

**CAPITAL SECURITIES CORPORATION AND
SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

AND

INDEPENDENT ACCOUNTANTS' AUDIT REPORT

**Address: 4th Fl. No. 101, Sung-Jen Road, Taipei, Taiwan, R.O.C.
Telephone: 886-2-8789-8888**

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

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Representation Letter

The entities that are required to be included in the combined financial statements of Capital Securities Corporation as of and for the year ended December 31, 2015, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard 10, "Consolidated Financial Statements" endorsed by Financial Supervisory Commission. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Capital Securities Corporation and Subsidiaries do not prepare a separate set of combined financial statements.

We hereby certify that the above statement is true.

Company: Capital Securities Corporation

Chairman of the board: WANG Jiunn-Chih

Date: March 28, 2016



安侯建業聯合會計師事務所

KPMG

台北市11049信義路5段7號68樓(台北101大樓)
68F, TAIPEI 101 TOWER, No. 7, Sec. 5,
Xinyi Road, Taipei, 11049, Taiwan, R.O.C.

Telephone 電話 + 886 (2) 8101 6666

Fax 傳真 + 886 (2) 8101 6667

Internet 網址 www.kpmg.com.tw

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 December 31, 2015 and 2014 and the related consolidated statements of comprehensive income, the consolidated statements of changes in equity, and cash flows for the years ended December 31, 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 consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial report referred to above present fairly, in all material respects, the financial position of Capital Securities Corporation as of December 31, 2015 and 2014, and the results of its financial performance and its cash flows for the years ended December 31, 2015 and 2014, in conformity with Regulations Governing the Preparation of Financial Reports by Securities Firms.

We have audited the separate financial statements of Capital Securities Corporation as of and for the years ended December 31, 2015 and 2014 on which we have issued an unqualified opinion thereon.

KPMG
Taipei, Taiwan, R.O.C.
March 28, 2016

Notice to Readers

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

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2015 and 2014
(Expressed in Thousands of New Taiwan Dollars)

ASSETS	December 31, 2015		December 31, 2014		LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2015		December 31, 2014	
	Amount	%	Amount	%		Amount	%	Amount	%
Current Assets					Current Liabilities				
Cash and cash equivalents (Note 6(1))	\$ 4,726,498	5	4,227,583	5	Short-term borrowings (Note 6(9))	\$ 1,791,161	2	2,657,000	3
Financial assets at fair value through profit or loss - current (Notes 6(2) and 8)	25,985,624	28	25,075,152	30	Commercial paper payable (Note 6(10))	-	-	1,749,717	2
Financial assets available for sale - current (Note 6(2))	7,835,455	8	-	-	Financial liabilities at fair value through profit or loss - current (Note 6(11))	2,409,455	3	2,408,410	3
Receivable for securities provided as collateral	15,155,220	16	19,569,465	23	Bonds sold under repurchase agreements (Note 6(12))	23,576,243	25	14,610,182	17
Refinancing margin	9,084	-	15,527	-	Guarantee deposited for short sales	2,025,011	2	2,231,990	3
Receivable on refinancing collateral	7,550	-	24,434	-	Proceeds payable from short sales	2,242,680	2	2,593,973	3
Customer margin account (Note 6(4))	16,304,756	18	11,844,443	14	Securities lending refundable deposits	1,622,937	2	2,254,764	3
Receivable - futures margin	900	-	-	-	Futures traders' equity (Note 6(4))	16,287,312	18	11,743,420	14
Collateral for securities borrowed	1,074,130	1	649,413	1	Customer equity of separate account ledger in settlement account (Note 6(13))	4,104	-	-	-
Security borrowing margin	1,460,549	2	593,827	1	Notes payable	846	-	1,146	-
Notes receivable	7,955	-	4,024	-	Accounts payable (Note 6(14))	3,847,764	4	5,870,521	7
Accounts receivable (Note 6(3))	4,984,977	5	6,759,882	8	Advance receipts	19,935	-	19,833	-
Prepayments	36,303	-	38,819	-	Receipts under custody	1,347,159	1	125,703	-
Other receivables	87,864	-	83,019	-	Other payables	765,523	1	827,935	1
Current income tax assets	59,777	-	35,560	-	Other financial liabilities - current (Note 6(23))	3,834,575	4	2,140,965	3
Other current assets	1,854,659	2	610,381	1	Current income tax liabilities	154,699	-	198,131	-
	<u>79,591,301</u>	<u>85</u>	<u>69,531,529</u>	<u>83</u>	Provisions - current (Note 6(17))	47,546	-	46,793	-
					Long-term liabilities - current portion (Note 6(15))	-	-	500,000	1
Non-current Assets					Other current liabilities	5,124	-	15,777	-
Financial assets at fair value through profit or loss - non-current (Notes 6(2) and 8)	190,554	-	189,262	-		<u>59,982,074</u>	<u>64</u>	<u>49,996,260</u>	<u>60</u>
Financial assets measured at cost - non-current (Note 6(2))	411,231	-	419,981	1	Non-current Liabilities				
Financial assets available for sale - non-current (Note 6(2))	60,966	-	85,587	-	Other financial liabilities - non-current (Note 6(23))	241,991	-	112,565	-
Investments accounted for under equity method (Note 6(5))	157,675	-	103,266	-	Deferred income tax liabilities (Note 6(18))	693,879	1	543,990	1
Property and equipment (Notes 6(6) and 8)	5,177,406	6	5,390,207	6	Other non-current liabilities	865,580	1	833,408	1
Investment property (Notes 6(7) and 8)	1,740,207	2	1,663,945	2		<u>1,801,450</u>	<u>2</u>	<u>1,489,963</u>	<u>2</u>
Intangible assets (Note 6(8))	3,627,517	4	3,605,104	4	Total Liabilities	<u>61,783,524</u>	<u>66</u>	<u>51,486,223</u>	<u>62</u>
Deferred income tax assets (Note 6(18))	484,797	1	581,309	1	Equity Attributable to Shareholders of the Parent				
Other non-current assets	1,869,537	2	2,118,153	3	Common stock (Note 6(19))	23,190,730	25	23,690,730	28
	<u>13,719,890</u>	<u>15</u>	<u>14,156,814</u>	<u>17</u>	Capital surplus				
					Premium from stock issuance	1,899,259	2	1,940,208	2
					Treasury stock transactions	191,489	-	107,031	-
					Paid-in capital from merger	644,342	1	658,234	1
					Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,430	-	-	-
					Changes in ownership interests in subsidiaries	6,287	-	6,287	-
					Retained earnings				
					Legal reserve	955,667	1	753,136	1
					Special reserve	2,154,422	2	1,756,283	2
					Unappropriated earnings (Note 6(18))	1,586,994	2	2,089,222	3
					Exchange differences on translation of foreign operations	135,985	-	76,558	-
					Unrealized gains (losses) on financial assets available for sale	(6,850)	-	20,791	-
					Treasury stocks (Note 6(19))	(469,155)	-	-	-
					Total equity attributed to the parent company	<u>30,290,600</u>	<u>33</u>	<u>31,098,480</u>	<u>37</u>
					Non-controlling interests	<u>1,237,067</u>	<u>1</u>	<u>1,103,640</u>	<u>1</u>
					Total Equity	<u>31,527,667</u>	<u>34</u>	<u>32,202,120</u>	<u>38</u>
TOTAL ASSETS	\$ 93,311,191	100	83,688,343	100	TOTAL LIABILITIES AND EQUITY	\$ 93,311,191	100	83,688,343	100

The accompanying notes are an integral part of the financial report.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2015 and 2014
(Expressed In Thousands of New Taiwan Dollars, Except Earnings Per Share Data)

	2015		2014	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Income:				
Brokerage commissions (Note 6(21))	\$ 3,585,202	55	3,722,838	54
Revenues from securities business money lending	119	-	75	-
Revenue from securities lendings	38,789	1	46,225	1
Underwriting commissions (Note 6(21))	167,696	2	169,368	3
Commissions on wealth management business	63,025	1	45,947	1
Net gains on sale of trading securities (Note 6(21))	44,885	1	564,874	8
Securities management, distribution, and management fees	139,875	2	138,359	2
Interest revenue (Note 6(21))	1,430,410	22	1,447,536	21
Dividend revenue	146,717	2	252,244	4
Net losses on measurement of trading securities at fair value through profit or loss (Note 6(21))	(219,874)	(3)	(46,447)	(1)
Net losses on covering of borrowed securities and bonds with resale agreements	(46,842)	(1)	(73,360)	(1)
Net gains on measurement of borrowed securities and bonds with resale agreements	78,838	1	640	-
Net gains on stock warrants issued (Notes 6(21) and 6(23))	842,234	13	620,898	9
Futures commission revenues	123,498	2	84,256	1
Net gains (losses) on derivative instruments - futures (Note 6(23))	126,235	2	(123,687)	(2)
Net losses on derivative instruments - OTC (Note 6(23))	(54,270)	(1)	(45,491)	(1)
Management fee revenues	843	-	249	-
Advisory commissions	9,009	-	9,068	-
Other operating revenues	87,768	1	55,284	1
	<u>6,564,157</u>	<u>100</u>	<u>6,868,876</u>	<u>100</u>
Expenses:				
Brokerage fees	391,388	6	344,588	5
Financial assets measured at cost - non-current (Note 6(2))	22,995	-	23,377	-
Financial assets available for sale - non-current (Note 6(2))	3,116	-	1,977	-
Investments accounted for under equity method (Note 6(5))	2,866	-	3,954	-
Financial costs	209,012	3	178,760	3
Commission expense - futures	189,205	3	158,556	2
Clearing and settlement expenses	135,052	2	103,223	2
Other operating expenditure	9,001	-	13,287	-
Employee benefits expenses (Note 6(21))	2,467,074	38	2,588,102	38
Depreciation and amortization expenses (Note 6(21))	219,499	3	221,110	3
Other operating expenses (Note 6(21))	1,550,209	24	1,425,239	21
	<u>5,199,417</u>	<u>79</u>	<u>5,062,173</u>	<u>74</u>
Other income and expenses :				
Share of profits of associates and joint venture (Note 6(5))	74,775	1	63,728	1
Other gains and losses (Note 6(21))	594,520	9	562,270	8
	<u>669,295</u>	<u>10</u>	<u>625,998</u>	<u>9</u>
Net income before income tax	<u>2,034,035</u>	<u>31</u>	<u>2,432,701</u>	<u>35</u>
Income tax expense (Note 6(18))	<u>(305,677)</u>	<u>(4)</u>	<u>(289,038)</u>	<u>(4)</u>
Net income for the year	<u>1,728,358</u>	<u>27</u>	<u>2,143,663</u>	<u>31</u>
Other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement on defined benefit plan	(29,867)	-	(18,583)	-
Income tax related to the components of other comprehensive income	-	-	-	-
Subtotal of items that will not be reclassified subsequently to profit or loss	<u>(29,867)</u>	<u>-</u>	<u>(18,583)</u>	<u>-</u>
To be reclassified to profit or loss in subsequent periods				
Exchange differences on translation of foreign operations	81,233	1	125,153	2
Unrealized gains (losses) on financial assets available for sale , net	(31,021)	(1)	14,020	-
Income tax related to components of other comprehensive income (Note 6(18))	(14,772)	-	(22,829)	-
Subtotal of items that may be subsequently reclassified into profit or loss	<u>35,440</u>	<u>-</u>	<u>116,344</u>	<u>2</u>
Other comprehensive income for the year, net of income tax	<u>5,573</u>	<u>-</u>	<u>97,761</u>	<u>2</u>
Total comprehensive income for the year	<u>\$ 1,733,931</u>	<u>27</u>	<u>2,241,424</u>	<u>33</u>
Net income attributable to				
Shareholders of the parent	\$ 1,549,327	24	2,025,305	29
Non-controlling interests	179,031	3	118,358	2
	<u>\$ 1,728,358</u>	<u>27</u>	<u>2,143,663</u>	<u>31</u>
Total comprehensive income attributable to:				
Shareholders of the parent	\$ 1,551,672	24	2,111,211	31
Non-controlling interests	182,259	3	130,213	2
	<u>\$ 1,733,931</u>	<u>27</u>	<u>2,241,424</u>	<u>33</u>
Basic earnings per share (Note 6(20))	<u>\$ 0.66</u>		<u>0.85</u>	
Dilutive earnings per share (Note 6(20))	<u>\$ 0.66</u>		<u>0.85</u>	

The accompanying notes are an integral part of the financial report.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2015 and 2014
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to shareholders of the parent					Equity - other items					Non-controlling interests	Total
	Capital stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences on translation of foreign operations	Unrealized gains (losses) on financial assets available for sale	Treasury stocks	Equity attributable to shareholders of the parent			
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 year ended December 31, 2014	-	-	-	-	2,025,305	-	-	-	2,025,305	118,358	2,143,663	
Other comprehensive income for the year ended December 31, 2014	-	-	-	-	(18,365)	96,083	8,188	-	85,906	11,855	97,761	
Total comprehensive income for the year ended December 31, 2014	-	-	-	-	2,006,940	96,083	8,188	-	2,111,211	130,213	2,241,424	
Appropriation of earnings :												
Legal reserve	-	-	147,178	-	(147,178)	-	-	-	-	-	-	
Special Reserve	-	-	-	294,357	(294,357)	-	-	-	-	-	-	
Cash dividends	-	-	-	-	(1,066,083)	-	-	-	(1,066,083)	(73,438)	(1,139,521)	
Reversal of special reserve for deduction of stockholders' equity	-	-	-	(166,392)	166,392	-	-	-	-	-	-	
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	-	-	-	(452)	-	-	-	(452)	-	(452)	
Change in the ownership interest of subsidiaries	-	6,287	-	-	-	-	-	-	6,287	-	6,287	
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	227,189	227,189	
Ending balance, December 31, 2014	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 year ended December 31, 2015	-	-	-	-	1,549,327	-	-	-	1,549,327	179,031	1,728,358	
Other comprehensive income for the year ended December 31, 2015	-	-	-	-	(29,441)	59,427	(27,641)	-	2,345	3,228	5,573	
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	1,519,886	59,427	(27,641)	-	1,551,672	182,259	1,733,931	
Appropriation of earnings :												
Legal reserve	-	-	202,531	-	(202,531)	-	-	-	-	-	-	
Special reserve	-	-	-	405,061	(405,061)	-	-	-	-	-	-	
Cash dividends	-	-	-	-	(1,421,444)	-	-	-	(1,421,444)	(73,781)	(1,495,225)	
Financial assets measured at cost - non-current (Note 6(2))	-	-	-	(6,922)	6,922	-	-	-	-	-	-	
Financial assets available for sale - non-current (Note 6(2))	-	-	-	-	-	-	-	(939,569)	(939,569)	-	(939,569)	
Investments accounted for under equity method (Note 6(5))	(500,000)	29,586	-	-	-	-	-	470,414	-	-	-	
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	1,461	-	-	-	-	-	-	1,461	-	1,461	
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	24,949	24,949	
Ending balance, December 31, 2015	\$ 23,190,730	2,742,807	955,667	2,154,422	1,586,994	135,985	(6,850)	(469,155)	30,290,600	1,237,067	31,527,667	

The accompanying notes are an integral part of the financial report.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014
(Expressed In Thousands of New Taiwan Dollars)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Net income before tax	\$ 2,034,035	2,432,701
Adjustments for:		
Income and expenses items with no effect on cash flows:		
Depreciation expense	179,376	181,418
Amortization expense	40,123	39,692
Net losses on financial assets or liabilities at fair value through profit or loss	219,874	46,447
Interest expense	209,012	178,760
Interest revenue (including financial income)	(1,599,893)	(1,573,548)
Dividend revenue	(179,431)	(457,622)
Cash dividend received from investments underequity method	57,053	49,950
Share of profits of associates and joint ventures	(74,775)	(63,728)
Gains on disposal and retirement of property and equipment	(58,484)	(2,996)
Losses on disposal and retirement of intangible assets	86	-
Gains on disposal of financial assets available for sale - non-current	(13,769)	-
Losses on non-operating financial instruments at fair value through profit or loss	9,258	36,056
Share-based payments	-	6,604
Net changes of income and expense items with no effect on cash flows	<u>(1,211,570)</u>	<u>(1,558,967)</u>
Net changes in assets from operating activities:		
Increase in financial assets at fair value through profit or loss - current	(1,140,884)	(5,180,538)
Increase in financial assets available for sale - current	(7,858,230)	-
Decrease in bonds purchased under resale agreements	-	558,394
Decrease (increase) in receivable for securities provided as collateral	4,414,245	(1,682,067)
Decrease in refinancing margin	6,443	174,587
Financial assets measured at cost - non-current (Note 6(2))	16,884	133,718
Financial assets available for sale - non-current (Note 6(2))	(4,460,313)	(4,198,994)
Investments accounted for under equity method (Note 6(5))	(900)	-
Increase in collateral for securities borrowed	(424,717)	(279,583)
Decrease (increase) in security borrowing margin	(866,722)	694,406
Decrease (increase) in notes receivable	(3,931)	4,532
Decrease in accounts receivable	1,738,439	1,169,681
Decrease in prepayments	2,895	5,867
Decrease (increase) in other receivables	5,660	(63,556)
Increase in restricted assets - current	(73,717)	-
Increase in current income tax assets	(23,924)	(13,352)
Decrease (increase) in other current assets	(1,170,561)	536,250
Decrease in guarantee deposited for business operations	264,513	26,864
Decrease (increase) in settlement fund	(1,583)	28,400
Decrease in refundable deposits	38,120	115,679
Decrease (increase) in other non-current assets	(65,504)	3,614
Total net changes in assets from operating activities:	<u>(9,603,787)</u>	<u>(7,966,098)</u>
Net changes in liabilities from operating activities:		
Increase in financial liabilities at fair value through profit or loss - current	1,045	1,250,313
Increase in bonds sold under repurchase agreements	8,966,061	1,494,923
Decrease in guaranty deposited for short sales	(206,979)	(134,757)
Decrease in proceeds payable from short sales	(351,293)	(414,943)
Increase (decrease) in securities lending refundable deposits	(631,827)	474,847
Increase in futures traders' equity	4,543,892	4,149,735
Increase (decrease) in notes payable	(300)	288
Decrease in accounts payable	(2,022,921)	(1,658,685)
Increase (decrease) in advance receipts	102	(131,072)
Increase (decrease) in receipts under custody	1,221,313	(437,215)
Increase (decrease) in other payables	(75,949)	59,591
Increase in other financial liabilities	1,823,036	565,012
Increase in customer equity of separate account ledger in settlement account	4,104	-
Increase (decrease) in other current liabilities	(4,583)	15,421
Increase (decrease) in provision - current	137	(107)
Decrease in other non-current liabilities	2,305	1,373
Total net changes in liabilities from operating activities	<u>13,268,143</u>	<u>5,234,724</u>
Total net changes in assets and liabilities from operating activities	<u>3,664,356</u>	<u>(2,731,374)</u>
Total Cash generated from adjustment items	<u>2,452,786</u>	<u>(4,290,341)</u>

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CON'D)
For the Years Ended December 31, 2015 and 2014
(Expressed In Thousands of New Taiwan Dollars)

	2015	2014
Cash generated by operating activities	\$ 4,486,821	(1,857,640)
Interest received	1,633,353	1,498,820
Dividends received	178,746	457,506
Interest paid	(202,599)	(233,696)
Income tax paid	(117,480)	(76,492)
Net cash provided by (used in) operating activities	5,978,841	(211,502)
Cash flows from investing activities:		
Proceeds from disposal of financial assets available for sale	30,229	-
Proceeds from disposal of financial assets measured at cost	-	23,395
Increase of deferred debits	(3,329)	(3,069)
Increase of investments accounted for under equity method	(59,860)	-
Proceeds from capital reduction of financial assets measured at cost	8,750	223,791
Acquisitions of property and equipment	(198,281)	(103,880)
Proceeds from disposal of property and equipment	225,514	5,847
Acquisitions of intangible assets	(34,604)	(39,924)
Acquisitions of investment property	(260)	-
Net cash provided by (used in) investing activities	(31,841)	106,160
Cash flows from financing activities:		
Increase (decrease) in short-term borrowing	(865,839)	638,000
Increase (decrease) in long-term liabilities - current portion	(500,000)	500,000
Decrease in commercial paper payable	(1,749,717)	(549,865)
Acquisition of treasury stocks	(939,569)	-
Cash dividends	(1,495,225)	(1,139,521)
Issuance of common stock for cash of subsidiaries	-	226,014
Financial assets measured at cost - non-current (Note 6(2))	-	(24,348)
Financial assets available for sale - non-current (Note 6(2))	24,215	24,034
Investments accounted for under equity method (Note 6(5))	(5,526,135)	(325,686)
Effect of exchange rate changes on cash and cash equivalents	78,050	104,267
Increase (decrease) in cash and cash equivalents	498,915	(326,761)
Cash and cash equivalents, beginning of the year	4,227,583	4,554,344
Cash and cash equivalents, end of the year	\$ 4,726,498	4,227,583

The accompanying notes are an integral part of the financial report.

(ENGLISH TRANSLATION)
CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS UNLESS OTHERWISE STATED)

1. OVERVIEW

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

The Company is authorized to conduct the following businesses:

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

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

2. APPROVAL DATE AND PROCEDURES OF THE FINANCIAL REPORT

The consolidated financial statements were authorized for issuance by the Board of Directors on March 28, 2016.

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 company 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 company is demonstrably committed to terminating the employment of employees, but also at the earlier of the following dates when the company can no longer withdraw the offer or when the company recognizes costs for a restructuring. Moreover, the amendments also require a broader disclosure for defined benefit plans.

The Group has changed the accounting policy related to the measure and expression of net defined benefit assets, pension cost and actuarial gains or losses.

B. Amendments to IAS 1, “Presentation of Items of Other Comprehensive Income”

According to the amendments to IAS 1, the items of other comprehensive income will be grouped into two categories: (1) items that will not be reclassified subsequently to profit or loss; and (2) items that will be reclassified subsequently to profit or loss when specific conditions are met. In addition, income tax on items of other comprehensive income is also required to be allocated on the same basis. The Group will modify the presentation of statement of comprehensive income statement in accordance with the amendment.

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 values, establishes a framework for measuring fair value and requires disclosures about fair value measurement. Under this standard, the Group has increased its disclosures on the measurement of fair value and postponed the adoption of the standard regarding fair value measurement during the transition period of IFRS 13. Comparative information need not be disclosed for periods before initial application. Despite the postponing of the adoption of the standard, there is no significant impact on the fair value measurement of the Group’s assets and liabilities.

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”	Undecided
• 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
• IFRS 16 “Leases”	January 1, 2019
• Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
• Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
• Amendment to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
• Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
• Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plant”	January 1, 2016
• Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
• Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
• Amendment to IAS 36 “Recoverable Amount Disclosures for Non-Financial Assets”	January 1, 2014
• Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
• Annual Improvements to IFRSs 2010–2012 and 2011–2013 Cycle	July 1, 2014
• Annual Improvements to IFRSs 2012–2014 Cycle	January 1, 2016
• Interpretations to IFRS 21 “Levies”	January 1, 2014

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies presented in the financial statements are summarized as follows. The significant accounting policies have been applied consistently to all periods presented in the financial statements.

(1) Statement of compliance

The consolidated financial statements are prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms.

(2) Basis of preparation

A. Basis of measurement

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

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

B. Functional and presentation currency

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

(3) Basis of consolidation

A. Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Total profit or losses of subsidiaries applicable to the non-controlling interests are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

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

B. List of subsidiaries in the consolidated financial statements

Subsidiaries included in the consolidated report are as follows:

Name of the Investor	Subsidiaries	Business type	Ratio of Equity Ownership		Note
			Dec 31, 2015	Dec 31, 2014	
The Company	Capital Investment Management Corp.	Engaged in providing advice on securities investment and securities investment consultancy	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%	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%	Established in February, 1997 with the paid-in capitals amounted to \$1,223,979.
"	Taiwan International Futures Corp.	Management and consulting business	99.99%	99.99%	Liquidation in progress.
"	Taiwan International Securities (B.V.I) Corp.	Holding company for international securities business	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%	Liquidation in progress.
Capital Futures Corp.	CSC Futures (HK) Ltd.	Futures dealing business.	95.00%	100.00%	Established in December, 1998. Acquired 100% of the equity on November 1, 2012, disposed 5% on April 2, 2014 and reacquired 5% on December 23, 2014, then re-disposed 5% on April 30, 2015. As of December 31, 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 December 31, 2015, the paid-in capitals amounted to \$50,000.
Capital International Technology Corp.	Capital True Partner Co., Ltd	Management, consulting and information service business.	51.00%	- %	Established on August 20, 2008. Acquired 51% of the equity on February 9, 2015 and held controlling interest. As of December 31, 2015, the paid-in capitals amounted to CNYS\$1,000 thousands.
CSC International Holdings Ltd.	CSC Securities (HK) Limited	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	Established in May, 1994.
CSC International Holdings Ltd.	Capital Securities (Hong Kong) Ltd.	Long-term equity investment business.	100.00%	100.00%	The board of directors of the Company resolved to cease operation on October 30, 2012.

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

Name of the Investor	Subsidiaries	Business type	Ratio of Equity Ownership		Note	
			Dec 31, 2015	Dec 31, 2014		
CSC International Holdings Ltd.	CSC Finance Ltd.	Securities financing business	-	%	100.00%	The board of directors of the Company resolved to cease operation on October 30, 2012. The liquidation was completed on November 19, 2015.
"	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	The board of directors of the Company resolved to cease operation on October 30, 2012. The liquidation was completed on November 19, 2015.
Capital Securities (Hong Kong) Ltd.	CSC Securities (HK) Ltd.	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively		CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	Established in May, 1994.
"	CSC Asia Ltd.	Provision of corporate advisory services			CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 66.67% and 33.33% equity, respectively	The board of directors of the Company resolved to cease operation on October 30, 2012. The liquidation was completed on November 19, 2015.
"	CSC Financial Services Ltd.	Securities financing business	-	%	100.00%	The board of directors of the Company resolved to cease operation on October 30, 2012. The liquidation was completed on November 19, 2015.
CSC Securities (HK) Ltd.	Capital Securities Nominee Ltd.	Agency service	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%	Not complied with the requirement of Financial Resources Rules (the "FRR") of the Hong Kong Securities and Futures Commission, the operations remain stagnant currently.
TIS Securities (HK) Limited	Taiwan International Capital (HK) Ltd.	Direct investment	100.00%		100.00%	Not complied with the requirement of 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)

C. Subsidiaries not listed in the consolidated financial statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership		Note
			Dec 31, 2015	Dec 31, 2014	
The Company	Capital Insurance Agency Corp.	Manages personal insurance agent business.	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 December 31, 2015 and 2014, the total assets constituted 0.06%, 0.08% of the Group's total assets. For the year end December 31, 2015 and 2014, the operation revenue were merely 1.13% and 1.32% 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%	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 December 31, 2015 and 2014, the total assets constituted 0.11% and 0.08% of the Group's total assets. For the year end December 31, 2015 and 2014, the operation revenue were merely 2.76% and 2.18% of the consolidated revenue which were so immaterial, thus they were excluded from the consolidated financial statement.

(4) Foreign currency

A. Foreign currency transaction

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

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

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

Foreign currency differences arising on retranslation are recognized in profit or loss, except for available-for-sale equity investment which are recognized in other comprehensive income arising on the retranslation.

B. Foreign operations

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

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

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

An entity shall classify an asset as current when:

- A. Assets arising from operating activities that are expected to be realized, or are intend to be sold or consumed within the normal operating cycle;
- B. Assets held primarily for the purpose of trading;
- C. Assets that are expected to be realized within twelve months from the balance sheet date;
- D. Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

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

An entity shall classify a liability as current when:

- A. Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;
- B. Liabilities arising primarily for the purpose of trading;
- C. Liabilities that are to be settled within twelve months from the balance sheet date;
- D. Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

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

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

(6) Cash and cash equivalents

Cash comprises cash on hand, demand deposits and check deposits.

Cash equivalent comprises of time deposit with maturity within 1 year, excess future margin, commercial paper and short-term, highly liquid investments. For an investment to qualify as a cash equivalents it must readily convertible to a known amount of cash and be subjected to an insignificant risk of changes in value.

(7) Financial instruments

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

A. Financial assets

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

a. Financial assets at fair value through profit or loss

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

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

b. Financial assets available for sale

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

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

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

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

c. Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. A regular transaction on purchase or disposal of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

d. Loans and receivables

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

e. Impairment of financial assets

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

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

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

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

Impairment loss recognized on an available-for-sale equity security is not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

f. **Derecognition of financial assets**

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

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

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

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

B. Financial liabilities

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

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

b. Other financial liabilities

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

c. Derecognition of financial liabilities

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

d. Offsetting of financial assets and liabilities

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

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

C. Derivative financial instruments

Derivatives are recognized initially at fair value and transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss

a. Interest rate swaps

Since there is no physical transfer of principal, only memo entries of notional principals are made of interest rate swaps. For non-trading swaps, differences in interest are included in current earnings. Trading swaps are recognized on the balance sheet in their fair value. Realized and unrealized changes in their fair value are included in current earnings at the time of occurrence.

b. Convertible bond asset- backed swaps

Convertible bonds acquired through underwriting or proprietary trading are the underlying assets of asset-backed swaps. The contract amount for the counter-parties receiving the convertible bond is the notional principal. The Company swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counter-parties. The Company also receives the right to call the convertible bond prior to the expiration of the contract.

The rights to call the convertible bond can be sold to third parties and counter-parties, are reflected under asset-backed options.

c. Structured products

The portfolio of structured products contract is fixed income products and financial derivatives instruments, including main-contract of non-derivatives and embedded derivatives, those shall be recognized separately. The principal value of structured products is the present value of fixed income products, measured at amortized cost, and recognized imputed interest with effective interest rate over the duration of contracts. Embedded derivatives are measured at fair value, and the changes in fair value are recognized through profit or loss.

On the settlement date with physical delivery, the fair value of the acquired securities are stated at cost; the fair value and the cost of the delivered securities are recognized as revenue on sale of securities and cost on sale of securities, respectively.

When hedging positions are securities held for trading (including stocks, bonds and warrants) or options contracts, the accounting policy is referred to stock warrants hedging transactions; when hedging positions are futures contracts, the accounting policy is referred to futures hedging transactions.

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

d. Interest options

On the contract date, the premium received from the counterparty is recognized and gain or loss on interest options is valued using the fair value method.

e. Bond options

Over the duration of contracts, the notional principal can be executed is recorded as memo entry. Option contracts are valued at fair market value on the balance sheet date and current gain or loss is recorded. If the options are exercised and underlying bonds are been acquired or delivered, bond selling revenue or purchase costs are recorded at their fair market value. The exercise prices calculated in accordance with interest rate are recorded as receivables or payables.

f. Equity options

The buyer and seller of equity options recognized equity derivatives assets and liabilities at trading date according to fair value. Equity options are valued at fair value and the difference between book value and fair value are recognized through profit or loss over the duration of contracts.

On the settlement date with physical delivery, the fair value of the acquired securities are stated at cost; the fair value and the cost of the delivered securities are recognized as revenue on sale of securities and cost on sale of securities, respectively.

When hedging positions are stocks, the accounting policy is referred to stock warrants hedging transactions; when hedging positions are stock index options or stock options, the accounting policy is referred to those hedging transactions.

g. Forward rate agreement

As there is no principal is transferred, forward rate agreement is only recorded as memo entry on the contract date. Forward rate agreement contract is valued at fair value and recognized the gain or loss on forward rate agreement.

h. Futures contracts and options

Margins are required when trading futures or options. Changes in the margin balance of futures and options due to daily valuation are reflected under “futures margin-proprietary trading” and “call options” or “put options.” When offsetting a futures or options position, the settlement difference is included in current earnings, and the difference between the settlement prices and average prices of open positions at the balance sheet date is also included in current earnings.

i. Stock warrants

Issuance of stock warrants by a securities firm should be recognized as a liability according to amounts actually received, and amounts paid in the repurchase of stock warrants previously issued should be listed as a deduction from liabilities.

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

(8) Margin loan, short sale and refinancing

Margin loan represents loans extended to customers and is accounted for as receivables for securities provided as collateral. Such loans are secured by the securities purchased by customers. These securities are recorded through memo entries and are returned when the loans are repaid.

Short sale represents securities lent to customers and the deposits received from customers on securities lent out are accounted to guarantee deposited for securities lent. The proceeds from sales of securities lent to customers, net of securities transaction tax, commission and financing charges, is retained by the Group and are recorded under the proceeds payable from securities lent. These securities lent to customers for short sales are recorded through memo entries. The deposits received and the proceeds from short sale will be returned to customers while the securities are returned and paid off.

Refinancing margin loan means that the Group operates margin loan business, if capital is insufficient, the Group can refinance from securities finance companies, recorded as borrowed funds refinanced, and securities from margin loan are regarded pledged.

Refinancing short sale means the Group operates short sale business, if securities are insufficient, the Group can borrow securities from securities finance companies. For securities refinancing, the Company pays margin deposits to securities finance companies and these margin deposits are recorded as refinancing margin. The proceeds from the short sale of securities borrowed from securities finance companies is retained by the securities finance companies as collateral which are recorded as proceeds payable from securities lent and receivable on refinancing collateral, respectively.

(9) Bonds with resell and repurchase agreements

When bonds are repurchased, they are reflected under “bonds sold under repurchase agreements” at the settlement date. The difference between the selling price and repurchase price is recognized as interest expense. When bonds are resold, they are reflected under “bonds purchased under resell agreements” at the settlement date. The difference between the selling price and repurchase price is recognized as interest revenue.

When bonds purchased under resell agreements are resold, the amounts are recognized under “bonds purchased under resell agreements-short sales”. Unrealized gain or loss arising from the valuation at the balance sheet date is recognized under “gain or loss on valuation of borrowed securities and bonds with resell agreements”. Gain or loss arising from covering at maturity is recognized under “gain or loss on covering of borrowed securities and bonds with resell agreements”.

(10) Customers' margin accounts and futures customers' equity

Receiving margin deposits from customers for futures transactions as requirements is in accordance with the regulations. Customers' margin account balances are calculated daily by marking to market the open positions of each customer and determining the required margin levels, recognized as current assets in the balance sheet. Margin deposits received from customers for futures transactions and futures customers' equity calculated daily by marking to market, recognized as current liabilities in the balance sheet. Futures customers' equity cannot be offset unless these accounts pertain to the same customers.

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

(11) Securities borrowing transactions

Engage in securities lending transactions, the amount of the sale of securities borrowing recognized liability, and to distinguish hedging and non-hedging purposes, in accordance with stocks and bonds. The amount paid to redeem shares or bonds borrowed, as a deduction of the subjects, the collateral paid in cash recorded as security borrowing margin, short sales delivered for securities market financing recorded as security borrowing collateral price.

(12) Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Unrealized profits resulting from the transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Group's share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

When the Group disposes associates and lose the significant influence over the associates, any remaining investments are measured at the fair value. The difference between the fair value of remaining investments in associates plus the proceeds from disposing associates and the carrying amount of remaining investment in associates when the Group loses its significant influence is recognized in profit or loss. The amount related to associates and recognized in other comprehensive income is reclassified as profit or loss from equity.

If the investments in associates become the investment in joint ventures, or vice versa, the Group is accounted for using the equity method consistently and does not remeasure the retained equity.

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

If the Group does not subscribe the new issuance of capital based on holding percentage and result in a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus and investments under equity method. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments under equity method is insufficient, the shortage is debited to retained earnings. If the Group's ownership interest is reduced due to the additional subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis.

(13) Property and equipment

A. Recognition and measurement

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

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

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

B. Reclassification to investment property

The property is reclassified to investment property at its carrying amount when the use of the property changes from owner-occupied to investment property.

C. Subsequent cost

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

D. Depreciation

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

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

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonably certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property and equipment are as follows:

- | | |
|-------------------------------------------------------------------------------------------------------------------|------------|
| a. Buildings | 3~55 years |
| b. Transportation equipment | 5 years |
| b. Transportation equipment | 3~5 years |
| d. Miscellaneous equipment | 5~10 years |
| e. Leasehold improvements are depreciated evenly by the shorter of the estimated useful life or the lease period. | |

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If the expected value differs from the previous estimation, the change regards as changes in accounting estimation.

(14) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, supply of services, or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at cost as well, the depreciation method, useful life and residual values are as same as the regulations of “property and equipment”. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

When the use of a property changes such that it is reclassified as property and equipment, its carrying amount at the date of reclassification becomes its cost for subsequent accounting.

(15) Intangible assets

A. Goodwill

- a. Initial recognition

Goodwill resulted in acquisition of subsidiaries includes in intangible assets.

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

b. Subsequent measurement

Goodwill is measured in accordance with cost less accumulated impairment loss. Investments under Equity Method, the carrying amount of goodwill included in the carrying amount of investments and impairment loss of such investments are not allocated to goodwill and any assets, Equity Method as part of the carrying amount of the investment.

B. Other intangible assets

Other intangible assets that are acquired by the Group are measured at cost less accumulated amortization and any accumulated impairment losses.

C. Amortization

The amortizable amount is the cost of an asset less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, operation franchise and the seats of foreign futures exchanges with all indefinite useful lives, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- a. Customer relationships: 5 years
- b. Computer software cost and dial-up service charges: 3 years

The amortization method and period should be evaluated at least at each financial year-end. The changes of the amortization method and the period shall be accounted for as changes in accounting estimation.

(16) Leases

A. Lessor

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

B. Lessee

Operating leases are not recognized in the Group's statement of balance sheet. Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in expenses on a straight-line basis over the term of the lease. Lease incentives received are recognized as deductions of the total lease expense, over the term of the lease. Lease payments under operating lease shall be recognized in rent expenses and disclosed in financial report.

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

(17) Non-financial assets impairment

The Group assesses whether there is any objective evidence of impairment for non-financial assets on each reporting date except for deferred tax assets and assets arising from employee benefits and estimates the recoverable amounts for any impaired assets. If it is not possible to determine the recoverable amount for an individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value less costs to sell or its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount and recognized as impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount, as a reversal of a previously recognized impairment loss. The carrying amount after the reversal shall not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior period.

The recoverable amounts of intangible assets with indefinite useful lives shall be evaluated periodically. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

(18) 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. The fair value of any plan assets are should be 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.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

Remeasurement comprises (a) actuarial gains and losses; (b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and (c) changes in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset). Remeasurement arising on defined benefit plans is recognized in other comprehensive income in the period in which they arise and are recorded as retain earning.

The Group recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, and any change in the present value of the defined benefit obligation.

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 benefit is expensed at the earlier of the date when the entity can no longer withdraw the offer of the termination benefits and the date when the entity recognizes related restructuring costs. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

D. Short-term employee benefits

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

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

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

(19) Revenue recognition

A. Brokerage commissions

Handling fee revenue from trade brokerage, security financing or securities lending is recognized on an accrual basis.

B. Underwriting commissions

Revenue from underwriting business is recognized when the underwriting contract is completed; revenue from underwriting securities on a firm commitment basis is recognized when the payment received after underwriting securities, and revenue from underwriting consultation is recognized according to the period specified in the underwriting consultation contract.

C. Interest revenue

Interest revenue arising from security financing, margin loans and other operation related interest is recognized on an accrual basis.

(20) Income tax

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

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

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

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

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

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

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

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

A deferred income tax asset should be recognized for an unused tax loss carry-forward or unused tax credit if, and only if, it is considered probable that there will be sufficient future taxable profit against which the loss or credit carry-forwards can be utilized. The carrying amount of deferred income tax assets should be reviewed and adjusted at the end of each reporting period.

The Group's 10% surtax on unappropriated earnings is recorded as current expense after the date of the resolution of stockholders' meeting for declaring the distribution of earnings.

Income tax of overseas subsidiaries is estimated in accordance with local regulation. Income tax of the Group is the sum of the income tax of subsidiaries in the consolidated financial statements.

(21) Business combinations

The Group only chose to restate the business combinations occurred after January 1, 2012, upon the transition from ROC GAAP to IFRSs endorsed by FSC are approved, with regard to acquisition before January 1, 2012, the amount should be recognized as Regulations Governing the Preparation of Financial Reports released by Securities Issuers as of January 10, 2009 and Statement of Financial Accounting Standards announced by Accounting Research and Development Foundation

(22) Earnings per share (EPS)

The Group presents its basic and dilutive earnings per share attributable to the ordinary equity holders. The basic earnings per share of the Group is calculated by dividing profit or loss attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Group, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Group include employee bonus and compensation.

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

(23) Segment information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment consists of standalone financial information.

(24) Treasury stocks

The Group acquires its outstanding shares is stated at cost and shown as a deduction in stockholders' equity. Upon disposal, the excess of sales price over carrying value is recognized as capital surplus – treasury stock transaction. Should sales price be lower than the carrying value, the difference is charged against capital surplus from treasury stocks in the same category, and any deficit is debited to retained earnings. The carrying value of treasury stocks is calculated using the weighted-average approach in accordance with the purpose of the acquisition.

When the Group's treasury stock is retired, the treasury stock account should be credited, and the capital surplus - premium on stock account and capital stock account should be debited proportionately according to the share ratio. The carrying value of treasury stock in excess of the sum of its par value and premium on stock should first be offset against capital surplus from the same class of treasury stock transactions, and the remainder, if any, debited to retained earnings. The sum of the par value and premium on treasury stock in excess of its carrying value should be credited to capital surplus from the same class of treasury stock transactions.

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

The preparation of the consolidated financial statements in conformity with Regulations Governing the Preparation of Financial Reports by Securities Firms, IFRSs (approved by the FSC), and IFRIC 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.

The preparation of the separate financial statements, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next 12 months are included in the following notes:

The impairment of goodwill: The Group performed the impairment test of goodwill annually. The recoverable amount of the cash-generating unit was based on the value in use. The Group chose the appropriate discount rate and estimated the expected cash flows of the cash-generating unit.

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

6. SUMMARY OF MAJOR ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Cash	\$ 3,140	3,113
Bank deposits		
Checking accounts	48,103	50,580
Demand deposits	177,236	187,026
Time deposits	1,768,772	1,854,383
Foreign currency deposits	1,111,031	1,369,921
Subtotal	<u>3,105,142</u>	<u>3,461,910</u>
Futures margin - excess margin	1,463,300	762,560
Commercial paper	154,916	-
Subtotal	<u>1,618,216</u>	<u>762,560</u>
Total	<u>\$ 4,726,498</u>	<u>4,227,583</u>

(2) Financial assets

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

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Open-ended funds and money-market instruments		
Open-ended funds and money-market instruments	\$ 690,994	522,282
Valuation adjustment	10,561	10,569
Subtotal	<u>701,555</u>	<u>532,851</u>
Investment in securities		
Investment in securities	5,439	531,039
Valuation adjustment	(121)	8,010
Subtotal	<u>5,318</u>	<u>539,049</u>
Trading securities - proprietary trading		
Listed stocks	1,878,306	1,246,079
Listed funds	61,890	-
OTC stocks	156,121	231,959
Emerging market stocks	177,697	366,836
Convertible corporate bonds	345,901	511,164
Government bonds	2,823,467	1,203,375
Corporate bonds	11,245,486	9,832,713
Financial debentures	1,500,549	1,698,780
Foreign stocks	478,309	314,143
Overseas bonds	164,321	288,848
Emerging fund	7,424	7,452
Other	29,989	79,861
	<u>18,869,460</u>	<u>15,781,210</u>
Valuation adjustment	62,485	6,630
Subtotal	<u>18,931,945</u>	<u>15,787,840</u>
Trading securities - underwriting		
Listed stocks	42,209	2,730
OTC stocks	-	8,648
Convertible corporate bonds	51,400	106,300
	<u>93,609</u>	<u>117,678</u>
Valuation adjustment	1,223	(496)
Subtotal	<u>94,832</u>	<u>117,182</u>

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

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Trading securities - hedging		
Listed stocks	\$ 1,573,401	2,585,889
OTC stocks	470,773	923,311
Convertible corporate bonds	3,948,040	3,872,940
Foreign stocks	1,114	-
	<u>5,993,328</u>	<u>7,382,140</u>
Valuation adjustment	(105,180)	181,804
Subtotal	<u>5,888,148</u>	<u>7,563,944</u>
Derivatives		
Call options	50,244	263,894
Futures margin - proprietary fund	270,282	189,165
IRS asset swaps	22,878	25,952
Asset swap options - long position	11,940	9,881
Structured notes	-	76
Currency swaps	8,482	45,318
Subtotal	<u>363,826</u>	<u>534,286</u>
Total	<u>\$ 25,985,624</u>	<u>25,075,152</u>

As of December 31, 2015 and 2014, the par value of trading securities - bonds under repurchase agreement of the Group were \$23,993,535 and \$13,348,600, respectively (please refer to Note 6(12) for details).

B. Financial assets available for sale - current:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Listed stocks	\$ 101,535	-
Overseas bonds	7,757,004	-
Valuation adjustment	(23,084)	-
Total	<u>\$ 7,835,455</u>	<u>-</u>

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

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Financial assets held for trading:		
Government bonds	\$ 188,818	191,990
Valuation adjustment	1,736	(2,728)
Total	<u>\$ 190,554</u>	<u>189,262</u>

As of December 31, 2015 and 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 asset available for sale - non-current:

<u>Name of investee</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Chicago Mercantile Exchange (CME)	\$ 33,733	50,193
Valuation adjustment	27,233	35,394
Total	<u>\$ 60,966</u>	<u>85,587</u>

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

The purpose for obtaining the stock of CME GROUP is to acquire the membership of foreign futures exchange. The Group disposed of 10,004 shares of stock of CME GROUP on December 29, 2015, which resulted in a gain on disposal of this investment of \$13,769.

For 2015 and 2014, due to changes in fair value, the Group had recognized \$5,530 and \$14,020 in other comprehensive income, respectively. The amount reclassified from equity to net income or loss is \$(13,691) and \$0, respectively.

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

<u>Non-listed (or non-over-the-counter)</u>	<u>December 31, 2015</u>	
	<u>Ownership ratio</u>	<u>Amount</u>
Taiwan Depository & Clearing Corp.	1.29%	\$ 18,661
Taiwan Futures Exchange Corp.	2.86%	58,126
Taiwan Stock Exchange Corporation	0.06%	12,242
Global Securities Finance Corporation	6.05%	202,681
Chou Chin Industrial Co., Ltd.	0.05%	-
Jong-Yih Industrial Development Co., Ltd.	0.68%	1,369
Reliance Securities Investment Trust Co., Ltd	3.02%	9,767
Top Taiwan III Venture Capital Co., Ltd.	7.00%	71,008
Prudence Venture Investment Corp.	1.50%	37,377
Total		<u>\$ 411,231</u>

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

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 year 2015 and 2014, Prudence Venture Investment Corp. refunded the proceeds of capital reduction amounted to \$1,750 and \$5,130, respectively. Top Taiwan III Venture Capital Co., Ltd. refunded the proceeds of capital reductions which both amounted to \$7,000 and Global Securities Finance Corporation refunded the proceeds of capital reduction which amounted to \$0 and \$211,661, respectively.

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

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 in ten days 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. Year 2015 and 2014 VAR (99%, ten-day) of equity stocks are as follows:

Type of market risk	December 31, 2015	December 31, 2014	2015			2014		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	750,181	891,182	793,730	970,662	620,732	913,895	1,063,054	649,748

(3) Accounts Receivable

	December 31, 2015	December 31, 2014
Receivable on securities purchased by customers	\$ 40,724	59,827
Settlement	50,397	1,513,355
Interests receivable	452,745	489,022
Receivables on securities sold	4,206,290	4,634,230
Others	238,944	66,477
Subtotal	4,989,100	6,762,911
Less: allowance for doubtful accounts	(4,123)	(3,029)
Total	<u>\$ 4,984,977</u>	<u>6,759,882</u>

(4) Customer margin account / Futures traders' equity

As of December 31, 2015 and 2014, a reconciliation of the customer margin account and the futures traders' equity was as follows:

	December 31, 2015	December 31, 2014
Customer margin account		
Cash in banks	\$ 12,530,482	8,784,390
Customer margin account - futures clearing house	1,280,830	2,068,662
Customer margin account - other futures commission merchants	2,492,357	989,449
Marketable securities	1,087	1,942
Total customer margin account	<u>16,304,756</u>	<u>11,844,443</u>
Adjustment :		
Commission revenue	(10,454)	(7,391)
Futures transaction tax	(792)	(725)
Interest revenues	(334)	(855)
Temporary receipts	(4,330)	(64,569)
Remittance amount of the customers after the market closed	(188)	(15,178)
Others	(1,346)	(12,305)
Futures traders' equity	<u>\$ 16,287,312</u>	<u>11,743,420</u>

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

(5) Investments under Equity Method

As of December 31, 2015 and 2014, investments under equity method consisted of the following:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Subsidiaries		
Capital Insurance Advisory Corp.	\$ 72,720	45,245
Capital Insurance Agency Corp.	48,274	58,021
Subtotal	<u>120,994</u>	<u>103,266</u>
Associates		
True Partner Advisor Hong Kong Limited	\$ 36,681	-
Total	<u>\$ 157,675</u>	<u>103,266</u>

A. Subsidiaries:

Profit sharing of gain or loss from the subsidiaries based on audited invested financial statements or self-prepared financial statements for the year 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Based on the audited financial statements	\$ 74,781	63,728

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Total assets	\$ 157,581	128,524
Total liabilities	\$ 36,587	25,258

	<u>2015</u>	<u>2014</u>
Revenue	\$ 256,723	241,955
Net income	\$ 74,781	63,728

B. Associates:

The subsidiary Capital Futures Corporation has significant influence on True Partner Advisor Hong Kong Limited due to the acquisition of 49% shares with USD 1,123 thousands. The relevant information is as following:

<u>Name of associate</u>	<u>Nature between the Company</u>	<u>Primary business area and registered country</u>	<u>% of Ownership and Voting Rights</u> <u>December 31, 2015</u>
True Partner Advisor Hong Kong Limited	Engaged in asset management. The Company's strategic alliance in expansion of asset management.	Hong Kong	49.00%

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

Summarized financial information of associates accounted for under equity method that was not individually material to the Group was as follows:

	December 31, 2015										
Total carrying amount of the associates that were not individually material	\$ 36,681										
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 70%;"></th> <th style="text-align: right; border-bottom: 1px solid black;">October 2, 2015 ~ December 31, 2015</th> </tr> </thead> <tbody> <tr> <td>Attributable to the Group:</td> <td></td> </tr> <tr> <td>Net loss from continuing operations</td> <td style="text-align: right;">\$ (6)</td> </tr> <tr> <td>Other comprehensive loss</td> <td style="text-align: right;">(14)</td> </tr> <tr> <td>Total comprehensive loss</td> <td style="text-align: right; border-bottom: 3px double black;">\$ (20)</td> </tr> </tbody> </table>			October 2, 2015 ~ December 31, 2015	Attributable to the Group:		Net loss from continuing operations	\$ (6)	Other comprehensive loss	(14)	Total comprehensive loss	\$ (20)
	October 2, 2015 ~ December 31, 2015										
Attributable to the Group:											
Net loss from continuing operations	\$ (6)										
Other comprehensive loss	(14)										
Total comprehensive loss	\$ (20)										

C. Collateral

As of December 31, 2015 and 2014, none of the investment accounted for under equity method of the Group were pledged for collateral.

(6) Property and equipment

	Land	Buildings	Equipment	Leasehold improvements	Total
Cost or deemed cost					
Balance at January 1, 2015	\$ 3,901,181	2,023,090	575,904	307,761	6,807,936
Effect of acquisition of subsidiary	-	-	6,472	150	6,622
Additions	-	255	165,958	32,068	198,281
Reclassified to investment property	(25,048)	(70,605)	-	-	(95,653)
Transferred from prepayment for equipment	-	-	4,830	2,680	7,510
Disposals	(166,451)	-	(131,457)	(245,079)	(542,987)
Effect of exchange rate changes	-	4,126	2,539	383	7,048
Balance at December 31, 2015	\$ 3,709,682	1,956,866	624,246	97,963	6,388,757
Balance at January 1, 2014	\$ 4,454,573	2,440,810	540,226	290,465	7,726,074
Additions	-	588	90,905	12,387	103,880
Reclassified to investment property	(552,211)	(423,465)	-	-	(975,676)
Reclassification	-	-	45,959	6,834	52,793
Transferred from prepayment for equipment	-	-	5,985	-	5,985
Disposals	(1,181)	(1,321)	(107,657)	(2,084)	(112,243)
Effect of exchange rate changes	-	6,478	486	159	7,123
Balance at December 31, 2014	\$ 3,901,181	2,023,090	575,904	307,761	6,807,936

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

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
Depreciation and impairment loss					
Balance at January 1, 2015	\$ -	766,342	382,074	269,313	1,417,729
Effect of acquisition of subsidiary	-	-	5,814	121	5,935
Depreciation	-	38,323	104,119	19,155	161,597
Reclassified to investment property	-	(1,872)	-	-	(1,872)
Disposals	-	-	(131,037)	(244,919)	(375,956)
Effect of exchange rate changes	-	1,448	2,159	311	3,918
Balance at December 31, 2015	\$ -	804,241	363,129	43,981	1,211,351
Balance at January 1, 2014	\$ -	874,473	340,087	245,049	1,459,609
Depreciation	-	44,548	102,744	19,254	166,546
Reclassified to investment property	-	(154,457)	-	-	(154,457)
Reclassification	-	-	45,959	6,832	52,791
Disposals	-	(368)	(107,135)	(1,889)	(109,392)
Effect of exchange rate changes	-	2,146	419	67	2,632
Balance at December 31, 2014	\$ -	766,342	382,074	269,313	1,417,729
Carrying amount:					
December 31, 2015	\$ 3,709,682	1,152,625	261,117	53,982	5,177,406
December 31, 2014	\$ 3,901,181	1,256,748	193,830	38,448	5,390,207

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

(7) Investment property

	<u>Land and improvements</u>	<u>Buildings</u>	<u>Total</u>
Cost or deemed cost			
Balance at January 1, 2015	\$ 1,230,412	791,745	2,022,157
Additions	-	260	260
Transferred from property and equipment	25,048	70,605	95,653
Balance at December 31, 2015	\$ 1,255,460	862,610	2,118,070
Balance at January 1, 2014	\$ 678,201	368,280	1,046,481
Transferred from property and equipment	552,211	423,465	975,676
Balance at December 31, 2014	\$ 1,230,412	791,745	2,022,157
Depreciation and impairment loss			
Balance at January 1, 2015	\$ -	358,212	358,212
Depreciation	-	17,779	17,779
Transferred from property and equipment	-	1,872	1,872
Balance at December 31, 2015	\$ -	377,863	377,863
Balance at January 1, 2014	\$ -	188,883	188,883
Depreciation	-	14,872	14,872
Transferred from property and equipment	-	154,457	154,457
Balance at December 31, 2014	\$ -	358,212	358,212
Carrying amount:			
December 31, 2015	\$ 1,255,460	484,747	1,740,207
December 31, 2014	\$ 1,230,412	433,533	1,663,945
Fair value			
December 31, 2015			\$ 2,846,381
December 31, 2014			\$ 2,555,269

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

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.

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

(8) Intangible assets

A. Goodwill

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

For the purpose of impairment test, goodwill was allocated to the operating segments of the Company. The operating segment is the lowest level at which the goodwill is monitored for internal management purposes, and should not be larger than the operating departments of the Company.

Goodwill is allocated to the operating segments as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Brokerage segment	\$ 1,304,458	1,304,458
Underwriting segment	265,144	265,144
Proprietary trading segment	1,557,096	1,557,096
Total	<u>\$ 3,126,698</u>	<u>3,126,698</u>

Recoverable amount of the cash-generating units is assessed by the value in use, which is the present value of the future cash flows expected to be derived from the cash-generating unit. In measuring value in use, the key assumptions are as follows.

The past experience, the actual operating results and the pre-tax cash flows of the next year's financial budget approved by the board of directors are the basis to estimate the future cash flows. The growth rate was both 1.00% and the discount rate was 5% and 4.69% in year 2015 and 2014 respectively. But the cash flow projections for periods after five years will be estimated with no growth conservatively.

After impairment test, the recoverable amounts of both year 2015 and 2014 exceeded the carrying amount, no impairment occurred for both years.

The Capital International Technology Corp., the second level subsidiary, acquired 51% shares of the Capital True Partner Co., Ltd in order to expand operations. The Group recognized the differences between investment costs and identifiable assets as goodwill. As of December 31, 2015, the book value of goodwill is NT\$ 22,088 thousand.

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

B. 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 December 31, 2015 and 2014, the amortized book value was \$1,139 and \$4,555 respectively.

C. 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 No.38 "Intangible Assets," the franchise is regarded as intangible assets with an indefinite useful life. As of December 31, 2015 and 2014, the book value of the operation franchise was \$389,999 for both the year.

D. Other intangible assets — Corporate membership at international futures exchange

In order to expand operations, subsidiaries acquired corporate memberships at international futures exchanges, including NYMEX, COMEX, CBOT, and CME. According to IAS 38 "Intangible Assets", which is approved by the FSC, corporate memberships are regarded as indefinite useful life intangible assets. As of December 31, 2015 and 2014, the book value of those memberships was \$46,427 and \$46,350, respectively.

E. Computer software

Computer software was booked at cost and amortized by using the straight-line method over the estimated useful lives. As of December 31, 2015 and 2014, the book value was \$41,166 and \$37,502 respectively.

(9) Short-term borrowings

<u>Nature of borrowings</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Collateralized loan	\$ 591,444	380,000
Credit loans	1,199,717	2,277,000
Total	<u>\$ 1,791,161</u>	<u>2,657,000</u>

Short-term borrowings were based on floating interest rates. As of December 31, 2015 and 2014, the loan interest rate range was 0.90%~3.06% and 0.90%~1.79% respectively.

As of December 31, 2015 and 2014, the Group had provided the land, buildings, and certificates of time deposits as collateral (please refer to Note 8 for details).

(10) Commercial paper payable

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Commercial paper payable	\$ -	1,750,000
Less: Unamortized discount	-	(283)
Net amount	<u>\$ -</u>	<u>1,749,717</u>

Commercial paper payables were based on floating interest rates. As of December 31, 2014, the interest rate was 0.858%~0.908%.

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

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

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Financial liabilities held for trading :		
Liabilities on sale of borrowed securities	\$ 1,508,137	995,472
Redeem liabilities on sale of borrowed securities	(1,566)	-
Valuation adjustment	(30,461)	48,377
Subtotal	<u>1,476,110</u>	<u>1,043,849</u>
Settlement coverage bonds payable of short sale	300,550	99,749
Valuation adjustment	(1,146)	17
Subtotal	<u>299,404</u>	<u>99,766</u>
Stock warrants issued	10,530,591	8,277,524
Stock warrants repurchased	(10,170,444)	(7,644,334)
Subtotal	<u>360,147</u>	<u>633,190</u>
Put options	57,261	275,648
IRS asset swaps	5,398	249
Asset swap options - short position	193,888	348,450
Structured notes	12,243	3,085
Currency swaps	3,476	503
Interest rate swaps	1,528	3,670
Subtotal	<u>273,794</u>	<u>631,605</u>
Total	<u><u>\$ 2,409,455</u></u>	<u><u>2,408,410</u></u>

(12) Bonds sold under repurchase agreements

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Bonds sold under repurchase agreements	<u>\$ 23,576,243</u>	<u>14,610,182</u>
Agreed-upon repurchase amounts	<u>\$ 23,598,443</u>	<u>14,621,088</u>
Interest rates	<u>0.30%~5.00%</u>	<u>0.45% ~ 3.89%</u>

(13) Customer equity of separate account ledger in settlement account

According to article 38, subparagraph 2 of the “Regulations Governing Securities Firms”, a securities firm may, with the consent of the customer, retain the customer's settlement funds in the securities firm's settlement account. The securities firm shall set up a separate account ledger for each customer in the settlement account. Also, according to article 22-4, paragraph 1, subparagraph 5 of the “Offshore Banking Act”, an offshore securities branch may conduct account custody business for natural persons, juristic persons, government agencies, or financial institutions within or outside the territory of the ROC. As of December 31, 2015, customers of offshore securities branches retain total settlement funds \$4,104 in the securities firm's settlement account.

(14) Accounts payable

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Payable of securities sold by customers	\$ 34,151	51,767
Payable of securities	3,573,328	5,303,861
Others	240,285	514,893
Total	<u><u>\$ 3,847,764</u></u>	<u><u>5,870,521</u></u>

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

(15) Long-term borrowings

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

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

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

(16) Operating leases

A. Lessee

Non-cancellable operating lease payables are as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Within 1 year	\$ 112,176	121,564
1-5 years	177,103	149,274
Over 5 years	1,710	-
	<u>\$ 290,989</u>	<u>270,838</u>

The Group rents several offices under operating lease, the lease terms are within 1 to 5 years and the Group has the preferential renewal options when the lease term expires. The rentals are adjusted yearly to reflect market condition. Some lease terms bear the additional rental payments depends on the fluctuations of a local price index.

For the year ended December 31, 2015 and 2014, the operating lease expenses recognized in profit or loss were \$195,265 and \$210,339 respectively.

B. Lessor

The Group leases investment property to other under operating lease agreements, please refer to Note 6(7) for details. The future lease receivables under non-cancellable leases are as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Within 1 year	\$ 2,091	6,923
1-5 years	109,007	52,242
	<u>\$ 111,098</u>	<u>59,165</u>

The rental revenue from investment property for the year ended December 31, 2015 and 2014 amounted to \$48,538 and \$41,182 respectively.

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

(17) Employee benefit

A. Defined benefit plans

The reconciliation in the present value of the defined benefit obligations and fair value of plan assets are as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Present value of defined benefit obligations	\$ (1,069,335)	(1,056,772)
Fair value of plan assets	566,401	583,386
Recognized liabilities for defined benefit obligations	<u>\$ (502,934)</u>	<u>(473,386)</u>

The Group's employee benefits liabilities are as follows:

	<u>December 31, 2015</u>	<u>December 31, 2016</u>
Liabilities for long service leave	<u>\$ 47,546</u>	<u>46,793</u>

Under the defined benefit plan, the Group deposited the pension fund to the labor pension preparatory special account in Bank of Taiwan. For employee subject to the Labor Standards Law, the retirement benefit are determined based on the years of services and average monthly salary in the last six-months prior to the employee's retirement.

a. Composition of plan assets

The Group set aside the pension funds in accordance with Labor Standards Act, are put under the management of the Labor Pension Fund Supervisory Committee. In regards to the utilization of the fund under the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund", the minimum earnings for the annual distribution shall not be less than the accrued earnings attainable from the interest rates of two year time deposit offered by the local banks.

The balance of the Group's labor pension preparatory special account in Bank of Taiwan amounted to \$270,404 and \$ 300,716 as of December 31, 2015 and 2014 respectively. The utilization of the labor pension fund includes the assets allocation and yield of the fund. Please refer to the information published on the website under Labor Pension Fund Supervisory Committee of the Council of Labor Affairs Executive Yuan.

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

b. Movements in present value of the defined benefit obligations

The movements in present value of the defined benefit obligations of the Group in 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Defined benefit obligation on January 1	\$ 1,056,772	1,059,358
Current service costs and interest	27,540	27,993
Remeasurement of net defined liabilities		
-Actuarial loss (gain) arising from changes in financial assumptions	21,656	(2,192)
-Experience adjustments	11,149	23,542
Benefits paid by the plan	(47,782)	(51,929)
Defined benefit obligation on December 31	<u><u>\$ 1,069,335</u></u>	<u><u>1,056,772</u></u>

c. Movements in fair value of defined benefit plan assets

The movements in fair value of defined benefit plan assets of the Group in 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Fair value of plan assets on January 1	\$ 583,386	604,271
Contributions made	18,542	19,291
Benefits paid from plan assets	(47,532)	(51,758)
Interest revenue	9,067	8,815
Remeasurement of net defined liabilities		
-Return on plan assets (excluding interest)	2,938	2,767
Fair value of plan assets on December 31	<u><u>\$ 566,401</u></u>	<u><u>583,386</u></u>

d. Expense recognized in profit or loss

The expenses recognized of the Group in 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Current service cost	\$ 11,380	12,201
Net interest of net defined benefit liabilities (assets)	7,093	6,977
Current pension cost	<u><u>\$ 18,473</u></u>	<u><u>19,178</u></u>

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

- e. Remeasurement of net defined liabilities (assets) recognized in other comprehensive income

For the year ended December 31, 2015 and 2014, the remeasurement of net defined liabilities (assets) recognized accumulatively in other comprehensive income was as follows:

	<u>2015</u>	<u>2014</u>
Balance at January 1	\$ (47,003)	(28,420)
Recognized amount during the period	(29,867)	(18,583)
Balance at December 31	<u>\$ (76,870)</u>	<u>(47,003)</u>

- f. Actuarial assumptions

The principal actuarial assumptions at the reporting date were as follows:

	<u>2015</u>	<u>2014</u>
Discount rate	1.22%~1.32%	1.53%~1.57%
Expected rate of return on plan assets	1.22%~1.32%	1.53%~1.57%
Future salary growth rate	2.00%~2.50%	2.00%~2.50%

The expected contribution to the defined benefit plan for the next year is \$15,782. The weighted average duration of the defined benefit obligation was 3~5 years.

- g. Sensitivity Analysis

When calculating the present value of the defined benefit obligations, the Group uses judgments and estimations to determine the actuarial assumptions, including discount rate and future salary increases. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligations.

As of December 31, 2015 and 2014, the effects of adopting significant actuarial assumptions to defined benefit obligations were as follows:

	<u>Effects to Defined Benefit Obligations</u>	
	<u>Increase 0.5%</u>	<u>Decrease 0.5%</u>
December 31, 2015		
Discount rate	(31,780)	33,312
Future salary increases	27,510	(26,584)
December 31, 2014		
Discount rate	(32,921)	34,566
Future salary increases	28,912	(27,891)

The sensitivity analysis presented above is based on the condition that other variables are unchanged. In practice, the changes of many assumptions are correlated. The method that the sensitivity analysis adopted is in accordance with the method of calculating net defined liabilities.

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

The assumptions and methods adopted for current period sensitivity analysis are identical with the previous period.

B. Defined contribution plan

In accordance with the Labor Pension Act of R.O.C, the Group contributes 6% of the employee's monthly wages to the Bureau of the Labor Insurance. Therefore, the Group has no further legal or constructive obligations to make any additional contribution once the contributions have been paid.

The Group contributed \$86,323 and \$87,481 under defined contribution plan to the Bureau of the Labor Insurance in the year 2015 and 2014 respectively.

C. For the year ended December 31, 2015 and 2014, the pension costs contributed by overseas subsidiaries in compliance with local ordinance were \$4,255 and \$2,298, respectively.

(18) Income tax

A. Income tax expense (benefit)

The amount of income tax expense (benefit) for the year 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Current income tax expense (benefit)		
Current year	\$ 70,491	57,044
Adjustment to the prior years' income tax	3,557	(37,025)
	<u>74,048</u>	<u>20,019</u>
Deferred income tax expense		
Unrealized gains (losses) on derivative financial instruments	33,675	(24,552)
Unrealized gains (losses) on foreign investments under Equity Method	(4,872)	1,637
Amortization of operation franchise	-	2,647
Amortization of goodwill	106,308	106,308
Decrease in tax loss carried forward	75,935	173,384
Adjustments of deferred income tax assets and liabilities	20,583	9,595
	<u>231,629</u>	<u>269,019</u>
Income tax expenses	<u><u>\$ 305,677</u></u>	<u><u>289,038</u></u>

The amount of income tax expense or benefit recognized in other comprehensive income in year 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Foreign exchange difference from translating financial statements of foreign operations	<u><u>\$ 14,772</u></u>	<u><u>22,829</u></u>

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

Reconciliation of income tax expense (benefit) and income before tax in year 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Net income before tax	\$ 2,034,035	2,432,701
Income tax using the Company's domestic tax rate	\$ 391,478	445,901
Tax-exempt income	(109,153)	(133,074)
10% surtax on undistributed earnings	73	8,399
Income tax difference of bonds purchased under resale agreements and income tax separately levied	(167)	(355)
Adjustments to prior years' income tax	2,756	(42,287)
Unrecognized temporary differences for prior years	20,581	9,595
Others	109	859
Total	<u>\$ 305,677</u>	<u>289,038</u>

B. Deferred income tax assets and liabilities

a. Recognized deferred income tax assets

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Tax loss carried forward	\$ 484,791	581,309
Foreign exchange difference from translating financial statements of foreign operations	6	-
Deferred income tax assets	<u>\$ 484,797</u>	<u>581,309</u>

The ROC Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes.

As of December 31, 2015, the Group's estimated tax losses recognized under deferred income tax asset were as follows:

<u>Loss Year</u>	<u>Amount</u>	<u>Expiration Year</u>
2011(Assessed)	<u>\$ 1,715,983</u>	2021

b. Recognized deferred income tax liabilities

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Foreign exchange difference resulted from translation of financial statements of foreign operations	\$ 34,109	19,331
Unrealized gains on derivative financial instruments	46,672	12,997
Unrealized gains on foreign investments under Equity Method	4,281	9,153
Losses on intercompany transactions	1,639	1,639
Amortization of operation franchise	63,384	63,384
Amortization of goodwill	496,103	389,795
Land value incremental tax	47,691	47,691
Deferred income tax liabilities	<u>\$ 693,879</u>	<u>543,990</u>

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

c. Income tax assessment status

- (1) Except 2012, the Company's income tax returns through 2013 were assessed by the Tax Authority.
- (2) Subsidiary - Capital Investment Management Corp.'s income tax returns through 2014 were assessed by the Tax Authority.
- (3) Subsidiary - Capital Futures Corp.'s income tax returns through 2012 were assessed by the Tax Authority.
- (4) 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.
- (5) Subsidiary - Taiwan International Futures Corp.'s income tax returns for the liquidation date as of September 18, 2008 were assessed by the Tax Authority.
- (6) The income tax returns of the merged entity, Taiwan International Securities Corp., have been assessed by the Tax Authority through 2010.

d. The information about imputation system was as follows:

	December 31, 2015	December 31, 2014
Undistributed earnings after 1998	\$ 1,586,994	2,089,222
Imputation credit account	\$ 3,072,442	3,383,514
	2015 (Estimated)	2014 (Actual)
Deductible ratio for earnings distributed to ROC residents	23.91%	23.24%

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

e. Income tax administrative relief

Since income tax of securities trading and amortization of intangible assets withheld from year 2008 to 2011 and 2013 were assessed differently from those reported by the Company, and the Company has filed for administrative relief. The additional tax was accrued based on conservative concept.

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

(19) Capital and other equity

A. Capital stock

As of December 31, 2015 and 2014, the Company had authorized capital of \$30,000,000 and issued common stock of \$2,319,073 thousand and \$2,369,073 thousand shares with \$10 dollars face value 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 to distribute cash dividend to shareholders in proportion to their share ownership, provided that the company has no accumulated deficit. The aforementioned capital surplus includes share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital surplus to be capitalized shall not exceed 10 percent of the paid-in capital each year.

C. Retained earnings

a. Legal reserve

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

b. Special reserve

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

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

c. Unappropriated earnings

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

(1) Remuneration to directors and supervisors: 1%~4%.

(2) Employees 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.

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.

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

The resolution of the board of directors and stockholders about earnings distribution can be found on the Market Observation Post System.

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

d. Treasury stocks

Pursuant to Article 28-2 of the Securities and Exchange Act, the Company repurchased 97,485 thousand share to maintain the Company's credit and shareholders' equity for the year 2015. As of December 31, 2015, a total 50,000 thousand shares were retired and the rest 47,485 thousand shares were not retired yet.

Based on the Securities and Exchange Act of the ROC, the number of reacquired shares should not exceed 10% of a company's issued and outstanding shares, and the total purchase amount should not exceed the sum of the retained earnings, additional paid-in capital in excess of par and realized capital surplus. On September 21, 2015, the Company's board meeting resolved a share buyback plan, the calculation of maximum repurchase amount \$6,809,506 was determined by the latest audited financial statement (as of June 30, 2015), the maximum number of 236,907 thousand shares was 10% of total shares issued then. On November 11, 2015, the Company's board meeting resolved a share buyback plan again, the calculation of maximum repurchase amount \$6,791,127 was determined by the latest reviewed financial statement (as of September 30, 2015), the maximum number of 236,907 thousand shares was 10% of total shares issued then. As of December 31, 2015, the maximum number of shares repurchased and held was 97,485 thousand shares and the repurchase amount was \$939,569, which fully complied with Securities and Exchange Act.

Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

(20) Earnings per share

The basic earnings per share and dilutive earnings per share of year 2015 and 2014 were calculated as follows:

	<u>2015</u>	<u>2014</u>
Net income attributable to ordinary shareholders of the Company	<u>\$ 1,549,327</u>	<u>2,025,305</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	<u>2,357,324</u>	<u>2,369,073</u>
Basic earnings per share (dollar)	<u>\$ 0.66</u>	<u>0.85</u>
Dilutive potential ordinary shares (thousands of shares) (Note)	<u>1,740</u>	<u>2,248</u>
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	<u>2,359,064</u>	<u>2,371,321</u>
Dilutive earnings per share (dollar)	<u>\$ 0.66</u>	<u>0.85</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

	<u>2015</u>	<u>2014</u>
Brokerage commission from TSE market	\$ 1,456,786	1,765,870
Brokerage commission from OTC market	576,174	705,017
Handling fee from security financing	56,824	74,946
Futures commission income - brokerage	1,340,284	1,021,592
Overseas subsidiaries	93,452	79,822
Others	61,682	75,591
	<u>\$ 3,585,202</u>	<u>3,722,838</u>

B. Underwriting commissions

	<u>2015</u>	<u>2014</u>
Revenue from underwriting securities on a firm commitment basis	\$ 46,428	57,040
Handling fee revenues from underwriting securities on best-efforts basis	1,548	1,001
Processing fee revenues from underwriting operations	54,436	25,732
Revenue from underwriting consultation	13,856	13,763
Others	51,428	71,832
	<u>\$ 167,696</u>	<u>169,368</u>

C. Net gains on sale of trading securities

	<u>2015</u>	<u>2014</u>
Revenue from securities sold - proprietary trading	\$330,665,618	370,992,832
Cost of securities sold - proprietary trading	<u>(330,534,051)</u>	<u>(370,648,671)</u>
Subtotal	131,567	344,161
Revenue from securities sold - underwriting	244,644	563,537
Cost of securities sold - underwriting	<u>(228,856)</u>	<u>(486,710)</u>
Subtotal	15,788	76,827
Revenue from securities sold - hedging	41,194,934	47,244,554
Cost of securities sold - hedging	<u>(41,297,404)</u>	<u>(47,100,668)</u>
Subtotal	(102,470)	143,886
Total	<u>\$ 44,885</u>	<u>564,874</u>

D. Interest revenue

	<u>2015</u>	<u>2014</u>
Interest revenue - margin loans	\$ 1,009,722	1,154,465
Interest revenue - bonds	323,029	192,090
Overseas subsidiaries	57,364	61,564
Others	40,295	39,417
	<u>\$ 1,430,410</u>	<u>1,447,536</u>

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

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

	2015	2014
Trading securities - Proprietary	\$ 64,229	(9,252)
Trading securities - Underwriting	1,719	(3,145)
Trading securities - Hedging	(286,984)	(34,034)
Settlement coverage bonds payable of short sale	1,162	(16)
	\$ (219,874)	(46,447)

F. Net gains on stock warrants issued

	2015	2014
Gains on changes in fair value of stock warrants	\$ 30,567,126	12,887,698
Gains on exercise of stock warrants before maturity	9,065,630	14,580,391
Losses on changes in fair value of stock warrants repurchased	(38,715,506)	(26,762,513)
Gains on expiration of stock warrants	44,439	35,031
Stock warrants issuance expenses	(119,455)	(119,709)
	\$ 842,234	620,898

G. Employee benefits, depreciation and amortization expenses

	2015	2014
Employee benefit expenses		
Salary expense	\$ 2,123,293	2,240,790
Health and labor insurance expense	167,987	170,824
Pension expense	109,051	108,957
Others	66,743	67,531
Depreciation expense	179,376	181,418
Amortization expense	40,123	39,692
	\$ 2,686,573	2,809,212

H. Other operating expenses

	2015	2014
Rental expense	\$ 195,265	210,339
Taxes	388,094	418,358
Information technology expense	196,387	177,610
Postage expense	137,192	122,475
Professional service fee	65,184	27,667
Other expenses	568,087	468,790
	\$ 1,550,209	1,425,239

I. Other gains and losses

	2015	2014
Financial revenue	\$ 169,483	126,012
Exchange net losses	(90,586)	(46,649)
Net gains on disposal of investment	176,445	30,923
Net losses on measurement of non-operating instruments at fair value through profit or loss	(9,258)	(36,056)
Revenue from bank's allocation fee	149,594	151,312
Net gains on disposal of property and equipment	59,064	2,996
Lease revenue	49,537	41,182
Gains on reversal of prior year's liabilities	14,670	53,237
Dividend revenue	32,714	205,378
Others	42,857	33,935
	\$ 594,520	562,270

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

J. Remuneration to employees, directors and supervisors

The amendments to the Company's Articles of Incorporation was proposed by the Company's Board of Directors but not yet resolved by the shareholders' meeting, which stipulated to distribute employees' remuneration at the rates from 0.6% to 2% and remuneration to directors at the rate no higher than 3%, respectively, of net profit before tax. However, the Company's accumulated deficit should have been covered. The employees' remuneration distributed, in the form of shares or in cash, to the employees including the employees of subsidiaries meeting certain specific requirement.

For the year ended December 31, 2015, the estimated amounts of remuneration to employee and director and supervisor by the Company were \$17,241 and \$28,734, respectively, which were calculated based on the Company's net profit before income tax and remuneration to employees and directors and supervisors multiple the earnings allocation percentage as stated under the Company's articles of incorporation. It is recognized as operating expense for the year ended December 31, 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.

The subsidiaries of the Group estimated their employees' remuneration to be \$6,842 and remuneration of directors and supervisors to be \$6,842.

(22) Financial instruments

A. Credit risk

a. Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of December 31, 2015 and 2014, the maximum credit exposure amounted to \$61,534,808 and \$58,415,368 respectively.

b. Impairment loss

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

	December 31, 2015		December 31, 2014	
	Total amount	Impairment	Total amount	Impairment
Not past due	\$ 20,230,707	2,646	26,478,290	65,924
Past due 0~30 days	336	336	117	117
Past due 31~120 days	234	234	209	209
Past due 121~360 days	1,714	1,714	113	113
Past due more than one year	15	15	688	688
	\$ 20,233,006	4,945	26,479,417	67,051

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 December 31, 2015 and 2014, the impairment losses of account receivables were recognized \$4,945 and \$67,051 respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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.

December 31, 2015	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 1,476,110	1,476,110	1,476,110	-	-	-	-
Settlement coverage bonds payable of short sale	299,404	299,404	299,404	-	-	-	-
Stock warrants issued	360,147	360,147	342,817	16,145	1,185	-	-
Put options - futures	57,261	57,261	57,261	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	10,402	10,402	5,568	(2,160)	5,867	1,127	-
Put options	193,888	193,888	6,017	34,126	100,470	53,275	-
Short-term borrowings	1,791,161	1,791,161	1,791,161	-	-	-	-
Bonds sold under repurchase agreements	23,576,243	23,598,443	23,598,443	-	-	-	-
Securities financing refundable deposits	2,025,011	2,025,011	2,025,011	-	-	-	-
Deposits payable for securities financing	2,242,680	2,242,680	2,242,680	-	-	-	-
Securities lending refundable deposits	1,622,937	1,622,937	1,622,937	-	-	-	-
Futures traders' equity	16,287,312	16,287,312	16,287,312	-	-	-	-
Notes payable and accounts payable	395,962	395,962	395,962	-	-	-	-
Receipts under custody	1,347,159	1,347,159	1,347,159	-	-	-	-
Other payables	765,523	765,523	762,505	3,018	-	-	-
Structured notes	4,088,809	4,088,809	3,798,140	48,678	180,348	61,643	-
	\$ 56,540,009	56,562,209	56,058,487	99,807	287,870	116,045	-

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

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C. Currency risk

a. Currency risk exposure

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

		December 31, 2015		
		Foreign Currency	Exchange Rate	Amount
<u>Financial assets</u>				
<u>Monetary Item</u>				
	USD	\$ 251,046	32.83	8,241,840
	HKD	12,826	4.24	54,382
	EUR	2,341	35.88	83,995
	JPY	875,334	0.2727	238,704
	GBP	312	48.67	15,185
	AUD	1,525	23.99	36,585
	SGD	1,131	23.25	26,296
	CNY	66,619	4.995	332,762
	KRW	2,970,021	0.0281	83,458
	THB	745	0.9146	681
	CHF	57	33.190	1,892
	MYR	117	7.3425	859
<u>Non-Monetary Item</u>				
	USD	204,035	32.83	6,698,469
	HKD	55,140	4.24	233,794
	EUR	343	35.88	12,307
	AUD	58,860	23.99	1,412,051
	CNY	233,206	4.995	1,164,864
<u>investments at equity</u>				
	HKD	3,109	4.24	13,167
		December 31, 2015		
		Foreign Currency	Exchange Rate	Amount
<u>Financial liabilities</u>				
<u>Monetary Item</u>				
	USD	\$ 466,601	32.83	15,318,511
	HKD	90,440	4.24	383,466
	CNY	133,647	4.995	667,567
	CHF	57	33.19	1,892
	JPY	873,290	0.2727	238,146
	GBP	312	48.67	15,185
	AUD	50,411	23.99	1,209,360
	EUR	1,986	35.88	71,258
	SGD	896	23.25	20,832
	THB	629	0.9146	575
	MYR	45	7.3425	330
	KRW	2,807,367	0.0281	78,887

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	4,181,218
	HKD	110,316	4.08	450,089
	EUR	1,689	38.47	64,976
	JPY	212,151	0.2646	56,135
	GBP	514	49.27	25,325
	AUD	122	25.91	3,161
	SGD	330	23.94	7,900
	CNY	91,417	5.092	465,495
	KRW	716,514	0.029	20,779
	CAD	6	27.27	164
	CHF	1	31.98	32
	ZAR	7	2.74	19
	THB	74	0.97	72
<u>Non-Monetary Item</u>				
	USD	11,729	31.65	371,223
	HKD	73,465	4.08	299,737
	CNY	338,838	5.092	1,725,363
<u>Financial liabilities</u>				
<u>Monetary Item</u>				
	USD	203,653	31.65	6,445,617
	HKD	89,121	4.08	363,614
	EUR	1,551	38.47	59,667
	JPY	207,167	0.2646	54,816
	GBP	506	49.27	24,931
	KRW	666,162	0.029	19,319
	SGD	(48)	23.94	(1,149)
	CNY	188,071	5.092	957,658
	AUD	98	25.91	2,539

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 \$90,586 and \$46,649 for the year ended December 31, 2015 and 2014, respectively.

b. Sensitivity analysis

The currency risk of the Group arises mainly from cash and cash equivalents, other receivables, security borrowing margin, financial assets measured at fair value through profit or loss and securities lending refundable deposits, which are denominated in foreign currencies. Foreign exchange gain or loss occurs when translating the foreign currency assets to NTD assets. For the year ended December 31, 2015 and 2014, given other factors remain the same, if NTD increase or decrease 5% contrary to other currencies, the income after tax will increase or decrease by \$295,061 and \$10,596, and the other comprehensive income will increase or decrease by \$321,841 and \$0, respectively.

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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 variable rate is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. This is mainly attributable to the Company's exposure to floating rates on its bond position.

market risk type	December 31, 2015	December 31, 2014	2015			2014		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
interest risk	1,201,645	756,972	1,003,569	1,250,286	734,670	704,565	756,972	636,871

E. Fair value and hierarchy information

a. Fair value information

(1) General description

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

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

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

(1) Fair value information

	December 31, 2015		December 31, 2014	
	Book value	Fair value	Book value	Fair value
Financial assets :				
Cash and cash equivalents	\$ 4,726,498	4,726,498	4,227,583	4,227,583
Accrued receivable	22,848,006	22,848,006	27,732,151	27,732,151
Customer margin deposit	16,304,756	16,304,756	11,844,443	11,844,443
Restricted assets-current	570,321	570,321	471,000	471,000
Financial assets measured at cost-non-current	411,231	411,231	419,981	419,981
Investments under equity method	157,675	157,675	103,266	103,266
Other assets-non-current	1,836,443	1,836,443	2,091,837	2,091,837
Financial liabilities :				
Short-term borrowings	\$ 1,791,161	1,791,161	2,657,000	2,657,000
Commercial paper payable	-	-	1,749,717	1,749,717
Bonds sold under repurchase	23,576,243	23,576,243	14,610,182	14,610,182
Accrued payable	10,663,564	10,663,564	13,978,460	13,978,460
Futures traders' equity	16,287,312	16,287,312	11,743,420	11,743,420
Other financial liabilities - current	3,834,575	3,834,575	2,140,965	2,140,965
Long-term liabilities - current portion	-	-	500,000	500,000
Other financial liabilities - non-current	241,991	241,991	112,565	112,565
Other liabilities - non-current	337,611	337,611	337,611	337,611

(2) Hierarchy information of fair value

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Investment property	\$ 2,846,381	-	-	2,846,381

(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, other current assets, other assets - non-current, short term borrowings, commercial paper payable, bonds sold under repurchase agreements, accrued payable, other financial liabilities - current , other financial liabilities - non-current, and other liabilities - non-current.

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- 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 December 31, 2015 and 2014 were as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2015				
Financial assets at fair value through profit or loss	\$ 8,557,048	17,255,304	-	25,812,352
Financial assets available for sale	154,449	7,741,972	-	7,896,421
Derivative financial assets	320,526	43,300	-	363,826
	<u>\$ 9,032,023</u>	<u>25,040,576</u>	<u>-</u>	<u>34,072,599</u>
Financial liabilities at fair value through profit or loss	\$ 2,135,661	-	-	2,135,661
Derivative financial liabilities	57,261	216,533	-	273,794
	<u>\$ 2,192,922</u>	<u>216,533</u>	<u>-</u>	<u>2,409,455</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2014				
Financial assets at fair value through profit or loss	\$ 10,719,554	14,010,574	-	24,730,128
Financial assets available for sale	85,587	-	-	85,587
Derivative financial assets	453,059	81,227	-	534,286
	<u>\$ 11,258,200</u>	<u>14,091,801</u>	<u>-</u>	<u>25,350,001</u>
Financial liabilities at fair value through profit or loss	\$ 1,776,805	-	-	1,776,805
Derivative financial liabilities	275,648	355,957	-	631,605
	<u>\$ 2,052,453</u>	<u>355,957</u>	<u>-</u>	<u>2,408,410</u>

(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

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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 f for the year ended December 31, 2015 and 2014.

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.

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F. Transfer of financial assets

The transferred financial assets of the Group that are not qualified for de-recognition in the daily operation are mainly debt securities under repurchased agreements or equity securities under securities lending agreement. Since the right to receive cash flow is transferred and it reflects the associated liabilities to repurchase transferred financial assets at fixed price in future period, the Group cannot use, sell or pledge these transferred financial assets during the valid transaction period. However, since 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:

December 31, 2015					
Types of financial assets	Book value of the transferred financial assets	Book value of relevant financial liabilities	Fair value of the transferred financial assets (Note)	Fair value of relevant financial liabilities (Note)	Fair value net position (Note)
Under repurchase agreements	\$ 23,740,296	23,576,243	-	-	-

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

G. Offsetting financial assets and financial 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 settlement.

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

December 31, 2015						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offsetting in the balance sheet	Net amount of financial assets presented in the balance sheets	Related amount not offset in the balance sheet (d)			
			Financial instruments	Cash received as collaterals	Net amount	
(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)	
Derivative financial assets	\$ 43,300	-	43,300	-	-	43,300

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December 31, 2015						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offsetting in the balance sheet	Net amount of financial liabilities presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
				Financial instruments	Cash received as collaterals	
	(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)
Derivative financial liabilities	\$ 216,533	-	216,533	-	-	216,533
Under repurchase agreements	23,576,243	-	23,576,243	23,576,243	-	-
Total	\$ 23,792,776	-	23,792,776	23,576,243	-	216,533
December 31, 2014						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offsetting in the balance sheet	Net amount of financial assets presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
				Financial instruments	Cash received as collaterals	
	(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)
Derivative financial assets	\$ 81,227	-	81,227	-	-	81,227
December 31, 2014						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offsetting in the balance sheet	Net amount of financial liabilities presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
				Financial instruments	Cash received as collaterals	
	(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)
Derivative financial liabilities	\$ 355,957	-	355,957	-	-	355,957
Under repurchase agreements	14,610,182	-	14,610,182	14,610,182	-	-
Total	\$ 14,966,139	-	14,966,139	14,610,182	-	355,957

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

(23) Financial risk management

A. Brief

The Group is exposed to the following risks due to the usage of financial instruments:

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

This note describes the Group's information concerning risk exposure, and the Group's targets, policies and procedures to measure and manage the risks. The further detail of the quantitative result please refers to each note.

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B. Risk management framework

The risk management system includes the set-up of an independent risk management department and whole risk management framework which comprises segregation of duties and delegation of board of directors, president, risk management department, auditing department, finance department, settlement and clearing department and other business department. The Group also established an operating strategy, capital structure, risk management policy and executive procedure by risk and operating activities. Furthermore, the Group set up a risk management information system to assist whole risk management execute effectively.

C. Credit risk

Credit risk refers to the risk of financial losses to the Group arising from default by the clients or counterparties of financial instruments on the contract obligation.

The Group sets up the credit limits for issuers and counterparties according to the credit information requirements of the authorities and the credit rating information release by credit rating agencies. The credit limit of securities margin transactions is subject to the requirements of the competent authority. The derivatives' credit exposure of counterparty shall be measured on a daily basis. If the limits are exceeded, to increase of collateral or lower transaction position is required. The bonds can be invested only its credit rating is above a prescribed level. And monitor the material information disclosed, information on capital raising activities and operation status of counterparty as a reference for measuring the possibility of credit default. The bond position should be disposed if the credit rating is lower than required.

D. Liquidity risk

Liquidity risk refers to the risk that the Group cannot meet obligations because of the inability to obtain adequate funding or liquidate of other financial assets to settle the financial liabilities. It includes financial funding risk and financial market liquidity risk.

Besides decentralizing the financial institutions, the Group also to diversify the financing channels for funding. The Group plans and controls the daily funding operation in advance as the need for funding from various business situations. Also utilizes the simulation analysis mechanism of special event to keep up with the abnormal funding need from the system risks. The Group has set up the rules based on the different risk factors such as issue amount, trading volume, counterparty and etc to address the liquidity risk of each holding position. Moreover, the Group operates a dynamic monitoring of the volatility of market to manage the liquidity risk of holding positions.

E. Market risk

Market risk refers to the risk that change in market prices, exchange rates, interest rates and equity instrument prices, which will affect the Group's revenue or the value of its holdings of financial instruments.

The Group has set up the trading quotas and upper limit of Value at Risk ("VaR") in all operation to ensure the capital adequacy ratio meets the qualification requirements and

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maximum loss limit to be controlled. The different risk factors that the Group uses to measure the market risk are as follows:

- a. Equity securities: calculate by variance-covariance method and to conduct back testing to estimate the VaR of one day at 99% of confidence interval.
- b. Bond: use the base point (0.01%) value as the controlling base, and estimate the VaR of one day at 99% of confidence interval.
- c. Financial derivatives: use the Delta and Gamma value as the controlling base, and estimate the VaR of one day at 99% of confidence interval.
- d. Margin trading: use the maintenance ratio ruled by the competent authority as the standard for disposal.

Each business departments of the Group can utilizes approved financial hedging instruments (such as Futures, Options, Swap and etc) to adjust the risk level to improve the risk management system implemented.

F. Hedging strategies (financial hedging)

The Group's strategies use financial derivatives to hedge market price fluctuations in the attainable scope. The Group sets up each business quota, the capacity for tolerating risk and hedging strategy according to risk tolerance and establishes a monitoring system to understand variation of hedging position. In addition, the Group also formulates principal to conduct over or under limitations with hedging position.

a. Equity securities:

As equity securities price fluctuate, the Group will suffer losses when the unfavorable variation of equity securities price is incurred. To reduce the above risk, the Group not only relies on its well-designed risk management system but also uses index futures and options to hedge the market risk of equity securities.

b. Fixed income instruments:

Risk of fixed income instruments is mainly affected by the fluctuations of market rate. The Group will suffer losses when unfavorable variation of market rate is incurred. The Group uses financial derivatives such as interest rate swap, government bond futures and bond options whose variation in fair value and cash flow are negative correlated with the hedged position to hedge the market risk.

c. Stock warrants:

The market risk of stock warrants issued arises from the fluctuations of market price of the underlying securities and the risk of investors' exercising the stock warrants. The Group will acquire stock warrants of the same underlying securities issued by others whose theoretical price was underestimated to hedge against the fluctuations. Furthermore, the Group will also adjust the hedged position such as the underlying securities, convertible corporate bonds and stock warrants based on the dynamic hedging strategies with the variation of Delta.

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d. Structured notes:

Structured notes are the combination of fixed income and asset option. The market risk includes variation of interest rate, stock price and the volatility. In order to hedge the interest rate risk in the fixed income aspect, the Group uses the interest which it generates from investing to repay the principal due. In the asset option aspect, the Group establishes related hedged position to hedge the stock price and the volatility risk.

e. Asset swap:

Convertible bond asset swap is a hybrid derivative comprising of an interest rate swap and a call option on a convertible bond. The related risks are market risk and credit risk of the counterparties. The Group manages its risk through selling of the interest rate swap and options with third parties and verifies its counterparty's credit limit to lower the above risk.

G. Financial risk information of derivative financial instruments

As of December 31, 2015 and 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>December 31, 2015</u>		<u>December 31, 2014</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	\$ 10,260,292	-	33,477,191	-

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

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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. Non-trading marketable securities hedging positions are used to hedge against risk from investors' exercising of stock warrants. These underlying securities used as hedging instruments exhibit highly positive correlation with the fair values of stock warrants issued, and positions held are evaluated and adjusted periodically.

e. Presentation of financial derivatives

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

In 2015 and 2014:

(1) Gains (losses) on valuation

	<u>2015</u>	<u>2014</u>	<u>Account</u>
Stock warrants issued	\$ 11,070,099	4,095,759	Gains (losses) on stock warrants issued
Stock warrants repurchased	(10,814,221)	(3,851,835)	Gains (losses) on stock warrants issued

(2) Gains (losses) on sale

	<u>2015</u>	<u>2014</u>	<u>Account</u>
Security borrowing	\$ (45,496)	(68,812)	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	(366,765)	(89,159)	Gains (losses) on sale of trading securities
Futures	(5,348)	(90,195)	Gains (losses) on derivative financial instruments - futures

(3) Gains (losses) on maturity

	<u>2015</u>	<u>2014</u>	<u>Account</u>
Stock warrants issued	\$ 28,607,096	23,407,361	Gains (losses) on stock warrants issued
Stock warrants repurchased	(27,901,285)	(22,910,678)	Gains (losses) on stock warrants issued

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Futures

a. Notional principal (nominal amount) and credit risk

Financial Instruments	December 31, 2015		December 31, 2014	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Taixex Futures	\$ 716,991	-	1,869,019	-
HSI Future	-	-	14,383	-
Mini-Taixex Futures	-	-	168,381	-
Electronic Sector Index Futures	27,203	-	14,672	-
Finance Sector Index Futures	18,764	-	54,853	-
Non-Finance Non-Electronics Sub-Index Futures	8,083	-	42,206	-
Stock Futures	228,537	-	37,077	-
Mini DJ index Futures	-	-	16,945	-
Wheat Futures	-	-	4,004	-
Soy bean Futures	5,699	-	6,604	-
Coffee Futures	3,013	-	-	-
LME Copper Futures	-	-	4,516	-
Crude oil Futures	16,659	-	5,097	-
Gold Futures	-	-	15,036	-
FTSE China A50 Index Futures	13,141	-	16,106	-
Euro Bund	455,705	-	-	-
S&P Futures	16,827	-	143,280	-
JPY dollar Futures	-	-	3,318	-
AUD dollar Futures	-	-	5,153	-
Natural gas Futures	-	-	1,931	-
Platinum Futures	2,926	-	-	-
CHF dollars Futures	-	-	4,039	-
Sugar No.11 Futures	2,787	-	1,044	-
U.S. 30-Year T-Note Futures	15,187	-	-	-
Taixex Options	103,725	-	174,945	-
Stock Options	4,758	-	302,876	-
Taixex Weekly Options	4,416	-	6,182	-
Electronic Sector Index Options	5,593	-	1,936	-
Finance Sector Index Options	2,949	-	2,659	-
S&P Sector Index Options	3,512	-	18,737	-
Gold Options	230	-	295	-
For non-trading purpose:				
Taixex Futures	197,542	-	194,735	-
Stock Futures	320,278	-	900,101	-
H stocks Index Futures	35,626	-	-	-
HSI Futures	9,336	-	-	-
Mini H stocks Index Futures	838	-	-	-
Mini-HSI Futures	16,805	-	-	-
Taixex Options	18,390	-	2,062	-
Stock Options	355	-	19	-

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

b. Market risk

Market risk resulted from the purchase and sale 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.

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For non-trading futures or options contracts, gain or loss from the fluctuations of index tends to offset gain and loss 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.

Stock index futures and government bond futures are considered 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

In 2015 and 2014, gains (losses) on futures and options transactions amounted to \$126,235 and (\$123,687), respectively, and were reflected as gains or losses on derivatives - futures. As of December 31, 2015 and 2014, futures margin - proprietary fund amounted to \$270,282 and \$189,165, respectively, and were reflected as financial assets at fair value through profit or loss - current.

In 2015 and 2014, the balance of call options which recognized as financial assets at fair value through profit or loss - current amounted to \$50,244 and \$263,894, respectively, put options which recognized as financial liabilities at fair value through profit or loss - current amounted to \$57,261 and \$275,648, respectively.

Derivative financial instruments - OTC

- a. Interest rate financial derivatives

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

Financial Instruments	December 31, 2015		December 31, 2014	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
NT dollar interest swaps	\$ 55,700,000	-	53,440,000	-

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.

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(2) Market risk

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

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

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

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

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

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

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

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	December 31, 2015		December 31, 2014	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Equity-linked notes	\$ 2,000	-	16,000	-
Principal guaranteed notes	3,761,609	-	1,932,968	-
Credit-linked notes	317,200	-	304,800	-

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

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

(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

<u>Financial Instruments</u>	<u>December 31, 2015</u>		<u>December 31, 2014</u>	
	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>
For trading purpose:				
Convertible bond asset-backed swaps	\$ 1,304,600	-	1,038,100	-
Convertible bond options	2,947,200	-	2,875,700	-

Counterparties to convertible bond asset-backed swaps are institutions with good credit ratings. The Group swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. Since the counterparties are governed by relevant regulatory authorities, and the 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

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

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

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Financial assets at fair value through profit or loss - current		
IRS asset swaps	\$ 22,878	25,952
Currency swaps	8,482	45,318
Asset swap options - long position	11,940	9,881
Structured notes	-	76
Total	<u>\$ 43,300</u>	<u>81,227</u>
	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Financial liabilities at fair value through profit or loss - current		
Asset swap options - short position	\$ 193,888	348,450
IRS asset swaps	5,398	249
Structured notes	12,243	3,085
Currency swaps	3,476	503
Interest rate swaps	1,528	3,670
Total	<u>\$ 216,533</u>	<u>355,957</u>
Other financial liabilities - current		
Structured notes principal value	<u>\$ 3,834,575</u>	<u>2,140,965</u>
Other financial liabilities - non-current		
Structured notes principal value	<u>\$ 241,991</u>	<u>112,565</u>

In year 2015 and 2014, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options and convertible bond asset-backed swaps are presented on statements of income as follows:

	<u>2015</u>		<u>2014</u>	
	<u>Gains (losses) on derivative financial instruments - OTC</u>	<u>Unrealized Gains (losses)</u>	<u>Gains (losses) on derivative financial instruments - OTC</u>	<u>Unrealized Gains (losses)</u>
Interest rate swaps	\$ (830)	(1,528)	(8,589)	(3,670)
Equity derivatives	245	-	1,497	-
Structured notes	(48,375)	(8,003)	(25,572)	(2,915)
IRS asset swaps	511	527	784	299
Asset swap options	(41,617)	158,261	(122,864)	(37,422)
Currency swaps	35,796	5,005	109,253	44,815
Total	<u>\$ (54,270)</u>	<u>154,262</u>	<u>(45,491)</u>	<u>1,107</u>

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

(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 Group has sufficient financial resources to cope with the future need of operating fund, capital expenditure and other operating need.

As of December 31, 2015, the Group maintains no change of its capital management.

7. RELATED PARTY TRANSACTIONS

(1) Parent company and ultimate controlling party

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

(2) Key management personnel transactions

A. Key management personnel compensation:

	<u>2015</u>	<u>2014</u>
Short-term employee benefits	\$ 155,674	158,504
Post-employment benefits	1,806	1,923
Termination benefits	1,056	-
Share-based payments	-	2,773
Total	<u>\$ 158,536</u>	<u>163,200</u>

B. Bond transactions

Bonds sold under repurchase agreements between key management personnel in year 2015 and 2014 are as follows:

	<u>December 31, 2015</u>		<u>December 31, 2014</u>	
	<u>Par value</u>	<u>Purchase price</u>	<u>Par value</u>	<u>Purchase price</u>
Key management personnel	<u>\$ 50,500</u>	<u>50,691</u>	<u>56,400</u>	<u>60,914</u>

<u>Total financial expenses</u>	<u>2015</u>	<u>2014</u>
Key management personnel	<u>\$ 415</u>	<u>438</u>

C. Structured notes transactions

The Group engages in structured notes transactions with key management personnel. As of December 31, 2015 and 2014, the balances of structured notes transactions were \$17,600 and \$22,200 respectively.

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

(3) Significant transactions with related parties

A. Bond transactions

Bonds sold under repurchase agreements in year 2015 and 2014 are as follows:

	December 31, 2015		December 31, 2014	
	Par value	Purchase price	Par value	Purchase price
Subsidiaries	\$ 13,500	13,535	12,500	13,089
Affiliates	13,400	13,400	11,000	11,300
Total	<u><u>\$ 26,900</u></u>	<u><u>26,935</u></u>	<u><u>23,500</u></u>	<u><u>24,389</u></u>

	2015		2014	
	Total financial expense		Total financial expense	
Subsidiaries	\$	148		103
Affiliates		67		141
Total	<u><u>\$</u></u>	<u><u>215</u></u>		<u><u>244</u></u>

Transaction terms are the same as those with general clients.

B. Lease agreements

a. Lease revenue

	2015	2014
Subsidiaries	<u><u>\$ 1,036</u></u>	<u><u>1,036</u></u>

b. Guarantee deposits received

	December 31,	December 31,
Subsidiaries	<u><u>\$ 200</u></u>	<u><u>200</u></u>

C. Insurance commission income

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

a. Commission revenues

	2015	2014
Subsidiaries	<u><u>\$ 10,304</u></u>	<u><u>13,812</u></u>

b. Accounts receivable

	2015	2014
Subsidiaries	<u><u>\$ 1,200</u></u>	<u><u>311</u></u>

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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.” In year 2015 and 2014, the brokerage commissions were \$7,406 and \$8,362 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 December 31, 2015 and 2014:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>	<u>The collateral use</u>
Restricted assets - current	\$ 570,321	471,000	Bank borrowings, commercial paper, accounts settled, money trust (Annotation 1) and guaranty deposited for business operations (Annotation 2)
Restricted assets - non - current	178,353	184,508	Trust to a impartial third party (Note 12(4)) and the amount of provisional seizure (Note 9(12))
Trading securities and bonds purchased under resale agreements (par value)	23,993,535	13,348,600	Repurchase agreement 、 Investments in Bonds with Resale Agreements - RS
Property and equipment	4,074,595	4,178,183	Bank borrowings
Financial assets at fair value through profit or loss - non-current	190,554	189,262	Guaranty deposited for bills, interest rate swaps business, structured notes business and settlement fund
Investment property	890,116	825,570	Bank borrowings
Total	<u>\$ 29,897,474</u>	<u>19,197,123</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.

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

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>December 31, 2015</u>		<u>December 31, 2014</u>	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities procured through margin purchase	826,231	\$ 8,262,310	1,058,730	10,587,300
Collateral for margin purchase	33,476	334,760	5,985	59,850
Collateral for short sales	13,332	133,320	7,293	72,930
Lending securities to customers through short sales	44,174	441,740	49,606	496,060

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

	<u>December 31, 2015</u>		<u>December 31, 2014</u>	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities borrowed from securities finance companies	217	\$ 2,170	573	5,730
Collateral for refinancing margin	-	-	217	2,170

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

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Promissory notes	<u>\$ 21,850,000</u>	<u>20,820,000</u>
Promissory notes	<u>USD 80,000</u>	<u>80,000</u>

- (4) The Company designated Mr. Liu as a consultant to assist expanding brokerage business and entered into a non-competition agreement with him. The Company paid the consulting fee according to the actual operating performance. During March, 2011, Mr. Liu and the Company re-signed a supplementary to replace the old agreement and the major difference is the annual consulting fee is fixed for \$16,000. The effective period is from January 1, 2011 to March 31, 2016. The payment should be done by the end of March every year. The Company already recognized \$16,000 both as miscellaneous expense for the year ended December 31, 2015 and 2014.

- (5) Securities and Futures Investors Protection Center claims against the Company for compensation of \$2,004; due to the fact that the Company, being the underwriter of client's year 2002 cash capital increase case had provided false information on the contents disclosed in the prospectus. The case is under the trial of Taiwan Shilin District Court. According to the opinion from the attorney of the Company, the case had no impact to the Company.

- (6) The client, Mr. Wu, declared that a resigned employee of Tung-Hu branch stole and sold off his stocks and withdrew his deposit illegally. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation for damages of \$36,000 with additional interests. Based on Year 2008 Chung Su No.684 verdict, the Taiwan Taipei District Court ruled

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

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. Based on recent verdict, the Taiwan High Court ruled against the Company. The Company was not willing to accept the verdict and filed an appeal. It is currently under the review of the 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 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\$8,734,798 dollars (including claim amount US\$354,006 dollars towards Taiwan International Securities Investment Consulting Corp.). As of December 31, 2015, the damages claimed for amounted to US\$2,930,000 dollars which is favorable to the Company instead of US\$5,026,873 dollars; that 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 to claim against the Company; amounting to \$1,800. Taiwan Taipei District Court ruled in favor of the Company and the case is currently under the review of the Taiwan High 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 the Supreme Court. The Supreme Court reversed the case to Taiwan High Court based on July 19, Year 2012 No 1093

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

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 December 31, 2015, sixteen litigations with civic claim were filed (including seven cases with ancillary civil action transferred from Taiwan Taipei District Court Criminal Division to Taiwan Taipei District Court Civic Division). Two litigations had been settled and dismissed. Eleven litigations were ruled in favor of TIFC by Taiwan Supreme Court, Taiwan High Court and Taiwan Taipei District Court, respectively. Two litigations were ruled by Supreme Court that the resigned-employee and TIFC should be jointly responsible for the compensation for damages, and TIFC had indemnified \$52,701 for the investor. One litigation was ruled against TIFC by Taiwan High Court on November 30, 2015 and TIFC has filed an appeal to The Supreme Court. As of December 31, 2015, TIFC has paid \$162,812 for compensation and the estimated losses amounted to \$254,389 in other liabilities – non-current.

The alleged damages amounted to \$72,416 for only one litigation 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 December 31, 2015, the objects of provisional seizure are as follows:

	Provisional Seizure Amount
Bank deposit	\$ 88,821
Clearing and Settlement fund	15,121
Accounts receivable and Other accounts receivable	13
	\$ 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.

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

(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					
December 31, 2015 and 2014					
Trust Assets	December 31, 2015	December 31, 2014	Trust Liabilities	December 31, 2015	December 31, 2014
Bank deposits	\$ 801,071	813,907	Accounts payable	\$ 723	337
Short-term investment			Trust capital	7,995,479	10,996,632
Funds	5,844,770	9,459,615	Accumulated earnings or deficit	(273,608)	311,901
Stocks	428,052	724,537			
Securities lent	345,528	278,386			
Bond investment under agreements to repurchase	266,975	-			
Structured notes	5,400	-			
Accounts receivable	30,798	32,425			
Total Assets	\$ 7,722,594	11,308,870	Total Liabilities	\$ 7,722,594	11,308,870

b. Income statement of trust accounts

Income Statement of Trust Accounts		
Year Ended December 31, 2015 and 2014		
	2015	2014
Revenue		
Interest revenue	\$ 5,580	2,885
Cash dividends revenue	90,984	48,544
Rental revenue	7,912	8,926
Realized investment gain	239,909	167,345
Unrealized investment gain	71,832	276,388
Unrealized foreign exchange gain	218,494	137,477
Foreign exchange gain	76,773	31,639
Subtotal	<u>711,484</u>	<u>673,204</u>
Expense		
Administrative fee	1,464	1,578
Commission expenses	54,058	35,111
Realized investment loss	235,269	93,780
Unrealized investment loss	601,332	163,815
Unrealized foreign exchange loss	32,758	8,982
Foreign exchange loss	29,403	12,371
Supplementary insurance premium	226	293
Subtotal	<u>954,510</u>	<u>315,930</u>
Net income (loss) before tax	(243,026)	357,274
Income tax expense	(464)	(283)
Net income (loss) after income tax	<u>\$ (243,490)</u>	<u>356,991</u>

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c. List of trust properties

List of Trust Properties
December 31, 2015 and 2014

Investment items	December 31, 2015	December 31, 2014
Bank deposits	\$ 801,071	813,907
Short-term investment		
Stocks	428,052	724,537
Securities lent	345,528	278,386
Bond investments under agreement to repurchase	266,975	-
Structured notes	5,400	-
Funds	5,844,770	9,459,615
Total	\$ 7,691,796	11,276,445

10. SIGNIFICANT CATASTROPHIC LOSS : NONE

11. SIGNIFICANT SUBSEQUENT EVENTS :

The Board of Directors resolved to establish the venture capital company with investment \$1,000,000 on May 11, 2015 and got the approval by the FSC No. 1040034071 on September 8, 2015, and the incorporation registration is approved by Ministry of Economic Affairs on January 12, 2016.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

12. OTHERS

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

A. December 31, 2015

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	Taix Futures	Long	70	\$ 118,276	117,949	
	Taix Futures	Short	479	(796,257)	(792,419)	
	Electronic Futures	Short	21	(27,203)	(27,392)	
	Non-Finance Non-Electronics	Long	8	8,083	8,240	
	Sub-Index Futures					
	Stock Futures	Long	1,363	260,472	255,395	
	Stock Futures	Short	2,698	(288,343)	(287,868)	
	Finance Sector Index Futures	Long	19	18,764	18,586	
	H stocks Index Futures	Short	17	(35,626)	(34,936)	
	Mini H stocks Index Futures	Short	2	(838)	(822)	
	HSI Futures	Short	2	(9,336)	(9,379)	
	Mini HSI Futures	Short	18	(16,805)	(16,702)	
	Sugar No.11 Futures	Long	5	2,787	2,801	
	Gold Futures	Short	5	(17,276)	(17,401)	
	Coffee Futures	Long	2	3,013	3,119	
	Soy bean Futures	Short	4	(5,699)	(5,674)	
	Crude oil Futures	Long	14	16,659	17,022	
	S&P Futures	Long	5	16,827	16,583	
	FTSE China A50 Index Futures	Long	12	4,209	4,124	
	FTSE China A50 Index Futures	Short	26	(8,932)	(8,871)	
	U.S. 30-Year T-Note Futures	Short	3	(15,187)	(15,141)	
	Platinum Futures	Short	2	2,926	2,932	
	Subtotal			(769,486)		
Options contract :						
	Taix Options (Call)	Long	11,356	\$ 25,752	20,111	
	Taix Options (Put)	Long	13,664	23,550	18,065	
	Taix Options (Call)	Short	6,444	(24,127)	(13,828)	
	Taix Options (Put)	Short	11,120	(48,686)	(36,903)	
	Stock Options (Call)	Long	1,221	1,958	2,492	
	Stock Options (Put)	Long	1,262	2,352	2,350	
	Stock Options (Call)	Short	209	(375)	(224)	
	Stock Options (Put)	Short	172	(428)	(414)	
	Taix Weekly Options (Call)	Long	871	728	787	
	Taix Weekly Options (Put)	Long	1,607	1,843	1,775	
	Taix Weekly Options (Call)	Short	214	(881)	(919)	
	Taix Weekly Options (Put)	Short	160	(964)	(899)	
	Gold Option (Call)	Long	12	190	150	
	Gold Option (Put)	Long	1	1	1	
	Gold Option (Call)	Short	12	(10)	(4)	
	Gold Option (Put)	Short	12	(29)	(31)	
	Electronic Sector Index Options (Call)	Long	574	3,135	2,536	
	Electronic Sector Index Options (Put)	Long	269	1,195	1,143	
	Electronic Sector Index Options (Call)	Short	140	(434)	(194)	
	Electronic Sector Index Options (Put)	Short	58	(829)	(637)	
	Finance Sector Index Options (Call)	Long	174	371	178	
	Finance Sector Index Options (Put)	Long	187	863	656	
	Finance Sector Index Options (Call)	Short	475	(935)	(362)	
	Finance Sector Index Options (Put)	Short	190	(780)	(740)	
	S&P Sector Index Options (Call)	Short	24	(1,685)	(1,324)	
	S&P Sector Index Options (Put)	Short	34	(1,827)	(782)	
	Subtotal			(20,052)		
Total				\$ (789,538)		

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

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

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

Subsidiary - Capital Futures Corp.'s 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	2,951,929	9.11	2,692,432	9.89	≥ 1	Satisfactory to requirement
	(Total liabilities –futures traders' equity)	323,878		272,351			
17	Current Assets	18,986,411	1.12	13,727,540	1.14	≥ 1	"
	Current Liabilities	16,992,319		11,991,516			
22	Stockholders' equity	2,951,929	264.75%	2,692,432	376.56%	≥ 60%	"
	Minimum paid-in capital	1,115,000		715,000		≥ 40%	
22	Post-adjustment net capital	2,064,456	88.31%	1,860,730	83.48%	≥ 20%	"
	Total customer margin deposits required for open positions of customers	2,337,827		2,228,913		≥ 15%	

- (3) Unique risks to specific futures commission merchant services

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

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

As of December 31, 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 December 31, 2015, the trust amount of the impartial third party is \$130,586 and the accumulated compensation expense is \$51,414.

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

13. DISCLOSURES REQUIRED

(1) Information on significant transaction:

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

- A. Loans to others: Exhibit 1.
- B. Endorsements and guarantee for others: None.
- C. Acquisition of real estate over \$100 millions or 20% of paid-in capital: None.
- D. Disposal of real estate over \$100 millions 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 millions 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 :

Unit: NT\$ thousands

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 December 31, 2015	Net gains or losses of investee	Direct or indirect shareholdings (%) by the company	Highest shareholding or capital contributed within the period	Investment gains and losses recognized during this period (Note 2)	Ending balance of investment	Investment income remitted back as of December 31, 2015
					Remittance amount	Recoverable amount							
Capital True Partner Co., Ltd.	Management, consulting & information service	5,013	C	-	24,372	-	24,372	3,414	30.10%	- %	716 B (2)	15,077	-

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.

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

B. Quota for investment in China:

Unit: NT\$ thousands

Company Name	Accumulative remittance from Taiwan to Mainland China as of December 31, 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 International Technology Corp.	24,372	24,372	30,810

(4) Disclosures required for securities firm investing in countries or regions without securities authority:

According to article 4, no. 5 of the letter no. 10300375782 issued by Financial Supervisory Commission on October 3, 2014, the required supplementary disclosures of the Company's information on reinvestment in overseas businesses for the year ended December 31, 2015 are as follows:

A. Balance sheet and income statement:

a. Balance sheet

Company	CSC International Holdings Ltd.	Taiwan International Securities (B.V.I) Corp.
Nature	December 31, 2015	December 31, 2015
Current assets	12,010	24
Long-term investments	22,256	-
Property and premises	2,333	-
Other assets	19,395	3,380
Total assets	55,994	3,404
Current liabilities	535	-
Other liabilities	92	3,384
Total liabilities	627	3,384
Common stock	45,000	9,516
Retained earnings (Accumulated deficit)	10,385	(9,411)
Cumulative translation adjustments	(18)	(85)
Total stockholders' equity	55,367	20
Total liabilities and stockholders' equity	55,994	3,404

b. Income statement

Company	CSC International Holdings Ltd.	Taiwan International Securities (B.V.I) Corp.
Nature	2015	2015
Operating revenue	(20)	-
Operating expense	(1,132)	(26)
Non-operating revenue	675	-
Non-operating expense	(386)	-
Income (loss) before tax	(863)	(26)
Net income (loss)	(863)	(26)

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

B. Marketable securities held as of December 31, 2015

Unit: shares / US\$ thousands

Name of holding company	Securities types and name	Account classification	December 31, 2015	
			Shares	Book value
CSC International Holdings Ltd.	Capital Securities (Hong Kong) Ltd.	Long-term investments	4,864,400	\$ 6,987
	CSC Securities (HK) Ltd.	Long-term investments	89,600,000	15,269
	Total			\$ 22,256
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Other	265,000,000	\$ (3,384)

C. Transactions of financial derivatives: None.

D. Revenue on advisory and consulting service and related lawsuit: None

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 segmental 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

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

the corresponding operating segment. Indirect expenses and expenses from logistic support segment that cannot be directly attributed are listed under 'other segments'.

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

		2015							
		Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue		\$ 3,456,022	356,119	733,039	458,348	263,495	1,551,837	(254,703)	6,564,157
Income		\$ 1,176,082	142,036	423,378	234,775	(199,171)	502,424	(245,489)	2,034,035

		2014							
		Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue		\$ 4,036,081	413,303	643,779	625,314	258,233	1,120,838	(228,672)	6,868,876
Income		\$ 1,557,196	153,950	478,510	397,781	(290,673)	338,805	(202,868)	2,432,701

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 the 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 55,367	US 55,367	
2	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Other receivables - Related party	Yes	US 3,380	US 3,404	US 3,380	-	2	-	-	Operations & repayment of financing	-	-	-	US 3,404	US 3,404	
3	TIS Securities (HK) Limited	TIS Capital Co., Ltd.	Other receivables	Yes	HK 1,463	HK 1,463	HK 1,463	-	2	-	-	Repayment of financing	-	-	-	HK 1,463	HK 1,463	
4	CSC Futures (HK) Ltd.	AP CAPITAL INVESTMENT LIMITED	Account receivables - Customer	No	HK 7,750	HK -	HK -	5%	2	-	-	Tradings	-	-	-	HK 7,750	HK 45,152	
5	CSC Futures (HK) Ltd.	KLAW TRADING LIMITED	Account receivables - Customer	No	HK 10,850	HK 3,875	HK 3,875	5%	2	-	-	Tradings	-	-	-	HK 10,850	HK 45,152	

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 year ended December 31, 2015

(In thousands dollars)

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	General ledger account	Transaction details		Percentage(%) of total consolidated revenue
					Amount	Trading terms	
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts payable	353		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts receivable	14,294		0.02%
0	Capital Securities Corp.	Capital Futures Corp.	1	Other receivables	145		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Bonds sold under repurchase agreements	438,330		0.47%
0	Capital Securities Corp.	Capital Futures Corp.	1	Guarantee deposits received	3,508		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Future commission revenue	146,813	General transaction	2.24%
0	Capital Securities Corp.	Capital Futures Corp.	1	Lease revenue	13,342	General transaction	0.20%
0	Capital Securities Corp.	Capital Futures Corp.	1	Revenue from securities management, distribution, and management fees	353	General transaction	0.01%
0	Capital Securities Corp.	Capital Futures Corp.	1	Financial costs	733	General transaction	0.01%
0	Capital Securities Corp.	Capital Futures Corp.	1	Other operating revenue	12	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Securities commission expense	3,610	General transaction	0.05%
0	Capital Securities Corp.	Capital Futures Corp.	1	Interest revenue	424	General transaction	0.01%
0	Capital Securities Corp.	Capital Futures Corp.	1	Miscellaneous expenses	6,695	General transaction	0.10%
0	Capital Securities Corp.	Capital Futures Corp.	1	Non-operating revenues	18,734	General transaction	0.28%
0	Capital Securities Corp.	Capital Futures Corp.	1	Brokerage commissions	212	General transaction	- %
0	Capital Securities Corp.	Capital Investment Management Corporation	1	Other receivables	131		- %
0	Capital Securities Corp.	Capital Investment Management Corporation	1	Professional service fees	82,000	General transaction	1.25%
0	Capital Securities Corp.	Capital Investment Management Corporation	1	Lease revenue	1,200	General transaction	0.02%
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Guarantee deposits received	30		- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Lease revenue	120	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Revenue from securities management, distribution, and management fees	24	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Other non-operating revenue	120	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	996	General transaction	0.02%
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Revenue from securities management, distribution, and management fees	50	General transaction	- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Other non-operating revenue	600	General transaction	0.01%
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other receivables	30		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Receipts under custody	146		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Commission expense	40	General transaction	- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Financial costs	43	General transaction	- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Other non-operating revenue	25	General transaction	- %
1	Capital Futures Corp.	Capital Securities Corp.	2	Customer margin account	874,377		0.94%
1	Capital Futures Corp.	Capital Securities Corp.	2	Futures traders' equity	874,377		0.94%
1	Capital Futures Corp.	CSC Futures (HK) Limited	3	Customer margin account	251,916		0.27%
1	Capital Futures Corp.	Capital True Partner Co., Limited	3	Information technology expense	958	General transaction	0.01%
1	Capital Futures Corp.	CSC Futures (HK) Limited	3	Futures traders' equity	1,111,269		1.19%
1	Capital Futures Corp.	CSC Futures (HK) Limited	3	Commission expense - futures	16,855	General transaction	0.26%
1	Capital Futures Corp.	CSC Futures (HK) Limited	3	Brokerage commissions	49,293	General transaction	0.75%
1	Capital Futures Corp.	CSC Futures (HK) Limited	3	Financial costs	147	General transaction	- %
1	Capital Futures Corp.	CSC Futures (HK) Limited	3	Information technology expense	23,612	General transaction	0.36%
1	Capital Futures Corp.	CSC Futures (HK) Limited	3	Accounts payable	585		- %
1	Capital Futures Corp.	Capital International Technology Corp.	3	Lease revenue	146	General transaction	- %
2	CSC Securities (HK) Ltd.	CSC Futures (HK) Limited	3	Other receivables	HK 36		- %
2	CSC Securities (HK) Ltd.	CSC Futures (HK) Limited	3	Other operating revenue	HK 3,480	General transaction	0.22%
2	CSC Securities (HK) Ltd.	CSC International Holdings Ltd.	3	Other payables	USD22,289		0.78%
3	Capital Securities (Hong Kong) Ltd.	CSC International Holdings Ltd.	3	Other receivables	USD 2,959		0.01%
4	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	3	Other receivables	HK 26,195		0.12%
5	CSC Futures (HK) Limited	Capital True Partner Co., Limited	3	Computer equipment	1,200		- %
5	CSC Futures (HK) Limited	Capital True Partner Co., Limited	3	Accumulated depreciation	167		- %
5	CSC Futures (HK) Limited	Capital True Partner Co., Limited	3	Depreciation expense	167	General transaction	- %
5	CSC Futures (HK) Limited	Capital Futures Corp.	3	Futures traders' equity	152,401		0.16%
5	CSC Futures (HK) Limited	Capital Futures Corp.	3	Customer margin account	1,011,754		1.09%
5	CSC Futures (HK) Limited	Capital True Partner Co., Limited	3	Professional service fees	1,550	General transaction	0.02%
6	Capital True Partner Co., Limited	CSC Futures (HK) Limited	3	Other operating income	1,200	General transaction	0.02%

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			Highest Shareholding or Capital Contributed within the Period	Net gains or losses of investee during this period	Investment gain or loss recognized during this period	Note
				Balance on December 31, 2015	Balance on December 31, 2014	Shares	Ratio	Book value (Note 3)				
				(In thousands dollars)								
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%	105,094	100.00%	12,827	12,827	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	72,227,136	59.01%	1,741,933	59.01%	432,927	255,470	"
0	CSC International Holdings Ltd.	British Virgin Island	Long-term equity investment business	1,339,555	1,339,555	45,000,000	100.00%	1,814,659	100.00%	(27,820)	(27,820)	"
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%	72,720	100.00%	63,068	63,068	Subsidiary
0	Capital Insurance Agency Corp.	Taipei ,Taiwan, R.O.C.	Manages personal insurance agent business	7,400	7,400	740,000	100.00%	48,274	100.00%	11,713	11,713	"
0	Taiwan International Futures Corp. (Note 4)	Taipei ,Taiwan, R.O.C.	Liquidation in progress	429,990	429,990	11,999,721	99.99%	-	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%	641	100.00%	(841)	(841)	"
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%	13,550	99.92%	(219)	(219)	"
1	CSC Asia Ltd. (Note 8)	Hong Kong	Completion of liquidation	HK-	HK10,000 thousand	-	- %	HK-	- %	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%	HK54,155 thousand	100.00%	HK(251) thousand	-	"
1	CSC Securities (HK) Ltd.	Hong Kong	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong	HK89,600 thousand	HK89,600 thousand	89,600,000	70.00%	HK118,339 thousand	70.00%	HK143 thousand	-	"
1	CSC Finance Ltd. (Note 8)	Hong Kong	Completion of liquidation	HK-	HK42,439 thousand	-	- %	HK-	- %	HK-	-	"
2	CSC Securities (HK) Ltd.	Hong Kong	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong	HK38,400 thousand	HK38,400 thousand	38,400,000	30.00%	HK50,717 thousand	30.00%	HK143 thousand	-	"
2	CSC Asia Ltd. (Note 8)	Hong Kong	Completion of liquidation	HK-	HK5,000 thousand	-	- %	HK-	- %	HK-	-	"
2	CSC Financial Service Ltd. (Note 7)	Hong Kong	Completion of liquidation	HK-	HK5,000 thousand	-	- %	HK-	- %	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(26,229) thousand	100.00%	HK(194) thousand	-	"
4	Taiwan International Capital (HK) Ltd. (Note 6)	Hong Kong	Liquidation in progress	HK2	HK2	2	100.00%	HK(49,208) thousand	100.00%	HK(12) thousand	-	"
5	CSC Futures (HK) Ltd.	Hong Kong	Futures dealing business	450,631	474,348	114,000,000	95.00%	450,925	100.00%	(9,768)	-	"
5	Capital International Technology Corp.	Taipei ,Taiwan, R.O.C.	Management, consulting and information service business	50,000	50,000	5,000,000	100.00%	50,956	100.00%	1,525	-	"
5	True Partner Advisor Hong Kong Limited	Hong Kong	Asset Management	36,701	-	245,000	49.00%	36,681	49.00%	(13)	-	Associates
6	Capital Securities Nominee Ltd.	Hong Kong	Agency services.	HK2	HK2	2	100.00%	HK-	100.00%	HK-	-	The transaction has been written off in the consolidated financial statements

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.

Note 8: The liquidation was completed on November 19, 2015