Stock Code:6005

(English Translation of Financial Statements and Report Originally Issued in Chinese)

CAPITAL SECURITIES CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

AND

INDEPENDENT ACCOUNTANTS' REPORT

Address: **4th Fl. No. 101, Sung-Jen Road, Taipei, Taiwan, R.O.C.**

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The auditors' report and the accompanying 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 auditors' report and financial statements, the Chinese version shall prevail.

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Independent Auditors' Report

The Board of Directors
Capital Securities Corporation:

Opinion

We have audited the financial statements of Capital Securities Corporation("the Company"), which comprise the statement of financial position as of December 31, 2017 and 2016, the statement of comprehensive income, changes in equity and cash flows for the year ended December 31, 2017 and 2016, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms.

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Key audit matters of the Company's financial statements are stated as follows:

1. Valuation of financial instruments

   Please refer to Note 4(f) for the related accounting policy regarding the valuation of financial instruments. Refer to Note 6(b) financial assets, Note 6(j) financial liabilities at fair value through profit or loss and Note 6(t)(v) fair value and fair value hierarchy of financial instruments for details about the valuation of financial instruments.

Risk and descriptions of the key audit matter

The Company's valuation of financial instruments is one of our significant audit processes refer to important judgments. Financial instruments on balance sheets mainly belong to first or secondary level in fair value hierarchy, and can being achieved by available quoted market prices in an active market and direct or indirect evaluation of observation. Fair value of some derivative financial instruments invested and issued depends on models and observably variable factors in the market, so management's professional judgment has highly importance when using different valuation ways and assumptions. Therefore, the valuation of financial instruments is included as our key audit matter.

Procedures performed

Our key audit procedures included considering how management selected appropriate valuation methods and assessed the key assumptions adopted. We confirmed the presentation and disclosures of financial instruments were in accordance with relevant regulations. For financial assets with quoted market prices in an active market, we selected samples to test the appropriateness of quoted prices used. For financial assets without quoted market prices in an active market and measured at fair value using valuation techniques, we selected samples to test the appropriateness of underlying parameters.

2. Goodwill impairment

Please refer to Note 4(o) for the related accounting policy regarding the impairment of nonfinancial assets, Note 5 for accounting assumptions and estimation uncertainty of the goodwill impairment, and Note 6(g)(i) for details about measurement of goodwill impairment.

Risk and descriptions of the key audit matter

Assessment of the Company's goodwill impairment is one of our significant audit processes, because it mainly depends on the prediction of future operation and there is a high uncertainty on assessing recoverable amounts by discounted future cash flows. Therefore, the measurement of goodwill impairment is included as our key audit matter.

Procedures performed

Our key audit procedures included evaluating tests of goodwill impairment implemented by management and related procedures of control, certifying the assumptions of management by related available external information, making professional evaluation on main parameters of predictable growth rate, discount rate, et cetera adopted by management, and assessing the appropriateness of prediction by management, involve of analysing sensitivity on the assumptions related to evaluating impairment.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company' s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of the investment in other entities accounted for using the equity method to express an opinion on this financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are LEE, FENG HUI and CHUNG, TAN TAN.

KPMG

Taipei, Taiwan (Republic of China)
March 26, 2018

Notes to Readers

The accompanying financial statements are intended only to present the financial position, financial performance and its cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying 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 auditors' report and financial statements, the Chinese version shall prevail.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

CAPITAL SECURITIES CORPORATION

Balance Sheets

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2017		December 31, 2016	
	Assets	**Amount**	**%**	**Amount**	**%**
110000	**Current assets:**				
111100	Cash and cash equivalents (note 6(a))	$ 2,113,161	2	1,142,072	1
112000	Financial assets at fair value through profit or loss - current (note 6(b) and 8)	33,660,442	30	27,122,854	33
113400	Financial assets available for sale - current (note 6(b))	32,776,783	29	19,297,464	23
114030	Receivable for securities provided as collateral	14,395,393	13	11,563,719	14
114040	Refinancing margin	46,095	-	93,353	-
114050	Refinancing collateral receivable	38,888	-	79,289	-
114060	Receivable of securities business money lending	1,532,231	1	144,552	-
114090	Collateral for securities borrowed	914,343	1	802,737	1
114100	Security borrowing margin	931,868	1	775,251	1
114110	Notes receivable	21,811	-	16,931	-
114130	Accounts receivable (note 6(c))	6,337,088	6	3,868,956	5
114150	Prepayments	18,304	-	24,210	-
114170	Other receivables	10,511	-	16,721	-
114600	Current income tax assets	26,358	-	44,415	-
119000	Other current assets	776,556	1	624,370	1
		93,599,832	84	65,616,894	79
120000	**Non-current assets:**				
122000	Financial assets at fair value through profit or loss - non-current (notes 6(b) and 8)	186,015	-	186,073	-
123100	Financial assets measured at cost - non-current (note 6(b))	332,473	-	341,841	-
124100	Investments accounted for under equity method (note 6(d))	5,451,321	5	4,893,518	6
125000	Property and equipment (notes 6(e) and 8)	4,231,972	4	4,389,956	5
126000	Investment property (notes 6(f) and 8)	2,412,176	2	2,347,063	3
127000	Intangible assets (note 6(g))	3,544,235	4	3,532,620	4
128000	Deferred income tax assets (note 6(o))	164,844	-	407,372	1
129000	Other non-current assets	1,220,535	1	1,291,577	2
		17,543,571	16	17,390,020	21
	Total assets	**$ 111,143,403**	**100**	**83,006,914**	**100**

		December 31, 2017		December 31, 2016	
	Liabilities and Equity	**Amount**	**%**	**Amount**	**%**
210000	**Current liabilities:**				
211100	Short-term borrowings (note 6(h))	$ 7,081,698	6	4,236,402	5
211200	Commercial paper payable (note 6(i))	4,099,184	4	-	-
212000	Financial liabilities at fair value through profit or loss - current (note 6(j))	2,771,741	3	1,410,143	2
214010	Bonds sold under repurchase agreements (note 6(k))	47,067,813	43	35,105,445	42
214040	Guarantee deposited for short sales	2,226,264	2	1,722,840	2
214050	Proceeds payable from short sales	2,500,853	2	1,947,104	3
214070	Securities lending refundable deposits	1,190,277	1	878,866	1
214090	Customer equity of separate account ledger in settlement account (note 6(l))	13,479	-	4,537	-
214110	Notes payable	879	-	879	-
214130	Accounts payable (note 6(m))	5,524,759	5	3,343,320	4
214150	Advance receipts	29,781	-	29,367	-
214160	Receipts under custody	341,174	-	143,630	-
214170	Other payables	791,239	1	500,534	1
214200	Other financial liabilities - current (note 6(u))	4,509,983	4	2,427,461	3
214600	Current income tax liabilities	173,823	-	182,874	-
215100	Provisions - current (note 6(o))	42,205	-	57,782	-
219000	Other current liabilities	3,022	-	3	-
		78,368,174	71	51,991,187	63
220000	**Non-Current liabilities:**				
224200	Other financial liabilities - non-current (note 6(u))	266,037	-	239,634	-
228000	Deferred income tax liabilities (note 6(p))	474,832	-	671,087	1
229000	Other non-current liabilities (note 6(o))	612,730	1	584,458	1
		1,353,599	1	1,495,179	2
	Total liabilities	79,721,773	72	53,486,366	65
	Equity attributable to owners of parent:				
301000	Common stock (note 6(q))	21,690,730	20	22,690,730	27
302000	Capital surplus:				
302010	Premium from stock issuance	1,776,413	1	1,858,310	2
302020	Treasury stock transactions	437,096	-	253,940	-
302070	Paid-in capital from merger	602,665	1	630,450	1
302095	Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,338	-	1,399	-
302096	Changes in ownership interests in subsidiaries	34,787	-	6,873	-
304000	Retained earnings:				
304010	Legal reserve	1,230,275	1	1,110,600	1
304020	Special reserve	2,709,623	2	2,464,288	3
304040	Unappropriated earnings (note 6(q))	2,850,553	3	1,188,633	2
305120	Exchange differences on translation of foreign operations	(103,566)	-	97,158	-
305150	Unrealized gains (losses) on financial assets available for sale	191,716	-	53,215	-
305500	Treasury stocks (note6(q))	-	-	(835,048)	(1)
	Total equity	31,421,630	28	29,520,548	35
	Total liabilities and equity	**$ 111,143,403**	**100**	**83,006,914**	**100**

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

CAPITAL SECURITIES CORPORATION

Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Share Data)

		2017		2016	
		Amount	%	Amount	%
	Income:				
401000	Brokerage commissions (note 6(s))	$ 2,379,147	36	1,692,284	40
402000	Revenues from securities business money lending	620	-	46	-
403000	Revenue from securities lending	112,681	2	71,164	2
404000	Underwriting commissions (note 6(s))	121,517	2	93,463	2
406000	Commissions on wealth management business	103,629	2	64,802	2
410000	Net gains (losses) on sale of trading securities (note 6(s))	1,465,874	22	104,795	2
421100	Securities management, distribution, and management fees	137,851	2	139,924	3
421200	Interest revenue (note 6(s))	1,986,559	30	1,428,802	34
421300	Dividend revenue	221,918	3	175,337	4
421500	Net gains (losses) on measurement of trading securities at fair value through profit or loss (note 6(s))	85,241	1	38,687	1
421600	Net gains (losses) on covering of borrowed securities and bonds with resale agreements	(6,357)	-	11,682	-
421610	Net gains (losses) on measurement of borrowed securities and bonds with resale agreements	27,654	-	35,507	1
422200	Net gains (losses) on stock warrants issued (notes 6(s) and 6(u))	691,161	11	747,109	18
424100	Futures commission revenues	150,998	2	155,588	4
424400	Net gains (losses) on derivative instruments - futures (note 6(u))	(565,770)	(9)	(425,947)	(10)
424500	Net gains (losses) on derivative instruments - OTC (note 6(u))	(396,701)	(6)	(238,982)	(6)
428000	Other operating revenues	105,210	2	147,277	3
		6,621,232	100	4,241,538	100
	Expenses:				
501000	Brokerage fees	161,502	2	109,098	3
502000	Brokerage and clearing fees - proprietary trading	11,647	-	8,203	-
503000	Clearing and exchange fees - refinancing	2,192	-	3,309	-
504000	Clearing and exchange fees - underwriting	1,413	-	1,749	-
521200	Financial costs	625,035	10	281,325	7
524200	Securities commission expense	5,147	-	2,936	-
528000	Other operating expenditure	6,693	-	5,787	-
531000	Employee benefits expenses (note 6(s))	2,107,451	32	1,903,220	45
532000	Depreciation and amortization expense (note 6(s))	184,758	3	188,520	5
533000	Other operating expenses (note 6(s))	1,250,760	19	1,034,468	24
		4,356,598	66	3,538,615	84
	Other income (expenses):				
601000	Share of profits of associates and joint venture (note 6(d))	476,853	8	369,739	9
602000	Other gains and losses (note 6(s))	341,867	5	295,432	7
		818,720	13	665,171	16
902001	**Net income before income tax**	3,083,354	47	1,368,094	32
701000	**Income tax expense (note 6(p))**	(189,754)	(3)	(171,338)	(4)
	Net income	2,893,600	44	1,196,756	28
805000	**Other comprehensive income:**				
805500	**Items that may not be reclassified to profit or loss in subsequent periods**				
805510	Gains (losses) on remeasurements of defined benefit plans	(27,965)	-	(17,003)	-
805560	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method	(436)	-	(1,470)	-
805599	Income tax related to components of other comprehensive income	-	-	-	-
	Subtotal of items that may not be subsequently reclassified into profit or loss	(28,401)	-	(18,473)	-
805600	**Items that may be reclassified to profit or loss in subsequent periods**				
805610	Exchange differences on translation of foreign operations	(183,972)	(3)	(39,853)	(1)
805620	Unrealized gains (losses) on financial assets available for sale, net	168,074	2	40,329	1
805660	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method	(45,107)	-	15,338	-
805699	Income tax benefit related to components of other comprehensive income (note 6(p))	23,513	-	5,424	-
	Subtotal of items that may be subsequently reclassified into profit or loss	(37,492)	(1)	21,238	-
805000	**Other comprehensive income for the period, net of income tax**	(65,893)	(1)	2,765	-
902006	**Total comprehensive income for the year**	**$ 2,827,707**	**43**	**1,199,521**	**28**
975000	**Basic earnings per share (note 6(r))**	**$**	**1.33**		**0.53**
985000	**Diluted earnings per share (note 6(r))**	**$**	**1.33**		**0.53**

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

CAPITAL SECURITIES CORPORATION

Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Stock		Retained earnings			Total other equity interest			
	Common stocks	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
Balance at 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
Net income for the year ended December 31, 2016	-	-	-	-	1,196,756	-	-	-	1,196,756
Other comprehensive income	-	-	-	-	(18,473)	(38,827)	60,065	-	2,765
Total comprehensive income	-	-	-	-	1,178,283	(38,827)	60,065	-	1,199,521
Appropriation and distribution of retained earnings:									
Legal reserve	-	-	154,933	-	(154,933)	-	-	-	-
Special reserve	-	-	-	309,866	(309,866)	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	(1,111,845)	-	-	-	(1,111,845)
Purchase of treasury shares	-	-	-	-	-	-	-	(858,314)	(858,314)
Retirement of treasury shares	(500,000)	7,579	-	-	-	-	-	492,421	-
Capital surplus changes in ownership interests in subsidiaries	-	586	-	-	-	-	-	-	586
Balance at December 31, 2016	22,690,730	2,750,972	1,110,600	2,464,288	1,188,633	97,158	53,215	(835,048)	29,520,548
Net income for the year ended December 31, 2017	-	-	-	-	2,893,600	-	-	-	2,893,600
Other comprehensive income	-	-	-	-	(28,401)	(200,724)	163,232	-	(65,893)
Total comprehensive income	-	-	-	-	2,865,199	(200,724)	163,232	-	2,827,707
Appropriation and distribution of retained earnings:									
Legal reserve	-	-	119,675	-	(119,675)	-	-	-	-
Special reserve	-	-	-	245,335	(245,335)	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	(802,558)	-	-	-	(802,558)
Purchase of treasury shares	-	-	-	-	-	-	-	(91,539)	(91,539)
Retirement of treasury shares	(1,000,000)	73,413	-	-	-	-	-	926,587	-
Capital surplus changes in ownership interests in subsidiaries	-	27,914	-	-	-	-	(24,731)	-	3,183
Indemnification to stockholders due to merger (Note 12)	-	-	-	-	(35,711)	-	-	-	(35,711)
Balance at December 31, 2017	**$ 21,690,730**	**2,852,299**	**1,230,275**	**2,709,623**	**2,850,553**	**(103,566)**	**191,716**	**-**	**31,421,630**

Note : For the years ended December 31, 2017 and 2016, the amounts of remuneration to employee were $33,369 and $12,090 , and directors and supervisors were $61,971 and $20,149, respectively, which were already deducted from the statement of comprehensive income.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

CAPITAL SECURITIES CORPORATION

Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

		2017	2016
Cash flows from (used in) operating activities:			
Net income before tax	$	3,083,354	1,368,094
Adjustments:			
Income and expenses items with no effect on cash flows:			
Depreciation expense		154,790	156,460
Amortization expense		29,968	32,060
Provision of bad debt expense		100,827	-
Net losses (gain) on financial assets or liabilities at fair value through profit or loss		(85,241)	(38,687)
Interest expense		625,035	281,325
Net (loss) gain on reclassification of financial assets		(16,606)	9,781
Interest revenue (including financial income)		(1,988,576)	(1,433,077)
Dividend revenue		(240,687)	(194,313)
Cash dividend received from investments under equity method		301,149	255,798
Share of profit of associates and joint ventures		(476,853)	(369,739)
Net losses (gains) on disposal and retirement of property and equipment		3,012	4,107
Net changes of income and expense items with no effect on cash flows		(1,593,182)	(1,296,285)
Changes in assets and liabilities from operating activities:			
Changes in operating assets:			
Decrease (increase) in financial assets at fair value through profit or loss		(6,435,683)	(1,481,417)
Decrease (increase) in financial assets available for sale - current		(13,311,245)	(11,421,680)
Decrease (increase) in receivable for securities provided as collateral		(2,932,501)	2,733,443
Decrease (increase) in refinancing margin		47,258	(84,269)
Decrease (increase) in receivable on refinancing collateral		40,401	(71,739)
Decrease (increase) in receivable of securities business money lending		(1,387,679)	(144,552)
Decrease (increase) in collateral for securities borrowed		(111,606)	271,393
Decrease (increase) in security borrowing margin		(156,617)	608,053
Decrease (increase) in notes receivable		(4,880)	(8,976)
Decrease (increase) in accounts receivable		(2,334,589)	786,979
Decrease (increase) in prepayments		5,906	(7,231)
Decrease (increase) in other receivables		6,210	(5,896)
Decrease (increase) in current income tax assets		18,057	15,097
Decrease (increase) in other current assets		(152,186)	1,050,967
Decrease (increase) in guarantee deposited for business operations		(3,100)	61,700
Decrease (increase) in settlement fund		5,499	13,122
Decrease (increase) in other non-current assets		31,292	44,857
Total changes in assets from operating activities		(26,675,463)	(7,640,149)

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CAPITAL SECURITIES CORPORATION

Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Changes in liabilities from operating activities:		
Increase (decrease) in financial liabilities at fair value through profit or loss	$ 1,361,598	(904,132)
Increase (decrease) in bonds sold under repurchase agreements	11,962,368	11,090,872
Increase (decrease) in guarantee deposited for short sales	503,424	(302,171)
Increase (decrease) in proceeds payable from short sales	553,749	(295,576)
Increase (decrease) securities lending refundable deposits	311,411	(744,071)
Increase (decrease) in customers' equity of separate account ledger in settlement account	8,942	433
Increase (decrease) in notes payable	-	33
Increase (decrease) in accounts payable	2,181,439	(292,898)
Increase (decrease) in advance receipts	414	12,088
Increase (decrease) in receipts under custody	197,544	(1,200,426)
Increase (decrease) in other payable	267,490	(127,921)
Increase (decrease) in other financial liabilities - current	2,082,522	(1,407,114)
Increase (decrease) in other financial liabilities - non-current	26,403	(2,357)
Increase (decrease) in other current liabilities	3,019	-
Increase (decrease) in provision - current	(15,577)	14,853
Increase (decrease) in other non - current liabilities	464	(285)
Total changes in liabilities from operating activities	19,445,210	5,841,328
Total changes in assets and liabilities from operating activities	(7,230,253)	(1,798,821)
Total cash generated from adjustment items	(8,823,435)	(3,095,106)
Cash generated from operating activities	(5,740,081)	(1,727,012)
Interest received	1,855,035	1,391,574
Dividends received	240,687	195,114
Interest paid	(601,820)	(262,562)
Income taxes paid	(129,019)	(38,984)
Net cash provided by (used in) operating activities	(4,375,198)	(441,870)
Cash flows from (used in) investing activities:		
Proceeds from capital reduction of financial assets measured at cost	9,368	38,762
Decrease (increase) in deferred debits	(693)	(1,980)
Acquisition of investment under equity method	(562,929)	(1,000,000)
Acquisitions of property and equipment	(64,931)	(91,293)
Acquisitions of intangible assets	(39,251)	(8,583)
Net cash provided by (used in) investing activities	(658,436)	(1,063,094)
Cash flows from financing activities:		
Increase (decrease) in short-term borrowing	2,845,296	2,656,685
Increase (decrease) in commercial papers payable	4,099,184	-
Cash dividends paid	(802,558)	(1,111,845)
Payments to acquire treasury shares	(91,539)	(858,314)
Net cash provided by (used in) financing activities	6,050,383	686,526
Effect of exchange rate changes on cash and cash equivalents	(45,660)	(7,946)
Increase in cash and cash equivalents	971,089	(826,384)
Cash and cash equivalents, beginning of the year	1,142,072	1,968,456
Cash and cash equivalents, end of this period	$ **2,113,161**	**1,142,072**

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(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 4th Fl. No. 101, Song-Jen Road, Taipei, Taiwan, R.O.C. As of December 31, 2017, the Company has 53 branches nationwide.

The Company is authorized to conduct the following businesses:

(a) Underwriting of marketable securities;

(b) Trading of marketable securities on a proprietary basis on stock exchange;

(c) Brokerage of marketable securities on stock exchange;

(d) Trading of marketable securities at the Company's branches;

(e) Brokerage of marketable securities at the Company's branches;

(f) Margin loan, short sale and refinancing;

(g) Securities registration agency services;

(h) Dealership of foreign marketable securities;

(i) Short-term bills service;

(j) Accessory services of futures trading;

(k) Futures trading on a proprietary basis;

(l) Securities business money lending;

(m) Managing the unexpended balance of clients' securities accounts within their authorization;

(n) Trust business;

(o) Offshore securities business;

(p) Other relevant services as approved by the authority in charge.

(2) Approval date and procedures of the financial statements:

The financial statements were authorized for issuance by the board of directors on March 26, 2018.

(3) New standards, amendments and interpretations adopted:

(a) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017:

New, Revised or Amended 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 " Presentation of Financial Statements-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 " Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non Financial Assets"	January 1, 2014
Amendments to IAS 39 " Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

The Company assessed that the initial application of the above IFRSs would not have any material impact on the financial statements.

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 9 "Financial Instruments"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Except for the following items, the Company believes that the adoption of the above IFRSs would not have any material impact on its financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments, impairment and hedge accounting.

1) Classification and measurement - Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliable. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on the Company’s assessment, the new classification requirements would not have a material impact on its accounting for account receivables, debt instruments investments and investments in equity securities that are managed on a fair value basis. As of December 31, 2017, the Company had equity investments classified as financial assets at fair value through profit or loss of $6,438 and financial assets measured at cost of $332,473 that are held for long-term strategic purposes. At initial application of IFRS 9, the Company has designated to classify them as FVOCI. Consequently, all fair value

(Continued)

gains and losses would be reported in other comprehensive income, impairment losses would not be recognized in profit or loss, and no gains or losses would be reclassified to profit or loss on disposal. The Company estimated the application of IFRS 9' s classification requirements on January 1, 2018 resulting in an increase of $581,811 and $27,521 in other equity items and retained earnings, respectively. (Please refer to the consolidated financial statements for the influences to reinvestment business.)

2) Impairment - Financial assets and contact assets

IFRS 9 replaces the “"incurred loss” model in IAS 39 with a forward-looking “expected credit loss” (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for account receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for account receivables and contract assets with a significant financing component.

The Company estimated the application of IFRS 9's impairment requirements on January 1, 2018 resulting in an increase and a decrease of $15,154 in other equity items and retained earnings, respectively.

3) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Company's assessment included an analysis to identify data gaps against current processes and the Company plans to implement the system and controls changes that it believes will be necessary to capture the required data.

4) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and other equity items as at January 1, 2018.

- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

  – The determination of the business model within which a financial asset is held.

  – The designation of certain investments in equity instruments not held for trading as at FVOCI.

(ii) IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts".

The Company has completed an initial assessment that the adoption of IFRS 15 will not impact on its financial statements.

(iii) Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Loss"

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value and the estimation of probable future taxable profits.

The Company estimated that the application of the amendments would not have any material impact on its financial statements.

The actual impacts of adopting the standards may differ depending on the economic conditions and events which may occur in the future.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019

Those which may be relevant to The Company are set out below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 "Leases"	The new standard of accounting for lease is amended as follows: • 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.

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

Issuance / Release Dates	Standards or Interpretations	Content of amendment
June 7, 2017	IFRIC 23 "Uncertainty over Income Tax Treatments"	• In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations. • If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

The Company is evaluating the impact on its financial position and operating performance upon the initial adoption of the above mentioned standards or interpretations. The potential impact will be disclosed when the assessment is completed.

(4) Summary of significant accounting policies:

The significant accounting policies presented in the financial statements are summarized below. Except for those specifically indicated, the following accounting policies have been applied consistently to all periods presented in the financial report.

(a) Statement of compliance

The separate financial report is prepared in accordance with the “ Regulations Governing the Preparation of Financial Reports by Securities Firms”.

(b) Basis of preparation

(i) Basis of measurement

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

1) Financial instruments measured at fair value through profit or loss (including derivative instruments);

2) Financial assets available for sale that are measured at fair value; and

3) The defined benefit asset is recognized as plan assets, plus unrecognized actuarial loss, less unrecognized actuarial gain and the present value of the defined benefit obligation.

(ii) Functional and presentation currency

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

(c) Foreign currency

(i) Foreign currency transaction

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

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

Foreign currency differences arising on retranslation are recognized in profit or loss, except for financial asset available for sale, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges which are recognized in other comprehensive income arising on the retranslation.

(ii) Foreign operations

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

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

(i) Assets arising from operating activities that are expected to be realized, or are intend to be sold or consumed within the normal operating cycle;

(ii) Assets held primarily for the purpose of trading;

(iii) Assets that are expected to be realized within twelve months from the balance sheet date;

(iv) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

(i) Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;

(ii) Liabilities arising primarily for the purpose of trading;

(iii) Liabilities that are to be settled within twelve months from the balance sheet date;

(iv) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(e) Cash and cash equivalents

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

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

(f) Financial instruments

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

(i) Financial assets

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

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

1) Financial assets at fair value through profit or loss

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

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

2) Financial assets available for sale

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

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

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

3) Held-to-maturity financial assets

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

(Continued)

4) Loans and receivables

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

5) Impairment of financial assets

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

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

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

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

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

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

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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

6) Derecognition of financial assets

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

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

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

(ii) Financial liabilities

1) Financial liabilities measured at fair value through profit or loss

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

(Continued)

2) Other financial liabilities

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

3) Derecognition of financial liabilities

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

4) Offsetting of financial assets and liabilities

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

(iii) Derivative financial instruments

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

1) Interest rate swaps

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

2) Convertible bond asset- backed swaps

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

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

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

3) Structured instruments

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

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

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

4) Interest options

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

5) Bond options

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

6) Equity options

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

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

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

7) Forward rate agreement

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

8) Futures contracts and options

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

9) Stock warrants

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

(g) Margin loan, short sale and refinancing

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

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

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

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

(Continued)

(h) Bonds and Bills with resell and repurchase agreements

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

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

(i) Securities borrowing transactions

To engage in securities borrowing transactions, the amount of the sale of securities borrowed is recognized as liability, and hedging and non-hedging purposes are distinguished, in accordance with stocks and bonds. When an amount is paid in cash to redeem refundable shares or bonds, the refundable deposit is recorded in a designated account, and the collateral paid in cash is recorded as security borrowing margin. Short sales delivered for securities market financing are recorded as security borrowing collateral prices.

(j) Investments in subsidiaries

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

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

(k) Property and equipment

(i) Recognition and measurement

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

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

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Reclassification to investment property

The property is reclassified as an investment property at its carrying amount when the use of the property changes from personal-use to investment property.

(iii) Subsequent cost

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

(iv) Depreciation

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

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

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

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

(i)	Buildings	3~55 years
(ii)	Transportation equipment	5 years
(iii)	Office equipment and computer facilities	3~5 years
(iv)	Miscellaneous equipment	5~10 years
(v)	Leasehold improvements are depreciated evenly by the shorter of the estimated useful life or the lease period.	

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

(l) Investment property

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

(m) Intangible assets

(i) Goodwill

1) Initial recognition

Goodwill resulted in acquisition of subsidiaries includes in intangible assets.

2) Subsequent measurement

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

(ii) Other intangible assets

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

(iii) Amortization

The amortizable amount is the cost of an asset less its residual value.

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

1) Customer relationships: 5 years

2) Computer software cost and dial-up service charges: 3 years

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

(n) Leases

(i) Lessor

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Lessee

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

(o) Non-financial assets impairment

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

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

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

The intangible assets with indefinite useful lives required to be tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

(p) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

(Continued)

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

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

Re-measurement is comprised of 1) actuarial gains and losses; 2) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and 3) changes in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset). Re-measurement arising on defined benefit plans is recognized in other comprehensive income in the period in which they arise and are recorded as retain earning.

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

(iii) Termination benefits

Termination benefits are recognized as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminating the employment of employees before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefit is expensed at the earlier of the date when the entity can no longer withdraw the offer of the termination benefits and the date when the entity recognizes related restructuring costs. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(iv) Short-term employee benefits

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

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

(q) Revenue recognition

(i) Brokerage commissions

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

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(ii) Underwriting commissions

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

(iii) Interest revenue

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

(r) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(s) Income tax

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

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

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

(i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.

(ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.

(iii) Initial recognition of goodwill.

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

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

(i) The entity has the legal right to settle tax assets and liabilities on a net basis; and

(ii) the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:

1) levied by the same taxing authority; or

2) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

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

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

(t) Business combinations

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

(u) Earnings per share (EPS)

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

(v) Segment information

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

(w) Treasury stocks

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

(Continued)

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

(5) Major sources of significant accounting assumptions, judgments and estimation uncertainty:

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

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

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

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

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash	$ 2,590	2,680
Bank deposits		
Checking accounts	48,546	57,566
Demand deposits	457,923	101,103
Time deposits	606,610	498,393
Foreign currency deposits	623,694	279,839
Subtotal	1,736,773	936,901
Cash equivalents		
Futures margin - excess margin	373,798	202,491
Total	**$ 2,113,161**	**1,142,072**

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(b) Financial assets

(i) Financial assets at fair value through profit or loss - current:

		December 31, 2017	December 31, 2016
Open-ended funds and money-market instruments			
Open-ended funds and money-market instruments	$	162,856	1,115,698
Valuation adjustment		17,894	1,288
Subtotal		180,750	1,116,986
Trading securities - proprietary trading			
Listed stocks		1,406,294	564,294
Listed funds		1,066,981	728,015
OTC stocks		558,763	225,008
OTC funds		40,000	-
Emerging market stocks		455,025	259,637
Emerging market funds		9,848	7,964
Convertible corporate bonds		767,352	455,796
Government bonds		6,695,553	4,041,386
Corporate bonds		9,403,722	9,874,420
International bonds		2,838,568	1,926,990
Financial debenture		300,000	1,659,501
Foreign stocks		454,786	190,879
Overseas bonds		59,353	64,320
Others		34,858	32,603
		24,091,103	20,030,813
Valuation adjustment		138,033	35,928
Subtotal		24,229,136	20,066,741
Trading securities - underwriting:			
Listed stocks		81,823	43,898
OTC stocks		48,763	11,396
Convertible corporate bonds		129,277	57,200
		259,863	112,494
Valuation adjustment		11,400	2,140
Subtotal		271,263	114,634

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

		December 31, 2017	December 31, 2016
Trading securities - hedging			
Listed stocks	$	4,022,877	1,810,735
OTC stocks		1,191,800	446,088
Convertible corporate bonds		3,456,957	3,437,205
Foreign stocks		999	1,092
		8,672,633	5,695,120
Valuation adjustment		(65,965)	(38,606)
Subtotal		8,606,668	5,656,514
Derivatives			
Call options		1,884	-
Futures margin - proprietary fund		344,355	120,025
IRS asset swaps		16,479	20,743
Asset swap options - long position		2,572	5,682
Structured notes		1,343	3
Currency swaps		4,072	16,584
Interest rate swap		1,920	4,942
Subtotal		372,625	167,979
Total	$	**33,660,442**	**27,122,854**

As of December 31, 2017 and 2016, the par value of trading securities and financial assets available for sale - bonds under repurchase agreement of the Company were $49,018,159 and $36,074,859, respectively, please refer to Note 6(k) and Note 8 for details.

(ii) Financial assets available for sale - current:

		December 31, 2017	December 31, 2016
Listed stocks	$	101,209	221,734
OTC stocks		77,668	162,878
International bonds		1,532,767	-
Foreign stocks		104,055	-
Overseas bonds		30,797,054	18,904,893
Subtotal		32,612,753	19,289,505
Valuation adjustment		164,030	7,959
Total	$	**32,776,783**	**19,297,464**

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(iii) Financial assets at fair value through profit or loss - non-current:

	December 31, 2017	December 31, 2016
Financial assets held for trading:		
Government bonds	$ 185,953	185,799
Valuation adjustment	62	274
Total	**$ 186,015**	**186,073**

As of December 31, 2017 and 2016, the Company took advantage of government bonds as margins of bills, interest rate swaps, structured notes transaction, settlement fund guarantee deposits, and compensation reserve of trust business (please refer to Note 8 for details).

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

	December 31, 2017	
Non-listed (or non-over-the-counter)	**Ownership ratio**	**Amount**
Taiwan Depository & Clearing Corp.	1.29 %	$ 18,661
Taiwan Futures Exchange Corp.	1.33 %	27,498
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 %	32,858
Prudence Venture Investment Corp.	1.50 %	27,397
Total		**$ 332,473**

	December 31, 2016	
Non-listed (or non-over-the-counter)	**Ownership ratio**	**Amount**
Taiwan Depository & Clearing Corp.	1.29 %	$ 18,661
Taiwan Futures Exchange Corp.	1.33 %	27,498
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 %	34,258
Prudence Venture Investment Corp.	1.50 %	35,365
Total		**$ 341,841**

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Notes to the Financial Statements

For the years ended December 31, 2017 and 2016, Top Taiwan III Venture Capital Co., Ltd. refunded the proceeds of capital reduction amounted to $1,400 and $36,750. Prudence Venture Investment Corp. refunded the proceeds of capital reduction amounted to $7,968 and $2,012.

(v) The Company uses Value at Risk (VAR) to monitor and measure the market risk of its investment in equity stocks. VAR refers to the unexpected loss of financial instruments derived from the changes in market risk factors within certain time periods and confidence level. The table below discloses the VAR, which is the estimation of potential loss in ten days and is covered by 99% of the adverse changes in market prices. In the table below by using this assumption, 2.5 out of 250 days VAR will exceed the disclosed amounts due to the changes in market price. For the year ended December 31, 2017 and 2016 VAR (99%, per 1 day) of equity stocks are as follows:

			For the years ended December 31,					
			2017			2016		
Type of market risk	December 31, 2017	December 31, 2016	Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	1,446,742	641,484	992,682	1,446,742	666,504	692,555	821,890	596,609

(c) Accounts Receivable

	December 31, 2017	December 31, 2016
Receivable on securities purchased by customers	$ 27,055	22,024
Settlement	1,000,019	-
Interests receivable	627,789	494,248
Receivables on securities sold	4,619,158	3,256,653
Others	64,780	99,455
Subtotal	6,338,801	3,872,380
Less: allowance for doubtful accounts	(1,713)	(3,424)
Total	**$ 6,337,088**	**3,868,956**

(d) Investments under equity method

	December 31, 2017	December 31, 2016
Subsidiaries		
Capital Investment Management Corp.	$ 107,158	105,330
CSC International Holdings Ltd.	1,593,416	1,742,614
Capital Futures Corp.	2,606,869	1,869,075
Capital Insurance Advisory Corp.	90,506	104,489
Capital Insurance Agency Corp	41,547	52,200
CSC Venture Capital Corp.	997,913	1,006,512
Taiwan International Securities (B.V.I.) Corp.	881	-
Taiwan International Securities Investment Consulting Corp.	13,031	13,298
Total	**$ 5,451,321**	**4,893,518**

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

	December 31, 2017	December 31, 2016
Subsidiaries		
Taiwan International Securities (B.V.I.) Corp.(Note)	$ -	(157)

Note: Recognized on other non-current liabilities.

Profit sharing of gain or loss from the subsidiaries for the year 2017 and 2016 are as follows:

	For the years ended December 31, 2017	2016
Based on the audited financial statements	$ 476,853	369,739

Please refer to the consolidated financial statements as of December 31, 2017 for the financial information of the subsidiaries of the Company.

(e) Property and equipment

	Land	Buildings	Equipment	Leasehold improvements	Total
Cost or deemed cost					
Balance at January 1, 2017	$ 3,266,986	1,368,605	442,023	115,090	5,192,704
Additions	-	-	51,962	12,969	64,931
Reclassified to investment property	(55,468)	(57,484)	-	-	(112,952)
Disposals and retirements	-	(119)	(51,298)	(15,818)	(67,235)
Balance at December 31, 2017	**$ 3,211,518**	**1,311,002**	**442,687**	**112,241**	**5,077,448**
Balance at January 1, 2016	$ 3,340,307	1,660,175	494,328	84,418	5,579,228
Additions	-	-	48,583	42,710	91,293
Reclassified to investment property	(73,321)	(28,013)	-	-	(101,334)
Disposals and retirements	-	(263,557)	(100,888)	(12,038)	(376,483)
Balance at December 31, 2016	**$ 3,266,986**	**1,368,605**	**442,023**	**115,090**	**5,192,704**
Depreciation and impairment					
Balance at January 1, 2017	$ -	500,470	257,401	44,877	802,748
Depreciation	-	27,236	85,671	22,202	135,109
Reclassified to investment property	-	(28,158)	-	-	(28,158)
Disposals and retirements	-	(119)	(51,025)	(13,079)	(64,223)
Balance at December 31, 2017	**$ -**	**499,429**	**292,047**	**54,000**	**845,476**
Balance at January 1, 2016	$ -	742,128	268,444	33,131	1,043,703
Depreciation	-	27,624	89,035	20,487	137,146
Reclassified to investment property	-	(5,725)	-	-	(5,725)
Disposals and retirements	-	(263,557)	(100,078)	(8,741)	(372,376)
Balance at December 31, 2016	**$ -**	**500,470**	**257,401**	**44,877**	**802,748**
Carrying amount					
December 31, 2017	**$ 3,211,518**	**811,573**	**150,640**	**58,241**	**4,231,972**
December 31, 2016	**$ 3,266,986**	**868,135**	**184,622**	**70,213**	**4,389,956**

As of December 31, 2017 and 2016, the property and equipment which are provided as collateral or pledge, please refer to Note 8 for details.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(f) Investment property

		Land and improvements	Buildings	Total
Cost or deemed cost				
Balance at January 1, 2017	$	1,698,156	947,022	2,645,178
Transferred from property and equipment		55,468	57,484	112,952
Disposals and retirements		-	(120)	(120)
Balance at December 31, 2017	**$**	**1,753,624**	**1,004,386**	**2,758,010**
Balance at January 1, 2016	$	1,624,835	1,044,204	2,669,039
Transferred from property and equipment		73,321	28,013	101,334
Disposals and retirements		-	(125,195)	(125,195)
Balance at December 31, 2016	**$**	**1,698,156**	**947,022**	**2,645,178**
Depreciation and impairment loss				
Balance at January 1, 2017	$	-	298,115	298,115
Depreciation		-	19,681	19,681
Transferred from property and equipment		-	28,158	28,158
Disposals and retirements		-	(120)	(120)
Balance at December 31, 2017	**$**	**-**	**345,834**	**345,834**
Balance at January 1, 2016	$	-	398,271	398,271
Depreciation		-	19,314	19,314
Transferred from property and equipment		-	5,725	5,725
Disposals and retirements		-	(125,195)	(125,195)
Balance at December 31, 2016	**$**	**-**	**298,115**	**298,115**
Carrying Amount				
December 31, 2017	**$**	**1,753,624**	**658,552**	**2,412,176**
December 31, 2016	**$**	**1,698,156**	**648,907**	**2,347,063**
Fair Value				
December 31, 2017				**3,692,022**
December 31, 2016				**3,623,639**

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

As of December 31, 2017 and 2016, the investment property was provided as collateral or pledge, please refer to Note 8 for details.

(g) Intangible assets

(i) Goodwill

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized goodwill. As of December 31, 2017 and 2016, the book value was $3,126,698 for the both year.

Goodwill is allocated to the operating segments as follows:

	December 31, 2017	December 31, 2016
Brokerage segment	$ 1,304,458	1,304,458
Underwriting segment	265,144	265,144
Proprietary trading segment	1,557,096	1,557,096
Total	**$ 3,126,698**	**3,126,698**

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

The past experience, the actual operating results and the pre-tax cash flows of the next year's financial budget approved by the board of directors are the basis to estimate the future cash flows. The growth rate was both 1.00% and the discount rate was 2.26% and 4.32% in year 2017 and 2016 respectively. The cash flow projections for periods after five years will be estimated with no growth conservatively.

After impairment test, the recoverable amounts of year 2017 and 2016 exceeded the carrying amount, no impairment occurred for both years.

(ii) Other intangible assets - Operation franchise

The Company acquired the operation of securities corporation operation franchise during 1994 to 2005 and expected the franchise will generate continuing cash inflows. In accordance with IAS No.38 "Intangible Assets", the franchise is regarded as intangible assets with an indefinite useful life. As of December 31, 2017 and 2016, the book value of the operation franchise was $389,999 for the both year.

(iii) Other intangible assets - Computer software

Computer software was booked at cost and amortized by using the straight-line method over the estimated useful lives. As of December 31, 2017 and 2016, the amortized book value was $27,538 and $15,923 respectively.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(h) Short-term borrowings

Nature of borrowings	December 31, 2017	December 31, 2016
Collateralized loan	$ 380,000	380,000
Credit loans	6,701,698	3,856,402
Total	**$ 7,081,698**	**4,236,402**
Interest rate range	**0.60%~2.56%**	**0.60%~2.75%**

As of December 31, 2017 and 2016, the Company had provided the land, buildings, and certificates of time deposits as collateral; please refer to Note 8 for details.

(i) Commercial paper payable

	December 31, 2017	December 31, 2016
Commercial paper payable	$ 4,100,000	-
Less: Unamortized discount	(816)	-
Net amount	**$ 4,099,184**	**-**
Interest rate range	**0.53%~0.56%**	**-%**

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

	December 31, 2017	December 31, 2016
Liabilities on sale of borrowed securities	$ 1,130,377	1,004,515
Redeem liabilities on sale of borrowed securities	(6,714)	-
Valuation adjustment	(94,120)	(66,466)
Subtotal	1,029,543	938,049
Settlement coverage bonds payable of short sale	49,983	-
Valuation adjustment	(29)	-
Subtotal	49,954	-
Stock warrants issued	14,405,116	10,892,801
Stock warrants repurchased	(13,098,267)	(10,617,763)
Subtotal	1,306,849	275,038
Put options	3,031	1,073
IRS asset swaps	239	1,974
Asset swap options - short position	364,910	177,405
Structured notes	9,234	7,515
Currency swaps	7,920	9,089
Equity Derivatives	61	-
Subtotal	385,395	197,056
Total	**$ 2,771,741**	**1,410,143**

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(k) Bonds sold under repurchase agreements

	December 31, 2017	December 31, 2016
Bonds sold under repurchase agreements	$ 47,067,813	35,105,445
Agreed-upon repurchase amounts	47,185,708	35,151,666
Interest rates	0.20%~4.30%	0.30%~9.00%
Date of repurchase	2018.1.2~2018.12.27	2017.1.3~2017.3.30

(l) Customer equity of separate account ledger in settlement accounting

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

	December 31, 2017	December 31, 2016
Customer equity of separate account ledger in settlement	$ 13,479	4,537

(m) Accounts payable

	December 31, 2017	December 31, 2016
Payable of securities sold by customers	$ 44,575	21,890
Settlement	-	49,986
Payable on securities purchased	5,386,422	3,183,985
Others	93,762	87,459
Total	$ 5,524,759	3,343,320

(n) Operating leases

(i) Lessee

Non-cancellable operating lease payables are as follows:

	December 31, 2017	December 31, 2016
Within 1 year	$ 95,177	109,281
1-5 years	133,888	174,783
Over 5 years	11,859	-
Total	$ 240,924	284,064

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

For the year December 31, 2017 and 2016, the operating lease expenses recognized in profit or loss were $121,070 and $138,261 respectively.

(ii) Lessor

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

		December 31, 2017	December 31, 2016
Within 1 year	$	53,485	16,709
1-5 years		71,880	66,373
Over 5 years		40,366	-
Total	**$**	**165,731**	**83,082**

The rental revenue from investment property for the year 2017 and 2016 amounted to $77,855 and $76,896 respectively.

(o) Employee benefit

(i) Defined benefit plans

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

		December 31, 2017	December 31, 2016
Present value of defined benefit obligations	$	(979,722)	(1,010,725)
Fair value of plan assets		441,227	500,033
Recognized liabilities for defined benefit obligations	**$**	**(538,495)**	**(510,692)**

The Company's employee benefits liabilities are as follows:

		December 31, 2017	December 31, 2016
Compensated absences	**$**	**42,205**	**57,782**

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

1) Composition of plan assets

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

The balance of the Company's labor pension preparatory special account in Bank of Taiwan amounted to $255,785 and $318,750 as of December 31, 2017 and 2016, respectively. The utilization of the labor pension fund includes the assets allocation and yield of the fund, please refers to the information published on the website under Labor Pension Fund Supervisory Committee of the Council of Labor Affairs Executive Yuan.

The balance of employee retirement fund management committee was $185,442 and $181,283 as of December 31, 2017 and 2016, respectively.

2) Movements in present value of the defined benefit obligations

The movements in present value of the defined benefit obligations of the Company in 2017 and 2016 were as follows:

		2017	2016
Defined benefit obligation on January 1	$	1,010,725	1,043,855
Current service costs and interest		19,303	22,891
Remeasurement of net defined liability			
- Actuarial loss (gain) arising from changes in demographic assumptions		4,203	-
- Actuarial loss (gain) arising from changes in financial assumptions		(1,171)	12,191
- Experience adjustments		24,607	2,590
Benefits paid by the plan		(77,945)	(70,802)
Defined benefit obligation on December 31	**$**	**979,722**	**1,010,725**

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

3) Movements in fair value of defined benefit plan assets

The movements in fair value of defined benefit plan assets of the Company in 2017 and 2016 were as follows:

		2017	2016
Fair value of plan assets on January 1	$	500,033	550,031
Interest revenue		5,122	6,770
Remeasurement of net defined liability			
- Return on plan assets (excluding interest)		(326)	(2,222)
Contributions from the employer		14,343	16,257
Benefits paid from plan assets		(77,945)	(70,803)
Fair value of plan assets on December 31	$	**441,227**	**500,033**

4) Expense recognized in profit or loss

The expenses recognized of the Company in 2017 and 2016 were as follows:

		2017	2016
Current service cost	$	8,930	10,190
Net interest of net defined benefit liability (asset)		5,251	5,931
Current pension cost	$	**14,181**	**16,121**

5) Re-measurement of net defined benefit plan recognized in other comprehensive income

For the years ended December 31, 2017 and 2016, the re-measurement of net defined benefit plan recognized accumulatively in other comprehensive income was as follows:

		2017	2016
Balance at January 1	$	(86,045)	(69,042)
Recognized amount during the period		(27,965)	(17,003)
Balance at December 31	$	**(114,010)**	**(86,045)**

6) Actuarial assumptions

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

	December 31, 2017	December 31, 2016
Discount rate	1.05 %	1.03 %
Future salary growth rate	2.00 %	2.00 %

The expected contribution to the defined benefit plan for the within one year is $15,758. The weighted average duration of the defined benefit obligation is 2 years.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

7) Sensitivity Analysis

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

For the years ended December 31, 2017 and 2016, the effects of adopting significant actuarial assumptions to defined benefit obligations were as follows:

	Effects to Defined Benefit Obligations	
	Increase 0.5%	**Decrease 0.5%**
December 31, 2017		
Discount rate	(26,640)	27,836
Future salary growth rate	22,555	(21,864)
December 31, 2016		
Discount rate	(28,642)	29,974
Future salary growth rate	24,477	(23,691)

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

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

(ii) Defined contribution plan

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

The Company contributed $67,839 and $71,048 under defined contribution plan to the Bureau of the Labor Insurance for the years ended December 31, 2017 and 2016, respectively.

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(p) Income tax

(i) Income tax expense (benefit)

The amount of income tax expense (benefit) for the years ended December 31, 2017 and 2016 were as follows:

	For the years ended December 31, 2017	2016
Current income tax expense		
Current year	$ 149,061	81,782
Adjustment to the prior years' income tax	(29,094)	23,109
	119,967	104,891
Deferred income tax expense		
Unrealized gains (losses) on derivative financial instruments	46,130	(12,041)
Unrealized gains (losses) on foreign investments under Equity Method	(1,674)	(6,959)
Amortization of goodwill	-	35,436
Decrease in tax loss carried forward	117,021	-
Adjustments of deferred income tax assets and liabilities	(91,690)	50,011
	69,787	66,447
Income tax expenses	**$ 189,754**	**171,338**

The amount of income tax expense or benefit recognized in other comprehensive income in year 2017 and 2016 were as follows:

	For the years ended December 31, 2017	2016
Foreign exchange difference from translating financial statements of foreign operations	**$ (23,513)**	**(5,424)**

Reconciliation of income tax expense (benefit) and income before tax in year 2017 and 2016 were as follows:

	For the years ended December 31, 2017	2016
Net income before tax	$ 3,083,354	1,368,094
Income tax using the Company’s domestic tax rate	$ 524,170	232,576
Tax-exempt income	(362,693)	(134,195)
Alternative minimum tax	148,030	-
Additional surtax on undistributed retained earnings	1,071	-
Income tax difference of bonds purchased under resale agreements and income tax separately levied	(40)	(163)
Adjustments to prior years’ income tax	(29,094)	23,109
Unrecognized temporary differences for prior years	(91,690)	50,011
Total	**$ 189,754**	**171,338**

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Deferred income tax assets and liabilities

1) Recognized deferred income tax assets

	December 31, 2017	December 31, 2016
Tax loss carried forward	$ 156,117	404,694
Unrealized losses on foreign investments under Equity Method	4,352	2,678
Foreign exchange difference from translating financial statements of foreign operations	4,375	-
Deferred income tax assets	$ 164,844	407,372

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

As of December 31, 2017, the information of the Company's tax losses recognized under deferred tax assets were as follows:

Year of loss	Amount	Expiry date
2011 (Approved)	$ 760,953	2021

2) Recognized deferred income tax liabilities

	December 31, 2017	December 31, 2016
Foreign exchange difference resulted from translation of financial statements of foreign operations	$ -	19,139
Unrealized gains on derivative financial instruments	80,762	34,631
Losses on intercompany transactions	1,639	1,639
Amortization of operation franchise	36,448	36,448
Amortization of goodwill	308,292	531,539
Land value incremental tax	47,691	47,691
Deferred income tax liabilities	$ 474,832	671,087

(iii) Income tax assessment status

The Company's income tax returns through 2014 were assessed by the Tax Authority.

(iv) The information about imputation system is as follows:

	December 31, 2017	December 31, 2016
Unappropriated earnings of 1998 and after	Note	$ 1,188,633
Balance of imputation credit account	Note	$ 2,675,250

	2017 (Actual)	2016 (Actual)
Tax deduction ratio for earnings distribution to ROC residents	Note	24.21 %

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

The above stated information was prepared in accordance with information letter No. 10204562810 issued by the Ministry of Finance of the R.O.C. on October 17, 2013.

Note: According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, effective January 1, 2018, companies will no longer be required to establish, record, calculate, and distribute their ICA due to the abolishment of the imputation tax system.

(v) Income tax administrative relief

Since income tax of securities trading and amortization of intangible assets withheld from year 2010 to 2014 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.

(q) Capital and other equity

(i) Capital stock

As of December 31, 2017 and 2016, the Company had authorized capital of $30,000,000 and issued common stock of 2,169,073 thousand and 2,269,073 thousand shares with $10 dollars face value per share. The disclosure of treasury shares retired and reduction of capital for the years ended December 31, 2017 and 2016, please refer to (iv). "Treasury stocks" for more details.

(ii) 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 "Regulations Governing the Offering and Issuance of Securities by Securities Issuers", the amount of capital surplus to be capitalized shall not exceed 10 percent of the paid-in capital each year.

The followings are the capital surplus of the Company:

	December 31, 2017	December 31, 2016
Premium from stock issuance	$ 1,776,413	1,858,310
Treasury stock transactions	437,096	253,940
Paid-in capital from merger	602,665	630,450
Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,338	1,399
Changes in ownership interests in subsidiaries	34,787	6,873
	$ 2,852,299	**2,750,972**

(Continued)

(iii) Retained earnings

1) 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.

2) Special reserve

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

In accordance with Ruling No. 10500278285 issued by the Financial Supervisory Commission on August 5, 2016, 0.5% to 1.0% of the current year's earnings after tax should be set aside as special reserve for year 2016 to 2018. From year 2017, the aforementioned special reserve can be reversed within an amount equal to the expenditures stemming from employee re-training, re-assignments, or relocations made necessary by the introduction of financial technology.

3) Undistributed earnings

According to the Company's Articles of Incorporation, after-tax earnings should first offset accumulated deficit, and then appropriated 10% as legal reserve, 20% as special reserve and any other as required by law.

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. The amount of earnings to distribute after retaining earnings must be higher than 10% of the distributable balance. According to the capital budget of the Company, the payout of stock dividend is for retaining necessary capital and the remainder can be paid as cash dividend. Cash dividend shall not fall below 10% of the total dividend.

The Company's 2015 earnings distribution for cash dividends $1,111,845 had been resolved by the shareholders' meeting on June 27, 2016.

The Company's 2016 earnings distribution for cash dividends $802,558 had been resolved by the shareholders' meeting on June 26, 2017.

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The information about the appropriations is available at the Market Observation Post System website.

(iv) Treasury stocks

Pursuant to Article 28-2 of the "Securities and Exchange Act", the Company repurchased treasury shares to maintain the Company's credit standing and shareholders' equity from January 1, 2016 to December 31, 2017. As of December 31, 2017, all the repurchased shares were retired.

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. 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 November 11, 2016, the Company's board meeting resolved a share buyback plan, which was based on the latest reviewed financial report on September 30, 2016. The cap of the repurchase was 226,907 thousand shares which were amounted to $7,356,004. The Company repurchased 100,000 thousand shares at this buyback plan. All the repurchased shares were retired and the registration of capital reduction was completed on February 10, 2017.

(r) Earnings per share

The basic earnings per share and dilutive earnings per share for the years ended December 31, 2017 and 2016 were calculated as follows:

	For the years ended December 31,	
	2017	**2016**
Net income attributable to ordinary shareholders of the Company	$ **2,893,600**	**1,196,756**
Weighted-average number of common stock shares outstanding(thousands of shares)	**2,169,193**	**2,265,158**
Basic earnings per share (dollar)	$ **1.33**	**0.53**
Effect of potentially dilutive common stock - Employee remuneration (thousands of shares) (Note)	**2,877**	**1,248**
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	**2,172,070**	**2,266,406**
Dilutive earnings per share (dollar)	$ **1.33**	**0.53**

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

(s) Items of the comprehensive income statement

(i) Brokerage commissions

	For the years ended December 31,	
	2017	**2016**
Brokerage commission from TSE market	$ 1,620,196	1,133,638
Brokerage commission from OTC market	656,041	474,588
Handling fee from security financing	30,903	32,595
Others	72,007	51,463
	$ **2,379,147**	**1,692,284**

(Continued)

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(ii) Underwriting commissions

	For the years ended December 31, 2017	2016
Revenue from underwriting securities on a firm commitment basis	$ 63,450	49,824
Handling fee revenues from underwriting securities on best efforts basis	1,440	895
Processing fee revenues from underwriting operations	25,023	17,346
Revenue from underwriting consultation	5,180	7,975
Others	26,424	17,423
	$ 121,517	**93,463**

(iii) Net gains (losses) on sale of trading securities

	For the years ended December 31, 2017	2016
Revenue from securities sold - proprietary trading	$ 203,145,698	201,084,349
Cost of securities sold - proprietary trading	(202,141,748)	(200,898,414)
Subtotal	1,003,950	185,935
Revenue from securities sold - underwriting	201,997	2,568,524
Cost of securities sold - underwriting	(194,190)	(2,560,057)
Subtotal	7,807	8,467
Revenue from securities sold - hedging	34,882,103	23,463,311
Cost of securities sold - hedging	(34,427,986)	(23,552,918)
Subtotal	454,117	(89,607)
Total	**$ 1,465,874**	**104,795**

(iv) Interest revenue

	For the years ended December 31, 2017	2016
Interest revenue - margin loans	$ 771,449	737,656
Interest revenue - bonds	1,167,972	657,211
Others	47,138	33,935
	$ 1,986,559	**1,428,802**

(v) Net gains or losses on measurement of trading securities at fair value through profit or loss

	For the years ended December 31, 2017	2016
Trading securities - proprietary	$ 103,311	(27,658)
Trading securities - underwriting	9,259	918
Trading securities - hedging	(27,358)	66,573
Settlement coverage bonds payable of short sale	29	(1,146)
	$ 85,241	**38,687**

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(vi) Net gains or losses on stock warrants issued

	For the years ended December 31, 2017	2016
Gains on changes in fair value of stock warrants	$ 14,246,241	30,713,780
Gains on exercise of stock warrants before maturity	27,191,658	7,721,981
Losses on changes in fair value of stock warrants repurchased	(40,578,100)	(37,563,166)
Gains on expiration of stock warrants	19,515	23,683
Stock warrants issuance expenses	(188,153)	(149,169)
	$ 691,161	**747,109**

(vii) Employee benefits, depreciation, and amortization expenses

	For the years ended December 31, 2017	2016
Employee benefit expenses		
Salary expense	$ 1,844,667	1,631,634
Health and labor insurance expense	132,942	135,384
Pension expense	82,020	87,169
Others	47,822	49,033
Depreciation expense	154,790	156,460
Amortization expense	29,968	32,060
	$ 2,292,209	**2,091,740**

(viii) Other operating expenses

	For the years ended December 31, 2017	2016
Rental expense	$ 121,070	138,261
Taxes	301,239	235,440
Information technology expense	96,697	99,196
Postage expense	100,886	103,272
Professional service fee	99,001	93,611
Other expenses	531,867	364,688
	$ 1,250,760	**1,034,468**

(ix) Other gains and losses

	For the years ended December 31, 2017	2016
Financial revenue	$ 2,017	4,275
Net gains (losses) on disposal of investment	23,190	(3,611)
Net gains (losses) on measurement of non-operating instruments at fair value through profit or loss	16,606	(9,781)
Revenue from bank's allocation fee	139,255	142,111
Lease revenue	77,855	76,896
Revenue from information technology service	27,291	22,127
Net gains (losses) on disposal of property and equipment	(3,012)	(4,107)
Dividend revenue	18,769	18,976
Gains on reversal of prior year's liabilities	25,875	34,584
Others	14,021	13,962
	$ 341,867	**295,432**

(Continued)

CAPITAL SECURITIES CORPORATION
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(x) 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 years 2017 and 2016, the estimated amounts of remuneration to employee were $33,369 and $12,090, and to directors and supervisors by the Company were $61,971 and $20,149, 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 years ended December 31, 2017 and 2016. 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.

The estimated amounts of remuneration to employee by the Company for 2016 and 2015 were $12,090 and $17,241, and to directors and supervisors were $20,149 and $28,734, respectively. The difference between actual employee remuneration of $9,120 and $14,994 and actual remuneration to directors and supervisors of $17,410 and $26,527 were $5,709 and $4,454 in total. The difference was accounted for as changes in accounting estimates and would be reflected in the statement of income in 2017 and 2016. The information about the appropriations is available at the Market Observation Post System website.

(t) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of December 31, 2017 and 2016, the maximum credit exposure amounted to $77,800,088 and $57,640,422, respectively.

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The regional distribution of financial assets' credit risk exposure amount which owned by the Company is as the list below. The region of exposure is mostly in Taiwan (54.50%); secondly, is in Asia (18.87%, exclusion of Taiwan); then, is in America (15.67%). Compare to the same period of last year, there is no significant change in proportion of region of investments.

Region	December 31, 2017	December 31, 2016
Taiwan	$ 42,403,693	36,746,213
Asia (Taiwan is excluded)	14,679,191	6,196,567
Europe	8,370,951	8,727,072
America	12,195,122	4,241,397
Other	151,131	1,729,173
Total	**$ 77,800,088**	**57,640,422**

2) Impairment loss

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

	December 31, 2017		December 31, 2016	
	Total amount	Impairment	Total amount	Impairment
Not past due	$ 22,276,774	1,551	15,595,337	1,389
Past due 0~30 days	2,115	2,115	1,062	1,062
Past due 31~120 days	31	31	280	280
Past due 121~360 days	85,694	85,694	-	-
Past due more than one year	135,899	128,771	141,333	114,604
	$ 22,500,513	**218,162**	**15,738,012**	**117,335**

Allowance for doubtful debts under receivables and overdue receivables are recorded for the debt expense or impairment loss. Where a claim becomes definitely uncollectible, the allowance for doubtful debts should be written off to financial assets account. As of December 31, 2017 and 2016, the impairment losses of accrued receivables were recognized $218,162 and $3,652, respectively.

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Liquidity risk

The following table shows the effect of contract maturity on financial liabilities. The Company 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
December 31, 2017							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	$ 1,029,543	1,029,543	1,029,543	-	-	-	-
Settlement coverage bonds payable of short sale	49,954	49,954	49,954	-	-	-	-
Stock warrants issued	1,306,849	1,306,849	1,265,875	40,974	-	-	-
Put options - futures	3,031	3,031	3,031	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	8,159	8,159	7,770	155	234	-	-
Put options	364,910	364,910	44,131	51,385	106,359	163,035	-
Equity derivatives	61	61	61	-	-	-	-
Short-term borrowings	7,081,698	7,081,698	7,081,698	-	-	-	-
Commercial paper payable	4,099,184	4,100,000	4,100,000	-	-	-	-
Bonds sold under repurchase agreements	47,067,813	47,185,708	47,185,708	-	-	-	-
Guarantee deposited for short sales	2,226,264	2,226,264	2,226,264	-	-	-	-
Proceeds payable from short sales	2,500,853	2,500,853	2,500,853	-	-	-	-
Securities lending refundable deposits	1,190,277	1,190,277	1,190,277	-	-	-	-
Notes payable and accounts payable	97,008	97,008	97,008	-	-	-	-
Receipts under custody	341,174	341,174	341,174	-	-	-	-
Other payables	791,239	791,239	791,239	-	-	-	-
Structured notes	4,785,254	4,785,254	4,380,929	138,288	151,580	114,457	-
	$ 72,943,271	73,061,982	72,295,515	230,802	258,173	277,492	-
December 31, 2016							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	$ 938,049	938,049	938,049	-	-	-	-
Stock warrants issued	275,038	275,038	254,719	19,620	699	-	-
Put options - futures	1,073	1,073	1,073	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	11,063	11,063	9,130	696	1,194	43	-
Put options	177,405	177,405	32,773	41,655	68,186	34,791	-
Short-term borrowings	4,236,402	4,236,402	4,236,402	-	-	-	-
Bonds sold under repurchase agreements	35,105,445	35,151,666	35,151,666	-	-	-	-
Guarantee deposited for short sales	1,722,840	1,722,840	1,722,840	-	-	-	-
Proceeds payable from short sales	1,947,104	1,947,104	1,947,104	-	-	-	-
Securities lending refundable deposits	878,866	878,866	878,866	-	-	-	-
Notes payable and accounts payable	281,767	281,767	281,767	-	-	-	-
Receipts under custody	143,630	143,630	143,630	-	-	-	-
Other payables	500,534	500,534	500,534	-	-	-	-
Structured notes	2,674,610	2,674,610	2,293,958	141,018	184,695	54,939	-
	$ 48,893,826	48,940,047	48,392,511	202,989	254,774	89,773	-

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(iii) Currency risk

1) Currency risk exposure

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

	December 31, 2017			
		Foreign Currency (thousands)	Exchange Rate	Amount
Financial assets				
Monetary Item				
USD	$	26,981	29.7600	802,955
HKD		30,981	3.8070	117,945
EUR		269	35.5700	9,568
JPY		23,645	0.2642	6,247
CNY		24,265	4.5650	110,770
AUD		5,547	23.1850	128,607
SGD		25	22.2600	557
CAD		23	23.7100	545
ZAR		8	2.4100	19
IDR		4,403	0.0022	10
Non-Monetary Item				
USD	$	907,431	29.7600	27,005,147
HKD		36,089	3.8070	137,391
JPY		2,052	0.2642	542
CNY		163,599	4.5650	746,829
AUD		351,673	23.1850	8,153,539
Investments under equity method				
USD		53,662	29.7100	1,594,297
Financial liabilities				
Monetary Item				
USD	$	935,426	29.7600	27,838,278
HKD		77,397	3.8070	294,650
JPY		39	0.2642	10
CNY		89,922	4.5650	410,494
AUD		348,400	23.1850	8,077,654
SGD		16	22.2600	356
CAD		20	23.7100	474
KRW		47	0.0281	1

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

	December 31, 2016			
		Foreign Currency (thousands)	Exchange Rate	Amount
Financial assets				
Monetary Item				
USD	$	10,851	32.2500	349,945
HKD		763	4.1580	3,173
EUR		188	33.9000	6,373
JPY		26,108	0.2756	7,195
CAD		1	23.9100	24
ZAR		3	2.3600	7
AUD		2,432	23.2850	56,629
SGD		7	22.2900	156
CNY		44,507	4.6170	205,489
PHP		9	0.6684	6
Non-Monetary Item				
USD	$	486,351	32.2500	15,684,820
HKD		19,735	4.1580	82,058
JPY		1,540	0.2756	424
AUD		217,379	23.2850	5,061,670
CNY		133,526	4.6170	616,490
Investments under equity method				
USD		54,118	32.2000	1,742,614
Financial liabilities				
Monetary Item				
USD		483,481	32.2500	15,592,262
HKD		35,666	4.1580	148,299
JPY		72	0.2756	20
AUD		216,704	23.2850	5,045,953
SGD		1	22.2900	22
CNY		58,128	4.6170	268,377
Non-Monetary Item				
Other non-current liabilities				
USD		5	32.2000	157

Because there are a variety of functional currencies, the Company discloses a summary of its information on currency exchange gain or loss. The realized and unrealized currency exchange gains amounted to $46,670 and $94,068 for the year ended December 31, 2017 and 2016, respectively.

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2) Sensitivity analysis

The currency risk of the Company arises mainly from cash and cash equivalents, other receivables, security borrowing margin, financial assets measured at fair value through profit or loss and securities lending refundable deposits, which are denominated in foreign currencies. Currency exchange gains or losses occur when translating the foreign currency assets to NTD assets. For the year ended December 31, 2017 and 2016, 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 $1,328,502, $1,353,352, $1,419,515 and $785,156, respectively.

(iv) 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 years ended December 31,					
			2017			2016		
Market risk type	December 31, 2017	December 31, 2016	Mean	Maximum	Minimum	Mean	Maximum	Minimum
Interest risk	2,165,047	1,492,731	1,996,174	2,165,047	1,746,721	1,331,427	1,492,731	1,119,156

(v) Fair value information and hierarchy

1) Fair value information

a) General description

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

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

CAPITAL SECURITIES CORPORATION
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b) Definition of fair value hierarchy

i) 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 Company are considered Level 1.

ii) 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 Company are considered Level 2.

iii) Level 3

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

2) Not based on fair value measurement

As of December 31, 2017 and 2016, the fair value information of the financial assets and financial liabilities of the Company was as follows:

a) Fair value information

	December 31, 2017		December 31, 2016	
	Book value	Fair value	Book value	Fair value
Financial assets :				
Cash and cash equivalents	$ 2,113,161	2,113,161	1,142,072	1,142,072
Accrued receivable	24,254,586	24,254,586	17,405,924	17,405,924
Restricted assets - current	442,190	442,190	557,002	557,002
Financial assets measured at cost - non-current	332,473	332,473	341,841	341,841
Other non-current assets	1,204,097	1,204,097	1,260,835	1,260,835
Financial liabilities :				
Short-term borrowings	$ 7,081,698	7,081,698	4,236,402	4,236,402
Commercial paper payable	4,099,184	4,099,184	-	-
Bonds sold under repurchase agreements	47,067,813	47,067,813	35,105,445	35,105,445
Accrued payable	12,762,747	12,762,747	8,724,584	8,724,584
Other financial liabilities - current	4,509,983	4,509,983	2,427,461	2,427,461
Other financial liabilities - non-current	266,037	266,037	239,634	239,634
Other non-current liabilities	74,235	74,235	73,609	73,609

(Continued)

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Notes to the Financial Statements

b) Hierarchy information of fair value

		Level 1	Level 2	Level 3	Total
Investment property					
December 31, 2017	$	-	-	3,692,022	3,692,022
December 31, 2016	$	-	-	3,623,639	3,623,639

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

i) For short term financial instruments, the fair values are determined based on their book value because of their short maturities. The method is applied to cash and cash equivalents, bonds purchased under resale agreements, accrued receivable, other current assets, other non-current assets, short term borrowings, commercial paper payable, bonds sold under repurchase agreements, accrued payable, other financial liabilities - current, other financial liabilities - non-current, and other non-current liabilities.

ii) 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 Company considers the book value as a reasonable approximation of fair value.

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

3) Based on fair value measurement

a) Hierarchy information of fair value

The Company's financial instruments measured at fair value are evaluated on a recurring basis. The financial assets and liabilities measured at fair value as of December 31, 2017 and 2016 were as follows:

		Level 1	Level 2	Level 3	Total
December 31, 2017					
Financial assets at fair value through profit or loss	$	16,326,335	17,147,497	-	33,473,832
Financial assets available for sale		269,717	32,507,066	-	32,776,783
Derivative financial assets		346,239	26,386	-	372,625
	$	**16,942,291**	**49,680,949**	**-**	**66,623,240**
Financial liabilities at fair value through profit or loss	$	2,386,346	-	-	2,386,346
Derivative financial liabilities		3,031	382,364	-	385,395
	$	**2,389,377**	**382,364**	**-**	**2,771,741**

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CAPITAL SECURITIES CORPORATION
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	Level 1	Level 2	Level 3	Total
December 31, 2016				
Financial assets at fair value through profit or loss	$ 9,604,490	17,536,458	-	27,140,948
Financial assets available for sale	378,156	18,919,308	-	19,297,464
Derivative financial assets	120,025	47,954	-	167,979
	$ 10,102,671	**36,503,720**	**-**	**46,606,391**
Financial liabilities at fair value through profit or loss	$ 1,213,087	-	-	1,213,087
Derivative financial liabilities	1,073	195,983	-	197,056
	$ 1,214,160	**195,983**	**-**	**1,410,143**

b) Valuation techniques

i) Non-derivative financial instruments

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

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

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

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ii) Derivative financial instruments

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

4) Transfer between Level 1 and Level 2

There is no significant transfer between Level 1 and Level 2 for the years ended December 31, 2017 and 2016.

5) Fair value adjustments

Financial valuation techniques do not necessarily completely reflect all relevant elements of financial or non-financial instruments held by the Company. 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.

(vi) Transfer of financial assets

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

	December 31, 2017				
Types of financial assets	**Book value of the transferred financial assets**	**Book value of relevant financial liabilities**	**Fair value of the transferred financial assets (Note)**	**Fair value of relevant financial liabilities (Note)**	**Fair value net position (Note)**
Under repurchase agreements	$ 47,116,029	47,067,813	-	-	-

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Types of financial assets		Book value of the transferred financial assets	Book value of relevant financial liabilities	Fair value of the transferred financial assets (Note)	Fair value of relevant financial liabilities (Note)	Fair value net position (Note)
		December 31, 2016				
Under repurchase agreements	$	**35,279,210**	**35,105,445**	**-**	**-**	**-**

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

(vii) Offsetting financial assets and financial liabilities

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

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

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

		December 31, 2017					
		Financial assets under offsetting or general agreement of net amount settlement or similar norms					
		Gross amount of recognized financial assets (a)	Gross amount of recognized financial liabilities offsetting in the balance sheet (b)	Net amount of financial assets presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d): Financial instruments (Note)	Related amount not offset in the balance sheet (d): Cash received as collaterals	Net amount (e)=(c)-(d)
Derivative financial assets	$	**26,386**	**-**	**26,386**	**-**	**-**	**26,386**

		December 31, 2017					
		Financial liabilities under offsetting or general agreement of net amount settlement or similar norms					
		Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets offsetting in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d): Financial instruments (Note)	Related amount not offset in the balance sheet (d): Cash received as collaterals	Net amount (e)=(c)-(d)
Derivative financial liabilities	$	382,364	-	382,364	-	-	382,364
Under repurchase agreements		47,067,813	-	47,067,813	47,067,813	-	-
Total	$	**47,450,177**	**-**	**47,450,177**	**47,067,813**	**-**	**382,364**

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Notes to the Financial Statements

	December 31, 2016					
	Financial assets under offsetting or general agreement of net amount settlement or similar norms					
				Related amount not offset in the balance sheet (d)		
	Gross amount of recognized financial assets (a)	Gross amount of recognized financial liabilities offsetting in the balance sheet (b)	Net amount of financial assets presented in the balance sheets (c)=(a)-(b)	Financial instruments (Note)	Cash received as collaterals	Net amount (e)=(c)-(d)
Derivative financial assets	$ 47,954	-	47,954	-	-	47,954

	December 31, 2016					
	Financial liabilities under offsetting or general agreement of net amount settlement or similar norms					
				Related amount not offset in the balance sheet (d)		
	Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets offsetting in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheets (c)=(a)-(b)	Financial instruments (Note)	Cash received as collaterals	Net amount (e)=(c)-(d)
Derivative financial liabilities	$ 195,983	-	195,983	-	-	195,983
Under repurchase agreements	35,105,445	-	35,105,445	35,105,445	-	-
Total	$ 35,301,428	-	35,301,428	35,105,445	-	195,983

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

(u) Financial risk management

(i) Brief

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

1) Credit risk

2) Liquidity risk

3) Market risk

The disclosure hereby presents above-mentioned risk information, evaluation, and objectives, policies, and procedures of managing information. Further information regarding quantity disclosure please refers to related disclosures.

(ii) Risk management framework

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

(iii) Credit risk

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

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

(iv) Liquidity risk

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

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

(v) Market risk

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

The Company has set up the trading quotas and upper limit of Value at Risk ("VaR") in all operation to ensure the capital adequacy ratio meets the qualification requirements and maximum loss limit to be controlled. The different risk factors that the Company uses to measure the market risk are as follows:

1) Equity securities: calculate by variance-covariance method and to conduct back testing to estimate the VaR of one day at 99% of confidence interval.

2) Bond: use the base point (0.01%) value as the controlling base, and estimate the VaR of one day at 99% of confidence interval.

3) Financial derivatives: use the Delta and Gamma value as the controlling base, and estimate the VaR of one day at 99% of confidence interval.

4) Margin trading: use the maintenance ratio ruled by the competent authority as the standard for disposal.

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

(vi) Hedging strategies (financial hedging)

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

1) Equity securities:

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

2) Fixed income instruments:

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

3) Stock warrants:

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

4) Structured notes:

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

(Continued)

5) Asset swap:

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

(vii) Financial risk information of derivative financial instruments

As of December 31, 2017 and 2016, the related financial risk and the presentation of the Company's financial derivatives were as follows:

Stock warrants

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

	December 31, 2017		December 31, 2016	
Financial Instruments	**Notional principal / Nominal amount**	**Credit Risk**	**Notional principal / Nominal amount**	**Credit Risk**
For trading purpose:				
Stock warrants issued	$ 73,019,951	-	7,931,022	-

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

(ii) Market risk:

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

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

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

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

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

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

(Continued)

CAPITAL SECURITIES CORPORATION
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(v) Presentation of financial derivatives

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

1) For the years ended December 31, 2017 and 2016:

a) Gains (losses) on valuation

	For the years ended December 31, 2017	For the years ended December 31, 2016	Account
Stock warrants issued	$ 13,281,013	8,811,311	Gains (losses) on stock warrants issued
Stock warrants repurchased	(12,653,445)	(8,606,442)	Gains (losses) on stock warrants issued

b) Gains (losses) on sale

	For the years ended December 31, 2017	For the years ended December 31, 2016	Account
Security borrowing	$ (4,673)	7,011	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	254,048	(122,647)	Gains (losses) on sale of trading securities
Futures transaction	(258,393)	(221,525)	Gains (losses) on derivative instruments - futures

c) Gains (losses) on maturity

	For the years ended December 31, 2017	For the years ended December 31, 2016	Account
Stock warrants issued	$ 28,176,401	29,648,133	Gains (losses) on stock warrants issued
Stock warrants repurchased	(27,924,655)	(28,956,724)	Gains (losses) on stock warrants issued

Futures

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

	December 31, 2017		December 31, 2016	
Financial Instruments	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Taiex Futures	$ 1,380,298	-	534,198	-
Mini-S&P 500 Futures	71,866	-	-	-
Stock Futures	-	-	12,286	-
Mini Taiex Futures	1,581	-	-	-
FTSE China A50 Index Futures	-	-	111,524	-
U.S. 5-Year T-Note Futures	328,692	-	169,495	-
U.S. 10-Year T-Note Futures	982,781	-	40,005	-
Taiex Options	3,779	-	-	-

(Continued)

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Financial Instruments	December 31, 2017 Notional principal / Nominal amount	December 31, 2017 Credit Risk	December 31, 2016 Notional principal / Nominal amount	December 31, 2016 Credit Risk
Taiex Weekly Options	$ 507	-	1,137	-
Mini-S&P 500 Options	653	-	-	-
For non-trading purpose:				
Taiex Futures	474,601	-	239,765	-
Electronic Sector Index Futures	79,631	-	7,357	-
Stock Futures	1,613,239	-	501,055	-
Finance Sector Index Futures	18,999	-	-	-
Gold Futures	53,447	-	11,151	-
Crude Oil Futures	121,435	-	-	-
HSI Futures	-	-	4,569	-
Mini-HSI Futures	-	-	17,930	-
FTSE China A50 Index Futures	595,089	-	66,764	-
Osaka Nikkei 225 Index Futures	11,799	-	-	-
JPY dollar Futures	6,698	-	-	-
Real Estate Index Futures	4,836	-	-	-
Nikkei Index Futures	6,025	-	10,209	-
Gold Options	4	-	-	-
Stock Options	3,451	-	-	-
Crude Oil Options	1	-	-	-

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

(ii) Market risk:

Market risk resulted from the purchase and sale of futures and options. Since the fair values of futures and options are available, and stop-loss points are established in order to manage risk, the Company 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 the fluctuations of index tends to offset gain and loss of the hedged items. Hence, there is no significant market risk.

(iii) 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 Company can be settled on the market at reasonable prices, and as such there is no liquidity risk.

Futures trading are considered as margin transactions. Margins are collected in advance and valued daily on open futures positions established by the Company. For margin calls, the Company 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 trading, premiums are collected or paid in advance. If the counterparty of a short put position exercises the option, the Company has sufficient operating funds to meet the liquidity requirement. Therefore, there is no liquidity risk, no cash flow risk, and no significant cash demand.

(iv) Presentation of financial derivatives:

For the years ended December 31, 2017 and 2016, losses on futures and options transactions amounted to $565,770 and $425,947, respectively, and were reflected as losses on derivatives instruments. As of December 31, 2017 and 2016, futures margin - proprietary fund amounted to $344,355 and $120,025, respectively, and were reflected as financial assets at fair value through profit or loss - current; excess future margin which recognized as cash and cash equivalent amounted to $373,798 and $202,491, respectively.

As of December 31, 2017 and 2016, the balance of call options which recognized as financial assets at fair value through profit or loss - current amounted to $1,884 and $0, respectively, put options which recognized as financial liabilities at fair value through profit or loss - current amounted to $3,031 and $1,073, respectively.

<u>Derivative financial instruments - OTC</u>

(i) Interest rate financial derivatives

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

	December 31, 2017		December 31, 2016	
Financial Instruments	**Notional principal / Nominal amount**	**Credit Risk**	**Notional principal / Nominal amount**	**Credit Risk**
For trading purpose:				
NT dollar interest swaps	$ 43,100,000	-	46,500,000	-

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

2) Market risk:

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

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

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

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

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

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

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

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

(ii) Structured notes

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

Financial Instruments	December 31, 2017 Notional principal / Nominal amount	December 31, 2017 Credit Risk	December 31, 2016 Notional principal / Nominal amount	December 31, 2016 Credit Risk
For trading purpose:				
Equity-linked notes	$ 40,461	-	3,000	-
Principal guaranteed notes	3,949,038	-	2,173,544	-
Credit-linked notes	490,600	-	488,700	-
Principle guaranteed notes	USD9,962 thousands	-	USD100 thousands	-

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

2) Market risk

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

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

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

(iii) Convertible bond asset-backed swaps

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

	December 31, 2017		December 31, 2016	
Financial Instruments	**Notional principal / Nominal amount**	**Credit Risk**	**Notional principal / Nominal amount**	**Credit Risk**
For trading purpose:				
Convertible bond asset-backed swaps	$ 943,700	-	1,230,100	-
Convertible bond options	2,437,300	-	2,528,400	-

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

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

2) Market risk:

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

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

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

Convertible bonds acquired through underwriting or proprietary trading are the underlying assets of asset-backed swaps. The underlying assets are sold to the counterparties for commission. Within the term of the contract, the Company swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. The Company 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.

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(iv) Options

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

(v) Presentation of derivative financial instruments - OTC

As of December 31, 2017 and 2016, 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:

	December 31, 2017	December 31, 2016
Financial assets at fair value through profit or loss - current		
IRS asset swaps	$ 16,479	20,743
Interest rate swaps	1,920	4,942
Currency swaps	4,072	16,584
Asset swap options - long position	2,572	5,682
Structured notes	1,343	3
Total	**$ 26,386**	**47,954**
Financial liabilities at fair value through profit or loss - current		
IRS asset swaps	$ 239	1,974
Currency swaps	7,920	9,089
Asset swap options - short position	364,910	177,405
Equity derivatives	61	-
Structured notes	9,234	7,515
Total	**$ 382,364**	**195,983**
Other financial liabilities - current		
Structured notes principal value	**$ 4,509,983**	**2,427,461**
Other financial liabilities - non-current		
Structured notes principal value	**$ 266,037**	**239,634**

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For the years ended December 31, 2017 and 2016, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options and convertible bond asset-backed swaps are presented on statements of income as follows:

	For the years ended December 31, 2017		For the years ended December 31, 2016	
	Gains (losses) on derivative instruments - OTC	Unrealized Gains (losses)	Gains (losses) on derivative instruments - OTC	Unrealized Gains (losses)
Interest rate swaps	$ (8,832)	1,920	3,893	4,942
Equity derivatives	(3,969)	(41)	92	-
Structured notes	(38,864)	(7,924)	(32,536)	(6,146)
IRS asset swaps	301	16,240	533	18,769
Asset swap options	(281,311)	(98,208)	(43,107)	66,482
Currency swaps	(64,026)	(3,848)	(167,857)	7,495
Total	$ **(396,701)**	**(91,861)**	**(238,982)**	**91,542**

(v) Capital management

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

As of December 31, 2017, the Company maintains no change of its capital management. The Company's capital adequacy ratio on December 31, 2017 was 315%.

(7) Related party transactions:

(a) Relationships between parents and subsidiaries

Refer to Note 13(b) for a detailed list of the Company's subsidiaries.

(b) Parent Company and ultimate controlling party

The Company is the parent company and the ultimate controlling party of the consolidated company.

(c) Names of related parties and relationships

Names of related parties	Relationships
Capital Insurance Advisory Corp.	Subsidiary
Capital Insurance Agency Corp.	Subsidiary
Capital Futures Corp.	Subsidiary
Capital Investment Management Corp.	Subsidiary
CSC Venture Capital Corp.	Subsidiary
Taiwan International Securities Investment Consulting Corp.	Subsidiary
Taiwan International Futures Corp.	Subsidiary
CSC Securities (HK) Ltd.	Second-level subsidiary
Capital International Technology Corp.	Second-level subsidiary

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CAPITAL SECURITIES CORPORATION
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Names of related parties	Relationships
San Ho Enterprise Co., Ltd.	Juristic-person director
Kwang Hsing Industrial Co., Ltd.	Juristic-person director
Others	Key management personnel

(d) Key management personnel transactions

(i) Key management personnel compensation:

	For the years ended December 31, 2017	2016
Short-term employee benefits	$ 136,974	91,821
Post-employment benefits	866	946
Total	**$ 137,840**	**92,767**

(ii) Bond transactions - bonds sold under repurchase agreements

The balance of bonds sold under repurchase agreements with key management personnel as of December 31, 2017 and 2016 were as follows:

	December 31, 2017		December 31, 2016	
	Par value	Purchase price	Par value	Purchase price
Key management personnel	**$ 43,600**	**43,941**	**43,600**	**43,749**

Total financial expenses	For the years ended December 31, 2017	2016
Key management personnel	**209**	**230**

(iii) Structured notes transactions

As of December 31, 2017 and 2016, the balances of structured notes transactions with key management personnel were $45,971 and $20,700, respectively.

(e) Significant transactions with related parties

(i) Bond transactions - bonds sold under repurchase agreements

The balances of bonds sold under repurchase agreements with related parties as of December 31, 2017 and 2016 were as follows:

	December 31, 2017		December 31, 2016	
	Par value	Purchase price	Par value	Purchase price
Subsidiaries	$ 11,500	11,501	158,800	159,384
Juristic-person directors	10,700	10,700	14,900	15,000
Total	**$ 22,200**	**22,201**	**173,700**	**174,384**

(Continued)

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Total financial expenses	For the years ended December 31, 2017	2016
Subsidiaries	$ 411	1,606
Juristic-person directors	78	77
Total	$ 489	1,683

Transaction terms are the same as those with general clients.

(ii) Structured notes transaction

As of December 31, 2017and 2016 the balance of structured notes transactions with juristic-person directors of the Company were $4,995.

(iii) Futures commission revenue

The Company provided futures trading assistance for subsidiary.

	December 31, 2017	December 31, 2016
Commission receivable	$ 14,688	11,482

	For the years ended December 31, 2017	2016
Futures commission revenue	$ 150,998	155,588

(iv) Futures trading

The futures margin in subsidiary of the Company is as follows:

	December 31, 2017	December 31, 2016
Futures margin - proprietary fund	$ 718,153	308,212

	For the years ended December 31, 2017	2016
Interest revenue of futures margin	$ 156	183
Handling fees charge	$ 19,526	10,300
Management fees expense	$ 1,636	-

(v) Lease agreements

1) Lease revenue

	For the years ended December 31, 2017	2016
Subsidiaries	$ 20,191	19,844

2) Guarantee deposits received

	December 31, 2017	December 31, 2016
Subsidiaries	$ 4,106	4,069

(vi) Information technology service

In year 2017 and 2016, the Company provided information technology service to subsidiaries, and the revenue of information technology service amounted to $27,291 and $22,127 respectively.

(vii) Stock service income

In year 2017 and 2016, the Company provided stock service to subsidiaries, the stock service income amounted to $478 and $427 respectively, and stock service receivable amounted to $0 and $30 respectively.

(viii) Securities commission expense - introducing brokers

The Company delegated subsidiaries for introducing brokers. As of December 31, 2017 and 2016, securities commission expense payable amounted to $522 and $252 respectively. In year 2017 and 2016, securities commission expenses amounted to $5,147 and $2,936 respectively.

(ix) Consulting fee

Subsidiaries agreed to provide investment information, training courses, and services of publishing non-periodicals. In year 2017 and 2016, consulting fee expense amounted to $86,100 for both years.

(x) Re-consigned handling fee

The Company delegated the second level subsidiaries for introducing brokers on foreign securities transactions. For the year ended December 31, 2017, re-consigned handling fee is $6,120.

(xi) Insurance commission revenues

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

1) Commission revenues

	For the years ended December 31,	
	2017	2016
Subsidiaries	$ 13,626	18,315

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2) Accounts receivable

	December 31, 2017	December 31, 2016
Subsidiaries	$ 1,169	2,452

(xii) Brokerage commissions

The brokerage commission received from the Juristic-person directors and other related parties of the Company engaging in securities and futures trading were $13,561 and $7,720 in years 2017 and 2016, respectively.

(xiii) Human resources and legal service income

The Company provided human resources and legal service for subsidiaries, and the human resources and legal service income amounted to $630 and $1,080, respectively in years 2017 and 2016.

(xiv) Information technology service expense

Subsidiaries prepay the information technology maintenance fee for the Company. As of December 31, 2017 and 2016, information technology service expense payable amounted to $195 and $0, respectively.

(xv) The Company provided the Letter of Comfort to the banks which loaned to subsidiaries CSC International Holdings Ltd. and CSC Securities (HK) Ltd.

(8) Pledged assets:

The following assets were pledged as collateral or restricted in use as of December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016	The collateral use
Restricted assets - current	$ 442,190	557,002	Bank borrowings, commercial paper, accounts settled and repurchase agreement
Restricted assets - non-current	94,875	130,586	Trust to an impartial third party (Note 12)
Trading securities (par value)	49,018,159	36,074,859	Repurchase agreement
Property and equipment	3,510,390	3,618,890	Bank borrowings
Financial assets at fair value through profit or loss - non-current	186,015	186,073	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business investment
Investment property	1,383,346	1,311,584	Bank borrowings
Total	$ **54,634,975**	**41,878,994**	

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(9) Significant contingent liability and unrecognized contract commitment:

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

	December 31, 2017		December 31, 2016	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities procured through margin purchase	715,087	$ 7,150,870	663,916	6,639,160
Collateral for margin purchase	4,429	44,290	12,555	125,550
Collateral for short sales	5,063	50,630	4,427	44,270
Lending securities to customers through short sales	48,278	482,780	37,135	371,350

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

	December 31, 2017		December 31, 2016	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities borrowed from securities finance companies	1,005	$ 10,050	1,346	13,460
Collateral for refinancing margin	15	150	144	1,440

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

	December 31, 2017	December 31, 2016
Promissory notes	$ 24,890,000	24,160,000
Promissory notes	USD 80,000	85,000

(d) As of December 31, 2017 and 2016, the market value of collaterals which received from customers on conducting borrowing and lending business with unrestricted purposes were $1,990,743 and $311,755, respectively.

(e) 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.

(f) 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 again. According to the final judgment made by the Supreme Court in October, 2017, the Company shall not be held liable to the damages.

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(g) The client, Mr. Wu, declared that a resigned employee of Da-Sing branch conducted transactions with Mr. Chen without his consent. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation for damages of $2,192. The case is currently under the trial of Taiwan Taipei District Court. According to the opinion of the Company, the case is a dispute between the employee and the client. Therefore, the company shall not be held liable to the damages. The obligation is not recognized in the financial statement.

(h) According to the documentation No. 0990030563 verdict of Financial Supervisory Commission (dated June 14, 2010), Taiwan International Securities Corporation (hereinafter known as "TISC") is suspected to violate the "Regulations Governing Securities Firms" due to some employees selling private placed products of Genesis Growth Income Preferred Shares B1 issued by GVEC (Genesis Voyager Equity Corporation, Danny Pang as related party) privately. According to the understanding and inspection of TISC, some employees may have been selling the aforementioned product and the suspected sales amount is US$15 million. Some investors instituted proceedings towards TISC and claimed damages amounting to US$7,956,873 dollars (including claim amount US$130,000 dollars towards Taiwan International Securities Investment Consulting Corp.). As of December 31, 2017, the damages claimed for amounted to US$6,355,536, which was in favor of the Company, or the investors reached compromises to waive off the appeal rights. As of December 31, 2017, there is still one case that currently under the review of the Taiwan High Court. Nevertheless, the Company had signed an agreement with the Unitech Printed Circuit Board Corp. and the other nine companies which were the original major shareholders of TISC on May 2, 2011, the date of merger with TISC. According to this agreement, the maximum claim damage compensation afford by the Company is $173,000, thus the Company recognized this amount as other liabilities. As of December 31, 2017, the balance of other liabilities was $48,034.

(i) The Company provided the Letter of Comfort to the banks which loaned to its subsidiary CSC International Holdings Ltd. and CSC securities (HK) Ltd.

(j) In October 2005, the former account executive of the Company's subsidiary - Taiwan International Futures Corporation (hereinafter known as "TIFC") was suspected for deceiving futures investors and causing a material loss. Several investors institute proceedings towards TIFC and claim joint responsibility of compensation for damages. After viewing by TIFC and its attorney, those lawsuits were classified by actual situations and relevant matters, thereon adopted different solutions. As of December 31, 2017, seventeen lawsuits 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). The left one that Taiwan Taipei District Court dismissed the plaintiff's claim in September, 2017, and the forgoing lawsuit has been concluded in December, 2017. As of December 31, 2017, TIFC has paid $275,898 for compensation and recognized the loss reserves $141,204 in other non-current liabilities - other.

As of December 31, 2017, the objects of provisional seizure are as follows:

	Provisional Seizure Amount
Bank deposit	$ 88,821
Clearing and Settlement fund	15,121
Accounts receivable and Other accounts receivable	13
	$ 103,955

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

The Financial Supervisory Commission 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.

(k) 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:

(i) Balance sheet of trust accounts

Balance Sheet of Trust Accounts

December 31, 2017 and 2016

Trust Assets	**December 31, 2017**	**December 31, 2016**	**Trust Liabilities**	**December 31, 2017**	**December 31, 2016**
Bank deposits	$ 951,429	971,862	Accounts payable	$ 328	380
Short-term investment			Trust capital	12,050,890	8,902,241
Funds	10,576,044	6,893,668	Accumulated Earnings or deficit	42,146	(176,994)
Stocks	283,224	529,461			
Securities lent	181,899	195,508			
Bond investment under agreements to repurchase	-	48,788			
Bonds	10,143	1,386			
Structured notes	10,027	31,109			
Accounts receivable	80,598	53,845			
Total Assets	**$ 12,093,364**	**8,725,627**	**Total Liabilities**	**$ 12,093,364**	**8,725,627**

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Income statement of trust accounts

Income Statement of Trust Accounts

For the years ended December 31, 2017 and 2016

	2017	2016
Revenue		
Interest revenue	$ 4,988	10,289
Cash dividends revenue	-	134,857
Rental revenue	8,201	7,733
Realized investment gains	324,642	179,128
Unrealized investment gains	250,376	138,573
Unrealized currency exchange gains	18,453	121,607
Currency exchange gains	483,754	55,880
Subtotal	1,090,414	648,067
Expense		
Administrative fee	1,075	1,304
Commission expenses	83,923	54,264
Realized investment losses	84,223	183,197
Unrealized investment losses	321,081	467,130
Unrealized currency exchange losses	772,661	71,042
Postage expense	-	1
Supplementary insurance premium	-	256
Currency exchange losses	98,547	40,244
Subtotal	1,361,510	817,438
Net income (losses) before tax	(271,096)	(169,371)
Income tax expense	(271)	(1,015)
Net income (losses) after income tax	**$ (271,367)**	**(170,386)**

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(iii) List of trust properties

List of Trust Properties

December 31, 2017 and 2016

Investment items		December 31, 2017	December 31, 2016
Bank deposits	$	951,429	971,862
Short-term investment			
Stocks		283,224	529,461
Securities lent		181,899	195,508
Bond investments under agreement to repurchase		-	48,788
Structured Notes		10,027	31,109
Bonds		10,143	1,386
Funds		10,576,044	6,893,668
Total	$	12,012,766	8,671,782

(10) Significant Catastrophic Loss: None

(11) Significant Subsequent Events:

The Company obtained Board's approval at December 15, 2017 for an investment proposal to acquire the stake in Capital Investment Trust Corp. held by Commerzbank. The total investment amounts were $1,272,505 and the stock delivery procedure is settled on February 9, 2018.

(12) Other:

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

As of December 31, 2017, the accumulated amount of compensation was $275,897. According to the indemnification to the former stockholders of First Securities Co., Ltd. and Far Eastern Securities Co., Ltd, the Company needs to pay all of the compensation to the company participating in the merger. As of December 31, 2017, the trust amount of the impartial third party is $94,875 and the compensation expense in 2017 is $87,125.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Firms" for the Company:

(i) Loans to others:

(In Thousands Dollars)

Number	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 19,322 thousand	US 19,322 thousand	US 19,322 thousand	- %	2	-	Operations	-		-	US 53,632 thousand	US 53,632 thousand
2	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Other receivables - Related party	Yes	US 3,380 thousand	US 3,402 thousand	US 3,380 thousand	- %	2	-	Operations & repayment of financing	-		-	US 3,402 thousand	US 3,402 thousand
3	TIS Securities (HK) Limited	Taiwan International Capital (HK) Ltd.	Other receivables	Yes	HK 1,463 thousand	HK 1,463 thousand	HK 1,463 thousand	- %	2	-	Repayment of financing	-		-	HK 1,463 thousand	HK 1,463 thousand
4	CSC Futures (HK) Ltd.	Pinnacle Corp. Pte Ltd.	Account receivables - Customer	No	30,547	82,656	-	4 %	2	-	Tradings	-		-	94,945	379,779
5	CSC Futures (HK) Ltd.	Klaw Trading Limited	Account receivables - Customer	No	26,568	41,328	-	5 %	2	-	Tradings	-		-	94,945	379,779
6	CSC Futures (HK) Ltd.	Three Arrows Capital Ltd.	Account receivables - Customer	No	47,206	82,656	-	5 %	2	-	Tradings	-		-	94,945	379,779
7	CSC Futures (HK) Ltd.	Future Leading Investment Pte. Ltd.	Account receivables - Customer	No	41,328	41,328	-	3.5 %	2	-	Tradings	-		-	94,945	379,779
8	CSC Futures (HK) Ltd.	Tetrion Capital Limited	Account receivables - Customer	No	6,515	6,810	-	- %	2	-	Tradings	-		-	94,945	379,779

Note: Type of Loans

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

(ii) Guarantees and endorsements for other parties: None

(iii) Acquisition of individual real estate with amount over $300 million or 20% of paid-in capital: None

(iv) Disposal of individual real estate over $300 million or 20% of paid-in capital: None

(v) Service charge discounts on transactions with related parties over NT$5 million: None

(vi) Receivables from related parties over $100 million or 20% of paid-in capital: None

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(b) Information on reinvestment business:

(In Thousands of New Taiwan Dollars)

Ref. No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and number of FSC	Primary business operation	Original investment amount: Balance on December 31, 2017	Original investment amount: Balance on December 31, 2016	Equity Ownership by company: Shares	Equity Ownership by company: Ratio	Equity Ownership by company: Book value (Note 3)	Operating income or loss of investee company during the period	Net income or loss of investee company during the period	Investment gain or loss recognized during the period	Cash dividend	Note
0	Capital Investment Management Corp.	Taipei ,Taiwan, R.O.C.	February 16, 1990		Engaged in providing research, analysis and recommendations pertaining to securities investment, organize seminars and publish materials on securities investments.	72,515	72,515	7,000,000	100.00 %	107,158	82,000	12,258	12,258	10,430	Subsidiary
0	Capital Futures Corp.	Taipei ,Taiwan, R.O.C.	February 26, 1997	No. FSC-1050044467 dated November 15, 2016	Engaged in domestic and foreign futures business.	1,212,359	649,610	90,166,223	56.21 %	2,606,869	1,904,683	731,015	411,651	199,267	〃
0	CSC International Holdings Ltd.	British Virgin Island	March 4, 1996	No. FSC-65350 dated January 12, 1996	Long-term equity investment business.	1,339,555	1,339,555	45,000,000	100.00 %	1,593,416	(21,815)	(10,120)	(10,120)	-	〃
0	Capital Insurance Advisory Corp.	Taipei ,Taiwan, R.O.C.	November 9, 2000		Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business.	3,890	3,890	500,000	100.00 %	90,506	190,227	64,667	64,667	78,650	〃
0	Capital Insurance Agency Corp.	Taipei ,Taiwan, R.O.C.	November 8, 2000		Manages personal insurance agent business.	7,400	7,400	740,000	100.00 %	41,547	73,265	2,149	2,149	12,802	〃
0	Taiwan International Futures Corp. (Note 4)	Taipei ,Taiwan, R.O.C.	November 25, 1993		Liquidation in progress.	429,990	429,990	11,999,721	99.99 %	-	-	-	-	-	〃
0	Taiwan International Securities (B.V.I) Corp.	British Virgin Island	December 10, 1996	No. FSC-53981	Long-term equity investment business.	1,394,817	1,394,817	300	100.00 %	881	304	272	272	-	〃
0	Taiwan International Securities Investment Consulting Corp. (Note 5)	Taipei ,Taiwan, R.O.C.	March 3, 1994		Liquidation in progress.	9,992	9,992	999,200	99.92 %	13,031	-	(267)	(267)	-	〃
0	CSC Venture Capital Corp.	Taipei ,Taiwan, R.O.C.	January 12, 2016	No. FSC-1040034071 dated September 8, 2015	Venture Capital and consulting business	1,000,000	1,000,000	100,000,000	100.00 %	997,913	1,281	(3,757)	(3,757)	-	〃
1	Capital Securities (Hong Kong) Ltd. (Note 7)	Hong Kong	June 29, 1993	No. FSC-17433 dated April 7, 1993	Completion of liquidation.	HK -	HK 48,644 thousand	-	- %	HK -	HK -	HK -	-	-	Second-level subsidiary
1	CSC Securities (HK) Ltd. (Note 7)	Hong Kong	May 3, 1994	No. FSC-90931 dated January 5, 1998	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong.	HK 128,000 thousand	HK 89,600 thousand	128,000,000	100.00 %	HK 158,052 thousand	HK 28,434 thousand	HK (5,478) thousand	-	-	〃
2	CSC Securities (HK) Ltd. (Note 7)	Hong Kong	May 3, 1994	No. FSC-90931 dated January 5, 1998	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong.	HK -	HK 38,400 thousand	-	- %	HK -	HK 28,434 thousand	HK (5,478) thousand	-	-	Third-level subsidiary
3	TIS Securities (HK) Limited (Note 6)	Hong Kong	August 17, 1993	No. FSC-40912 dated November 4, 1993	Liquidation in progress.	HK 265,000 thousand	HK 265,000 thousand	265,000,000	100.00 %	HK (26,355) thousand	HK -	HK 76 thousand	-	-	Second-level subsidiary
4	Taiwan International Capital (HK) Ltd. (Note 6)	Hong Kong	July 16, 1997	No. FSC-110159	Liquidation in progress.	HK 2	HK 2	2	100.00 %	HK (66,100) thousand	HK -	HK (16,885) thousand	-	-	Third-level subsidiary

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

Ref. No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and number of FSC	Primary business operation	Original investment amount		Equity Ownership by company			Operating income or loss of investee company during the period	Net income or loss of investee company during the period	Investment gain or loss recognized during the period	Cash dividend	Note
						Balance on December 31, 2017	Balance on December 31, 2016	Shares	Ratio	Book value (Note 3)					
5	CSC Futures (HK) Ltd.	Hong Kong	December 9, 1998	No. FSC-1010027412 dated August 24, 2012	Futures brokerage and other businesses permitted by local law of Hong?Kong.	862,631	862,631	214,000,000	97.27 %	923,527	825,594	79,824	-	-	Second-level subsidiary
5	Capital International Technology Co., Ltd.	Taipei ,Taiwan, R.O.C.	December 29, 2014	No. FSC-1030038387 dated November 18, 2014	Management and consulting business. Information technology software	50,000	50,000	5,000,000	100.00 %	46,088	1,806	898	-	-	Second-level subsidiary
5	True Partner Advisor Hong Kong Ltd	Hong Kong	May 31, 2010	No. FSC-1040027513 dated July 16, 2015	Asset Management	36,701	36,701	245,000	49.00 %	41,535	70,678	2,097	-	-	Associates
6	Capital Securities Nominee Ltd.	Hong Kong	April 7, 1995		Agency services.	HK 2	HK 2	2	100.00 %	HK -	HK -	HK -	-	-	Third-level subsidiary

Note 1: (0) Capital Securities Corp. (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.

Note 6: The board of directors of the Company resolved to dissolve the investee company on December 30, 2011. The representative office of China dissolved in 2014 as well. According to the laws of Hong Kong, it can't be liquidated voluntarily because the total assets of TIS Securities (HK) Limited and Taiwan International Capital (HK) Ltd. can't cover the liabilities. The company has briefed it to the accountant in Hong Kong to plan the solutions.

Note 7: Capital Securities (Hong Kong) Ltd. transferred 30% of the equity to CSC International Holdings Ltd. and the distribution of residual property was completed on September 12, 2017. The company registration is cancelled on February 3, 2018.

(c) Information on branch units or representative offices overseas:

(In Thousands of New Taiwan Dollars)

Name	Region	Date of establishment	Approval date and number of FSC	Primary business operation	Operating Revenues	Net Income	Assignment of working capital				Transactions with parent company	Note
							Beginning amount	Add	Less	Ending amount		
CSC International Holdings Ltd. Shanghai Representative Office	Shanghai	November 27, 1997	Ruling No. 16322 by FSC on Feb.22, 1997	Investigation of business, research of industrial technology and related information collection	-	-	-	-	-	-	-	

(d) Information on investments in China:

(i) Investment in Mainland China and related information:

(In Thousands of New Taiwan Dollars)

Name of investee in Mainland China	Major Operations	Issued capital	Method of investment (Note 1)	Accumulated remittance as of January 1, 2017	Remittance of recoverable investment this period		Accumulated remittance as of December 31, 2017	Net gains (losses) of the investee	Direct or indirect Share holdings (%) by the Company	Investment gains (losses) recognized during this period (Note 2)	Ending Balance of Investment	Investment income remitted back as of December 31, 2017
					Remittance amount	Recoverable amount						
Capital True Partner Technology Co., Ltd.	Management, consulting and information service business	5,013	(C)	24,372	-	-	24,372	83	28.67%	138 B(2)	12,167	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	18,863	(C)	-	18,863	-	18,863	2,553	56.21%	1,435 B(2)	11,626	-

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.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Limitation on investment in Mainland China:

Company Name	Accumulated remittance from Taiwan to Mainland China	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment in Mainland China regulated by MOEA
Capital International Technology Corp.	43,235	43,235	80,000

Note: The Company invests through subsidiaries, Capital International Technology Corp. to invest in Mainland China. According to the relevant rules to small and medium enterprises, the upper limit for investment in China is $80,000.

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

According to article 4, no. 5 of the letter no. 10400414001 issued by Financial Supervisory Commission on November 19, 2015, the required supplementary disclosures of the Company's information on reinvestment in overseas businesses for the year ended December 31, 2017 are as follows:

(i) Balance sheet and income statement:

1) Balance sheet

Unit: US$ thousands

Nature / Company	CSC International Holdings Ltd. December 31, 2017	Taiwan International Securities (B.V.I) Corp. December 31, 2017
Current assets	11,999	68
Long-term investments	20,222	-
Property and premises	2,165	-
Other assets	19,395	3,380
Total assets	53,781	3,448
Current liabilities	63	46
Other liabilities	86	3,372
Total liabilities	149	3,418
Common stock	45,000	9,516
Retained earnings (Accumulated deficit)	8,827	(9,430)
Cumulative translation adjustments	(195)	(56)
Total stockholders' equity	53,632	30
Total liabilities and stockholders' equity	53,781	3,448

2) Income statement

Unit: US$ thousands

Nature / Company	CSC International Holdings Ltd. 2017	Taiwan International Securities (B.V.I) Corp. 2017
Operating revenue	(704)	10
Operating expense	(877)	(1)
Non-operating revenue	1,255	-
Non-operating expense	-	-
Income (Loss) before tax	(326)	9
Net income (loss)	(326)	9

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Marketable securities held as of December 31, 2017

Unit: shares / US$ thousands

Name of holding company	Securities types and name	Account classification	December 31, 2017	
			Shares	Book value
CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Long-term investments	128,000,000	$ 20,222
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Other liabilities	265,000,000	$ (3,372)

(iii) Transactions of financial derivatives: None.

(iv) Revenue on advisory and consulting service and related lawsuit: None.

(14) Segment information:

Please refer to the consolidated financial statements of the Company as of December 31, 2017.