

**CAPITAL SECURITIES CORPORATION
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

AND

INDEPENDENT ACCOUNTANTS' AUDIT REPORT

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

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Independent Accountants' Audit Report

The Board of Directors
Capital Securities Corporation

We have audited the accompanying consolidated balance sheets of Capital Securities Corporation and its subsidiaries as of June 30, 2016, December 31, 2015 and June 30, 2015, and the related consolidated statements of comprehensive income for the period from April 1 to June 30 and January 1 to June 30, 2016 and 2015, as well as the consolidated statements of equity change and cash flows for the six months ended June 30, 2016 and 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Capital Securities Corporation and its subsidiaries as of June 30, 2016, December 31, 2015 and June 30, 2015, and the results of their operations for the period from April 1 to June 30, and January 1 to June 30, 2016 and 2015, as well as their cash flows for the six months ended June 30, 2016 and 2015, in conformity with the "Regulations Governing the Preparation of Financial Reports by Securities Firms", and IAS 34 "Interim Financial Reporting" endorsed by the Financial Supervisory Commission.

Please refer to the separate financial report of Capital Securities Corporation as of June 30, 2016 and 2015, which have both issued an unqualified opinion.

KPMG
Taipei, Taiwan, R.O.C.
August 29, 2016

Notice to Readers

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

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(New Taiwan Dollars in Thousands)

ASSETS	June 30, 2016		December 31, 2015		June 30, 2015		LIABILITIES AND STOCKHOLDERS' EQUITY	June 30, 2016		December 31, 2015		June 30, 2015	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
Current Assets							Current Liabilities						
Cash and cash equivalents (Note 6(1))	\$ 5,568,374	6	4,726,498	5	4,506,023	5	Short-term borrowings (Note 6(10))	\$ 1,049,442	1	1,791,161	2	3,018,720	3
Financial assets at fair value through profit or loss - current (Note 6(2))	25,971,057	26	25,985,624	28	31,428,953	33	Commercial paper payable (Note 6(11))	-	-	-	-	5,298,724	6
Financial assets available for sale - current (Note 6(2))	12,949,894	13	7,835,455	8	1,471,555	1	Financial liabilities at fair value through profit or loss - current (Note 6(12))	1,573,460	2	2,409,455	3	2,353,132	2
Bonds purchased under resale agreements (Notes 6(3) and 8)	299,786	-	-	-	304,689	-	Bonds sold under repurchase agreements (Note 6(13))	29,874,535	30	23,576,243	25	21,745,640	23
Receivable for securities provided as collateral	12,304,238	12	15,155,220	16	19,527,047	21	Guarantee deposited for short sales	1,292,589	1	2,025,011	2	1,353,719	2
Refinancing margin	5,132	-	9,084	-	29,161	-	Proceeds payable from short sales	1,488,482	1	2,242,680	2	1,627,203	2
Refinancing collateral receivable	4,276	-	7,550	-	54,403	-	Securities lending refundable deposits	1,064,658	1	1,622,937	2	161,127	-
Receivable of securities business money lending	236	-	-	-	-	-	Futures traders' equity (Note 6(5))	22,174,377	22	16,287,312	18	12,627,163	14
Customer margin account (Note 6(5))	22,198,719	22	16,304,756	18	12,810,103	13	Customer equity of separate account ledger in settlement account (Note 6(14))	23,550	-	4,104	-	-	-
Receivable - futures margin	894	-	900	-	-	-	Notes payable	90	-	846	-	90	-
Collateral for securities borrowed	682,779	1	1,074,130	1	699,787	1	Accounts payable (Note 6(15))	5,032,816	5	3,847,764	4	7,092,639	8
Security borrowing margin	653,395	-	1,460,549	2	632,344	1	Advance receipts	25,102	-	19,935	-	20,384	-
Notes receivable	14,366	-	7,955	-	7,128	-	Receipts under custody	102,115	-	1,347,159	1	115,146	-
Accounts receivable (Note 6(4))	5,640,626	6	4,984,977	5	8,041,916	9	Other payables	1,886,726	2	765,523	1	2,230,476	2
Prepayments	40,772	-	36,303	-	69,803	-	Other financial liabilities - current (Note 6(23))	2,149,496	2	3,834,575	4	3,161,528	3
Other receivables	247,271	-	87,864	-	98,372	-	Current income tax liabilities	177,510	-	154,699	-	153,141	-
Current income tax assets	72,168	-	59,777	-	42,177	-	Provisions - current (Note 6(17))	47,546	-	47,546	-	46,793	-
Other current assets	715,553	1	1,854,659	2	712,448	1	Other current liabilities	7,329	-	5,124	-	37,560	-
	<u>87,369,536</u>	<u>87</u>	<u>79,591,301</u>	<u>85</u>	<u>80,435,909</u>	<u>85</u>		<u>67,969,823</u>	<u>67</u>	<u>59,982,074</u>	<u>64</u>	<u>61,043,185</u>	<u>65</u>
Non-current Assets							Non-current Liabilities						
Financial assets at fair value through profit or loss - non-current (Notes 6(2) and 8)	190,390	-	190,554	-	188,388	-	Other financial liabilities - non-current (Note 6(23))	335,185	-	241,991	-	161,298	-
Financial assets measured at cost - non-current (Note 6(2))	460,699	-	411,231	-	411,231	-	Deferred income tax liabilities	736,998	1	693,879	1	609,605	1
Financial assets available for sale - non-current (Note 6(2))	64,443	-	60,966	-	87,602	-	Other non-current liabilities	865,194	1	865,580	1	834,183	1
Investments under equity method (Note 6(6))	150,345	-	157,675	-	81,253	-		<u>1,937,377</u>	<u>2</u>	<u>1,801,450</u>	<u>2</u>	<u>1,605,086</u>	<u>2</u>
Property and equipment (Notes 6(7) and 8)	5,147,414	5	5,177,406	6	5,356,608	6	Total Liabilities	<u>69,907,200</u>	<u>69</u>	<u>61,783,524</u>	<u>66</u>	<u>62,648,271</u>	<u>67</u>
Investment property (Notes 6(8) and 8)	1,734,925	2	1,740,207	2	1,730,781	2	Equity Attributable to Shareholders of the Parent						
Intangible assets (Note 6(9))	3,619,898	4	3,627,517	4	3,621,787	4	Common stock (Note 6(19))	22,690,730	23	23,190,730	25	23,690,730	25
Deferred income tax assets	470,316	-	484,797	1	521,901	1	Capital surplus						
Other non-current assets	1,843,010	2	1,869,537	2	1,889,986	2	Premium from stock issuance	1,858,310	2	1,899,259	2	1,940,208	2
	<u>13,681,440</u>	<u>13</u>	<u>13,719,890</u>	<u>15</u>	<u>13,889,537</u>	<u>15</u>	Treasury stock transactions	253,940	-	191,489	-	107,031	-
							Paid-in capital from merger	630,450	1	644,342	1	658,234	1
							Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,399	-	1,430	-	1,461	-
							Changes in ownership interests in subsidiaries	6,287	-	6,287	-	6,287	-
							Retained earnings						
							Legal reserve	1,110,600	1	955,667	1	955,667	1
							Special reserve	2,464,288	3	2,154,422	2	2,154,422	2
							Unappropriated earnings (Note 6(18))	573,541	-	1,586,994	2	992,483	1
							Exchange differences on translation of foreign operations	102,114	-	135,985	-	32,304	-
							Unrealized gains (losses) on financial assets available for sale	231,156	-	(6,850)	-	21,418	-
							Treasury Stocks (Note 6(19))	-	-	(469,155)	-	-	-
							Total equity attributable to Shareholders of parent	<u>29,922,815</u>	<u>30</u>	<u>30,290,600</u>	<u>33</u>	<u>30,560,245</u>	<u>32</u>
							Non-controlling interests	1,220,961	1	1,237,067	1	1,116,930	1
							Total Equity	<u>31,143,776</u>	<u>31</u>	<u>31,527,667</u>	<u>34</u>	<u>31,677,175</u>	<u>33</u>
TOTAL ASSETS	<u>\$ 101,050,976</u>	<u>100</u>	<u>93,311,191</u>	<u>100</u>	<u>94,325,446</u>	<u>100</u>	TOTAL LIABILITIES AND EQUITY	<u>\$ 101,050,976</u>	<u>100</u>	<u>93,311,191</u>	<u>100</u>	<u>94,325,446</u>	<u>100</u>

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

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

	For the three months ended June 30,				For the six months ended June 30,			
	2016		2015		2016		2015	
	Amount	%	Amount	%	Amount	%	Amount	%
Income:								
Brokerage commissions (Note 6(21))	\$ 786,284	47	937,592	55	1,648,966	53	1,735,959	52
Revenues from securities business money lending	15	-	44	-	28	-	51	-
Revenue from securities lendings	14,061	1	6,029	-	28,393	1	17,593	-
Underwriting commissions (Note 6(21))	35,221	2	36,552	2	51,457	2	122,758	4
Commissions on wealth management business	15,605	1	15,010	1	28,054	1	30,402	1
Net gains (losses) on sale of trading securities (Note 6(21))	12,988	1	445,280	26	(133,024)	(4)	773,929	23
Securities management, distribution, and management fees	33,960	2	35,162	2	69,527	2	69,381	2
Interest revenue (Note 6(21))	362,809	21	387,682	23	704,286	23	746,715	22
Dividend revenue	17,249	1	31,522	2	18,078	1	31,522	1
Net gains (losses) on measurement of trading securities at fair value through profit or loss (Note 6(21))	100,127	6	(391,583)	(23)	248,063	8	(263,462)	(8)
Net gains (losses) on covering of borrowed securities and bonds with resale agreements	(63,468)	(4)	(42,501)	(3)	10,157	-	(102,837)	(3)
Net gains (losses) on measurement of borrowed securities and bonds with resale agreements	12,319	1	68,569	4	(52,296)	(2)	71,335	2
Net gains (losses) on stock warrants issued (Notes 6(21) and 6(23))	169,175	10	61,616	4	385,219	13	243,846	7
Futures commission revenues	172,238	10	31,040	2	267,571	9	56,174	2
Net gains (losses) on derivative instruments - futures (Note 6(23))	59,741	4	(6,636)	-	(57,636)	(2)	(177,475)	(5)
Net gains (losses) on derivative instruments - OTC (Note 6(23))	(61,960)	(4)	62,249	4	(170,513)	(6)	(48,293)	(1)
Management fee revenue	36	-	124	-	86	-	327	-
Consultancy fee revenue	3,644	-	2,260	-	6,509	-	4,085	-
Other operating revenues	22,033	1	21,062	1	38,006	1	33,966	1
	<u>1,692,077</u>	<u>100</u>	<u>1,701,073</u>	<u>100</u>	<u>3,090,931</u>	<u>100</u>	<u>3,345,976</u>	<u>100</u>
Expenses:								
Brokerage fees	130,161	8	98,958	6	241,387	8	173,791	5
Brokerage and clearing fees - proprietary trading	3,773	-	6,555	-	8,038	-	11,585	-
Clearing and exchange fees - refinancing	584	-	749	-	1,419	-	1,473	-
Clearing and exchange fees - underwriting	528	-	937	-	862	-	2,372	-
Financial costs	65,266	4	55,422	3	121,365	4	101,932	3
Commission expense - futures	113,891	7	49,270	3	193,888	6	96,834	3
Clearing and settlement expenses	36,655	2	31,836	2	73,743	2	56,178	2
Other operating expenditure	1,157	-	4,261	-	3,986	-	5,807	-
Employee benefits expenses (Note 6(21))	613,470	36	631,176	37	1,212,118	39	1,255,651	38
Depreciation and amortization expenses (Note 6(21))	53,719	3	54,552	3	108,067	4	108,826	3
Other operating expenses (Note 6(21))	327,487	19	415,286	25	693,854	23	759,709	23
	<u>1,346,691</u>	<u>79</u>	<u>1,349,002</u>	<u>79</u>	<u>2,658,727</u>	<u>86</u>	<u>2,574,158</u>	<u>77</u>
Other income and expenses :								
Share of profits of associates and joint venture (Note 6(6))	35,665	2	20,209	1	58,847	2	35,040	1
Other gains and losses (Note 6(21))	144,531	8	102,111	6	320,469	10	349,261	11
	<u>180,196</u>	<u>10</u>	<u>122,320</u>	<u>7</u>	<u>379,316</u>	<u>12</u>	<u>384,301</u>	<u>12</u>
Net income before income tax	<u>525,582</u>	<u>31</u>	<u>474,391</u>	<u>28</u>	<u>811,520</u>	<u>26</u>	<u>1,156,119</u>	<u>35</u>
Income tax expense (Note 6(18))	<u>(73,173)</u>	<u>(4)</u>	<u>(74,488)</u>	<u>(4)</u>	<u>(138,190)</u>	<u>(4)</u>	<u>(165,710)</u>	<u>(5)</u>
Net income	<u>452,409</u>	<u>27</u>	<u>399,903</u>	<u>24</u>	<u>673,330</u>	<u>22</u>	<u>990,409</u>	<u>30</u>
Other comprehensive income								
Items that may be reclassified to profit or loss in subsequent periods								
Exchange differences on translation of foreign operations	4,424	-	(33,517)	(2)	(45,224)	(1)	(59,129)	(2)
Unrealized gains (losses) on financial assets available for sale, net	88,022	5	(3,321)	-	239,397	7	1,439	-
Income tax benefit related to components of other comprehensive income (Note 6(18))	(869)	-	6,243	-	7,639	-	10,999	-
Subtotal of items that may be subsequently reclassified into profit or loss	<u>91,577</u>	<u>5</u>	<u>(30,595)</u>	<u>(2)</u>	<u>201,812</u>	<u>6</u>	<u>(46,691)</u>	<u>(2)</u>
Other comprehensive income for the period, net of income tax	<u>91,577</u>	<u>5</u>	<u>(30,595)</u>	<u>(2)</u>	<u>201,812</u>	<u>6</u>	<u>(46,691)</u>	<u>(2)</u>
Total comprehensive income for the period	<u>\$ 543,986</u>	<u>32</u>	<u>369,308</u>	<u>22</u>	<u>875,142</u>	<u>28</u>	<u>943,718</u>	<u>28</u>
Net income attributable to:								
Shareholders of the parent	\$ 401,384	24	357,968	22	563,191	18	925,375	28
Non-controlling interests	51,025	3	41,935	2	110,139	4	65,034	2
	<u>\$ 452,409</u>	<u>27</u>	<u>399,903</u>	<u>24</u>	<u>673,330</u>	<u>22</u>	<u>990,409</u>	<u>30</u>
Total comprehensive income attributable to:								
Shareholders of the parent	\$ 492,474	29	330,750	20	767,325	25	881,748	26
Non-controlling interests	51,512	3	38,558	2	107,817	3	61,970	2
	<u>\$ 543,986</u>	<u>32</u>	<u>369,308</u>	<u>22</u>	<u>875,142</u>	<u>28</u>	<u>943,718</u>	<u>28</u>
Basic earnings per share (Note 6(20))	<u>\$</u>	<u>0.18</u>	<u>\$</u>	<u>0.15</u>	<u>\$</u>	<u>0.25</u>	<u>\$</u>	<u>0.39</u>
Dilutive earnings per share (Note 6(20))	<u>\$</u>	<u>0.18</u>	<u>\$</u>	<u>0.15</u>	<u>\$</u>	<u>0.25</u>	<u>\$</u>	<u>0.39</u>

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY CHANGE
FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015
(New Taiwan Dollars in Thousands)

	Equity attributable to shareholders of the parent											
	Retained earnings					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	Total equity to shareholders of the parent			
Beginning balance, January 1, 2015	\$ 23,690,730	2,711,760	753,136	1,756,283	2,089,222	76,558	20,791	-	31,098,480	1,103,640	32,202,120	
Net income for the period	-	-	-	-	925,375	-	-	-	925,375	65,034	990,409	
Other comprehensive income	-	-	-	-	-	(44,254)	627	-	(43,627)	(3,064)	(46,691)	
Total comprehensive income	-	-	-	-	925,375	(44,254)	627	-	881,748	61,970	943,718	
Appropriation and distribution of retained earnings:												
Legal reserve	-	-	202,531	-	(202,531)	-	-	-	-	-	-	
Special Reserve	-	-	-	405,061	(405,061)	-	-	-	-	-	-	
Cash dividends	-	-	-	-	(1,421,444)	-	-	-	(1,421,444)	-	(1,421,444)	
Reversal of special reserve for deduction of stockholders' equity	-	-	-	(6,922)	6,922	-	-	-	-	-	-	
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	1,461	-	-	-	-	-	-	1,461	-	1,461	
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(48,680)	(48,680)	
Ending balance, June 30, 2015	\$ 23,690,730	2,713,221	955,667	2,154,422	992,483	32,304	21,418	-	30,560,245	1,116,930	31,677,175	
Beginning balance, January 1, 2016	\$ 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	
Net income for the period	-	-	-	-	563,191	-	-	-	563,191	110,139	673,330	
Other comprehensive income	-	-	-	-	-	(33,871)	238,006	-	204,135	(2,323)	201,812	
Total comprehensive income	-	-	-	-	563,191	(33,871)	238,006	-	767,326	107,816	875,142	
Appropriation and distribution of retained earnings:												
Legal reserve	-	-	154,933	-	(154,933)	-	-	-	-	-	-	
Special Reserve	-	-	-	309,866	(309,866)	-	-	-	-	-	-	
Cash dividends	-	-	-	-	(1,111,845)	-	-	-	(1,111,845)	-	(1,111,845)	
Purchase of treasury stocks	-	-	-	-	-	-	-	(23,266)	(23,266)	-	(23,266)	
Retirement of treasury stocks	(500,000)	7,579	-	-	-	-	-	492,421	-	-	-	
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(123,922)	(123,922)	
Ending balance, June 30, 2016	\$ 22,690,730	2,750,386	1,110,600	2,464,288	573,541	102,114	231,156	-	29,922,815	1,220,961	31,143,776	

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015
(New Taiwan Dollars in Thousands)

	For the six months ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income before income tax	\$ 811,520	1,156,119
Adjustments for:		
Income and expenses items with no effect on cash flows:		
Depreciation expense	88,331	88,699
Amortization expense	19,736	20,127
Net losses (gains) on financial assets or liabilities at fair value through profit or loss	(248,063)	263,462
Interest expense	121,365	101,932
Interest revenue (including financial revenue)	(800,954)	(823,316)
Dividend revenue	(23,781)	(39,915)
Share of profits of associates and joint ventures	(58,847)	(35,040)
Losses on disposal and retirement of property and equipment	3,198	-
Losses (gains) on non-operating financial instruments at fair value through profit or loss	11,243	(9,044)
Net changes of income and expense items with no effect on cash flows	(887,772)	(433,095)
Net changes in assets from operating activities:		
Decrease (increase) in financial assets at fair value through profit or loss	251,057	(6,607,380)
Decrease (increase) in financial assets available for sale - current	(4,878,435)	(1,472,098)
Decrease (increase) in bonds purchased under resale agreements	(299,786)	(304,689)
Decrease (increase) in receivable for securities provided as collateral	2,850,982	42,418
Decrease (increase) in refinancing margin	3,952	(13,634)
Decrease (increase) in receivable on refinancing collateral	3,274	(29,969)
Decrease (increase) in receivable of securities business money lending	(236)	-
Decrease (increase) in customer margin account	(5,893,963)	(965,660)
Decrease (increase) in margin receivable of futures trading	6	-
Decrease (increase) in collateral for securities borrowed	391,351	(50,374)
Decrease (increase) in security borrowing margin	807,154	(38,517)
Decrease (increase) in notes receivable	(6,411)	(3,104)
Decrease (increase) in accounts receivable	(645,240)	(1,251,707)
Decrease (increase) in prepayments	(4,469)	(30,606)
Decrease (increase) in other receivables	(286,646)	(78,970)
Decrease (increase) in current income tax assets	(12,399)	(6,325)
Decrease (increase) in other current assets	1,113,500	(102,067)
Decrease (increase) in guarantee deposited for business operations	13,371	252,127
Decrease (increase) in settlement fund	23,309	6,962
Decrease (increase) in refundable deposits	(20,946)	10,472
Decrease (increase) in other non-current assets	20,221	(48,293)
Total net changes in assets from operating activities:	(6,570,354)	(10,691,414)
Net changes in liabilities from operating activities:		
Increase (decrease) in financial liabilities at fair value through profit or loss	(835,496)	(55,278)
Increase (decrease) in bonds sold under repurchase agreements	6,298,292	7,135,458
Increase (decrease) in guaranty deposited for short sales	(732,422)	(878,271)
Increase (decrease) in proceeds payable from short sales	(754,198)	(966,770)
Increase (decrease) in securities lending refundable deposits	(558,279)	(2,093,637)
Increase (decrease) in futures traders' equity	5,887,065	883,743
Increase (decrease) in notes payable	(756)	(1,056)
Increase (decrease) in customer equity of separate account ledger in settlement account	19,446	-
Increase (decrease) in accounts payable	1,185,052	1,216,170
Increase (decrease) in advance receipts	5,167	552
Increase (decrease) in receipts under custody	(1,245,044)	(10,926)
Increase (decrease) in other payables	95,122	49,288
Increase (decrease) in other current liabilities	1,185	20,494
Increase (decrease) in other financial liabilities	(1,591,885)	1,069,296
Increase (decrease) in other non-current liabilities	(386)	775
Total net changes in liabilities from operating activities	7,772,863	6,369,838
Total net changes in assets and liabilities from operating activities	1,202,509	(4,321,576)
Total Cash generated from adjustment items	314,737	(4,754,671)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)
FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015
(New Taiwan Dollars in Thousands)

	For the six months ended June 30,	
	2016	2015
Cash generated by operating activities	\$ 1,126,257	(3,598,552)
Interest received	785,814	807,611
Dividends received	12,630	11,446
Interest paid	(121,943)	(104,303)
Income tax paid	(50,137)	(74,676)
Net cash provided by (used in) operating activities	1,752,621	(2,958,474)
Cash flows from investing activities:		
Acquisition of investments under equity method	-	(23,160)
Decrease (increase) in financial assets measured at cost	(49,468)	8,750
Decrease (increase) of deferred debits	(390)	(627)
Acquisitions of property and equipment	(41,635)	(115,585)
Acquisitions of intangible assets	(10,842)	(10,228)
Net cash used in investing activities	(102,335)	(140,850)
Cash flows from financing activities:		
Increase (decrease) in short-term borrowing	(741,719)	361,720
Increase (decrease) in long-term liabilities - current portion	-	(500,000)
Increase (decrease) in commercial paper payable	-	3,549,007
Acquisition of treasury stocks	(23,266)	-
Disposal of ownership interests in subsidiaries (without losing control)	-	24,216
Net cash provided by (used in) financing activities	(764,985)	3,434,943
Effect of exchange rate changes on cash and cash equivalents	(43,425)	(57,179)
Increase in cash and cash equivalents	841,876	278,440
Cash and cash equivalents, beginning of the year	4,726,498	4,227,583
Cash and cash equivalents, end of this period	\$ 5,568,374	4,506,023

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

(ENGLISH TRANSLATION)
CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

(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, Song-Jen Road, Taipei, Taiwan, R.O.C. As of June 30, 2016, the composition of the consolidated financial statements includes the Company and the subsidiaries (the “Group”). As of June 30, 2016, the Company has 58 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;
- (16) Other relevant services as approved by the authority in charge.

2. APPROVAL DATE AND PROCEDURES OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were authorized for issuance by the board of directors on August 29, 2016.

3. NEW STANDARDS AND INTERPRETATIONS

- (1) Impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) but not yet in effect

According to Ruling No. 1050026834 issued on July 18, 2016, by the FSC, public entities are required to conform to the IFRSs which were issued by the International Accounting Standards Board (“IASB”) before January 1, 2016, and were endorsed by the FSC on January 1, 2017 (excluding IFRS 9 “Financial Instruments”, IFRS 15 “Revenue from Contracts with Customers”, and others which have yet to be approved by the FSC in order for them to take effect) in preparing their financial statements. The new related standards, interpretations, and amendments are as follows:

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

Newly issued, Revised accounting standards and interpretations	Effective date per IASB
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendments to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendments to IAS 36 “Recoverable Amount Disclosures for Non- Financial Assets”	January 1, 2014
Amendments 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 assessed that the initial application of the IFRSs above would have no significant material impact on the consolidated financial statements.

(2) Newly released or amended standards and interpretations not yet endorsed by the FSC

A summary of the new issued, revised and amended standards and interpretations for IFRSs issued by the IASB, but not yet endorsed by the FSC is as follows:

Newly issued, Revised accounting standards and interpretations	Effective date per IASB
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Undecided
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IFRS 2 “Clarifications of Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendment to IFRS 15 “Clarifications of IFRS 15”	January 1, 2018
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendment to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017

The Group is still currently determining the potential impact of the standards listed below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
May 28, 2014 April 12, 2016	IFRS 15 “Revenue from Contracts with Customers”	IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 “Revenue”, IAS 11 “Construction Contracts”, and a number of revenue-related interpretations. Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a

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

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
November 19, 2013 July 24, 2014	IFRS 9 “Financial Instruments”	<p>principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements.</p> <p>The standard will replace IAS 39 “Financial Instruments: Recognition and Measurement”, and the main amendments are as follows:</p> <ul style="list-style-type: none"> • Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that "own credit risk" adjustments be measured at fair value through other comprehensive income. • Impairment: The expected credit loss model is used to evaluate impairment. • Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio.
January 13, 2016	IFRS 16 “Leases”	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> • For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.
September 11, 2014	IFRS 10 and IAS 28 “Sales or Contributions of Assets between an Investor and its Associate or Joint Venture”	<p>The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.</p>
January 19, 2016	Amendment to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	<p>The objective of this project is to clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. It clarifies that 'taxable profit excluding tax deductions' used for assessing the utilization of deductible temporary differences is different from taxable profit on which income taxes are payable.</p>

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

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 29, 2016	Amendments to IAS 7 “Disclosure Initiative”	The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

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

Except as described below, the significant accounting policies adopted in the accompanying consolidated financial statements are the same as the consolidated financial statements as of and for the year ended December 31, 2015. Please refer to Note 4 of the consolidated financial statements as of and for the year ended December 31, 2015 for the detail disclosures of significant accounting policies.

(2) Basis of preparation

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

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership by Company			Note
			June 30,2016	December 31,2015	June 30,2015	
The Company	Capital Investment Management Corp.	Engaged in providing advice on securities investment and securities investment consultancy	100.00%	100.00%	100.00%	Established in February, 1990 with the paid-in capitals amounting to \$70,000.
"	CSC International Holdings Ltd.	Long-term equity investment business	100.00%	100.00%	100.00%	Established in March, 1996, with the paid-in capitals amounting to US\$45,000 thousands.
"	Capital Futures Corp.	Engaged in domestic and foreign futures business	59.01%	59.01%	59.01%	Established in February, 1997 with the paid-in capitals amounting to \$1,223,979.
"	Taiwan International Futures Corp.	Management consultancy	99.99%	99.99%	99.99%	Liquidation in progress.
"	Taiwan International Securities (B.V.I) Corp.	Holding company for offshore securities units	100.00%	100.00%	100.00%	The paid-in capitals amounted to US\$9,516 thousands.
"	Taiwan International Securities Investment Consulting Corp.	Investment consultancy	99.92%	99.92%	99.92%	Liquidation in progress.
"	CSC Venture Capital Corp.	Venture Capital and consulting business	100.00%	-	%	Established in January, 2016 with the paid-in capitals amounted to \$1,000,000.

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

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership by Company			Note
			June 30,2016	December 31,2015	June 30,2015	
Capital Futures Corp.	CSC Futures (HK) Ltd.	Futures dealing business.	95.00%	95.00%	95.00%	Established in December, 1998. Acquired 100% of the equity on November 1, 2012, and disposed 5% on April 30, 2015. As of June 30, 2016, the paid-in capitals amounted to HKD\$120,000 thousands.
"	Capital International Technology Corp.	Management and consulting business. Information technology software	100.00%	100.00%	100.00%	Established in December, 2014. As of June 30, 2016, the paid-in capitals amounted to \$50,000
Capital International Technology Corp.	Capital True Partner Co., Ltd.	Management and consulting business. Information technology software.	51.00%	51.00%	51.00%	Established in August 20, 2008. Acquired 51% of the equity on February 9, 2015 and held controlling interest. As of June 30, 2016, the paid-in capitals amounted to CNY\$1,000 thousands.
CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	Established in May, 1994.
"	Capital Securities (Hong Kong) Ltd.	Long-term equity investment business.	100.00%	100.00%	100.00%	The board of directors of the Company resolved to cease operation on October 30, 2012.
"	CSC Finance Ltd.	Margin trading 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.	Financial businesses and investment consultancy	-	-	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	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	Established in May, 1994.
"	CSC Asia Ltd.	Financial businesses and investment consultancy businesses	-	-	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 66.67% and 33.33%	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 CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership by Company			Note
			June 30,2016	December 31,2015	June 30,2015	
Capital Securities (Hong Kong) Ltd	CSC Finance Ltd.	Securities brokerage business	-	-	equity, respectively 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 Nominees Ltd.	Agency service business	100.00%	100.00%	100.00%	Established in April, 1995. Acquired equity from Capital Securities (Hong Kong) Ltd. on January 17, 2013.
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Long-term equity investment business.	100.00%	100.00%	100.00%	Not complied with the requirement of Financial Resources Rules (the "FRR") of the Hong Kong Securities and Futures Commission, the operations remain stagnant currently.
TIS Securities (HK) Limited	Taiwan International Capital (HK) Ltd.	Direct investment	100.00%	100.00%	100.00%	"

B. Subsidiaries not listed in the consolidated financial statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership by Company			Note
			June 30,2016	December 31,2015	June 30,2015	
The Company	Capital Insurance Agency Corp.	Manages personal insurance agent business.	100.00%	100.00%	100.00%	Established in November 2000. The Company acquired 100% of the equity and gained a controlling interest. The paid-in capitals amounted to \$7,400. As of June 30, 2016, December 31, 2015 and June 30, 2015, the total assets constituted 0.06%, 0.06% and 0.08% of the Group's total assets. For the six months end June 30, 2016 and 2015, the operation revenue were merely 1.67% and 1.03% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.
	Capital Insurance Advisory Corp.	Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business.	100.00%	100.00%	100.00%	Established in November 2000. The company acquired 100% of the equity and gained a controlling interest. The paid-in capitals amounted to \$3,890. As of June 30, 2016, December 31, 2015 and June 30, 2015, the total assets constituted 0.15%, 0.11% and 0.10% of the Group's total assets. For the six months end June 30, 2016 and 2015, the operation revenue were merely 4.39% and 2.38% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.

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

(3) Income tax

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

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

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

(4) Employee benefits

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior fiscal year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

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

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

In these consolidated financial statements, judgments and key sources of estimation uncertainty used by management in the application of critical accounting policies are expected to be consistent with those of Note 5 of the consolidated financial statements as of and for the year ended December 31, 2015.

6. SUMMARY OF MAJOR ACCOUNTS

Except as described below, the description of significant accounts in the accompanying consolidated financial statements is not materially different from the consolidated financial statements as of and for the year ended December 31, 2015. Please refer to Note 6 of the consolidated financial statements as of and for the year ended December 31, 2015 for the detailed disclosures of these significant accounts.

(1) Cash and cash equivalents

	<u>June 30, 2016</u>	<u>December 31, 2015</u>	<u>June 30, 2015</u>
Cash	\$ 2,960	3,140	3,227
Bank deposits			
Checking accounts	34,004	48,103	45,806
Demand deposits	890,177	177,236	168,744
Time deposits	2,452,758	1,768,772	2,110,649
Foreign currency deposits	<u>1,602,573</u>	<u>1,111,031</u>	<u>1,154,656</u>
Subtotal	<u>4,979,512</u>	<u>3,105,142</u>	<u>3,479,855</u>
Cash equivalents			
Futures margin-excess margin	585,902	1,463,300	1,022,941
Commercial papers	-	154,916	-
Subtotal	<u>585,902</u>	<u>1,618,216</u>	<u>1,022,941</u>
Total	<u>\$ 5,568,374</u>	<u>4,726,498</u>	<u>4,506,023</u>

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

(2) Financial assets

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

	<u>June 30, 2016</u>	<u>December 31, 2015</u>	<u>June 30, 2015</u>
Open-ended funds and money-market instruments			
Open-ended funds and money-market instruments	\$ 628,779	690,994	287,762
Valuation adjustment	36	10,561	32,112
Subtotal	<u>628,815</u>	<u>701,555</u>	<u>319,874</u>
Securities invested by securities broker			
Securities invested by securities broker	33,336	5,439	145,968
Valuation adjustment	(706)	(121)	(3,520)
Subtotal	<u>32,630</u>	<u>5,318</u>	<u>142,448</u>
Trading securities - proprietary trading:			
Listed stocks	1,275,631	1,878,306	1,379,062
Listed funds	78,716	61,890	-
OTC stocks	90,211	156,121	503,023
Emerging market stocks	196,877	177,697	277,968
Convertible corporate bonds	313,705	345,901	352,930
Government bonds	4,522,734	2,823,467	5,712,471
Corporate bonds	9,007,036	11,245,486	11,573,509
Financial debentures	3,270,952	1,500,549	1,297,639
Foreign stocks	192,701	478,309	480,659
Overseas bonds	161,543	164,321	394,783
Emerging fund	7,350	7,424	6,123
Other	32,603	29,989	45,790
	<u>19,150,059</u>	<u>18,869,460</u>	<u>22,023,957</u>
Valuation adjustment	156,316	62,485	(27,977)
Subtotal	<u>19,306,375</u>	<u>18,931,945</u>	<u>21,995,980</u>
Trading securities - underwriting:			
Listed stocks	100,811	42,209	1,404
OTC stocks	8,420	-	3,323
Convertible corporate bonds	97,000	51,400	98,400
	<u>206,231</u>	<u>93,609</u>	<u>103,127</u>
Valuation adjustment	11,188	1,223	4,676
Subtotal	<u>217,419</u>	<u>94,832</u>	<u>107,803</u>
Trading securities - hedging:			
Listed stocks	1,257,710	1,573,401	3,739,886
OTC stocks	227,643	470,773	732,271
Convertible corporate bonds	3,793,394	3,948,040	3,998,906
Foreign stocks	1,092	1,114	3,833
	<u>5,279,839</u>	<u>5,993,328</u>	<u>8,474,896</u>
Valuation adjustment	39,766	(105,180)	(55,963)
Subtotal	<u>5,319,605</u>	<u>5,888,148</u>	<u>8,418,933</u>
Derivatives:			
Call options	90,780	50,244	82,786
Futures margin - proprietary fund	339,724	270,282	313,060
IRS asset swaps	27,272	22,878	24,739
Asset swap options - long position	6,264	11,940	21,190
Structured notes	38	-	310
Currency swaps	2,135	8,482	1,830
Subtotal	<u>466,213</u>	<u>363,826</u>	<u>443,915</u>
Total	<u>\$ 25,971,057</u>	<u>25,985,624</u>	<u>31,428,953</u>

As of June 30, 2016, December 31, 2015 and June 30, 2015, the par value of trading securities - bonds under repurchase agreement were \$30,340,717, \$23,993,535 and \$21,556,584, respectively (please refer to Note 6(13) for details).

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

B. Financial assets available for sale - current:

	<u>June 30, 2016</u>	<u>December 31, 2015</u>	<u>June 30, 2015</u>
Listed stocks	\$ 323,199	101,535	-
OTC stocks	120,684	-	-
Overseas bonds	12,296,484	7,757,004	1,472,101
Subtotal	<u>12,740,367</u>	<u>7,858,539</u>	<u>1,472,101</u>
Valuation adjustments	209,527	(23,084)	(546)
Total	<u><u>\$ 12,949,894</u></u>	<u><u>7,835,455</u></u>	<u><u>1,471,555</u></u>

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

	<u>June 30, 2016</u>	<u>December 31, 2015</u>	<u>June 30, 2015</u>
Financial assets held for trading:			
Government bonds	\$ 188,819	188,818	189,791
Valuation adjustment	1,571	1,736	(1,403)
Total	<u><u>\$ 190,390</u></u>	<u><u>190,554</u></u>	<u><u>188,388</u></u>

As of June 30, 2016, December 31, 2015 and June 30, 2015, the Group took advantage of government bonds as margins of bills, interest rate swaps and structured notes transaction, settlement fund guarantee deposits, and compensation reserve of trust business (please refer to Note 8 for details).

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

<u>Investee Company</u>	<u>June 30, 2016</u>	<u>December 31, 2015</u>	<u>June 30, 2015</u>
CME Group	\$ 33,733	33,733	50,193
Valuation adjustment	30,710	27,233	37,409
Total	<u><u>\$ 64,443</u></u>	<u><u>60,966</u></u>	<u><u>87,602</u></u>

The purpose for obtaining the stock of CME GROUP is to acquire the membership of foreign futures exchange. For the six months ended June 30, 2016 and 2015, due to changes in fair value, the Group had recognized \$3,477 and \$2,015 in other comprehensive income, respectively.

E. Financial assets measured at cost - non-current

<u>Non- listed (or non-over-the-counter)</u>	<u>June 30, 2016</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%	46,508
Prudence Venture Investment Corp.	1.50%	35,365
Miho International Co., Ltd.	1.83%	45,980
Jason's Entertainment Co., Ltd.	3.97%	30,000
Total		<u><u>\$ 460,699</u></u>

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

<u>Non-listed (or non-over-the-counter)</u>	December 31, 2015	
	<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		\$ 411,231

<u>Non-listed (or non-over-the-counter)</u>	June 30, 2015	
	<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		\$ 411,231

For the six months ended June 30 2016 and 2015, Top Taiwan III Venture Capital Co., Ltd. refunded the proceeds of capital reduction amounted to \$24,500 and \$7,000 respectively, and Prudence Venture Investment Corp. refunded the proceeds of capital reductions which amounted to \$2,012 and \$1,750 respectively.

The Group acquired shares of Miho International Co., Ltd. in January, 2016 and Jason's Entertainment Co., Ltd. in March, 2016 in the amount of \$46,000 and \$30,000, respectively.

- F. The Group uses Value at Risk (VAR) to monitor and measure the market risk of its investment in equity stocks. VAR refers to the unexpected loss of financial instruments derived from the changes in market risk factors within certain time periods and confidence level. The table below discloses the VaR, which is the estimation of potential loss per 10-day and is covered by 99% of the adverse changes in market prices. In the table below by using this assumption, 2.5 out of 250 days VaR will exceed the disclosed amounts due to the changes in market price. For the six months ended June 30, 2016 and 2015 VAR (99%, per 10-day) of equity stocks were as follows:

<u>Type of market risk</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>For the six months ended June 30,</u>					
			<u>2016</u>			<u>2015</u>		
			<u>Mean</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Mean</u>	<u>Maximum</u>	<u>Minimum</u>
Equity stocks	811,441	911,805	680,590	811,411	596,609	900,693	970,662	828,201

(3) Bonds purchased under resale agreements

	<u>June 30, 2016</u>	<u>December 31, 2015</u>	<u>June 30, 2015</u>
Bonds purchased under resell agreements	<u>\$ 299,786</u>	<u>-</u>	<u>304,689</u>
Resell price under the agreements	<u>\$ 299,817</u>	<u>-</u>	<u>304,691</u>
Interest rate	<u>0.30%</u>	<u>-</u>	<u>0.25%</u>

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

As of June 30, 2016 and 2015, the Group's appropriated bonds purchased under resale agreements were \$299,786 (Par value \$300,000) and 0 (Par value \$0) for repurchase agreement transactions purpose, respectively. As of June 30, 2016 and 2015, the Group's appropriated bonds purchased under resale agreements were \$0 (Par value \$0) and \$304,689 (Par value \$300,000) for repurchase agreement-short sales transactions purpose, respectively (please refers to Note 8 for details).

(4) Accounts Receivable

	<u>June 30, 2016</u>	<u>December 31, 2015</u>	<u>June 30, 2015</u>
Receivable on securities purchased by customers	\$ 35,751	40,724	48,973
Settlement	1,023,090	50,397	-
Interests receivable	468,660	452,745	504,035
Receivables on securities sold	4,059,962	4,206,290	7,345,973
Others	57,286	238,944	147,080
Subtotal	<u>5,644,749</u>	<u>4,989,100</u>	<u>8,046,061</u>
Less: allowance for doubtful accounts	(4,123)	(4,123)	(4,145)
Total	<u><u>\$ 5,640,626</u></u>	<u><u>4,984,977</u></u>	<u><u>8,041,916</u></u>

(5) Customer margin account / Future traders' equity

As of June 30, 2016, December 31, 2015 and June 30, 2015, a reconciliation of the customer margin account and the futures traders' equity was as follows:

	<u>June 30, 2016</u>	<u>December 31, 2015</u>	<u>June 30, 2015</u>
Customer margin account			
Cash in banks	\$ 17,148,065	12,530,482	9,691,441
Customer margin account - futures clearing house	1,732,562	1,280,830	1,712,561
Customer margin account - other futures commission merchants	3,316,660	2,492,357	1,404,153
Marketable securities	1,432	1,087	1,948
Total customer margin account	<u>22,198,719</u>	<u>16,304,756</u>	<u>12,810,103</u>
Adjustment :			
Commission revenue	(15,007)	(10,454)	(21,954)
Futures transaction tax	(1,070)	(792)	(801)
Interest revenues	(642)	(334)	(1,293)
Temporary receipts	(167)	(188)	(792)
Remittance amount of the customers after the market closed	(6,313)	(4,330)	(6,975)
Others	(1,143)	(1,346)	(151,125)
Futures traders' equity	<u><u>\$ 22,174,377</u></u>	<u><u>16,287,312</u></u>	<u><u>12,627,163</u></u>

(6) Investments under equity method

As of June 30, 2016, December 31, 2015, and June 30, 2015, investments under the equity method consisted of the following:

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

	<u>June 30, 2016</u>	<u>December 31, 2015</u>	<u>June 30, 2015</u>
Subsidiaries			
Capital Insurance Advisory Corp.	\$ 64,899	72,720	37,228
Capital Insurance Agency Corp.	44,430	48,274	44,025
Subtotal	<u>109,329</u>	<u>120,994</u>	<u>81,253</u>
Associates			
True Partner Advisor Hong Kong Limited	41,016	36,681	-
Total	<u>\$ 150,345</u>	<u>157,675</u>	<u>81,253</u>

A. Subsidiaries

For the six months ended June 30, 2016 and 2015, the Group's share of gains or losses of the subsidiaries were as follows:

	<u>For the six months ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
Based on the self-prepared financial statements	<u>\$ 54,322</u>	<u>35,040</u>

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

	<u>June 30, 2016</u>	<u>December 31, 2015</u>	<u>June 30, 2015</u>
Total assests	<u>\$ 218,980</u>	<u>157,581</u>	<u>167,009</u>
Total liabilities	<u>\$ 109,651</u>	<u>36,587</u>	<u>85,756</u>

	<u>For the six months ended June, 30</u>	
	<u>2016</u>	<u>2015</u>
Revenue	<u>\$ 187,328</u>	<u>114,826</u>
Net income	<u>\$ 54,322</u>	<u>35,040</u>

B. Associates

On October 2, 2015, 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>June 30, 2016</u>	<u>December 31, 2015</u>	<u>June 30, 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%	49.00%	-

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

	<u>June 30, 2016</u>	<u>December 31, 2015</u>	<u>June 30, 2015</u>
Total carrying amount of the associates that were not individually material	<u>\$ 41,016</u>	<u>36,681</u>	<u>-</u>

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

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Attributable to the Group:				
Net gains from continuing operations	\$ 4,286	-	4,525	-
Other comprehensive loss	(56)	-	(190)	-
Total comprehensive income	<u>\$ 4,230</u>	<u>-</u>	<u>4,335</u>	<u>-</u>

C. Collateral

As of June 30, 2016 and December 31, 2015, none of the investment accounted for under equity method of the Group were pledged for collateral.

(7) Property and equipment

	Land	Buildings	Equipment	Leasehold improvements	Total
	Carrying amount:				
January 1, 2016	<u>\$ 3,709,682</u>	<u>1,152,625</u>	<u>261,117</u>	<u>53,982</u>	<u>5,177,406</u>
June 30, 2016	<u>\$ 3,707,942</u>	<u>1,133,786</u>	<u>229,168</u>	<u>76,518</u>	<u>5,147,414</u>
June 30, 2015	<u>\$ 3,828,133</u>	<u>1,231,610</u>	<u>258,465</u>	<u>38,400</u>	<u>5,356,608</u>

As of June 30, 2016, December 31, 2015 and June 30, 2015, the property and equipment were provided as collateral or pledge (please refer to Note 8 for details).

There was no significant acquisition, disposal and impairment loss or reversal of impairment losses of property and equipment of the Group in the periods from January 1 to June 30 in 2016 and 2015. For the six months ended June 30 of 2016 and 2015, \$2,327 and \$73,719 of land and buildings were reclassified as investment property. Please refer to Note 6(21) for details of the depreciation expense occurring in this period and Note 6(6) of the consolidated financial statements as of and for the year ended December 31, 2015 for other relevant information.

(8) Investment property

	Land and improvements	Buildings	Total
January 1, 2016	<u>\$ 1,255,460</u>	<u>484,747</u>	<u>1,740,207</u>
June 30, 2016	<u>\$ 1,257,200</u>	<u>477,725</u>	<u>1,734,925</u>
June 30, 2015	<u>\$ 1,303,460</u>	<u>427,321</u>	<u>1,730,781</u>
Fair value			
January 1, 2016			<u>\$ 2,846,381</u>
June 30, 2016			<u>\$ 2,740,795</u>
June 30, 2015			<u>\$ 2,835,952</u>

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

There was no significant acquisition, disposal and impairment loss or reversal of impairment losses of investment properties of the Group in the periods from January 1 to June 30 in 2016 and 2015. For the six months ended June 30 of 2016 and 2015, \$2,327 and \$73,719 of land and buildings were transferred from property and equipment. Please refer to Note 6(21) for details of the depreciation expense occurring in this period and Note 6(7) of the consolidated financial statements as of and for the year ended December 31, 2015 for other relevant information.

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

(9) Intangible assets

A. Goodwill

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized goodwill. As of June 30, 2016, December 31, 2015, and June 30, 2015, the book value was \$3,126,698.

Due to the needs of operation expansion, the subsidiary Capital International Technology Corp. acquired 51% of the equity of Capital True Partner Co., Ltd. The excess of the acquisition cost over the fair value of the investee's net identifiable assets was recognized as goodwill. As of June 30, 2016, December 31, 2015 and June 30, 2015, the book value was all \$22,088.

B. Other intangible assets – Customer relationships

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized other intangible assets - customer relationships as \$17,082. As of June 30, 2016, December 31, 2015 and June 30, 2015, the amortized book values were \$0, \$1,139, and \$2,847, respectively.

C. Other intangible assets – Operation franchise

The Company acquired the operation of securities corporation operation franchise during 1994 to 2005 and expected the franchise to continue generating cash inflows. In accordance with IAS No.38 "Intangible Assets," the franchise is regarded as intangible asset with an indefinite useful life. As of June 30, 2016, December 31, 2015 and June 30, 2015, the book value of the operation franchise was all \$389,999.

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

The subsidiaries obtained the memberships of foreign futures Exchanges - NYMEX, COMEX, CBOT and CME for business development. In accordance with IAS No. 38 "Intangible Assets" endorsed by the FSC, the memberships are regarded as intangible assets with an indefinite useful life. As of June 30, 2016, December 31, 2015 and June 30, 2015, the book value of the intangible assets were \$48,454, \$46,427 and \$46,300, respectively.

E. Other intangible assets – Computer software

Computer software was booked at cost and amortized using the straight-line method over the estimated useful life. As of June 30, 2016, December 31, 2015 and June 30, 2015, the book value after amortization was \$32,659, \$41,166, and \$33,855, respectively.

(10) Short-term loans

<u>Nature of borrowings</u>	<u>June 30, 2016</u>	<u>December 31, 2015</u>	<u>June 30, 2015</u>
Collateralized loan	\$ 208,000	591,444	1,924,944
Credit loans	841,442	1,199,717	1,093,776
Total	<u>\$ 1,049,442</u>	<u>1,791,161</u>	<u>3,018,720</u>
Interest rate range	<u>0.75%~2.78%</u>	<u>0.90%~3.06%</u>	<u>0.90%~2.09%</u>

The Group had provided the land, buildings, and certificates of time deposits as collateral. For

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

more information about the collateral as of June 30, 2016, December 31, 2015 and June 30, 2015, please refer to Note 8.

(11) Commercial paper payable

	<u>June 30, 2016</u>	<u>December 31, 2015</u>	<u>June 30, 2015</u>
Commercial paper payable	\$ -	-	5,300,000
Less: Unamortized discount	-	-	(1,276)
Net amount	<u>\$ -</u>	<u>-</u>	<u>5,298,724</u>
Interest rate range	<u>-%</u>	<u>-%</u>	<u>0.808%~0.838%</u>

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

	<u>June 30, 2016</u>	<u>December 31, 2015</u>	<u>June 30, 2015</u>
Bond purchased under resale agreements - short sales	\$ -	-	304,980
Valuation adjustment on bonds purchased under resale agreements - short sales	-	-	(156)
Subtotal	<u>-</u>	<u>-</u>	<u>304,824</u>
Liabilities on sale of borrowed securities	821,457	1,508,137	937,081
Redeem liabilities on sale of borrowed securities	-	(1,566)	(4,772)
Valuation adjustment	21,835	(30,461)	(22,802)
Subtotal	<u>843,292</u>	<u>1,476,110</u>	<u>909,507</u>
Settlement coverage bonds payable of short sale	-	300,550	-
Valuation adjustment on settlement coverage bonds payable of short sale	-	(1,146)	-
Subtotal	<u>-</u>	<u>299,404</u>	<u>-</u>
Stock warrants issued	12,593,365	10,530,591	14,090,779
Stock warrants repurchased	(12,169,224)	(10,170,444)	(13,357,222)
Subtotal	<u>424,141</u>	<u>360,147</u>	<u>733,557</u>
Put options	68,851	57,261	113,360
IRS asset swaps	2,937	5,398	5,198
Asset swap options - short position	219,748	193,888	273,352
Structured notes	7,439	12,243	10,905
Interest rate swaps	3,509	3,476	11
Currency swaps	3,543	1,528	2,418
Subtotal	<u>306,027</u>	<u>273,794</u>	<u>405,244</u>
Total	<u>\$ 1,573,460</u>	<u>2,409,455</u>	<u>2,353,132</u>

(13) Bonds sold under repurchase agreements

	<u>June 30, 2016</u>	<u>December 31, 2015</u>	<u>June 30, 2015</u>
Bonds sold under repurchase agreements	\$ 29,874,535	23,576,243	21,745,640
Agreed-upon repurchase amounts	<u>29,896,931</u>	<u>23,598,443</u>	<u>21,745,399</u>
Interest rates	<u>0.25%~3.60%</u>	<u>0.30%~5.00%</u>	<u>0.45%~0.85%</u>

(14) 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

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

financial institutions within or outside the territory of the ROC. As of June 30, 2016 and December 31, 2015, customers of offshore securities branches retain total settlement funds \$23,550 and \$4,104 in the securities firm's settlement account.

(15)Accounts payable

	<u>June 30, 2016</u>	<u>December 31, 2015</u>	<u>June 30, 2015</u>
Payable of securities sold by customers	\$ 52,221	34,151	48,347
Settlement price	-	-	250,784
Payable of settlements	4,648,559	3,573,328	6,402,946
Others	332,036	240,285	390,562
Total	<u>\$ 5,032,816</u>	<u>3,847,764</u>	<u>7,092,639</u>

(16)Operating leases

The Group has no material incremental operating leases contracts for the six months ended June 30, 2016 and 2015. Please refer to Note 6(16) of the consolidated financial statements as of and for the year ended December 31, 2015 for other relevant information.

(17)Employee benefit

A. Defined benefit plans

Subsequent to December 31, 2015, there is apparently no evidence of any material market volatility, material curtailment, reimbursement and settlement or other material one-time events. Therefore, pension cost in the consolidated financial statements is measured and disclosed according to the respective actuarial report for the years ended December 31, 2015 and 2014.

For the three and six months ended, June 30, 2016 and 2015, the Group's pension expenses recognized in profit or loss were \$4,181, \$4,564, \$8,352 and \$9,201, respectively.

B. Defined contribution plan

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

The Group contributed \$20,864, \$21,220, \$42,134, and \$43,301 under defined contribution plan to the Bureau of the Labor Insurance for the three and six months ended June 30, 2016 and 2015, respectively.

C. For the three and six months ended June 30, 2016 and 2015, the pension expenses contributed by overseas subsidiaries in compliance with local ordinance were \$1,095, \$1,087, \$2,241 and \$2,064, respectively.

D. Provision for employee benefits liabilities

	<u>June 30, 2016</u>	<u>December 31, 2015</u>	<u>June 30, 2015</u>
Compensated absences	\$ 47,546	47,546	46,793

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(18) Income tax

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

- A. The detail of income tax expense for the three and six months ended June 30, 2016 and 2015 were as follows:

	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current income tax expense (benefit)	\$ 54,673	(9,885)	72,949	29,686
Deferred income tax expense				
Unrealized gains (losses) on derivative financial instruments	8,180	46,175	(287)	21,161
Unrealized gains (losses) on foreign investments under equity method	(1,786)	2,937	(2,115)	2,298
Amortization of goodwill	26,577	26,577	53,154	53,154
Decrease (increase) in tax loss carried forward	(16,736)	16,803	12,224	67,530
Adjustments of the prior year's deferred income tax assets and liabilities	2,265	(8,119)	2,265	(8,119)
	<u>18,500</u>	<u>84,373</u>	<u>65,241</u>	<u>136,024</u>
Income tax expenses	<u>\$ 73,173</u>	<u>74,488</u>	<u>138,190</u>	<u>165,710</u>

- B. The amount of income tax expense or benefit recognized in other comprehensive income for the three and six months ended, June 30, 2016 and 2015 were as follows:

	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Foreign exchange difference from translating financial statements of foreign operations	<u>\$ 869</u>	<u>(6,243)</u>	<u>(7,639)</u>	<u>(10,999)</u>

- C. As of June 30, 2016, net operating losses available for carried forward to offset against future taxable income were as follows:

<u>Loss Year</u>	<u>Amount</u>	<u>Expiration Year</u>
2011(Assessed)	<u>\$ 1,630,750</u>	2021

- D. Income tax assessment status

- a. Except 2012, where the Company's income tax returns through 2013 were assessed by the Tax Authority.
- b. Subsidiary - Capital Investment Management Corp.'s income tax returns through 2014 were assessed by the Tax Authority.
- c. Subsidiary - Capital Futures Corp.'s income tax returns through 2014, except 2013, were assessed by the Tax Authority.
- d. Subsidiary - Taiwan International Securities Investment Consulting Corp.'s income tax returns for the liquidation date as of June 30, 2012 were assessed by the Tax Authority.

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

- e. Subsidiary - Taiwan International Futures Corp.'s income tax returns for the liquidation date as of September 18, 2008 were assessed by the Tax Authority.
- f. The income tax returns of the merged entity, Taiwan International Securities Corp., have been assessed by the Tax Authority through 2011.

E. The information about imputation system is as follows:

	June 30, 2016	December 31, 2015	June 30, 2015
Undistributed earnings after 1998	\$ 573,541	1,586,994	992,483
Imputation credit account	3,048,765	3,072,442	3,479,387

	2015 (Estimated)	2014 (Actual)
Deductible ratio for earnings distributed to ROC residents	23.80%	23.24%

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

F. Income tax administrative relief

Since income tax of securities trading and amortization of intangible assets withheld 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.

(19) Capital and other equity

A. Capital stock

As of June 30, 2016, December 31, 2015 and June 30, 2015, the Company had authorized capital of \$30,000,000 and issued common stock of 2,269,073, 2,319,073, and 2,369,073 thousand shares respectively with a par value of \$10 dollars per share.

B. Capital surplus

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

C. Retained earnings

a. Legal reserve

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

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

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 states, that an equivalent amount of special reserve should be set aside from earnings after tax of the current year, and the undistributed earnings of the prior period based on the decreased amount of stockholders' equity. For the cumulative deduction in stockholders' equity of the prior period, the equal amount of special reserve set aside based on undistributed earnings should not be distributed. If there is any reversal of the deduction in stockholders' equity, the earnings may be distributed based on the reversal proportion.

c. Undistributed earnings

According to the Company's Articles of Incorporation, after-tax earnings should first offset accumulated deficit, and then 10% and 20% of the remainder should be appropriated as legal reserve and special reserve, respectively.

The Company's earnings distribution was proposed by board of directors and is subject to the resolution of the shareholders' meeting. The shareholders' meeting may declare dividends after retaining a certain portion of earnings. To continue its expansion, increase profitability, and maintain its capital adequacy ratio, the Company adopts the residual dividend policy. The amount of earnings to distribute after retaining earnings must be higher than 10% of the distributable balance. According to the budget plan, stock dividends are distributed to retain necessary funds first, and may then be paid as cash dividends subsequently. Cash dividends cannot be less than 10%.

According to the resolution of shareholders' meeting on June 22, 2015, the Company's 2014 earnings distribution for employee bonuses, remuneration to directors and supervisors and cash dividends were \$22,210, \$37,017, and \$1,421,444, respectively. Due to the above changes, the difference between employee bonuses of \$23,487 and remuneration to directors and supervisors of \$39,144 for 2014 financial statements was \$3,404 in total. The difference was accounted for as changes in accounting estimates and would be reflected in the statement of income in 2015.

The Company's 2015 earnings distribution for cash dividends \$1,111,845 had been resolved by the shareholders' meeting on Jun 27, 2016. The information about the appropriations is available at the Market Observation Post System website.

d. Treasury stocks

From January 1, 2015 to June 30, 2016, the Company repurchased 100,000 thousand shares in accordance with article 28-2 of the Securities and Exchange Act to maintain the Company's credit and shareholders' equity. As of June 30, 2016 and December 31, 2015, 50,000 thousand shares were retired, respectively.

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.

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

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.

On September 21, 2015, the Company's board meeting resolved a share buyback plan, which was based on the latest audited financial report on June 30, 2015. The cap of the repurchase was 236,907 thousand shares which were amounted to \$6,809,506. The company repurchased 50,000 thousand shares at this buyback plan. All the repurchased shares were retired and the registration of capital reduction was completed on November 26, 2015.

On November 11, 2015, the Company's board meeting resolved a share buyback plan, which was based on the latest reviewed financial report on September 30, 2015. The cap of the repurchase was 236,907 thousand shares which were amounted to \$6,791,127. The company repurchased 50,000 thousand shares at this buyback plan. All the repurchased shares were retired and the registration of capital reduction was completed on February 15, 2016.

(20) Earnings per share

The basic earnings per share and dilutive earnings per share for the three and six months ended, June 30, 2016 and 2015, were calculated as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Net income attributable to ordinary shareholders of the Company	\$ 401,384	357,968	563,191	925,375
Weighted-average number of common stock shares outstanding (thousands of shares)	2,269,073	2,369,073	2,269,158	2,369,073
Basic earnings per share (dollar)	\$ 0.18	0.15	0.25	0.39
Dilutive potential ordinary shares (thousands of shares) (Note)	869	406	1,206	1,463
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	2,269,942	2,369,479	2,270,364	2,370,536
Dilutive earnings per share (dollar)	0.18	0.15	0.25	0.39

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

(21) Items of the comprehensive income statement

A. Brokerage commissions

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Brokerage commission from TSE market	\$ 259,100	390,821	573,227	734,359
Brokerage commission from OTC market	119,511	147,249	257,503	275,876
Handling fee from security financing	9,279	15,671	18,208	26,663
Futures commission income - brokerage	367,615	330,399	741,958	614,059
Overseas subsidiaries	17,842	35,211	34,933	51,811
Others	12,937	18,241	23,137	33,191
	\$ 786,284	937,592	1,648,966	1,735,959

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

B. Underwriting commissions

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenues from underwriting securities on a firm commitment basis	\$ 27,670	7,176	30,502	42,161
Handling fee revenues from underwriting securities on best-efforts basis	190	606	394	825
Processing fee revenues from underwriting operations	2,801	3,425	6,749	45,692
Revenues from underwriting consultation	2,760	2,760	4,885	4,595
Others	1,800	22,585	8,927	29,485
	\$ 35,221	36,552	51,457	122,758

C. Net gains (losses) on sale of trading securities

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
	Revenue from securities sold - proprietary trading	\$ 51,914,158	84,252,034	115,696,840
Cost of securities sold - proprietary trading	(51,849,922)	(84,139,289)	(115,740,961)	(191,255,731)
Subtotal	64,236	112,745	(44,121)	270,631
Revenue from securities sold - underwriting	2,443,588	49,834	2,454,952	135,304
Cost of securities sold - underwriting	(2,442,887)	(45,616)	(2,453,687)	(125,618)
Subtotal	701	4,218	1,265	9,686
Revenue from securities sold - hedging	4,150,189	12,385,039	10,765,122	21,904,346
Cost of securities sold - hedging	(4,202,138)	(12,056,722)	(10,855,290)	(21,410,734)
Subtotal	(51,949)	328,317	(90,168)	493,612
Total	\$ 12,988	445,280	(133,024)	773,929

D. Interest revenue

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
	Interest revenue - margin loans	\$ 185,959	289,971	379,696
Interest revenue - bonds	159,376	65,218	285,485	112,072
Foreign subsidiaries	8,410	21,575	20,352	27,764
Others	9,064	10,918	18,753	20,454
	\$ 362,809	387,682	704,286	746,715

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

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
	Trading securities - Proprietary	\$ 8,243	(70,575)	94,298
Trading securities - Underwriting	6,110	292	9,965	5,172
Trading securities - Hedging	85,774	(321,299)	144,946	(237,767)
Settlement coverage bonds payable of short sale	-	(1)	(1,146)	16
	\$ 100,127	(391,583)	248,063	(263,462)

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

F. Net gains on stock warrants issued

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Gains on changes in fair value of stock warrants	\$ 8,007,151	8,292,284	16,100,110	14,140,130
Gains on exercise of stock warrants before maturity	572,332	1,504,650	1,771,493	2,617,628
Losses on changes in fair value of stock warrants repurchased	(8,381,286)	(9,710,360)	(17,434,108)	(16,470,713)
Gains on expiration of stock warrants	5,293	7,831	13,717	19,714
Stock warrants issuance expenses	(34,315)	(32,789)	(65,993)	(62,913)
	\$ 169,175	61,616	385,219	243,846

G. Employee benefits, depreciation, and amortization expenses

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Employee benefit expenses				
Salary expense	\$ 533,316	547,081	1,047,160	1,081,640
Health and labor insurance expense	38,739	40,356	81,829	87,217
Pension expense	26,140	26,871	52,727	54,566
Others	15,275	16,868	30,402	32,228
Depreciation expense	44,059	44,468	88,331	88,699
Amortization expense	9,660	10,084	19,736	20,127
	\$ 667,189	685,728	1,320,185	1,364,477

H. Other operating expenses

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Rental expense	\$ 42,715	46,279	90,617	98,551
Taxes	67,130	103,828	146,663	193,899
Information technology expense	46,185	48,553	94,089	95,507
Postage expense	34,508	35,198	67,453	68,616
Professional service fee	18,881	9,272	49,665	16,433
Other expenses	118,068	172,156	245,367	286,703
	\$ 327,487	415,286	693,854	759,709

I. Other gains and losses

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Financial revenue	\$ 50,223	39,124	96,668	76,601
Currency exchange gains (losses)	15,122	(34,681)	81,956	(34,827)
Net gains (losses) on disposal of investment	(1,206)	25,055	(2,916)	154,186
Net gains (losses) on measurement of non-operating instruments at fair value through profit or loss	4,714	2,513	(11,243)	9,044
Revenue from bank's allocation fee	35,084	37,511	70,400	75,864
Net gains (losses) on disposal of property and equipment	-	-	(3,198)	-
Gains on reversal of prior year's liabilities	17,827	584	33,859	10,099
Dividend revenue	3,344	6,385	5,703	8,393
Others	19,423	25,620	49,240	49,901
	\$ 144,531	102,111	320,469	349,261

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

J. Remuneration to employees, directors and supervisors

According to the Company's Articles of Incorporation, the Company shall appropriate 0.6% to 2% of its earnings, if applicable, as remuneration to employees. The Board of Directors shall determine if the employees' remuneration distributed, in the form of shares or in cash. The targets of remuneration shall include the employees of subsidiaries meeting certain specific requirement that shall be determined by the Company's Board of Directors. The Company shall also allocate no more than 3% of the aforementioned amount of earnings as remuneration to the Directors. The proposal for the remuneration to employees and directors shall be reported to the shareholders' meeting

If there is accumulated deficit, specific amount shall be retained to cover, and appropriate the remainder in the aforementioned percentage as remuneration to employees and directors.

For the six months ended June 30, 2016 and 2015, the estimated amounts of remuneration to employee were \$9,912 and \$14,616, and to directors and supervisors by the Company were \$16,520 and \$24,360, 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 six months ended in June 30, 2016 and 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. If the Board of Directors resolved to distribute the employees' remuneration in the form of shares, the number of shares of the distribution is based on the closing price of the day before the Board of Directors' meeting date.

For the six months ended June 30, 2016 and 2015, the estimated amounts of remuneration to employee were \$4,272 and \$2,885 and to directors and supervisors were \$4,272 and \$2,885 by the domestic subsidiaries of the Group, respectively.

The estimated amounts of remuneration to employee and director and supervisors by the Company for 2015 were \$17,241 and \$28,734, respectively. The difference between actual employee bonuses of \$14,994 and actual remuneration to directors and supervisors of \$26,527 was \$4,454 in total. The difference was accounted for as changes in accounting estimates and would be reflected in the statement of income in 2016. The information about the appropriations is available at the Market Observation Post System website.

(22) Financial instruments

A. Credit risk

a. Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of June 30, 2016, December 31, 2015 and June 30, 2015, the maximum credit exposure amounted to \$74,143,943, \$61,534,808 and \$66,853,251, respectively.

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

b. Impairment losses

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

	June 30, 2016		December 31, 2015		June 30, 2015	
	Total amount	Impairment	Total amount	Impairment	Total amount	Impairment
Not past due	\$ 18,194,211	2,076	20,230,707	2,646	27,760,271	92,936
Past due 0~30 days	229	229	336	336	73	73
Past due 31~120 days	553	553	234	234	107	107
Past due 121~360 days	2,086	2,086	1,714	1,714	1	1
Past due more than one year	-	-	15	15	33	33
	\$ 18,197,079	4,944	20,233,006	4,945	27,760,485	93,150

The allowance for doubtful accounts, under receivables, is recorded for the debt expense or impairment loss. Where a claim becomes definitely uncollectible, the allowance for doubtful accounts should be written off to financial assets account. As of June 30, 2016, December 31, 2015 and June 30, 2015, the impairment losses of account receivables were recognized \$4,944, \$4,945, and \$93,150, respectively.

B. Liquidity risk

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

	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
June 30, 2016							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 843,292	843,292	843,292	-	-	-	-
Stock warrants issued	424,141	424,141	389,472	34,669	-	-	-
Put options - futures	68,851	68,851	68,851	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	9,989	9,989	2,381	845	13,936	(7,173)	-
Put options	219,748	219,748	30,161	37,688	101,528	50,371	-
Short-term borrowings	1,049,442	1,049,442	1,049,442	-	-	-	-
Bonds sold under repurchase agreements	29,874,535	29,896,931	29,896,931	-	-	-	-
Guarantee deposited for short sales	1,292,589	1,292,589	1,292,589	-	-	-	-
Proceeds payable from short sales	1,488,482	1,488,482	1,488,482	-	-	-	-
Securities lending refundable deposits	1,064,658	1,064,658	1,064,658	-	-	-	-
Futures traders' equity	22,174,377	22,174,377	22,174,377	-	-	-	-
Notes payable and Accounts payable	345,573	345,573	345,573	-	-	-	-
Receipts under custody	102,115	102,115	102,115	-	-	-	-
Other payables	1,886,726	1,886,726	1,884,141	2,585	-	-	-
Structured notes	2,492,120	2,492,120	2,079,818	77,117	199,234	135,951	-
	\$ 63,336,638	63,359,034	62,712,283	152,904	314,698	179,149	-
December 31, 2015							
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	-	-	-	-
Guarantee deposited for short sales	2,025,011	2,025,011	2,025,011	-	-	-	-
Proceeds payable from short sales	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	-

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

<u>June 30, 2015</u>	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Financial liabilities at fair value through profit or loss - current							
Bond purchased under resale agreements - short sales	\$ 304,824	304,824	304,824	-	-	-	-
Liabilities on sale of borrowed securities	909,507	909,507	909,507	-	-	-	-
Stock warrants issued	733,557	733,557	654,572	78,806	179	-	-
Put options - futures	113,360	113,360	113,360	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	7,627	7,627	(859)	4,377	(3,945)	7,969	85
Put options	273,352	273,352	29,346	41,055	132,460	70,491	-
Short-term borrowings	3,018,720	3,018,720	3,018,720	-	-	-	-
Commercial paper payable	5,298,724	5,300,000	5,300,000	-	-	-	-
Bonds sold under repurchase agreements	21,745,640	21,754,399	21,754,399	-	-	-	-
Guarantee deposited for short sales	1,353,719	1,353,719	1,353,719	-	-	-	-
Proceeds payable from short sales	1,627,203	1,627,203	1,627,203	-	-	-	-
Securities lending refundable deposits	161,127	161,127	161,127	-	-	-	-
Futures traders' equity	12,627,163	12,627,163	12,627,163	-	-	-	-
Notes payable and accounts payable	416,767	416,767	416,767	-	-	-	-
Receipts under custody	115,146	115,146	115,146	-	-	-	-
Other payables	2,230,476	2,230,476	2,227,053	3,423	-	-	-
Structured notes	3,333,731	3,333,731	3,149,617	22,816	129,283	32,015	-
	<u>\$ 54,270,643</u>	<u>54,280,678</u>	<u>53,761,664</u>	<u>150,477</u>	<u>257,977</u>	<u>110,475</u>	<u>85</u>

C. Currency risk

a. Currency risk exposure

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

		<u>June 30, 2016</u>		
		<u>Foreign Currency</u>	<u>Rate</u>	<u>New Taiwan Dollars</u>
<u>Financial assets</u>				
<u>Monetary Item</u>				
	USD	\$ 354,271	32.275	11,434,097
	HKD	25,730	4.159	107,011
	EUR	19,340	35.890	694,113
	JPY	1,531,784	0.3143	481,440
	GBP	1,279	43.460	55,585
	AUD	1,688	23.975	40,470
	SGD	134	23.910	3,204
	CNY	151,902	4.845	735,965
	KRW	2,738,355	0.02818	77,167
	THB	3,717	0.9226	3,429
	MYR	77	7.6665	590
	CHF	53	32.945	1,746
<u>Non-Monetary Item</u>				
	USD	349,198	32.275	11,270,365
	AUD	134,253	23.975	3,218,716
	EUR	162	35.890	5,814
	JPY	38,986	0.3143	12,253
	HKD	18,546	4.159	77,133
	CNY	152,202	4.845	737,419
<u>Investments at equity</u>				
	HKD	9,862	4.159	41,016
<u>Financial liabilities</u>				
<u>Monetary Item</u>				
	USD	\$ 691,836	32.275	22,329,007
	HKD	92,682	4.159	385,464
	EUR	19,011	35.890	682,305
	JPY	1,528,420	0.3143	480,382
	GBP	1,267	43.460	55,064
	AUD	135,376	23.975	3,245,640
	SGD	132	23.910	3,156
	KRW	2,639,709	0.02818	74,387
	THB	3,190	0.9226	2,943
	CNY	136,551	4.845	661,590
	CHF	53	32.945	1,746

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

December 31, 2015			
	Foreign Currency	Rate	New Taiwan Dollars
Financial assets			
<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	8,661	4.24	36,681
Financial liabilities			
<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

June 30, 2015			
	Foreign Currency	Rate	New Taiwan Dollars
Financial assets			
<u>Monetary Item</u>			
USD	\$ 163,242	30.86	5,037,648
HKD	29,165	3.98	116,077
EUR	3,199	34.46	110,238
JPY	246,495	0.2524	62,215
GBP	303	48.48	14,689
AUD	589	23.69	13,953
SGD	414	22.96	9,505
CNY	101,974	4.973	507,117
KRW	1,936,841	0.0279	54,038
THB	445	0.919	409
MYR	377	7.8535	2,961
CHF	8	33.11	265
<u>Non-Monetary Item</u>			
USD	62,999	30.86	1,944,149
HKD	66,704	3.98	265,482
CNY	253,255	4.973	1,259,437

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

		June 30, 2015		
		Foreign Currency	Rate	New Taiwan Dollars
Financial liabilities				
Monetary Item				
	USD	207,898	30.86	6,415,732
	HKD	71,311	3.98	283,818
	EUR	2,869	34.46	98,866
	JPY	240,914	0.2524	60,807
	GBP	300	48.48	14,544
	AUD	589	23.69	13,953
	SGD	60	22.96	1,378
	KRW	1,761,017	0.0279	49,132
	THB	145	0.919	133
	MYR	356	7.8535	2,796
	CNY	23,253	4.973	115,637
	CHF	8	33.11	265

Since the Group has many functional currencies, the exchange gains and losses of monetary items are summarized to be disclosed. The realized and unrealized exchange gains (losses) amounted to \$81,956 and \$(34,827) for the six months ended June 30, 2016 and 2015, 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, customer margin account, futures traders' equity, and securities lending refundable deposits, which are denominated in foreign currencies. Foreign exchange gains or losses occur when translating the foreign currency assets to NTD assets. For the six months ended June 30, 2016 and 2015, given other factors remain the same, if NTD appreciates or depreciates 5% against other currencies, the net income and other comprehensive income will increase or decrease by \$475,608, \$36,088, \$520,245 and \$61,070, respectively.

D. Sensitivity analysis of interest rate risk

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and non-derivative financial instruments on the reporting date. For floating rate instruments, the sensitivity analysis assumes the liabilities are outstanding for the whole year at the reporting date. The 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.

		For the six months ended June 30,						
		2016			2015			
Market risk type	June 30, 2016	June 30, 2015	Mean	Maximum	Minimum	Mean	Maximum	Minimum
interest risk	1,350,166	965,175	1,259,625	1,368,726	1,119,156	832,066	965,175	734,670

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

E. Fair value information and hierarchy

a. Fair value information

1) General description

Fair value is the price that is 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 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 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 is based neither on direct market data nor from the counter party.

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

b. Not based on fair value measurement

As of June 30, 2016, December 31, 2015 and June 30, 2015, the fair value information of the financial assets and financial liabilities of the Group was as follows:

1) Fair value information

	June 30, 2016		December 31, 2015		June 30, 2015	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets :						
Cash and cash equivalents	\$ 5,568,374	5,568,374	4,726,498	4,726,498	4,506,023	4,506,023
Bonds purchased under resale agreements	299,786	299,786	-	-	304,689	304,689
Accrued receivables	19,625,381	19,625,381	22,848,006	22,848,006	29,132,335	29,132,335
Customer margin account	22,198,719	22,198,719	16,304,756	16,304,756	12,810,103	12,810,103
Pledged assets - current	566,177	566,177	570,321	570,321	612,850	612,850
Financial assets measured at cost - non-current	460,699	460,699	411,231	411,231	411,231	411,231
Other non-current assets	1,808,426	1,808,426	1,836,443	1,836,443	1,839,801	1,839,801
Financial liabilities :						
Short-term borrowings	1,049,442	1,049,442	1,791,161	1,791,161	3,018,720	3,018,720
Commercial paper payable	-	-	-	-	5,298,724	5,298,724
Bonds sold under repurchase agreements	29,874,535	29,874,535	23,576,243	23,576,243	21,745,640	21,745,640
Accounts payable	11,068,536	11,068,536	12,010,723	12,010,723	12,733,541	12,733,541
Futures traders' equity	22,174,377	22,174,377	16,287,312	16,287,312	12,627,163	12,627,163
Other financial liabilities - current	2,149,496	2,149,496	3,834,575	3,834,575	3,161,528	3,161,528
Other financial liabilities - non-current	335,185	335,185	241,991	241,991	161,298	161,298
Other non-current liabilities	362,438	362,438	362,646	362,646	361,149	361,149

2) Hierarchy information of fair value

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
Investment property	\$ 2,740,795	-	-	2,740,795
December 31, 2015				
	Total	Level 1	Level 2	Level 3
Investment property	\$ 2,846,381	-	-	2,846,381
June 30, 2015				
	Total	Level 1	Level 2	Level 3
Investment property	\$ 2,835,952	-	-	2,835,952

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

C) The investment properties were evaluated and estimated using Market Method based on the market evidence of transaction price of similar properties

c. Based on fair value measurement

1) Hierarchy information of fair value

The Group's financial instruments measured at fair value are evaluated on a recurring basis. The financial assets and liabilities measured at fair value as of June 30, 2016, December 31, 2015 and June 30, 2015 were as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
June 30, 2016				
Financial assets at fair value through				
profit or loss	\$ 8,932,601	16,762,633	-	25,695,234
Financial assests available for sale	519,194	12,495,143	-	13,014,337
Derivative financial assets	430,504	35,709	-	466,213
	<u>\$ 9,882,299</u>	<u>29,293,485</u>	<u>-</u>	<u>39,175,784</u>
Financial liabilities at fair value through				
profit or loss	\$ 1,267,433	-	-	1,267,433
Derivative financial liabilities	68,851	237,176	-	306,027
	<u>\$ 1,336,284</u>	<u>237,176</u>	<u>-</u>	<u>1,573,460</u>
December 31, 2015				
Financial assets at fair value through				
profit or loss	\$ 8,557,048	17,255,304	-	25,812,352
Financial assests 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>
June 30, 2015				
Financial assets at fair value through				
profit or loss	\$ 12,139,404	19,034,022	-	31,173,426
Financial assests available for sale	87,602	1,471,555	-	1,559,157
Derivative financial assets	395,846	48,069	-	443,915
	<u>\$ 12,622,852</u>	<u>20,553,646</u>	<u>-</u>	<u>33,176,498</u>
Financial liabilities at fair value through				
profit or loss	\$ 1,947,888	-	-	1,947,888
Derivative financial liabilities	113,360	291,884	-	405,244
	<u>\$ 2,061,248</u>	<u>291,884</u>	<u>-</u>	<u>2,353,132</u>

2) Valuation techniques

A) Non-derivative financial instruments

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

d. Transfer between Level 1 and Level 2

There was no significant transfer between Level 1 and Level 2 for the six months ended June 30, 2016 and 2015.

e. Fair value adjustments

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

F. Transfer of financial assets

The transferred financial assets of the Group that are not qualified for de-recognition in the daily operation are mainly debt securities under repurchased agreements. 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

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

pledge these transferred financial assets during the valid transaction period. However, since the Group still bear the interest rate risk and credit risk, transferred financial assets are not completely derecognized. Financial assets that do not meet criteria for de-recognition and related financial liabilities are as below:

June 30, 2016					
Types of financial assets	Carrying amount of the transferred financial assets	Carrying amount of relevant financial liabilities	Fair value of the transferred financial assets (Note)	Fair value of relevant financial liabilities (Note)	Fair value net position (Note)
Under repurchase agreements	\$ 29,682,412	29,874,535	-	-	-
December 31, 2015					
Types of financial assets	Carrying amount of the transferred financial assets	Carrying amount of relevant financial liabilities	Fair value of the transferred financial assets (Note)	Fair value of relevant financial liabilities (Note)	Fair value net position (Note)
Under repurchase agreements	\$ 23,740,296	23,576,243	-	-	-
June 30, 2015					
Types of financial assets	Carrying amount of the transferred financial assets	Carrying amount of relevant financial liabilities	Fair value of the transferred financial assets (Note)	Fair value of relevant financial liabilities (Note)	Fair value net position (Note)
Under repurchase agreements	\$ 21,645,763	21,745,640	-	-	-

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

G. Off-setting between financial assets and liabilities

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

The Group has transactions, such as repurchase and resell agreements, that are or are similar to net settled master netting arrangements but do not meet the offsetting criteria. These 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 information of financial assets and liabilities is as below:

June 30, 2016					
Financial assets under offsetting or general agreement of net amount settlement or similar norms					
Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offsetting in the balance sheet	Net amount of financial assets presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
(a)	(b)	(c)=(a)-(b)	Financial instruments (Note)	Cash received as collaterals	(e)=(c)-(d)
Derivative financial assets	\$ 35,709	-	35,709	-	35,709

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

June 30, 2016						
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	\$ 237,176	-	237,176	-	-	237,176
Under repurchase agreements	29,874,535	-	29,874,535	29,874,535	-	-
Total	\$ 30,111,711	-	30,111,711	29,874,535	-	237,176

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)		Net amount
				Financial instruments	Cash received as collaterals	
	(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)
Derivative financial assets	\$ 43,300	-	43,300	-	-	43,300

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

June 30, 2015						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offsetting in the balance sheet	Net amount of financial assets presented in the balance sheets	Related amount not offset in the balance sheet (d)		Net amount
				Financial instruments	Cash received as collaterals	
	(a)	(b)	(c)=(a)-(b)	(Note)		(e)=(c)-(d)
Derivative financial assets	\$ 48,069	-	48,069	-	-	48,069

June 30, 2015						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial liabilities	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	\$ 291,884	-	291,884	-	-	291,884
Under repurchase agreements	21,745,640	-	21,745,640	21,745,640	-	-
Total	\$ 22,037,524	-	22,037,524	21,745,640	-	291,884

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

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

(23) Financial risk management

There is no material change in object and policy of financial risk management which was disclosed in Note 6(24) of the consolidated financial statements as of and for the year ended December 31, 2015.

As of June 30, 2016, December 31, 2015 and June 30, 2015, the related financial risk and the presentation of the Group's financial derivatives were as follows:

Stock warrants

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

<u>Financial Instruments</u>	<u>June 30, 2016</u>		<u>December 31, 2015</u>		<u>June 30, 2015</u>	
	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>
For trading purpose:						
Stock warrants issued	\$ 12,575,285	-	10,260,292	-	24,407,205	-

The Group collects premium from investors prior to issuing stock warrants, therefore, no credit risk is assumed.

B. Market risk:

The 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 premiums 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 is restricted by certain market prices and diversification requirements, the risk of being unable to sell securities at reasonable prices is low; the same goes for the liquidity risk. The only risk is capital demand resulting from hedged positions adjusted for changes in prices of securities. 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 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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

a. For the three and six months ended June 30, 2016:

1) Gains (losses) on valuation

	For the three months ended, June 30, 2016	For the six months ended, June 30, 2016	Account
Stock warrants issued	\$ 3,297,737	8,028,981	Gains (losses) on stock warrants issued
Stock warrants repurchased	(3,185,480)	(7,827,245)	Gains (losses) on stock warrants issued

2) Gains (losses) on sale

	For the three months ended, June 30, 2016	For the six months ended, June 30, 2016	Account
Security borrowing	\$ (64,960)	5,673	Gains (losses) on covering of borrowed securities and bonds with resale
Trading securities - hedging	(54,867)	(100,738)	Gains (losses) on sale of trading
Futures	20,907	(22,591)	Gains (losses) on derivative financial instruments - futures

3) Gains (losses) on maturity

	For the three months ended, June 30, 2016	For the six months ended, June 30, 2016	Account
Stock warrants issued	\$ 5,287,039	9,856,339	Gains (losses) on stock warrants issued
Stock warrants repurchased	(5,195,806)	(9,606,863)	Gains (losses) on stock warrants issued

b. For the three and six months ended June 30, 2015:

1) Gains (losses) on valuation

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

2) Gains (losses) on sale

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

3) Gains (losses) on maturity

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Futures

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

<u>Financial Instruments</u>	<u>June 30, 2016</u>		<u>December 31, 2015</u>		<u>June 30, 2015</u>	
	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>
<i>For trading purpose:</i>						
Taixex Futures	\$ 1,035,784	-	716,991	-	1,801,871	-
Mini-Taixex Futures	-	-	-	-	16,508	-
Electronic Sector Index Futures	17,471	-	27,203	-	108,303	-
Finance Sector Index Futures	16,675	-	18,764	-	71,628	-
Non-Finance Non-Electronics Sub-Index Futures	14,611	-	8,083	-	13,352	-
Stock Futures	175,264	-	228,537	-	210,334	-
Soy bean Futures	-	-	5,699	-	3,059	-
Coffee Futures	-	-	3,013	-	-	-
Crude Oil Futures	-	-	16,659	-	-	-
Gold Futures	-	-	-	-	18,251	-
H stocks Index Futures	81,628	-	-	-	-	-
HSI Futures	89,498	-	-	-	-	-
FTSE China A50 Index Futures	32,008	-	13,141	-	48,248	-
Nifty 50 Index Futures	31,614	-	-	-	-	-
Euro 10-Year Bund Futures	-	-	455,705	-	-	-
S&P Futures	530,887	-	16,827	-	25,372	-
Nikkei Index Futures	88,204	-	-	-	-	-
GBP dollar Futures	8,070	-	-	-	-	-
Platinum Futures	-	-	2,926	-	-	-
Heating Oil Futures	-	-	-	-	9,771	-
Sugar No.11 Futures	-	-	2,787	-	2,110	-
Unleaded Gasoline Futures	-	-	-	-	7,917	-
U.S. 5-Year T-Note Futures	-	-	-	-	18,418	-
U.S. 10-Year T-Note Futures	-	-	-	-	77,979	-
U.S. 30-Year T-Bond Futures	-	-	15,187	-	-	-
Taixex Options	74,870	-	103,725	-	142,684	-
Stock Options	24,728	-	4,758	-	23,318	-
Taixex Weekly Options	10,254	-	4,416	-	15,023	-
Electronic Sector Index Options	5,688	-	5,593	-	3,600	-
Finance Sector Index Options	1,728	-	2,949	-	4,163	-
S&P Sector Index Options	31,384	-	3,512	-	2,463	-
Gold Options	639	-	230	-	269	-
<i>For non-trading purpose:</i>						
Taixex Futures	820,840	-	197,542	-	98,862	-
Stock Futures	544,402	-	320,278	-	1,468,702	-
Finance Sector Index Futures	4,636	-	-	-	-	-
H stocks index Futures	-	-	35,626	-	-	-
HSI Futures	-	-	9,336	-	-	-
Mini H Stock Index Futures	-	-	838	-	-	-
Mini-HSI Futures	-	-	16,805	-	-	-
Gold Futures	41,545	-	-	-	-	-
Micro Gold Futures	428	-	-	-	-	-
Crude oil Futures	1,628	-	-	-	-	-
FTSE China A50 Index Futures	292	-	-	-	53,165	-
Taixex Options	25,258	-	18,390	-	5,127	-
Stock Options	-	-	355	-	-	-

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

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

B. Market risk:

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

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

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

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

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

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

D. Presentation of financial derivatives:

For the six months ended June 30, 2016 and 2015, losses on futures and options transactions amounted to \$57,636 and \$177,475, respectively, and were reflected as gains or losses on derivative financial instruments - futures. As of June 30, 2016, December 31, 2015 and March 31, 2015, futures margin - proprietary fund amounted to \$339,724, \$270,282 and \$313,060, respectively, and were reflected as financial assets at fair value through profit or loss - current; future margin - excess margin amounted to \$585,902, \$1,463,300 and \$1,022,941 and were reflected as cash and cash equivalents.

As of June 30, 2016, December 31, 2015 and June 30, 2015, the balance of call options which recognized as financial assets at fair value through profit or loss - current amounted to \$90,780, \$50,244 and \$82,786, respectively, put options which recognized as financial liabilities at fair value through profit or loss - current amounted to \$68,851, \$57,261 and \$113,360, respectively.

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

Derivative financial instruments – OTC

A. Interest rate financial derivatives

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

<u>Financial Instruments</u>	<u>June 30, 2016</u>		<u>December 31, 2015</u>		<u>June 30, 2015</u>	
	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>
For trading purpose:						
NT dollar interest swaps	\$ 49,300,000	-	55,700,000	-	55,400,000	-

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.

b. Market risk:

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

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

c. 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 resulting amount is insignificant. Given that there is no physical transfer of principals on maturity, liquidity risk, cash flow risk, or significant cash demand.

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

d. 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 has been 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.

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

B. Structured notes

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

Financial Instruments	June 30, 2016		December 31, 2015		June 30, 2015	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Equity-linked notes	\$ 6,000	-	2,000	-	25,000	-
Principal guaranteed notes	2,025,642	-	3,761,609	-	3,015,393	-
Credit-linked notes	454,200	-	317,200	-	286,600	-

The Group collects premium from investors prior to conducting structured note transactions, therefore, no credit risk is assumed.

b. 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.

c. 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

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

Financial Instruments	June 30, 2016		December 31, 2015		June 30, 2015	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Convertible bond asset-backed swaps	\$ 1,224,800	-	1,304,600	-	1,252,900	-
Convertible bond options	2,851,900	-	2,947,200	-	3,007,300	-

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 are minimal.

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

b. 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.

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

- c. Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand:

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

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

D. Options

The underlying assets of convertible bond option 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 cash demand.

E. Presentation of derivative financial instruments - OTC

As of June 30, 2016, December 31, 2015 and June 30, 2015, 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>June 30, 2016</u>	<u>December 31, 2015</u>	<u>June 30, 2015</u>
Financial assets at fair value through profit or loss - current			
IRS asset swaps	\$ 27,272	22,878	24,739
Currency swaps	2,135	8,482	1,830
Asset swap options - long position	6,264	11,940	21,190
Structured notes	38	-	310
Total	<u>\$ 35,709</u>	<u>43,300</u>	<u>48,069</u>
Financial liabilities at fair value through profit or loss - current			
Asset swap options - short position	219,748	193,888	273,352
IRS asset swaps	2,937	5,398	5,198
Structured notes	7,439	12,243	10,905
Currency swaps	3,509	3,476	11
Interest rate swaps	3,543	1,528	2,418
Total	<u>\$ 237,176</u>	<u>216,533</u>	<u>291,884</u>
Other financial liabilities - current			
Structured notes principal value	<u>\$ 2,149,496</u>	<u>3,843,575</u>	<u>3,161,528</u>
Other financial liabilities - non-current			
Structured notes principal value	<u>\$ 335,185</u>	<u>241,991</u>	<u>161,298</u>

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

For the three and six months ended June 30, 2016 and 2015, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options and convertible bond asset-backed swaps were presented on statements of income as follows:

	<u>For the three months ended June 30, 2016</u>		<u>For the six months ended June 30, 2016</u>	
	Gains (losses) on		Gains (losses) on	
	<u>derivative financial</u>	<u>Unrealized</u>	<u>derivative financial</u>	<u>Unrealized</u>
	<u>instrumnets - OTC</u>	<u>Gains (losses)</u>	<u>instrumnets - OTC</u>	<u>Gains (losses)</u>
Interest rate swaps	\$ (2,832)	(1,200)	(3,115)	(2,015)
Equity derivatives	-	-	92	-
Structured notes	(7,063)	4,975	(16,187)	1,702
IRS asset swaps	130	(27,398)	258	(6,855)
Asset swap options	(7,177)	(176,252)	(28,451)	(46,556)
Currency swaps	(45,018)	5,951	(123,110)	(6,379)
Total	<u>\$ (61,960)</u>	<u>(193,924)</u>	<u>(170,513)</u>	<u>(60,103)</u>

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

(24) Capital management

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

As of June 30, 2016, the Company maintains no change of its capital management.

7. Related Party Transactions

(1) Parent company and ultimate controlling party

The Company is the ultimate controlling party of the Group.

(2) Key management personnel transactions

A. Key management personnel compensation:

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Short-term employee benefits	\$ 32,840	22,591	94,944	93,917
Post-employment benefits	528	438	1,021	901
Termination benefit	-	-	-	1,056
Total	<u>\$ 33,368</u>	<u>23,029</u>	<u>95,965</u>	<u>95,874</u>

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

B. Bond transactions- bonds sold under repurchase agreements

The balances of bonds sold under repurchase agreements between key management personnel as of June 30, 2016, December 31, 2015 and June 30, 2015 were as follows:

	June 30, 2016		December 31, 2015		June 30, 2015	
	Purchase		Purchase		Purchase	
	Par value	price	Par value	price	Par value	price
Key management personnel	\$ 23,600	23,678	50,500	50,691	58,500	59,088

	For the three months ended June 30,		For the six months ended June 30,	
	2016		2015	
	2016	2015	2016	2015
Total financial expenses	\$ 42		104	
Key management personnel	\$ 42	104	124	206

C. Structured notes transactions

As of June 30, 2016, December 31, 2015 and June 30, 2015, the balances of structured notes transactions with key management personnel were \$19,700, \$17,600 and \$22,100, respectively.

(3) Significant transactions with related parties

A. Bond transactions- bonds sold under repurchase agreements

The balances of bonds sold under repurchase agreements with subsidiaries and other related parties as of June 30, 2016, December 31, 2015 and June 30, 2015 were as follows:

	June 30, 2016		December 31, 2015		June 30, 2015	
	Purchase		Purchase		Purchase	
	Par value	price	Par value	price	Par value	price
Subsidiaries	\$ 13,500	13,562	13,500	13,535	48,400	49,157
Others	10,200	10,200	13,400	13,400	4,200	4,200
Total	\$ 23,700	23,762	26,900	26,935	52,600	53,357

	For the three months ended June 30,		For the six months ended June 30,	
	2016		2015	
	2016	2015	2016	2015
Total financial expense	\$ 15		52	
Subsidiaries	\$ 15	52	30	79
Others	18	9	40	27
Total	\$ 33	61	70	106

Transaction terms are the same as those with general clients.

B. Lease agreements

a. Lease revenue

	For the three months ended June 30,		For the six months ended June 30,	
	2016		2015	
	2016	2015	2016	2015
Subsidiaries	\$ 259	259	518	518

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

b. Guarantee deposits received

	June 30, 2016	December 31, 2015	June 30, 2015
Subsidiaries	\$ 200	200	200

C. Insurance commission income

The Group assists subsidiaries in recruiting insurance contracts and charging commission income. The details were as follows:

a. Commission revenue

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Subsidiaries	\$ 6,538	1,807	10,483	4,182

b. Accounts receivable

	June 30, 2016	December 31, 2015	June 30, 2015
Subsidiaries	\$ 4,965	1,200	895

D. Brokerage commissions

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Subsidiaries	\$ 2,089	1,516	3,835	3,638

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

8. PLEDGED ASSETS

The following assets were pledged as collateral or restricted in use on June 30, 2016, December 31, 2015 and June 30, 2015:

	June 30, 2016	December 31, 2015	June 30, 2015	The collateral use
Restricted assets - current	\$ 566,177	570,321	612,850	Bank borrowings, commercial paper, accounts settled, money trust (Annotation 1) and guaranty deposited for business operations (Annotation 2)
Restricted assets - non - current	179,288	178,353	185,763	Trust to a impartial third party (Note 12(4)) and the amount of provisional seizure (Note 9(10))
Trading securities and bonds purchased under resale agreements (par value)	30,640,717	23,993,535	21,856,584	Repurchase agreement, Investments in Bonds with Resale Agreements - short sale
Property and equipment	4,252,047	4,074,595	4,088,876	Bank borrowings
Financial assets at fair value through profit or loss - non-current	190,390	190,554	188,388	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business
Investment property	695,793	890,116	894,703	Bank borrowings
Total	\$ 36,524,412	29,897,474	27,827,164	

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

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

Annotation 2 : According to the request of Financial Supervisory Commission No. 09600744341, the guaranty deposit for business operations which Taiwan International Futures Corporation deposited for the establishment of futures commission merchants cannot be transferred to the subsidiary's own working capital temporarily in order to protect creditors.

9. SIGNIFICANT CONTINGENT LIABILITY AND UNRECOGNIZED CONTRACT COMMITMENT

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

	June 30, 2016		December 31, 2015		June 30, 2015	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities procured through margin purchase	684,007	\$ 6,840,070	826,231	8,262,310	913,434	9,134,337
Collateral for margin purchase	21,616	216,160	33,476	334,760	15,219	152,194
Collateral for short sales	3,954	39,540	13,332	133,320	7,724	77,240
Lending securities to customers through short sales	23,981	239,810	44,174	441,740	29,260	292,600

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

	June 30, 2016		December 31, 2015		June 30, 2015	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities borrowed from securities finance companies	184	\$ 1,840	217	2,170	449	4,490
Collateral for refinancing margin	-	-	-	-	1,318	13,180

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

	June 30, 2016	December 31, 2015	June 30, 2015
Promissory notes	<u>\$ 27,160,000</u>	<u>21,850,000</u>	<u>21,190,000</u>
Promissory notes	<u>USD 85,000</u>	<u>80,000</u>	<u>80,000</u>

(4) 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..

(5) The client, Mr. Wu, declared that a resigned employee of Tung-Hu branch stole and sold off his stocks and withdrew his deposit illegally. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation for damages of \$36,000 with additional interests. Based on Year 2008 Chung Su No.684 verdict, the Taiwan Taipei District Court ruled in favor of the Company. Mr. Wu was unwilling accept the result and appealed to the high court. This case is currently under the review of the Taiwan High Court. According to the opinion from the attorney of the Company, the case is a personal financial dispute between customer and the former employee and had no impact to the Company.

(6) 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 in violating the Regulations Governing Securities Firms due to

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

the sale of private placed products of Genesis Growth Income Preferred Shares B1 issued by GVEC (Genesis Voyager Equity Corporation, Danny Pang as related party) by some employees. According to the understanding and inspection of TISC, some employees may have been selling the aforementioned product and the suspected sales amount totaled 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\$8,464,801 (including claim amount US\$354,006 towards Taiwan International Securities Investment Consulting Corp.). As of June 30, 2015, the damages claimed for amounted to US\$2,930,000, which was in favor of the Company, instead of US\$5,026,873, and the investors reached compromises to waive off the appeal rights. According to the opinion of the Company's attorney, since the case is currently on trial, the possible loss remains uncertain. 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 afforded by the Company was \$173,000, therefore the Company recognized this amount as other liabilities.

- (7) 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. Based on recent verdict, the Taiwan Taipei District Court ruled in favor of the Company and Ding-Li had filed an appeal.
- (8) 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 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.
- (9) The Company provided the Letter of Comfort to its subsidiary CSC International Holdings Ltd. and CSC securities (HK) Ltd.
- (10) On 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 instituted proceedings towards TIFC and claimed joint responsibility of compensation for damages. After review by TIFC and its attorney, these litigations were classified as actual situations and relevant matters, thereon adopted different solutions. As of June 30, 2016, 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

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

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. In November 30, 2015 by the Taiwan High Court second instance verdict against the Company, the Company has appealed the Supreme Court. As of June 30, 2016, 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 lawsuit is still on trial. In addition, the plaintiffs of those four cases applied to the court for provisional seizure and the amount of provisional seizure and execution fees were \$222,991.

As of June 30, 2016, the objects of provisional seizure were 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.

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

A. Balance sheet of trust accounts

Balance Sheet of Trust Accounts							
June 30, 2016, December 31, 2015 and June 30, 2015							
Trust Assets	June 30, 2016	December 31, 2015	June 30, 2015	Trust Liabilities	June 30, 2016	December 31, 2015	June 30, 2015
Bank deposits	\$ 900,472	801,071	963,696	Accounts payable	\$ 501	723	466
Short-term investment				Trust capital	8,570,377	7,995,479	9,993,868
Bonds	713	-	-	Accumulated earnings or deficit	(378,441)	(273,608)	250,555
Funds	6,186,662	5,844,770	8,158,578				
Stocks	514,638	428,052	811,875				
Securities lent	218,642	345,528	253,050				
Bond Investment under agreements to repurchase	281,741	266,975	-				
Structured notes	20,066	5,400	-				
Accounts receivable	69,503	30,798	57,690				
Total Assets	\$ 8,192,437	7,722,594	10,244,889	Total Liabilities	\$ 8,192,437	7,722,594	10,244,889

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

B. Income statement of trust accounts

Income Statement of Trust Accounts
For the Six Months Ended June 30, 2016 and 2015

	For the six months ended June 30,	
	2016	2015
Revenue		
Interest revenue	\$ 7,741	1,758
Cash dividends revenue	61,306	42,620
Rental revenue	4,321	3,677
Realized investment gain	51,983	160,441
Unrealized investment gain	100,164	345,260
Unrealized foreign exchange gain	130,023	47,563
Foreign exchange gain	38,802	25,926
Other revenue	133	7,105
Subtotal	<u>394,473</u>	<u>634,350</u>
Expense		
Administrative fee	742	658
Commission expenses	21,851	26,300
Realized investment loss	98,298	54,420
Unrealized investment loss	617,711	277,402
Unrealized foreign exchange loss	74,289	36,296
Foreign exchange loss	13,606	21,509
Supplementary insurance premium	-	9
Subtotal	<u>826,497</u>	<u>416,594</u>
Net income (loss) before tax	<u>(432,024)</u>	<u>217,756</u>
Income tax expense	(666)	(152)
Net income (loss) after income tax	<u><u>\$ (432,690)</u></u>	<u><u>217,604</u></u>

C. List of trust properties

List of Trust Properties
June 30, 2016, December 31, 2015 and June 30, 2015

Investment items	June 30, 2016	December 31, 2015	June 30, 2015
Bank deposits	\$ 900,472	801,071	963,696
Short-term investment			
Bonds	713	-	-
Stocks	514,638	428,052	811,875
Securities lent	218,642	345,528	253,050
Bond investments under agreement to repurchase	281,741	266,975	-
Structured Notes	20,066	5,400	-
Funds	6,186,662	5,844,770	8,158,578
Total	<u><u>\$ 8,122,934</u></u>	<u><u>7,691,796</u></u>	<u><u>10,187,199</u></u>

10. SIGNIFICANT CATASTROPHIC LOSS : NONE

11. SIGNIFICANT SUBSEQUENT EVENTS : NONE

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

12. OTHERS

(1) As of June 30, 2016, December 31, 2015, June 30, 2015, the open positions of futures and option contracts were as follows:

A. June 30, 2016

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures Contract:						
	Taixex Futures	Long	15	\$ 24,534	25,026	
	Taixex Futures	Short	1,090	(1,832,090)	(1,855,614)	
	Electronic Sector Index Futures	Short	13	(17,471)	(17,997)	
	Non-Finance Non-Electronics Sub-Index Futures	Long	14	14,611	14,574	
	Stock Futures	Long	1,413	86,463	88,268	
	Stock Futures	Short	3,917	(633,203)	(650,218)	
	Finance Sector Index Futures	Long	18	16,675	16,715	
	Finance Sector Index Futures	Short	5	(4,636)	(4,643)	
	H stocks Index Futures	Short	46	(81,628)	(82,859)	
	Nifty 50 Index Futures	Short	60	(31,614)	(32,283)	
	HSI Index Futures	Short	21	(89,498)	(90,815)	
	Gold Futures	Long	6	25,813	25,573	
	Gold Futures	Short	4	(15,732)	(17,049)	
	Micro Gold Futures	Short	1	(428)	(426)	
	GBP dollar Futures	Short	3	(8,070)	(8,017)	
	Nikkei Index Futures	Short	34	(88,204)	(83,085)	
	Crude oil Futures	Long	1	1,628	1,634	
	S&P Futures	Long	162	530,887	542,426	
	FTSE China A50 Index Futures	Long	1	292	298	
	FTSE China A50 Index Futures	Short	110	(32,008)	(32,546)	
	Subtotal			(2,133,679)		
Options contract :						
	Taixex Options (Call)	Long	8,953	\$ 24,837	43,797	
	Taixex Options (Put)	Long	19,480	55,559	24,922	
	Taixex Options (Call)	Short	3,502	(8,311)	(8,811)	
	Taixex Options (Put)	Short	4,174	(11,421)	(6,586)	
	Stock Options (Call)	Long	1,191	4,731	5,861	
	Stock Options (Put)	Long	1,286	8,735	5,474	
	Stock Options (Call)	Short	962	(3,886)	(3,582)	
	Stock Options (Put)	Short	936	(7,376)	(3,387)	
	Taixex Weekly Options (Call)	Long	3,167	978	1,008	
	Taixex Weekly Options (Put)	Long	3,211	1,410	1,108	
	Taixex Weekly Options (Call)	Short	1,278	(4,066)	(4,426)	
	Taixex Weekly Options (Put)	Short	1,607	(3,800)	(3,069)	
	Gold option (Call)	Long	92	275	315	
	Gold option (Put)	Long	73	272	295	
	Gold option (Call)	Short	8	(64)	(57)	
	Gold option (Put)	Short	16	(28)	(28)	
	Electronic Sector Index Options (Call)	Long	405	2,401	4,138	
	Electronic Sector Index Options (Put)	Long	456	1,753	519	
	Electronic Sector Index Options (Call)	Short	139	(592)	(2,063)	
	Electronic Sector Index Options (Put)	Short	71	(942)	(197)	
	Finance Sector Index Options (Call)	Long	485	563	425	
	Finance Sector Index Options (Put)	Long	490	1,064	532	
	Finance Sector Index Options (Call)	Short	42	(89)	(61)	
	Finance Sector Index Options (Put)	Short	15	(12)	(3)	
	S&P Sector Index Options (Call)	Long	52	453	1,051	
	S&P Sector Index Options (Put)	Long	77	2,796	1,334	
	S&P Sector Index Options (Call)	Short	278	(14,412)	(32,041)	
	S&P Sector Index Options (Put)	Short	262	(13,723)	(4,540)	
	USD/CNY FX Options (Put)	Long	1	-	1	
	Subtotal			37,105		
Total				\$ (2,096,574)		

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

B. 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 :						
	Taiex Futures	Long	70	\$ 118,276	117,949	
	Taiex Futures	Short	479	(796,257)	(792,419)	
	Electronic Sector Index Futures	Short	21	(27,203)	(27,392)	
	Non-Finance Non-Electronics Sub-Index Futures	Long	8	8,083	8,240	
	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 Stock 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-Bond Futures	Short	3	(15,187)	(15,141)	
	Platinum Futures	Short	2	2,926	2,932	
	Subtotal			(769,486)		
Options contract :						
	Taiex Options (Call)	Long	11,356	\$ 25,752	20,111	
	Taiex Options (Put)	Long	13,664	23,550	18,065	
	Taiex Options (Call)	Short	6,444	(24,127)	(13,828)	
	Taiex 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)	
	Taiex Weekly Options (Call)	Long	871	728	787	
	Taiex Weekly Options (Put)	Long	1,607	1,843	1,775	
	Taiex Weekly Options (Call)	Short	214	(881)	(919)	
	Taiex 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)

C. June 30, 2015

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/ Short	Number of contracts			
Futures contract :						
	Taiex Futures	Long	502	\$ 972,722	946,270	
	Taiex Futures	Short	507	(928,011)	(933,995)	
	Mini-TAIEX Futures	Long	36	16,508	16,580	
	Electronic Sector Index Futures	Long	4	5,706	5,677	
	Electronic Sector Index Futures	Short	71	(102,597)	(102,240)	
	Non-Finance Non-Electronics Sub-Index Futures	Long	12	13,352	13,443	
	Stock Futures	Long	1,543	291,851	288,912	
	Stock Futures	Short	8,662	(1,387,185)	(1,379,350)	
	Finance Sector Index Futures	Long	8	9,284	9,283	
	Finance Sector Index Futures	Short	53	(62,344)	(62,434)	
	Sugar No. 11 Futures	Long	5	2,110	2,155	
	Gold Futures	Short	5	(18,251)	(18,081)	
	Unleaded Gasoline Futures	Long	3	7,917	7,969	
	Soy bean Futures	Long	2	3,059	3,201	
	Heating Oil Futures	Long	4	9,771	9,798	
	S&P Sector Index Futures	Long	5	25,372	25,163	
	FTSE China A50 Index Futures	Short	269	(101,413)	(108,328)	
	U.S. 5-Year T-Note Futures	Short	5	(18,418)	(18,401)	
	U.S. 10-Year T-Note Futures	Short	20	(77,979)	(77,873)	
	Subtotal			(1,338,546)		
Options contract :						
	Taiex Options (Call)	Long	9,787	\$ 22,122	13,945	
	Taiex Options (Put)	Long	11,632	31,416	41,452	
	Taiex Options (Call)	Short	8,862	(44,617)	(30,131)	
	Taiex Options (Put)	Short	6,830	(49,656)	(63,715)	
	Stock Options (Call)	Long	223	3,610	3,940	
	Stock Options (Put)	Long	320	11,470	15,062	
	Stock Options (Call)	Short	54	(4,388)	(3,940)	
	Stock Options (Put)	Short	32	(3,850)	(3,630)	
	Taiex Weekly Options (Call)	Long	5,600	1,533	1,271	
	Taiex Weekly Options (Put)	Long	2,002	4,318	3,626	
	Taiex Weekly Options (Call)	Short	2,631	(6,891)	(2,951)	
	Taiex Weekly Options (Put)	Short	1,478	(2,281)	(3,926)	
	Gold Option (Call)	Long	4	9	6	
	Gold Option (Put)	Long	62	108	90	
	Gold Option (Call)	Short	28	(86)	(59)	
	Gold Option (Put)	Short	19	(66)	(70)	
	Electronic Sector Index Options (Call)	Long	781	2,338	2,169	
	Electronic Sector Index Options (Put)	Long	212	134	99	
	Electronic Sector Index Options (Put)	Short	240	(1,128)	(1,169)	
	Finance Sector Index Options (Call)	Long	969	1,174	768	
	Finance Sector Index Options (Put)	Long	562	275	145	
	Finance Sector Index Options (Call)	Short	225	(724)	(381)	
	Finance Sector Index Options (Put)	Short	580	(1,990)	(1,562)	
	S&P Sector Index Options (Call)	Long	3	174	25	
	S&P Sector Index Options (Put)	Long	1	79	188	
	S&P Sector Index Options (Call)	Short	16	(1,413)	(969)	
	S&P Sector Index Options (Put)	Short	6	(797)	(857)	
	Subtotal			(39,127)		
Total				\$ (1,377,673)		

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

- (2) Restrictions and enforcement of the Group's various financial ratios under the 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	2,914,553	5.16	2,669,823	5.86	≥ 1	Satisfactory to requirement
	(Total liabilities –futures traders' equity)	565,242		455,671			
17	Current Assets	24,009,868	1.09	15,118,471	1.13	≥ 1	"
	Current Liabilities	22,102,104		13,358,519			
22	Stockholders' equity	2,914,553	261.39%	2,669,823	239.45%	≥ 60%	"
	Minimum paid-in capital	1,115,000		1,115,000		≥ 40%	
22	Post-adjustment net capital	2,049,236	52.11%	1,903,619	82.69%	≥ 20%	"
	Total customer margin deposits required for open positions of customers	3,932,853		2,302,162		≥ 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 of Taiwan International Futures Corporation (hereinafter known as "TIFC"). After being decided by the court or accommodated by the investors of TIFC, such deposit shall be allocated by the trustee to the stockholders, based on the proportion of their shareholdings in TISC,

As of June 30, 2016, TIFC had reached partial consensus with its investors, and the accumulated amount of compensation was \$162,812. According to the indemnification to the former stockholders of First Securities Co., Ltd. and Far Eastern Securities Co., Ltd, the Company needs to pay all of the compensation to the company participating in the merger. As of June 30, 2016, the trust amount of the impartial third party was \$130,586 and the accumulated compensation expense was \$51,414.

13. DISCLOSURES REQUIRED

- (1) Information on significant transaction:

The following lists the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Group:

- A. Loans to others: Exhibit 1.
- B. Endorsements and guarantee for others: None.
- C. Acquisition of real estate over \$300 million or 20% of paid-in capital: None.

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

- D. Disposal of real estate over \$300 million or 20% of paid-in capital: None.
- E. Discount on commissions of transactions with related parties over \$5 million: None.
- F. Receivables from related parties over \$100 million or 20% of paid-in capital: None.
- G. Details of material transactions between parent company and subsidiaries: Exhibit 2.
- (2) Information on reinvestment business: Exhibit 3.
- (3) Information on investments in China:
- A. Investment in Mainland China and related information:

Name of the investee in Mainland China	Major operations	Issued capital	Method of investment (Note 1)	Accumulated remittance as of January 1, 2016	Remittance or recoverable investment this period		Accumulated remittance as of June 30, 2016	Net gains or losses of investee	Direct or indirect shareholdings (%) by the company	Investment gains or losses recognized during this period (Note 2)	Ending balance of investment	Investment income remitted back as of June 30, 2016
					Remittance amount	Recoverable amount						
Capital True Partner Co., Ltd.	Management, consulting and information service business	5,013	C	24,372	-	-	24,372	(7,298)	30.10%	(2,136) B (2)	12,915	-

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

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

Note 2: Investment gains and losses recognized during the period:

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

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

B. Quota for investment in China:

Unit: NT\$ thousands

Company Name	Accumulative remittance from Taiwan to Mainland China as of June 30, 2016	Amount of investment approved by Investment Commission, Ministry of Economic Affairs (MOEA)	Quota for investment in Mainland China by MOEA
Capital International Technology Corp.	24,372	24,372	29,156

Note: The Company invests through a subsidiary to invest in Mainland China and the quota for investment is 60% of the subsidiary's stockholders' equity.

- (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 six months ended June 30, 2016 are as follows:

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

A. Balance sheet and income statement:

a. Balance sheet

Unit: US\$ thousands

Company	CSC International Holdings Ltd.	Taiwan International Securities (B.V.I) Corp.
Nature	June 30, 2016	June 30, 2016
Current assets	11,807	24
Long-term investments	22,087	-
Property and premises	2,291	-
Other assets	19,395	3,380
Total assets	55,580	3,404
Current liabilities	515	-
Other liabilities	95	3,390
Total liabilities	610	3,390
Common stock	45,000	9,516
Retained earnings (Accumulated deficit)	10,012	(9,421)
Cumulative translation adjustments	(42)	(81)
Total stockholders' equity	54,970	14
Total liabilities and stockholders' equity	55,580	3,404

b. Income statement

Unit: US\$ thousands

Company	CSC International Holdings Ltd.	Taiwan International Securities (B.V.I) Corp.
Nature	For the six months ended June 30, 2016	For the six months ended June 30, 2016
Operating revenue	(145)	(10)
Operating expense	(460)	-
Non-operating revenue	311	-
Non-operating expense	(79)	-
Income (loss) before tax	(373)	(10)
Net income (loss)	(373)	(10)

B. Marketable securities held as of June 30, 2016

Unit: shares / US\$ thousands

Name of holding company	Securities types and name	Account classification	June 30, 2016	
			Shares	Book value
CSC International Holdings Ltd.	Capital Securities (Hong Kong) Ltd.	Long-term investments	4,864,400	\$ 6,936
	CSC Securities (HK) Ltd.	Long-term investments	89,600,000	15,151
	Total			\$ 22,087
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Other liabilities	265,000,000	\$ (3,390)

C. Transactions of financial derivatives: None.

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

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

14. SEGMENT INFORMATION:

(1) Operating segment information

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

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

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

		For the three months ended June 30, 2016							
		Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue between segments		\$ 669,591	86,423	244,862	125,586	54,270	577,255	(65,910)	1,692,077
Income between segments		\$ 181,328	42,196	186,786	92,238	(61,076)	149,174	(65,064)	525,582

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

		For the six months ended June 30, 2016							
		Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue between segments		\$ 1,412,947	144,556	144,256	266,925	110,970	1,144,860	(133,583)	3,090,931
Income between segments		\$ 408,800	56,892	84,588	193,068	(93,965)	312,311	(150,174)	811,520

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

For the six months ended June 30, 2015

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

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 22,286	US 22,286	US 22,286	-	2	-	Operations	-	-	-	-	US 54,970	US 54,970	
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	Taiwan International Capital (HK) Ltd.	Other receivables	Yes	HK 1,463	HK 1,463	HK 1,463	-	2	-	Repayment of financing	-	-	-	-	HK 1,463	HK 1,463	
4	CSC Futures (HK) Ltd.	AP CAPITAL INVESTMENT LIMITED	Account receivables - Customer	No	HK 10,863	HK -	HK -	5%	2	-	Transactions	-	-	-	-	HK 10,863	HK 51,284	
5	CSC Futures (HK) Ltd.	KLAW TRADING LIMITED	Account receivables - Customer	No	HK 10,863	HK 10,863	HK 10,863	5%	2	-	Transactions	-	-	-	-	HK 10,863	HK 51,284	
6	CSC Futures (HK) Ltd.	THREE ARROWS CAPITAL LTD	Account receivables - Customer	No	HK 10,863	HK 7,759	HK 7,759	5%	2	-	Transactions	-	-	-	-	HK 10,863	HK 51,284	
7	CSC Futures (HK) Ltd.	FUTURE LEADING INVESTMENT PTE LTD	Account receivables - Customer	No	HK 9,350	HK 7,759	HK 7,759	5%	2	-	Transactions	-	-	-	-	HK 10,863	HK 51,284	

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 three months ended June 30, 2016

(In thousands dollars)

Ref No. Note 1	Trader name	Counter-party trade	Trade relationship Note 2	Transaction details			Percentage(%) of total consolidated revenue or total assets
				Subject	Amount	Trading terms	
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts payable	289		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts receivable	22,707		0.02%
0	Capital Securities Corp.	Capital Futures Corp.	1	Other receivables	455		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Bonds sold under repurchase agreements	373,075		0.37%
0	Capital Securities Corp.	Capital Futures Corp.	1	Guarantee deposits received	3,508		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Future commission revenue	78,669	General transaction	2.55%
0	Capital Securities Corp.	Capital Futures Corp.	1	Lease revenue	7,586	General transaction	0.25%
0	Capital Securities Corp.	Capital Futures Corp.	1	Revenue from securities management, distribution, and management fees	173	General transaction	0.01%
0	Capital Securities Corp.	Capital Futures Corp.	1	Financial costs	1,109	General transaction	0.04%
0	Capital Securities Corp.	Capital Futures Corp.	1	Other operating revenue	9	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Securities commission expense	1,513	General transaction	0.05%
0	Capital Securities Corp.	Capital Futures Corp.	1	Interest revenue	141	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Miscellaneous expenses	4,330	General transaction	0.14%
0	Capital Securities Corp.	Capital Futures Corp.	1	Non-operating revenues	9,367	General transaction	0.30%
0	Capital Securities Corp.	Capital Futures Corp.	1	Brokerage commissions	192	General transaction	0.01%
0	Capital Securities Corp.	Capital International Technology Corp.	1	Other non-operating revenue	30	General transaction	- %
0	Capital Securities Corp.	Capital Investment Management Corporation	1	Other receivable	111	General transaction	- %
0	Capital Securities Corp.	Capital Investment Management Corporation	1	Professional service fees	41,000	General transaction	1.33%
0	Capital Securities Corp.	Capital Investment Management Corporation	1	Lease revenue	600	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	60	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Other non-operating revenue	60	General transaction	- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Guarantee deposits received	171		- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Lease revenue	499	General transaction	0.02%
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Other non-operating revenue	301	General transaction	0.01%
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other receivables	20		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Receipts under custody	20		- %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Other receivables	46		- %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Guarantee deposits received	160		- %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Lease revenue	481	General transaction	0.02%
1	Capital Futures Corp.	Capital Securities Corp.	2	Customer margin account	315,127		0.31%
1	Capital Futures Corp.	Capital Securities Corp.	2	Futures traders' equity	315,127		0.31%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Customer margin account	386,738		0.36%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures traders' equity	1,283,667		1.27%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Future commission expense	6,114	General transaction	0.20%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Brokerage commissions	35,254	General transaction	1.14%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Financial costs	170	General transaction	0.01%
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Information technology expense	7,407	General transaction	0.24%
1	Capital Futures Corp.	Capital International Technology Corp.	3	Lease revenue	73	General transaction	- %
2	CSC Futures (HK) Limited	Capital Futures Corp.	3	Customer margin account	1,278,043		1.27%
2	CSC Futures (HK) Limited	Capital True Partner Co., Ltd.	3	Information technology expense	244	General transaction	0.01%
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other receivables	HK 66		- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other operating revenue	HK 1,800	General transaction	0.24%
3	CSC Securities (HK) Ltd.	CSC International Holdings Ltd.	3	Other payables	USD 22,286		0.71%
4	Capital Securities (Hong Kong) Ltd.	CSC International Holdings Ltd.	3	Other receivables	HK 2,959		0.01%
5	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	3	Other receivables	HK 26,226		0.11%

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

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

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

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED INTERIM 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 Company (Note 3)			Net gains or losses of investee during this period	Investment gain or loss recognized during this period	Note
				Balance on June 30, 2016	Balance on December 31, 2015	Shares	Ratio	Book value			
0	Capital Investment Management Corp.	Taipei ,Taiwan, R.O.C.	Engaged in providing advice on securities investment and related matters , or securities investment consultancy analyzing the published materials on securities investments.	72,515	72,515	7,000,000	100.00%	100,727	7,043	7,043	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%	1,719,877	269,334	158,934	"
0	CSC International Holdings Ltd.	British Virgin Island	Long-term equity investment business.	1,339,555	1,339,555	45,000,000	100.00%	1,771,420	(12,134)	(12,134)	"
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%	64,899	47,806	47,806	Subsidiary
0	Capital Insurance Agency Corp.	Taipei ,Taiwan, R.O.C.	Manages personal insurance agent business.	7,400	7,400	740,000	100.00%	44,430	6,516	6,516	"
0	Taiwan International Futures Corp.(Note 4)	Taipei ,Taiwan, R.O.C.	Liquidation in progress.	429,990	429,990	11,999,721	99.99%	-	-	-	The transaction has been written off in the consolidated financial statements
0	Taiwan International Securities (B.V.I) Corp.	British Virgin Island	Holding company for international securities business.	1,394,817	1,394,817	300	100.00%	445	(306)	(306)	"
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%	13,443	(107)	(107)	"
0	CSC Venture Capital Corp.	Taipei ,Taiwan, R.O.C.	Venture investment and consulting business	1,000,000	-	100,000,000	100.00%	997,765	(2,235)	(2,235)	"
1	Capital Securities (Hong Kong) Ltd.(Note 7)	Hong Kong	Long-term equity investment businesses.	HK 48,644 thousand	HK 48,644 thousand	4,864,400	100.00%	HK53,819 thousand	HK(336) 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.	HK 89,600 thousand	HK 89,600 thousand	89,600,000	70.00%	HK117,550 thousand	HK(1,128) thousand	-	"
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.	HK 38,400 thousand	HK 38,400 thousand	38,400,000	30.00%	HK50,379 thousand	HK(1,128) thousand	-	"
3	TIS Securities (HK) Limited(Note 6)	Hong Kong	Liquidation in progress.	HK 265,000 thousand	HK 265,000 thousand	265,000,000	100.00%	HK(26,302) thousand	HK(73) thousand	-	"
4	Taiwan International Capital (HK) Ltd. (Note 6)	Hong Kong	Liquidation in progress.	HK 2	HK 2	2	100.00%	HK(49,214) thousand	HK(6) thousand	-	"
5	CSC Futures (HK) Ltd.	Hong Kong	Futures dealing business.	450,631	450,631	114,000,000	95.00%	502,912	64,345	-	"
5	Capital International Technology Co., Ltd.	Taipei ,Taiwan, R.O.C.	Management and consulting business. Information technology software	50,000	50,000	5,000,000	100.00%	47,955	(3,066)	-	"
5	True Partner Advisor Hong Kong Limited	Hong Kong	Asset management	36,701	36,701	245,000	49.00%	41,016	9,234	-	Associates
6	Capital Securities Nominee Ltd.	Hong Kong	Agency services.	HK 2	HK 2	2	100.00%	HK-	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.