\$ 655,815	106,413	271,567	179,497	(133,567)	191,658	(115,264)	1,156,119
Assets	\$ -	-	-	-	-	-	-	-

For the six months ended June 30, 2014								
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$ 2,072,830	211,986	479,157	234,453	112,247	502,384	(114,076)	3,498,981
Income	\$ 856,288	76,335	365,905	135,059	(242,491)	65,516	(33,307)	1,223,305
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 (Note)	Amount of Transactions	Purposes of the Borrowers	Allowance of Doubtful Accounts	Collateral		Limit on loans to a single business	Limit on the Amount of Loans
					Name	Value												
1	CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Account receivables - Related party	Yes	US 22,289	US 22,289	US 22,289	-	2	-	Operations	-	-	-	US 56,662	US 56,662		
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: Significant transactions between parent company and subsidiaries for the six months ended June 30, 2015

(In thousands dollars)

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Transaction details			
				General ledger account	Amount	Trading terms	Percentage(%) of total consolidated revenue
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts payable	393		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts receivable	20,395		0.02%
0	Capital Securities Corp.	Capital Futures Corp.	1	Other receivable	93		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Bonds sold under repurchase agreements	82,537		0.09%
0	Capital Securities Corp.	Capital Futures Corp.	1	Guarantee deposits received	3,508		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Future commission revenue	62,657	General transaction	1.87%
0	Capital Securities Corp.	Capital Futures Corp.	1	Lease revenue	6,671	General transaction	0.20%
0	Capital Securities Corp.	Capital Futures Corp.	1	Revenue from securities management, distribution, and management fees	185	General transaction	0.01%
0	Capital Securities Corp.	Capital Futures Corp.	1	Financial costs	335	General transaction	0.01%
0	Capital Securities Corp.	Capital Futures Corp.	1	Other operating revenue	10	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Securities commission expense - introducing brokers	1,797	General transaction	0.05%
0	Capital Securities Corp.	Capital Futures Corp.	1	Interest revenue	114	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Operating expense	3,962	General transaction	0.12%
0	Capital Securities Corp.	Capital Futures Corp.	1	Non-operating revenues	9,160	General transaction	0.27%
0	Capital Securities Corp.	Capital Futures Corp.	1	Brokerage commissions	209	General transaction	0.01%
0	Capital Securities Corp.	Capital International Technology Co., Ltd.	1	Bonds sold under repurchase agreements	9,004		0.01%
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Professional service fees	41,000	General transaction	1.23%
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Lease revenue	600	General transaction	0.02%
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Other receivable	133		- %
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	60	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Other non-operating revenue	60	General transaction	- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Guarantee deposits received	171		- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Lease revenue	498	General transaction	0.01%
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Other non-operating revenue	300	General transaction	0.01%
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other receivables	15		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Receipts under custody	68		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Brokerage commissions	19	General transaction	- %
1	Capital Futures Corp.	Capital Securities Corp.	2	Customer margin account	578,596		0.61%
1	Capital Futures Corp.	Capital Securities Corp.	2	Futures traders' equity	578,596		0.61%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Customer margin account	156,992		0.17%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Cash and cash equivalents	2,167		- %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Accounts payable	867		- %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures traders' equity	906,075		0.96%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Commission expense - futures	8,362	General transaction	0.25%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Brokerage commissions	20,375	General transaction	0.61%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Operating expense	11,242	General transaction	0.34%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Financial costs	31	General transaction	- %
1	Capital Futures Corp.	Capital International Technology Co., Ltd.	3	Lease revenue	73	General transaction	- %
2	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other payables	5,413		0.01%
2	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other operating revenue	HK 1,740		0.21%
2	CSC Securities (HK) Ltd.	CSC International Holdings Ltd.	3	Other payables	USD 22,289		0.73%
3	Capital Securities (Hong Kong) Ltd.	CSC Financial Services Ltd.	3	Other payables	HK 5,799		0.02%
4	CSC International Holdings Ltd.	CSC Asia Ltd.	3	Other payables	USD 185		0.01%
4	CSC International Holdings Ltd.	CSC Finance Ltd	3	Other payables	USD 4,265		0.14%
5	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	3	Other receivables	HK 26,202		0.11%

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.

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: Information on reinvestment business

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 June 30, 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%	99,602	7,335	7,335	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%	1,575,462	162,387	95,824	"
0	CSC International Holdings Ltd.	British Virgin Island	Long-term equity investment business.	1,339,555	1,339,555	45,000,000	100.00%	1,745,743	13,698	13,698	"
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%	37,228	27,576	27,576	Subsidiary
0	Capital Insurance Agency Corp.	Taipei ,Taiwan, R.O.C.	Manages personal insurance agent business.	7,400	7,400	740,000	100.00%	44,025	7,464	7,464	"
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%	1,253	(182)	(182)	"
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%	13,647	(122)	(122)	"
1	CSC Asia Ltd. (Note 7)	Hong Kong	Liquidation in progress.	HK10,000 thousand	HK10,000 thousand	1,000,000	66.67%	HK2,093 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%	HK54,748 thousand	HK1,477 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%	HK122,142 thousand	HK5,574 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%	HK52,346 thousand	HK5,574 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(26,079) thousand	HK(44) thousand	-	"
4	Taiwan International Capital (HK) Ltd. (Note 6)	Hong Kong	Liquidation in progress.	HK2	HK2	2	100.00%	HK(49,206) thousand	HK(9) thousand	-	"
5	CSC Futures (HK) Ltd.	Hong Kong	Futures dealing business.	450,631	474,348	114,000,000	95.00%	417,945	(15,519)	-	"
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%	49,216	(409)	-	"
6	CSC Securities Nominees 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.