

**(English Translation of Financial Report Originally
Issued in Chinese)**

**CAPITAL SECURITIES CORPORATION
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2017 AND 2016

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

Telephone: 886-2-8789-8888

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.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

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安侯建業聯合會計師事務所

KPMG

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

Telephone 電話 + 886 (2) 8101 6666
Fax 傳真 + 886 (2) 8101 6667
Internet 網址 kpmg.com/tw

Independent Accountants' Review Report

The Board of Directors
Capital Securities Corporation

We have reviewed the accompanying consolidated balance sheets of Capital Securities Corporation and its subsidiaries as of March 31, 2017 and 2016 and the related consolidated statements of comprehensive income, equity change, and cash flows for the three months ended March 31, 2017 and 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our review.

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

The related information of certain subsidiaries under the equity method in the accompanying consolidated financial statements were based on the investees' financial statements for the same period which were not reviewed by independent accountants. The total assets of these investees as of March 31, 2017 and 2016 were \$7,404,862 thousands and \$6,610,358 thousands, constituting 5.93% and 6.77% of total consolidated assets, respectively; the total liabilities of these investees as of March 31, 2017 and 2016 were \$3,618,862 thousands and \$3,113,942 thousands, constituting 3.90% and 4.73% of total consolidated liabilities, respectively; the total comprehensive income of these investees for the three-month periods ended March 31, 2017 and 2016 were \$(60,863) thousands and \$8,049 thousands, constituting (11.22)% and 2.43% of total consolidated comprehensive income, respectively.

As described in Note 6(6) of the consolidated statements, the investments under equity method amounting to \$226,399 thousands and \$180,724 thousands as of March 31, 2017 and 2016, respectively, and share of profits of associates and joint venture under equity method amounting to \$28,899 thousands and \$23,182 thousands for the three months periods ended March 31, 2017 and 2016, respectively, were based on their unreviewed financial statements for the same reporting period.

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

KPMG
Taipei, Taiwan, R.O.C.
May 12, 2017

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated statement of 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 review 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 Report Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed In Thousands of New Taiwan Dollars)

| ASSETS | (Unaudited) March 31, 2017 | | December 31, 2016 | | (Unaudited) March 31, 2016 | | LIABILITIES AND STOCKHOLDERS' EQUITY | (Unaudited) March 31, 2017 | | December 31, 2016 | | (Unaudited) March 31, 2016 | |
|--|-------------------------------|------------|--------------------|------------|-------------------------------|------------|--|-------------------------------|------------|-----------------------|------------|-------------------------------|------------|
| | Amount | % | Amount | % | Amount | % | | Amount | % | Amount | % | Amount | % |
| Current Assets | | | | | | | Current Liabilities | | | | | | |
| Cash and cash equivalents (Note 6(1)) | \$ 6,282,083 | 5 | 5,423,415 | 5 | 6,037,993 | 6 | Short-term borrowings (Note 6(10)) | \$ 5,764,959 | 5 | 4,236,402 | 4 | 2,721,573 | 3 |
| Financial assets at fair value through profit or loss - current (Note 6(2)) | 30,908,318 | 25 | 27,730,008 | 25 | 24,325,582 | 25 | Commercial paper payable (Note 6(11)) | 4,849,172 | 4 | - | - | 299,983 | - |
| Financial assets available for sale - current (Note 6(2)) | 27,781,984 | 22 | 19,337,878 | 18 | 11,316,836 | 11 | Financial liabilities at fair value through profit or loss - current (Note 6(12)) | 1,010,742 | 1 | 1,475,764 | 2 | 2,023,968 | 2 |
| Bonds purchased under resale agreements (Notes 6(3) and (8)) | 451,918 | - | - | - | 397,256 | - | Bonds sold under repurchase agreements (Note 6(13)) | 43,348,419 | 35 | 34,956,642 | 32 | 26,903,149 | 28 |
| Receivable for securities provided as collateral | 13,733,110 | 11 | 11,924,515 | 11 | 13,521,713 | 14 | Guarantee deposited for short sales | 1,060,615 | 1 | 1,722,840 | 2 | 1,096,435 | 1 |
| Refinancing margin | 4,603 | - | 93,353 | - | 5,039 | - | Proceeds payable from short sales | 1,187,443 | 1 | 1,947,104 | 2 | 1,169,808 | 1 |
| Refinancing collateral receivable | 4,495 | - | 79,289 | - | 5,991 | - | Securities lending refundable deposits | 544,618 | - | 878,866 | 1 | 506,189 | 1 |
| Receivable of securities business money lending | 760,811 | 1 | 144,552 | - | 2,185 | - | Futures traders' equity (Note 6(5)) | 24,142,693 | 19 | 23,132,231 | 21 | 19,158,296 | 20 |
| Customers' margin account (Note 6(5)) | 24,179,107 | 20 | 23,169,842 | 21 | 19,215,771 | 20 | Customer equity of separate account ledger in settlement account (Note 6(14)) | 12,718 | - | 4,537 | - | 35,608 | - |
| Receivable - futures margin | - | - | 894 | - | 894 | - | Leverage contract trading - customers' equity | 148,867 | - | 70 | - | - | - |
| Collateral for securities borrowed | 158,813 | - | 802,737 | 1 | 592,654 | 1 | Notes payable | 485 | - | 879 | - | 468 | - |
| Security borrowing margin | 353,541 | - | 775,251 | 1 | 730,660 | 1 | Accounts payable (Note 6(15)) | 5,417,349 | 4 | 3,478,124 | 3 | 6,326,582 | 6 |
| Notes receivable | 15,044 | - | 16,931 | - | 5,431 | - | Advance receipts | 54,210 | - | 33,569 | - | 16,833 | - |
| Accounts receivable (Note 6(4)) | 5,363,182 | 4 | 4,106,313 | 4 | 6,959,068 | 7 | Receipts under custody | 154,953 | - | 147,328 | - | 103,438 | - |
| Prepayments | 41,724 | - | 50,564 | - | 41,439 | - | Other payables | 565,103 | - | 663,830 | 1 | 651,360 | 1 |
| Other receivables | 93,358 | - | 100,312 | - | 74,598 | - | Other financial liabilities - current (Note 6(23)) | 2,495,416 | 2 | 2,427,461 | 2 | 2,684,400 | 3 |
| Leverage contract trading - customer margin account | 142,194 | - | 72 | - | - | - | Current income tax liabilities | 283,237 | - | 225,883 | - | 183,178 | - |
| Current income tax assets | 44,650 | - | 44,685 | - | 65,316 | - | Provisions - current (Note 6(17)) | 53,980 | - | 65,365 | - | 47,546 | - |
| Other current assets | 814,705 | 1 | 705,402 | 1 | 630,877 | 1 | Other current liabilities | 6,220 | - | 3,065 | - | 19,333 | - |
| | <u>111,133,640</u> | <u>89</u> | <u>94,506,013</u> | <u>87</u> | <u>83,929,303</u> | <u>86</u> | | <u>91,101,199</u> | <u>72</u> | <u>75,399,960</u> | <u>70</u> | <u>63,948,147</u> | <u>66</u> |
| Non-current Assets | | | | | | | Non-current Liabilities | | | | | | |
| Financial assets at fair value through profit or loss - non-current (Notes 6(2) and 8) | 186,146 | - | 186,073 | - | 190,413 | - | Other financial liabilities - non-current (Note 6(23)) | 292,045 | - | 239,634 | - | 315,257 | - |
| Financial assets measured at cost - non-current (Note 6(2)) | 644,225 | 1 | 448,460 | - | 487,231 | 1 | Deferred income tax liabilities | 646,839 | 1 | 675,975 | 1 | 703,153 | 1 |
| Financial assets available for sale - non-current (Note 6(2)) | 73,866 | - | 76,261 | - | 63,373 | - | Other non-current liabilities | 864,824 | 1 | 884,366 | 1 | 865,312 | 1 |
| Investments accounted for under equity method (Note 6(6)) | 226,399 | - | 198,205 | - | 180,724 | - | | <u>1,803,708</u> | <u>2</u> | <u>1,799,975</u> | <u>2</u> | <u>1,883,722</u> | <u>2</u> |
| Property and equipment (Notes 6(7) and 8) | 5,105,764 | 4 | 5,129,823 | 5 | 5,154,502 | 5 | Total Liabilities | <u>92,904,907</u> | <u>74</u> | <u>77,199,935</u> | <u>72</u> | <u>65,831,869</u> | <u>68</u> |
| Investment property (Notes 6(8) and 8) | 1,723,524 | 2 | 1,727,324 | 2 | 1,738,729 | 2 | Equity Attributable to Shareholders of the Parent | | | | | | |
| Intangible assets (Note 6(9)) | 3,623,363 | 3 | 3,612,248 | 3 | 3,620,622 | 4 | Common stock (Note 6(19)) | 21,690,730 | 17 | 22,690,730 | 21 | 22,690,730 | 23 |
| Deferred income tax assets | 415,385 | - | 407,397 | 1 | 469,484 | - | Capital surplus | | | | | | |
| Other non-current assets | 1,711,227 | 1 | 1,752,409 | 2 | 1,833,045 | 2 | Premium from stock issuance | 1,776,413 | 2 | 1,858,310 | 2 | 1,858,310 | 2 |
| | <u>13,709,899</u> | <u>11</u> | <u>13,538,200</u> | <u>13</u> | <u>13,738,123</u> | <u>14</u> | Treasury stock transactions | 437,096 | - | 253,940 | - | 253,940 | - |
| | | | | | | | Paid-in capital from merger | 602,665 | 1 | 630,450 | 1 | 630,450 | 1 |
| | | | | | | | Difference between consideration and carrying amount of subsidiaries acquired and disposed | 1,338 | - | 1,399 | - | 1,399 | - |
| | | | | | | | Changes in ownership interests in subsidiaries | 33,337 | - | 6,873 | - | 6,287 | - |
| | | | | | | | Retained earnings | | | | | | |
| | | | | | | | Legal reserve | 1,110,600 | 1 | 1,110,600 | 1 | 955,667 | 1 |
| | | | | | | | Special reserve | 2,464,288 | 2 | 2,464,288 | 2 | 2,154,422 | 2 |
| | | | | | | | Unappropriated earnings (Note 6(18)) | 1,701,918 | 1 | 1,188,633 | 1 | 1,748,801 | 2 |
| | | | | | | | Exchange differences on translation of foreign operations | (44,425) | - | 97,158 | - | 98,618 | - |
| | | | | | | | Unrealized gains (losses) on financial assets available for sale | 206,252 | - | 53,215 | - | 143,562 | - |
| | | | | | | | Treasury stocks (Note 6(19)) | - | - | (835,048) | (1) | - | - |
| | | | | | | | Total equity attributed to the parent company | <u>29,980,212</u> | <u>24</u> | <u>29,520,548</u> | <u>27</u> | <u>30,542,186</u> | <u>31</u> |
| | | | | | | | Non-controlling interests | <u>1,958,420</u> | <u>2</u> | <u>1,323,730</u> | <u>1</u> | <u>1,293,371</u> | <u>1</u> |
| | | | | | | | Total Equity | <u>31,938,632</u> | <u>26</u> | <u>30,844,278</u> | <u>28</u> | <u>31,835,557</u> | <u>32</u> |
| TOTAL ASSETS | \$ 124,843,539 | 100 | 108,044,213 | 100 | 97,667,426 | 100 | TOTAL LIABILITIES AND EQUITY | \$ 124,843,539 | 100 | \$ 108,044,213 | 100 | 97,667,426 | 100 |

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

(English Translation of Financial Report Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed In Thousands of New Taiwan Dollars, Except Earnings Per Share Data)
(Unaudited)

| | For the three months ended March 31, | | | |
|---|--------------------------------------|------------|-------------------|------------|
| | 2017 | | 2016 | |
| | Amount | % | Amount | % |
| Income: | | | | |
| Brokerage commissions (Note 6(21)) | \$ 815,072 | 44 | \$ 862,682 | 59 |
| Revenues from securities business money lending | 154 | - | 13 | - |
| Revenue from securities lendings | 24,801 | 1 | 14,332 | 1 |
| Underwriting commissions (Note 6(21)) | 48,523 | 3 | 16,236 | 1 |
| Commissions on wealth management business | 21,779 | 1 | 12,449 | 1 |
| Net gains (losses) on sale of trading securities (Note 6(21)) | 373,498 | 20 | (146,012) | (10) |
| Securities management, distribution, and management fees | 32,863 | 2 | 35,567 | 2 |
| Interest revenue (Note 6(21)) | 441,261 | 24 | 341,477 | 23 |
| Dividend revenue | 635 | - | 829 | - |
| Net gains (losses) on measurement of trading securities at fair value through profit or loss (Note 6(21)) | 135,562 | 7 | 147,936 | 10 |
| Net gains (losses) on covering of borrowed securities and bonds with resale agreements | 9,758 | 1 | 73,625 | 5 |
| Net losses on measurement of borrowed securities and bonds with resale agreements | (50,938) | (3) | (64,615) | (4) |
| Net gains on stock warrants issued (Notes 6(21) and 6(23)) | 40,802 | 2 | 216,044 | 15 |
| Futures commission revenues | 111,893 | 6 | 95,333 | 6 |
| Net gains (losses) on derivative instruments - futures (Note 6(23)) | (82,286) | (4) | (117,377) | (8) |
| Net gains (losses) on derivative instruments - OTC (Note 6(23)) | (140,617) | (7) | (108,553) | (7) |
| Management fee revenues | 9 | - | 50 | - |
| Advisory commissions | 3,592 | - | 2,865 | - |
| Other operating revenues | 51,997 | 3 | 83,816 | 6 |
| | <u>1,838,358</u> | <u>100</u> | <u>1,466,697</u> | <u>100</u> |
| Expenses: | | | | |
| Brokerage fees | 103,733 | 6 | 111,226 | 7 |
| Brokerage and clearing fees - proprietary trading | 4,584 | - | 4,265 | - |
| Clearing and exchange fees - refinancing | 327 | - | 835 | - |
| Clearing and exchange fees - underwriting | 815 | - | 334 | - |
| Financial costs | 124,848 | 7 | 56,099 | 4 |
| Commission expense - futures | 107,423 | 6 | 79,997 | 5 |
| Clearing and settlement expenses | 32,491 | 2 | 37,088 | 3 |
| Other operating expenditure | 26 | - | 2,829 | - |
| Employee benefits expenses (Note 6(21)) | 633,841 | 34 | 598,648 | 41 |
| Depreciation and amortization expenses (Note 6(21)) | 54,264 | 3 | 54,348 | 4 |
| Other operating expenses (Note 6(21)) | 335,829 | 18 | 366,367 | 25 |
| | <u>1,398,181</u> | <u>76</u> | <u>1,312,036</u> | <u>89</u> |
| Other income and expenses : | | | | |
| Share of profits of associates and joint venture (Note 6(6)) | 28,899 | 1 | 23,182 | 2 |
| Other gains and losses (Note 6(21)) | 140,159 | 8 | 108,095 | 7 |
| | <u>169,058</u> | <u>9</u> | <u>131,277</u> | <u>9</u> |
| Net income before income tax | <u>609,235</u> | <u>33</u> | <u>285,938</u> | <u>20</u> |
| Income tax expense (Note 6(18)) | <u>(54,571)</u> | <u>(3)</u> | <u>(65,017)</u> | <u>(5)</u> |
| Net income | <u>554,664</u> | <u>30</u> | <u>220,921</u> | <u>15</u> |
| Other comprehensive income: | | | | |
| Items that may be reclassified to profit or loss in subsequent periods | | | | |
| Exchange differences on translation of foreign operations | (192,301) | (10) | (49,648) | (3) |
| Unrealized gains (losses) on financial assets available for sale, net | 151,972 | 8 | 151,375 | 10 |
| Income tax benefit related to components of other comprehensive income (Note 6(18)) | 27,932 | 2 | 8,508 | 1 |
| Total items that will be reclassified to profit or loss in subsequent periods | <u>(12,397)</u> | <u>-</u> | <u>110,235</u> | <u>8</u> |
| Other comprehensive income for the period, net of income tax | <u>(12,397)</u> | <u>-</u> | <u>110,235</u> | <u>8</u> |
| Total comprehensive income for the period | <u>\$ 542,267</u> | <u>30</u> | <u>\$ 331,156</u> | <u>23</u> |
| Net income attributable to | | | | |
| Shareholders of the parent | \$ 513,285 | 28 | 161,807 | 11 |
| Non-controlling interests | 41,379 | 2 | 59,114 | 4 |
| | <u>\$ 554,664</u> | <u>30</u> | <u>\$ 220,921</u> | <u>15</u> |
| Total comprehensive income attributable to: | | | | |
| Shareholders of the parent | \$ 524,739 | 29 | 274,852 | 19 |
| Non-controlling interests | 17,528 | 1 | 56,304 | 4 |
| | <u>\$ 542,267</u> | <u>30</u> | <u>\$ 331,156</u> | <u>23</u> |
| Basic earnings per share (Note 6(20)) | <u>\$ 0.24</u> | | <u>\$ 0.07</u> | |
| Dilutive earnings per share (Note 6(20)) | <u>\$ 0.24</u> | | <u>\$ 0.07</u> | |

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

(English Translation of Financial Report Originally Issued in Chinese)
 CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
 FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
 (Expressed In Thousands of New Taiwan Dollars)
 (Unaudited)

| | Equity attributable to shareholders of the parent | | | | | | | | | | Total | | |
|--|---|--------------------|------------------|--------------------|----------------------------|---|--|-----------|--------------------|---|-------------------|------------------------------|--------|
| | Retained earnings | | | | | Others | | | Treasury stocks | Equity attributable to shareholders of the parent | | Non-controlling interests | Equity |
| | Common stock | Capital surplus | Legal reserve | Special reserve | Unappropriated earnings | Exchange differences on translation of foreign operations | Unrealized gains (losses) on financial assets available for sale | - | | | | | |
| Beginning balance, January 1, 2016 | \$ 23,190,730 | 2,742,807 | 955,667 | 2,154,422 | 1,586,994 | 135,985 | (6,850) | (469,155) | 30,290,600 | 1,237,067 | 31,527,667 | | |
| Net income for the three months ended March 31, 2016 | - | - | - | - | 161,807 | - | - | - | 161,807 | 59,114 | 220,921 | | |
| Other comprehensive income for the three months ended March 31, 2016 | - | - | - | - | - | (37,367) | 150,412 | - | 113,045 | (2,810) | 110,235 | | |
| Total comprehensive income for the three months ended March 31, 2016 | - | - | - | - | 161,807 | (37,367) | 150,412 | - | 274,852 | 56,304 | 331,156 | | |
| Purchase of treasury stocks | - | - | - | - | - | - | - | (23,266) | (23,266) | - | (23,266) | | |
| Retirement of treasury stocks | (500,000) | 7,579 | - | - | - | - | - | 492,421 | - | - | - | | |
| Ending balance, March 31, 2016 | \$ 22,690,730 | 2,750,386 | 955,667 | 2,154,422 | 1,748,801 | 98,618 | 143,562 | - | 30,542,186 | 1,293,371 | 31,835,557 | | |
| Beginning balance, January 1, 2017 | \$ 22,690,730 | 2,750,972 | 1,110,600 | 2,464,288 | 1,188,633 | 97,158 | 53,215 | (835,048) | 29,520,548 | 1,323,730 | 30,844,278 | | |
| Net income for the three months ended March 31, 2017 | - | - | - | - | 513,285 | - | - | - | 513,285 | 41,379 | 554,664 | | |
| Other comprehensive income for the three months ended March 31, 2017 | - | - | - | - | - | (141,583) | 153,037 | - | 11,454 | (23,851) | (12,397) | | |
| Total comprehensive income for the three months ended March 31, 2017 | - | - | - | - | 513,285 | (141,583) | 153,037 | - | 524,739 | 17,528 | 542,267 | | |
| Purchase of treasury stocks | - | - | - | - | - | - | - | (91,539) | (91,539) | - | (91,539) | | |
| Retirement of treasury stocks | (1,000,000) | 73,413 | - | - | - | - | - | 926,587 | - | - | - | | |
| Change in the ownership interest of subsidiaries | - | 26,464 | - | - | - | - | - | - | 26,464 | - | 26,464 | | |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | 617,162 | 617,162 | | |
| Ending balance, March 31, 2017 | \$ 21,690,730 | 2,850,849 | 1,110,600 | 2,464,288 | 1,701,918 | (44,425) | 206,252 | - | 29,980,212 | 1,958,420 | 31,938,632 | | |

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

(English Translation of Financial Report Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(Expressed In Thousands of New Taiwan Dollars)
(Unaudited)

| | For the three months ended March 31, | |
|--|---|--------------------|
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Income before income tax for the period | \$ 609,253 | 285,938 |
| Adjustments for: | | |
| Income and expenses items with no effect on cash flows: | | |
| Depreciation expense | 46,057 | 44,272 |
| Amortization expense | 8,207 | 10,076 |
| Bad debt provision | 12,883 | - |
| Net losses (gains) on financial assets or liabilities at fair value through profit or loss | (138,900) | (147,936) |
| Interest expense | 124,848 | 56,099 |
| Interest revenue (including financial income) | (498,231) | (387,922) |
| Dividend revenue | (2,352) | (3,188) |
| Share-based payments | 17,530 | - |
| Share of profit of associates and joint ventures | (28,899) | (23,182) |
| Net losses (gains) on disposal and retirement of property and equipment | - | 3,198 |
| Net losses (gains) on non-operating financial instruments at fair value through profit or loss | (12,832) | 15,957 |
| Net changes of income and expense items with no effect on cash flows | <u>(471,689)</u> | <u>(432,626)</u> |
| Changes in assets and liabilities from operating activities: | | |
| Net changes of assets from operating activities: | | |
| Decrease (increase) in financial assets at fair value through profit or loss | (3,029,980) | 1,792,166 |
| Decrease (increase) in financial assets available for sale - current | (8,289,796) | (3,332,355) |
| Decrease (increase) in bonds purchased under resale agreements | (451,918) | (397,256) |
| Decrease (increase) in receivable for securities provided as collateral | (1,808,595) | 1,633,507 |
| Decrease (increase) in refinancing margin | 88,750 | 4,045 |
| Decrease (increase) in receivable on refinancing collateral | 74,794 | 1,559 |
| Decrease (increase) in receivable of securities business money lending | (616,259) | (2,185) |
| Decrease (increase) in customers' margin account | (1,009,265) | (2,911,015) |
| Decrease (increase) in margin receivable of futures trading | 894 | 6 |
| Decrease (increase) in collateral for securities borrowed | 643,924 | 481,476 |
| Decrease (increase) in security borrowing margin | 421,710 | 729,889 |
| Decrease (increase) in notes receivable | 1,887 | 2,524 |
| Decrease (increase) in accounts receivable | (1,232,906) | (1,966,953) |
| Decrease (increase) in prepayments | 8,840 | (5,102) |
| Decrease (increase) in other receivables | 6,900 | 11,017 |
| Decrease (increase) in pledged assets - current | (159,161) | - |
| Decrease (increase) in current income tax assets | - | (5,541) |
| Decrease (increase) in other current assets | 49,858 | 1,227,343 |
| Decrease (increase) in guarantee deposited for business operations | 1,222 | 1,921 |
| Decrease (increase) in settlement fund | 756 | 184,129 |
| Decrease (increase) in refundable deposits | (70,944) | (7,387) |
| Decrease (increase) in leverage contract trading - customer margin account | (142,122) | - |
| Decrease (increase) in other non-current assets | 100,129 | (150,599) |
| Total net changes in assets from operating activities: | <u>(15,411,282)</u> | <u>(2,708,811)</u> |
| Net changes in liabilities from operating activities: | | |
| Increase (decrease) in financial liabilities at fair value through profit or loss | (461,685) | (385,487) |
| Increase (decrease) in bonds sold under repurchase agreements | 8,391,777 | 3,326,906 |
| Increase (decrease) securities financing refundable deposits | (662,225) | (928,576) |
| Increase (decrease) deposits payable for securities financing | (759,661) | (1,072,872) |
| Increase (decrease) securities lending refundable deposits | (334,248) | (1,116,748) |
| Increase (decrease) in futures traders' equity | 1,010,462 | 2,870,984 |
| Increase (decrease) customers' equity of separate account ledger in settlement accounting | 8,181 | 35,608 |
| Increase (decrease) in leverage contract trading - customers' equity | 148,797 | - |
| Increase (decrease) in notes payable | (394) | (378) |
| Increase (decrease) in accounts payable | 1,939,225 | 2,478,389 |
| Increase (decrease) in advance receipts | 20,641 | (3,102) |
| Increase (decrease) in receipts under custody | 7,625 | (1,243,901) |
| Increase (decrease) in other payables | (88,610) | (107,560) |
| Increase (decrease) in other current liabilities | 2,427 | 9,687 |
| Increase (decrease) in other financial liabilities - current | 67,955 | (1,150,175) |
| Increase (decrease) in provision - current | (11,385) | - |
| Increase (decrease) in other financial liabilities - non-current | 52,411 | 73,266 |
| Increase (decrease) in other non-current liabilities | (19,542) | (109) |
| Total net changes in liabilities from operating activities | <u>9,311,751</u> | <u>2,785,932</u> |
| Total net changes in assets and liabilities from operating activities | <u>(6,099,531)</u> | <u>77,121</u> |
| Total Cash generated from adjustment items | <u>(6,571,220)</u> | <u>(355,505)</u> |

(English Translation of Financial Report Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(Expressed In Thousands of New Taiwan Dollars)
(Unaudited)

| | For the three months ended March 31, | |
|--|---|------------------|
| | 2017 | 2016 |
| Cash generated by operating activities | \$ (5,961,985) | (69,567) |
| Interest received | 461,704 | 379,147 |
| Dividends received | 2,353 | 3,041 |
| Interest paid | (135,228) | (58,158) |
| Income tax paid | (6,408) | (3,443) |
| Net cash provided by (used in) operating activities | (5,639,564) | 251,020 |
| Cash flows from investing activities: | | |
| Decrease (increase) in financial assets measured at cost | (195,765) | (76,000) |
| Decrease (increase) of deferred debits | 74 | (399) |
| Acquisitions of property and equipment | (12,935) | (19,923) |
| Acquisitions of intangible assets | (19,021) | (2,561) |
| Net cash provided by (used in) investing activities | (227,647) | (98,883) |
| Cash flows from financing activities: | | |
| Increase (decrease) in short-term borrowing | 1,528,557 | 930,412 |
| Increase (decrease) in commercial paper payable | 4,849,172 | 299,983 |
| Acquisition of treasury stocks | (91,539) | (23,266) |
| Issuance of common stock for cash | 626,096 | - |
| Net cash provided by (used in) financing activities | 6,912,286 | 1,207,129 |
| Effect of exchange rate changes on cash and cash equivalents | (186,407) | (47,771) |
| Increase (decrease) in cash and cash equivalents | 858,668 | 1,311,495 |
| Cash and cash equivalents, beginning of the year | 5,423,415 | 4,726,498 |
| Cash and cash equivalents, end of this period | \$ 6,282,083 | 6,037,993 |

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

Notes to consolidated financial statements as of March 31, 2017 and 2016 are reviewed only, not audited in accordance with generally accepted auditing standards

(English Translation of Financial Report Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 and 2016

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

1. OVERVIEW

Capital Securities Corporation (the “Company”) was registered under the Ministry of Economic Affairs, R.O.C. on June 21, 1988, The address of the Company’s registered office is 4th Fl. No. 101, Song-Jen Road, Taipei, Taiwan, R.O.C. As of March 31, 2017, the composition of the consolidated financial statements includes the Company and the subsidiaries (the “Group”). As of March 31, 2017, the Company has 56 branches nationwide.

The Company is authorized to conduct the following businesses:

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

2. APPROVAL DATE AND PROCEDURES OF THE FINANCIAL REPORT

The consolidated financial statements were authorized for issuance by the board of directors on May 12, 2017.

3. NEW STANDARDS AND INTERPRETATIONS

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

From 2017, the Group adopted the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016, and were endorsed by the FSC on January 1, 2017 in preparing financial statements. The related new standards, interpretations and amendments were as follows:

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

| Newly issued, Revised or Amended accounting standards and interpretations | Effective date per IASB |
|--|--------------------------------|
| Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception" | January 1, 2016 |
| Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" | January 1, 2016 |
| IFRS 14 "Regulatory Deferral Accounts" | January 1, 2016 |
| Amendment to IAS 1 "Disclosure Initiative" | January 1, 2016 |
| Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization" | January 1, 2016 |
| Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants" | January 1, 2016 |
| Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions" | July 1, 2014 |
| Amendment to IAS 27 "Equity Method in Separate Financial Statements" | January 1, 2016 |
| Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets" | January 1, 2014 |
| Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" | January 1, 2014 |
| Annual Improvements to IFRSs 2010 - 2012 and 2011 - 2013 Cycle | July 1, 2014 |
| Annual Improvements to IFRSs 2012 - 2014 Cycle | January 1, 2016 |
| Interpretations to IFRS 21 "Levies" | January 1, 2014 |

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

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

A summary of the new standards, amendments and interpretations issued by the IASB, but not yet endorsed by the FSC is set out below. The FSC announced that IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date that the accompanying consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|---|--------------------------------|
| IFRS 9 "Financial Instruments" | January 1, 2018 |
| Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets - Between an Investor and Its Associate or Joint Venture" | Undecided |
| IFRS 15 "Revenue from Contracts with Customers" | January 1, 2018 |
| IFRS 16 "Leases" | January 1, 2019 |
| Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share based Payment Transactions" | January 1, 2018 |
| Amendment to IFRS 15 "Clarifications of IFRS 15" | January 1, 2018 |
| Amendment to IAS 7 "Disclosure Initiative" | January 1, 2017 |
| Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses" | January 1, 2017 |
| Amendments to IFRS 4 "Insurance Contracts" (Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts") | January 1, 2018 |
| Annual Improvements to IFRSs 2014 - 2016 Cycle: | |
| IFRS 12 "Disclosure of Interests in Other Entities" | January 1, 2017 |
| IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures" | January 1, 2018 |
| Interpretations to IFRS 22 "Foreign Currency Transactions and Advance Consideration" | January 1, 2018 |
| Amendments to IAS 40 "Transfer of Investment Property" | January 1, 2018 |

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

Except for the following items, the application of the above new, revised or amended standards and interpretations will not have the material impact on the consolidated financial statements.

| Issuance / Release Dates | Standards or Interpretations | Content of amendment |
|-------------------------------------|---|--|
| May 28, 2014 April 12, 2016 | IFRS 15 "Revenue from Contracts with Customers" | IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 "Revenue," IAS 11 "Construction Contracts," and a number of revenue-related interpretations. Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements. |
| November 19, 2013 July 24, 2014 | IFRS 9 "Financial Instruments" | The standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the main amendments are as follows: <ul style="list-style-type: none"> • Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that "own credit risk" adjustments be measured at fair value through other comprehensive income. • Impairment: The expected credit loss model is used to evaluate impairment. • Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio. |
| January 13, 2016 | IFRS 16 "Leases" | The new standard of accounting for lease is amended as follows: <ul style="list-style-type: none"> • For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17. |
| September 11, 2014 | Amendments to IFRS 10 and IAS 28 "Sale or Contribution of | The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the sale |

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

| <u>Issuance / Release Dates</u> | <u>Standards or Interpretations</u> | <u>Content of amendment</u> |
|---------------------------------|--|---|
| | Assets Between an Investor and Its Associate or Joint Venture" | or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. |
| January 19, 2016 | Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses" | The objective of this project is to clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. It clarifies that 'taxable profit excluding tax deductions' used for assessing the utilization of deductible temporary differences is different from 'taxable profit on which income taxes are payable'. |
| January 29, 2016 | Amendments to IAS 7 "Disclosure Initiative" | The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. |
| December 8, 2016 | Interpretations to IFRs 22 "Foreign Currency Transactions and Advance Consideration" | IFRIC 22 clarifies the transaction date used to determine the exchange rate. The transaction date is the date on which the company initially recognizes the prepayment or deferred income arising from the advance consideration. |
| December 8, 2016 | Amendments to IAS 40 "Transfer of Investment Property" | The amendments specify that a transfer into, or out of, investment property would be made only when there has been a change in use of a property, supported by evidence that a change in use has occurred. The amendments also clarify that the list of circumstances that provide evidence of a change in use set out in paragraph 57 (a)-(d) of IAS 40 contains examples and is not an exhaustive list. |

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

(1) Statement of compliance

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

Except as described below, the significant accounting policies adopted in the accompanying

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

consolidated financial statements are the same as the consolidated financial statements as of and for the year ended December 31, 2016. Please refer to Note 4 of the consolidated financial statements as of and for the year ended December 31, 2016 for the detail disclosures of significant accounting policies.

(2) Basis of preparation

The principle of preparing consolidated financial statements are the same as the consolidated financial statements as of and for the year ended December 31, 2016. Please refer to Note 4(3) of the consolidated financial statements as of and for the year ended December 31, 2016.

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

| Name of the investor | Subsidiaries | Business type | Ratio of Equity Ownership | | | Note |
|-----------------------|---|--|---------------------------|-------------------|----------------|--|
| | | | March 31, 2017 | December 31, 2016 | March 31, 2016 | |
| The Company | Capital Investment Management Corp. | Engaged in providing advice on securities investment and securities investment consultancy | 100.00% | 100.00% | 100.00% | The corporation established in February, 1990. As of March 31, 2017, the paid-in capitals amounted to \$70,000. |
| " | CSC International Holdings Ltd. | Long-term equity investment business | 100.00% | 100.00% | 100.00% | The corporation established in March, 1996. As of March 31, 2017, the paid-in capitals amounted to US\$45,000 thousand. |
| " | Capital Futures Corp. | Engaged in domestic and foreign futures business | 56.21% | 59.01% | 59.01% | The corporation established in February, 1997, and increased capital on February, 2017. The ownership portion has decreased from 59.01% to 56.21%. As of March 31, 2017, the paid-in capitals amounted to \$1,603,979. |
| " | Taiwan International Futures Corp. | Management consultancy | 99.99% | 99.99% | 99.99% | Liquidation in progress. |
| " | Taiwan International Securities (B.V.I) Corp. | Holding company for offshore securities units | 100.00% | 100.00% | 100.00% | The corporation established in December, 1996. As of March 31, 2017, the paid-in capitals amounted to US\$9,516 thousand. |
| " | Taiwan International Securities Investment Consulting Corp. | Investment consultancy | 99.92% | 99.92% | 99.92% | Liquidation in progress. |
| " | CSC Venture Capital Corp. | Venture Capital and consulting business | 100.00% | 100.00% | 100.00% | The corporation established in January, 2016. As of March 31, 2017, the paid-in capitals amounted to \$1,000,000. |
| Capital Futures Corp. | CSC Futures (HK) Ltd. | Futures dealing business | 97.27% | 97.27% | 95.00% | The corporation established in December, 1998. Acquired 100% of the equity on November 1, 2012, disposed 5% on April 30, 2015 and increased capital HK\$100,000 thousands to acquire additional 2.27% equity on December 12, 2016. As of March 31, the paid-in capitals amounted to HK\$220,000 thousands. |
| " | Capital International Technology Corp. | Management, consulting and information service business | 100.00% | 100.00% | 100.00% | The corporation established in December, 2014. As of March 31, 2017, the paid-in capitals amounted to \$50,000. |

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

| Name of the investor | Subsidiaries | Business type | Ratio of Equity Ownership | | | Note |
|---|---|---|--|--|--|--|
| | | | March 31, 2017 | December 31, 2016 | March 31, 2016 | |
| Capital International Technology Corp. | Capital True Partner Technology Co., Ltd. | Management, consulting and information service business. | 51.00% | 51.00% | 51.00% | The corporation established in August 20, 2008. Acquired 51% of the equity on February 9, 2015 and held controlling interest. As of March 31, 2017, the paid-in capitals amounted to CNY\$1,000 thousands. |
| " | Capital Futures Technology (Shanghai) Co., Ltd. | Management, consulting and information service business. | 100.00% | 100.00% | - | The corporation established in October, 2016. As of March 31, 2017, the paid-in capitals amounted to CNY\$4,000 thousands. |
| CSC International Holdings Ltd. | CSC Securities (HK) Ltd. | Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses | CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively | CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively | CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively | The corporation established in May, 1994. |
| " | Capital Securities (Hong Kong) Ltd. | Long-term equity investment business | 100.00% | 100.00% | 100.00% | The board of directors of the Company resolved to cease operation on October 30, 2012. |
| Capital Securities (Hong Kong) Ltd. | CSC Securities (HK) Ltd. | Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses | CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively | CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively | CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively | The corporation established in May, 1994. |
| CSC Securities (HK) Ltd. | Capital Securities Nominees Ltd. | Agency service | 100.00% | 100.00% | 100.00% | The corporation established in April, 1995. Acquired equity from Capital Securities (Hong Kong) Ltd. on January 17, 2013. |
| Taiwan International Securities (B.V.I) Corp. | TIS Securities (HK) Ltd. | Long-term equity investment business. | 100.00% | 100.00% | 100.00% | Not complied with the requirement of Financial Resources Rules (the "FRR") of the Hong Kong Securities and Futures Commission, the operations remain stagnant currently. |
| TIS Securities (HK) Ltd. | Taiwan International Capital (HK) Ltd. | Direct investment | 100.00% | 100.00% | 100.00% | " |

B. Subsidiaries not listed in the consolidated financial statements

| Name of the investor | Subsidiaries | Business type | Ratio of Equity Ownership | | | Note |
|----------------------|--------------------------------|--|---------------------------|-------------------|----------------|--|
| | | | March 31, 2017 | December 31, 2016 | March 31, 2016 | |
| The Company | Capital Insurance Agency Corp. | Manages personal insurance agent business. | 100.00% | 100.00% | 100.00% | The corporation established in November 2000. The Company acquired 100% of the equity and gained a controlling interest. The paid-in capitals amounted to \$7,400. As of March 31, 2017, December 31, 2016 and March 31, 2016, the total assets constituted 0.05%, 0.06% and 0.06% of the Group's total assets. For the three months |

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

| Name of the investor | Subsidiaries | Business type | Ratio of Equity Ownership | | | Note |
|----------------------|----------------------------------|---|---------------------------|-------------------|----------------|--|
| | | | March 31, 2017 | December 31, 2016 | March 31, 2016 | |
| | | | | | | end March 31, 2017 and 2016, the operation revenue were merely 1.53% and 1.51% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement. |
| The Company | Capital Insurance Advisory Corp. | Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business. | 100.00% | 100.00% | 100.00% | The corporation established in November 2000. The Company acquired 100% of the equity and gained a controlling interest. The paid-in capitals amounted to \$5,000. As of March 31, 2017, December 31, 2016 and March 31, 2016, the total assets constituted 0.13%, 0.12% and 0.12% of the Group's total assets. For the three months end March 31, 2017 and 2016, the operation revenue were merely 4.10% and 3.54% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement. |

(3) Income tax

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

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

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

(4) Employee benefits

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

(5) Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost, which includes transaction costs. The carrying amount of the investment in associates

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

includes goodwill arising from the acquisition less any accumulated impairment losses.

The investment of subsidiaries or joint venture which is possessed directly or indirectly by venture capital organization is exempted from equity method, it can choose to compliance to IAS 39 “Financial Instruments: Recognition and Measurement” to evaluate the investment through profit and loss at fair value.

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

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

When the Group’s share of losses exceeds or equals its share of interest in associates, the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate or a joint venture. Any retained investment is measured at fair value at that date. The difference between the fair value of retained investment and proceeds from disposal of the part of interest in the investment, and the carrying amount of the investment at that date was recognized in profit or loss. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amount previously recognized in other comprehensive income in relation to that associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not re-measure the retained interest.

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

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

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

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

In these consolidated financial statements, judgments and key sources of estimation uncertainty used by management in the application of critical accounting policies are expected to be consistent with those of Note 5 of the consolidated financial statements as of and for the year ended December 31, 2016.

6. SUMMARY OF MAJOR ACCOUNTS

Except as described below, the description of significant accounts in the accompanying consolidated financial statements is not materially different from the consolidated financial statements as of and for the year ended December 31, 2016. Please refer to Note 6 of the consolidated financial statements as of and for the year ended December 31, 2016 for the detailed disclosures of these significant accounts.

(1) Cash and cash equivalents

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> | <u>March 31, 2016</u> |
|------------------------------|-----------------------|--------------------------|-----------------------|
| Cash | \$ 2,835 | 2,850 | 3,011 |
| Bank deposits | | | |
| Checking accounts | 49,295 | 58,106 | 35,124 |
| Demand deposits | 163,931 | 422,816 | 816,309 |
| Time deposits | 3,481,154 | 2,143,168 | 1,986,607 |
| Foreign currency deposits | 1,458,446 | 1,978,038 | 2,267,350 |
| Subtotal | <u>5,152,826</u> | <u>4,602,128</u> | <u>5,105,390</u> |
| Cash equivalents | | | |
| Futures margin-excess margin | 1,092,932 | 818,437 | 746,485 |
| Commercial papers | 33,490 | - | 183,107 |
| Subtotal | <u>1,126,422</u> | <u>818,437</u> | <u>929,592</u> |
| Total | <u>\$ 6,282,083</u> | <u>5,423,415</u> | <u>6,037,993</u> |

(2) Financial assets

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

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> | <u>March 31, 2016</u> |
|--|-----------------------|--------------------------|-----------------------|
| Open-ended funds and money-market instruments | | | |
| Open-ended funds and money-market instruments | \$ 760,861 | 1,201,307 | 349,801 |
| Valuation adjustment | (7,078) | (21,007) | (5,323) |
| Subtotal | <u>753,783</u> | <u>1,180,300</u> | <u>344,478</u> |

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

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> | <u>March 31, 2016</u> |
|---|-----------------------|--------------------------|-----------------------|
| Trading securities - proprietary trading | | | |
| Listed stocks | 1,133,276 | 626,599 | 1,008,538 |
| Listed funds | 985,983 | 798,932 | 297,045 |
| OTC stocks | 298,511 | 249,061 | 104,837 |
| Emerging market stocks | 228,988 | 259,637 | 187,411 |
| Emerging market funds | 8,967 | 7,964 | 7,146 |
| Convertible corporate bonds | 604,718 | 455,796 | 285,820 |
| Government bonds | 6,200,318 | 4,041,386 | 2,865,045 |
| Corporate bonds | 12,395,021 | 11,801,410 | 10,285,391 |
| Financial debentures | 1,659,501 | 1,659,501 | 2,127,968 |
| Foreign stocks | 590,850 | 269,804 | 194,945 |
| Overseas bonds | 60,490 | 64,320 | 161,092 |
| Other | 32,603 | 32,603 | 39,603 |
| | <u>24,199,226</u> | <u>20,267,013</u> | <u>17,564,841</u> |
| Valuation adjustment | 65,950 | 42,273 | 147,989 |
| Subtotal | <u>24,265,176</u> | <u>20,309,286</u> | <u>17,712,830</u> |
| Trading securities - underwriting: | | | |
| Listed stocks | 19,740 | 43,898 | 42,209 |
| OTC stocks | 34,559 | 11,396 | 2,202 |
| Convertible corporate bonds | 47,100 | 57,200 | 52,600 |
| | <u>101,399</u> | <u>112,494</u> | <u>97,011</u> |
| Valuation adjustment | (3,125) | 2,140 | 5,078 |
| Subtotal | <u>98,274</u> | <u>114,634</u> | <u>102,089</u> |
| Trading securities - hedging | | | |
| Listed stocks | 1,837,304 | 1,810,735 | 1,498,018 |
| OTC stocks | 408,893 | 446,088 | 318,687 |
| Convertible corporate bonds | 2,939,591 | 3,437,205 | 3,927,159 |
| Foreign stocks | 1,025 | 1,092 | 1,090 |
| | <u>5,186,813</u> | <u>5,695,120</u> | <u>5,744,954</u> |
| Valuation adjustment | 77,591 | (38,606) | (46,008) |
| Subtotal | <u>5,264,404</u> | <u>5,656,514</u> | <u>5,698,946</u> |
| Derivatives | | | |
| Call options | 48,018 | 68,562 | 40,110 |
| Interest rate swaps | 1,037 | 4,942 | - |
| Futures margin - proprietary fund | 407,856 | 352,755 | 385,027 |
| IRS asset swaps | 12,693 | 20,743 | 25,160 |
| Asset swap options - long position | 9,144 | 5,682 | 8,953 |
| Currency derivatives | 25,103 | 3 | - |
| Structured notes | 518 | 3 | 1,611 |
| Currency swaps | 22,312 | 16,584 | 6,378 |
| Subtotal | <u>526,681</u> | <u>469,274</u> | <u>467,239</u> |
| Total | <u>\$ 30,908,318</u> | <u>27,730,008</u> | <u>24,325,582</u> |

As of March 31, 2017, December 31, 2016 and March 31, 2016, the par value of trading securities - bonds under repurchase agreement of the Group were \$44,044,731 and \$35,926,059 and \$27,579,588, respectively, please refer to Note 6(13) and 8 for details.

B. Financial assets available for sale - current:

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> | <u>March 31, 2016</u> |
|------------------------|-----------------------|--------------------------|-----------------------|
| Listed stocks | \$ 227,402 | 221,734 | 100,929 |
| OTC stocks | 118,585 | 162,878 | 22,210 |
| Emerging market stocks | 29,327 | 29,482 | - |
| Foreign stocks | 18,191 | - | - |
| Overseas bonds | 27,222,552 | 18,904,893 | 11,070,904 |
| Subtotal | <u>27,616,057</u> | <u>19,318,987</u> | <u>11,194,043</u> |
| Valuation adjustment | 165,927 | 18,891 | 122,793 |
| Total | <u>\$ 27,781,984</u> | <u>19,337,878</u> | <u>11,316,836</u> |

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

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

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> | <u>March 31, 2016</u> |
|---|-----------------------|--------------------------|-----------------------|
| Financial assets held for trading: | | | |
| Government bonds | \$ 185,799 | 185,799 | 188,819 |
| Valuation adjustment | 347 | 274 | 1,594 |
| Total | <u>\$ 186,146</u> | <u>186,073</u> | <u>190,413</u> |

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

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

| <u>Name of investee</u> | <u>March 31, 2017</u> | <u>December 31, 2016</u> | <u>March 31, 2016</u> |
|-------------------------|-----------------------|--------------------------|-----------------------|
| CME Group Inc. | \$ 33,733 | 33,733 | 33,733 |
| Valuation adjustment | 40,133 | 42,528 | 29,640 |
| Total | <u>\$ 73,866</u> | <u>76,261</u> | <u>63,373</u> |

The purpose for obtaining the stock of CME Group Inc. is to acquire the membership of foreign futures exchange. For the three months ended March 31, 2017 and 2016, due to changes in fair value, the Group had recognized \$(2,395) and \$2,407 in other comprehensive income, respectively.

E. Financial assets measured at cost - non-current

| <u>Non- listed (or non-over-the-counter)</u> | <u>March 31, 2017</u> | |
|---|------------------------|-------------------|
| | <u>Ownership ratio</u> | <u>Amount</u> |
| Taiwan Depository & Clearing Corp. | 1.29% | \$ 18,661 |
| Taiwan Futures Exchange Corp. | 2.86% | 58,117 |
| 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 |
| Chanyee Hotelday Co., Ltd. | 7.41% | 30,000 |
| Miho International Co., Ltd. | 1.83% | 46,000 |
| LIPS Corp. | 23.95% | 149,625 |
| X ianlife Limited | 3.26% | 46,140 |
| Total | | <u>\$ 644,225</u> |

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

| <u>Non-listed (or non-over-the-counter)</u> | <u>December 31, 2016</u> | |
|---|--------------------------|-------------------|
| | <u>Ownership ratio</u> | <u>Amount</u> |
| Taiwan Depository & Clearing Corp. | 1.29% | \$ 18,661 |
| Taiwan Futures Exchange Corp. | 2.86% | 58,117 |
| 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 |
| Chanyee Hotelday Co., Ltd. | 7.41% | 30,000 |
| Miho International Co., Ltd. | 1.83% | 46,000 |
| Total | | <u>\$ 448,460</u> |

| <u>Non-listed (or non-over-the-counter)</u> | <u>March 31, 2016</u> | |
|---|------------------------|-------------------|
| | <u>Ownership ratio</u> | <u>Amount</u> |
| Taiwan Depository & Clearing Corp. | 1.29% | \$ 18,661 |
| Taiwan Futures Exchange Corp. | 2.86% | 58,126 |
| Taiwan Stock Exchange Corporation | 0.06% | 12,242 |
| Global Securities Finance Corporation | 6.05% | 202,681 |
| Chou Chin Industrial Co., Ltd. | 0.05% | - |
| Jong-Yih Industrial Development Co., Ltd. | 0.68% | 1,369 |
| Reliance Securities Investment Trust Co., Ltd | 3.02% | 9,767 |
| Top Taiwan III Venture Capital Co., Ltd. | 7.00% | 71,008 |
| Prudence Venture Investment Corp. | 1.50% | 37,377 |
| Miho International Co., Ltd. | 1.83% | 46,000 |
| Jason's Entertainment Co., Ltd. | 3.97% | 30,000 |
| Total | | <u>\$ 487,231</u> |

The Group acquired shares of LIPS Corp. and Xianlife Limited in March, 2017.

The Group acquired shares of Miho International Co., Ltd., Jason's Entertainment Co., Ltd. and Chanyee Hotelday Co., Ltd. in January, March and November, 2016, respectively. On August, 2016 the Jason's Entertainment Co., Ltd. registered on Emerging Stock Board, so reclassified it to financial assets available for sale - current.

For the year ended December 31, 2016, Top Taiwan III Venture Capital Co., Ltd. and Prudence Venture Investment Corp. refunded the proceeds of capital reduction amounted to \$36,750 and \$2,012, respectively.

- F. The Group uses Value at Risk (VAR) to monitor and measure the market risk of its investment in equity stocks. VAR refers to the unexpected loss of financial instruments derived from the changes in market risk factors within certain time periods and confidence level. The table below discloses the VAR, which is the estimation of potential loss 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

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

the changes in market price. For the three months ended March 31, 2017 and 2016 VAR (99%, per 10-day) of equity stocks are as follows:

| Type of market risk | For the three months ended March 31, | | | | | | | |
|---------------------|--------------------------------------|----------------|---------|---------|---------|---------|---------|---------|
| | 2017 | | | 2016 | | | | |
| | March 31, 2017 | March 31, 2016 | Mean | Maximum | Minimum | Mean | Maximum | Minimum |
| Equity stocks | 802,434 | 678,179 | 736,730 | 802,434 | 666,504 | 631,258 | 678,179 | 596,609 |

(3) Bonds purchased under resale agreements

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|----------------|-------------------|----------------|
| Bonds purchased under resell agreements | \$ 451,918 | - | 397,256 |
| Resell price under the agreements | \$ 451,914 | - | 397,242 |
| Interest rate | (0.22)%~0.3% | - | (2.3)%~0.1% |

As of March 31, 2017 and 2016, the Group's appropriated bonds purchased under resale agreements were \$351,492 (Par value \$350,000) and \$0 (Par value \$0) for repurchase agreement transactions purpose, respectively. As of March 31, 2017 and 2016, the Group's appropriated bonds purchased under resale agreements were \$100,426 (Par value \$100,000) and \$397,256 (Par value \$400,000) for resale agreement - short sales transactions purpose, respectively (please refers to Note 8 for details).

(4) Accounts Receivable

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|----------------|-------------------|----------------|
| Receivable on securities purchased by customers | \$ 38,170 | 22,024 | 41,039 |
| Settlement | - | - | 788,201 |
| Interests receivable | 531,092 | 494,248 | 464,523 |
| Receivables of settlements | 4,668,240 | 3,503,940 | 5,621,643 |
| Others | 129,104 | 89,525 | 47,785 |
| Subtotal | 5,366,606 | 4,109,737 | 6,963,191 |
| Less: allowance for doubtful accounts | (3,424) | (3,424) | (4,123) |
| Total | \$ 5,363,182 | 4,106,313 | 6,959,068 |

(5) Customer margin account / Future traders' equity

As of March 31, 2017, December 31, 2016 and March 31, 2016, a reconciliation of the customers' margin account and the futures traders' equity was as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> | <u>March 31, 2016</u> |
|--|-----------------------|--------------------------|-----------------------|
| Customer margin account | | | |
| Add: | | | |
| Cash in banks | \$ 18,014,184 | 18,011,775 | 14,976,270 |
| Customers' margin account - futures clearing house | 2,430,670 | 2,126,035 | 1,756,881 |
| Customers' margin account - other futures commission merchants | 3,732,319 | 3,030,438 | 2,479,759 |
| Marketable securities | 1,934 | 1,594 | 2,861 |
| Total customers' margin account | <u>\$ 24,179,107</u> | <u>23,169,842</u> | <u>19,215,771</u> |
| Adjustment: | | | |
| Add: | | | |
| Others | - | 1 | - |
| Less: | | | |
| Commission revenue | (31,445) | (30,670) | (33,935) |
| Futures transaction tax | (772) | (1,045) | (1,388) |
| Interest revenues | (335) | (1,200) | (351) |
| Temporary receipts | (501) | (1,749) | (65) |
| Remittance amount of the customers after the market closed | (2,279) | (134) | (18,431) |
| Others | (1,082) | (2,814) | (3,305) |
| Futures traders' equity | <u>\$ 24,142,693</u> | <u>23,132,231</u> | <u>19,158,296</u> |

(6) Investments under equity method

As of March 31, 2017, December 31, 2016 and March 31, 2016, investments under equity method consisted of the following:

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> | <u>March 31, 2016</u> |
|-------------------------------------|-----------------------|--------------------------|-----------------------|
| Subsidiaries | | | |
| Capital Insurance Advisory Corp. | \$ 131,246 | 104,489 | 92,036 |
| Capital Insurance Agency Corp. | 54,011 | 52,200 | 51,902 |
| Subtotal | <u>185,257</u> | <u>156,689</u> | <u>143,938</u> |
| Associates | | | |
| True Partner Advisor Hong Kong Ltd. | 41,142 | 41,516 | 36,786 |
| Total | <u>\$ 226,399</u> | <u>198,205</u> | <u>180,724</u> |

A. Subsidiaries:

For the three months ended March 31, 2017 and 2016, the Group's share of gains or losses of the subsidiaries were as follows:

| | <u>For the three months ended March 31,</u> | |
|---|---|---------------|
| | <u>2017</u> | <u>2016</u> |
| Based on the self-prepared financial statements | <u>\$ 28,569</u> | <u>22,944</u> |

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

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> | <u>March 31, 2016</u> |
|-------------------|-----------------------|--------------------------|-----------------------|
| Total assets | <u>\$ 223,735</u> | <u>194,974</u> | <u>176,635</u> |
| Total liabilities | <u>\$ 38,478</u> | <u>38,285</u> | <u>32,697</u> |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| | For the three months ended March 31, | |
|------------|--------------------------------------|--------|
| | 2017 | 2016 |
| Revenue | \$ 103,579 | 74,060 |
| Net income | \$ 28,569 | 22,944 |

B. Associates

The subsidiary Capital Futures Corporation has significant influence on True Partner Advisor Hong Kong Ltd. due to the acquisition of 49% shares with USD 1,123 thousands on October 2, 2015. The relevant information is as following:

| Name of associate | Nature between the Company | Primary business area and registered country | % of Ownership and Voting Rights | | |
|-------------------------------------|--|--|----------------------------------|-------------------|----------------|
| | | | March 31, 2017 | December 31, 2016 | March 31, 2016 |
| True Partner Advisor Hong Kong Ltd. | Engaged in asset management. The Subsidiary's strategic alliance in expansion of asset management. | Hong Kong | 49.00% | 49.00% | 49.00% |

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

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|----------------|-------------------|----------------|
| Total carrying amount of the associates that were not individually material | \$ 41,142 | 41,516 | 36,786 |

| | For the three months ended March 31, | |
|--------------------------------------|--------------------------------------|--------|
| | 2017 | 2016 |
| Attributable to the Group: | | |
| Net gains from continuing operations | \$ 330 | \$ 238 |
| Other comprehensive losses | (704) | (133) |
| Total comprehensive income (losses) | \$ (374) | 105 |

C. Collateral

As of March 31, 2017, December 31, 2016 and March 31, 2016, none of the investment accounted for under equity method of the Group were pledged for collateral.

(7) Property and equipment

| | Land | Buildings | Equipment | Leasehold improvements | Total |
|------------------|--------------|-----------|-----------|------------------------|-----------|
| Carrying amount: | | | | | |
| January 1, 2017 | \$ 3,707,942 | 1,116,711 | 227,297 | 77,873 | 5,129,823 |
| March 31, 2017 | \$ 3,707,942 | 1,104,078 | 218,458 | 75,286 | 5,105,764 |
| March 31, 2016 | \$ 3,707,942 | 1,142,101 | 245,294 | 59,165 | 5,154,502 |

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

There was no significant acquisition, disposal and impairment loss or reversal of impairment losses of property and equipment of the Group in the periods from January 1 to March 31 in

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

2017 and 2016. For the three months ended March 31, 2017 and 2016, \$0 and \$2,327 of land and buildings were reclassified as investment property. Please refer to Note 6(21) for details of the depreciation expense occurring in this period and Note 6(6) of the consolidated financial statements as of and for the year ended December 31, 2016 for other relevant information.

(8) Investment property

| | Land and improvements | Buildings | Total |
|--------------------------------|--------------------------|-----------|-----------|
| <u>Carrying Amount:</u> | | | |
| January 1, 2017 | \$ 1,257,200 | 470,124 | 1,727,324 |
| March 31, 2017 | \$ 1,257,200 | 466,324 | 1,723,524 |
| March 31, 2016 | \$ 1,257,200 | 481,529 | 1,738,729 |
| <u>Fair Value:</u> | | | |
| January 1, 2017 | | | 2,740,795 |
| March 31, 2017 | | | 2,740,795 |
| March 31, 2016 | | | 2,740,795 |

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

There was no significant acquisition, disposal and impairment loss or reversal of impairment losses of investment properties of the Group in the periods from January 1 to March 31 in 2017 and 2016. For the three months ended March 31, 2017 and 2016, \$0 and \$2,327 of land and buildings were transferred from property and equipment. Please refer to Note 6(21) for details of the depreciation expense occurring in this period and Note 6(7) of the consolidated financial statements as of and for the year ended December 31, 2016 for other relevant information.

(9) Intangible assets

A. Goodwill

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

The Capital International Technology Corp., the second level subsidiary, acquired 51% shares of the Capital True Partner Technology Co., Ltd in order to expand operations. The Group recognized the differences between investment costs and identifiable assets as goodwill. As of March 31, 2017, December 31, 2016 and March 31, 2016, the book value of goodwill was all \$ 22,088.

B. Other intangible assets - Customer relationships

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized other intangible assets - customer relationships as \$17,082. As of March 31, 2017 and December 31, 2016 and March 31, 2016, the amortized book value was \$0, \$0 and \$285, respectively.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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C. Other intangible assets - Operation franchise

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

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

The subsidiaries obtained the membership of foreign futures Exchanges - NYMEX, COMEX, CBOT, HKEX and CME for business development. In accordance with IAS 38 "Intangible Assets" endorsed by the FSC, the memberships are regarded as intangible assets with an indefinite useful life. As of March 31, 2017, December 31, 2016 and March 31, 2016, the book values of intangible assets were \$48,199, \$48,453 and \$46,385, respectively.

E. Other intangible assets - Computer software

Computer software was booked at cost and amortized by using the straight-line method over the estimated useful lives. As of March 31, 2017, December 31, 2016 and March 31, 2016, the amortized book value was \$36,379, \$25,010 and \$35,167 respectively.

(10) Short-term loans

| <u>Nature of borrowings</u> | <u>March 31, 2017</u> | <u>December 31, 2016</u> | <u>March 31, 2016</u> |
|-----------------------------|-----------------------|--------------------------|-----------------------|
| Collateralized loan | \$ 380,000 | 380,000 | 413,153 |
| Credit loans | 5,384,959 | 3,856,402 | 2,308,420 |
| Total | <u>\$ 5,764,959</u> | <u>4,236,402</u> | <u>2,721,573</u> |
| Interest rate range | <u>0.60%~2.58%</u> | <u>0.60%~2.75%</u> | <u>1.057%~2.750%</u> |

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

(11) Commercial paper payable

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> | <u>March 31, 2016</u> |
|----------------------------|-----------------------|--------------------------|-----------------------|
| Commercial paper payable | \$ 4,850,000 | - | 300,000 |
| Less: Unamortized discount | (828) | - | (17) |
| Net amount | <u>\$ 4,849,172</u> | <u>-</u> | <u>299,983</u> |
| Interest rate range | <u>0.548%~0.558%</u> | <u>-%</u> | <u>0.548%</u> |

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

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> | <u>March 31, 2016</u> |
|---|-----------------------|--------------------------|-----------------------|
| Bond purchased under resale agreements - short sales | \$ 100,225 | - | 397,250 |
| Valuation adjustment on bonds purchased under resale agreements - short sales | 187 | - | 27 |
| Subtotal | <u>100,412</u> | <u>-</u> | <u>397,277</u> |

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| | <u>March 31, 2017</u> | <u>December 31, 2016</u> | <u>March 31, 2016</u> |
|---|-----------------------|--------------------------|-----------------------|
| Liabilities on sale of borrowed securities | \$ 240,366 | 1,009,334 | 914,704 |
| Redeem liabilities on sale of borrowed securities | (54,271) | (4,632) | (62,405) |
| Valuation adjustment | (15,715) | (66,653) | 34,046 |
| Subtotal | <u>170,380</u> | <u>938,049</u> | <u>886,345</u> |
| Stock warrants issued | 11,050,236 | 10,892,801 | 10,838,400 |
| Stock warrants repurchased | (10,610,737) | (10,617,763) | (10,409,192) |
| Subtotal | <u>439,499</u> | <u>275,038</u> | <u>429,208</u> |
| Put options | 66,302 | 66,693 | 57,918 |
| IRS asset swaps | 1,754 | 1,974 | 4,617 |
| Asset swap options - short position | 207,795 | 177,405 | 220,328 |
| Structured notes | 7,915 | 7,515 | 8,752 |
| Currency derivatives | 10,681 | 1 | - |
| Currency swaps | 6,004 | 9,089 | 18,708 |
| Interest rate swaps | - | - | 815 |
| Subtotal | <u>300,451</u> | <u>262,677</u> | <u>311,138</u> |
| Total | <u>\$ 1,010,742</u> | <u>1,475,764</u> | <u>2,023,968</u> |

(13) Bonds sold under repurchase agreements

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> | <u>March 31, 2016</u> |
|--|---------------------------|---------------------------|---------------------------|
| Bonds sold under repurchase agreements | \$ 43,348,419 | 34,956,642 | 26,903,149 |
| Agreed-upon repurchase amounts | <u>43,399,037</u> | <u>35,002,716</u> | <u>26,927,307</u> |
| Interest rates | <u>(0.5)%~4.8%</u> | <u>0.30%~9.00%</u> | <u>0.31%~4.10%</u> |
| Date of repurchase | <u>2017.4.5~2018.3.22</u> | <u>2017.1.3~2017.3.30</u> | <u>2016.4.1~2016.9.21</u> |

(14) 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.

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> | <u>March 31, 2016</u> |
|--|-----------------------|--------------------------|-----------------------|
| Customer equity of separate account ledger in settlement | <u>\$ 12,718</u> | <u>4,537</u> | <u>35,608</u> |

(15) Accounts payable

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> | <u>March 31, 2016</u> |
|---|-----------------------|--------------------------|-----------------------|
| Payable of securities sold by customers | \$ 27,132 | 21,890 | 54,299 |
| Settlement price | 323,609 | 49,986 | - |
| Payable of settlements | 4,845,056 | 3,183,985 | 5,993,308 |
| Others | 221,552 | 222,263 | 278,975 |
| Total | <u>\$ 5,417,349</u> | <u>3,478,124</u> | <u>6,326,582</u> |

(16) Operating leases

The Group has no material incremental operating leases contracts for the three months ended March 31, 2017 and 2016. Please refer to Note 6(14) of the consolidated financial statements as of and for the year ended December 31, 2016 for other relevant information.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(17) Employee benefit

A. Defined benefit plans

Subsequent to December 31, 2016, there is apparently no evidence of any material market volatility, material curtailment, reimbursement and settlement or other material one-time events. Therefore, pension cost in the consolidated financial statements is measured and disclosed according to the respective actuarial report for the years ended December 31, 2016 and 2015.

For the three months ended March 31, 2017 and 2016, the Group's pension expenses recognized in profit or loss were \$6,850, and \$4,171, respectively.

B. Defined contribution plan

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

The Group contributed \$17,694 and \$21,270 under defined contribution plan to the Bureau of the Labor Insurance for the three months ended March 31, 2017 and 2016, respectively.

C. For the three months ended March 31, 2017 and 2016, the pension costs contributed by overseas subsidiaries in compliance with local ordinance were \$506 and \$1,146, respectively.

D. Provision for employee benefits liabilities

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|----------------------|-----------------------|--------------------------|-----------------------|
| Compensated absences | \$ 53,980 | 65,365 | 47,546 |

(18) Income tax

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

A. The detail of income tax expense for the three months ended March 31, 2017 and 2016 were as follows:

| | For the three months ended March 31, | |
|--|---|---------------|
| | 2017 | 2016 |
| Current income tax expense | \$ 63,762 | 18,276 |
| Deferred income tax expense | | |
| Unrealized losses on derivative financial instruments | (6,522) | (8,467) |
| Unrealized losses on foreign investments under equity method | (2,669) | (329) |
| Amortization of goodwill | - | 26,577 |
| Decrease in tax losses carried forward | - | 28,960 |
| Deferred income tax expense (benefit) | (9,191) | 46,741 |
| | \$ 54,571 | 65,017 |

B. The amount of income tax expense or benefit recognized in other comprehensive income for the three months ended March 31, 2017 and 2016 were as follows:

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

| | For the three months ended March 31, | |
|---|--------------------------------------|------------|
| | 2017 | 2016 |
| Foreign exchange difference from translating financial statements of foreign operations | \$ (27,932) | \$ (8,508) |

C. As of March 31, 2017, the Group's estimated tax losses recognized under deferred income tax asset were as follows:

| Loss Year | Amount | Expiration Year |
|-----------------|--------|-----------------|
| 2016(Estimated) | \$ 857 | 2026 |

D. Income tax assessment status

- a. The Company's income tax returns through 2014 were assessed by the Tax Authority.
- b. Subsidiary - Capital Investment Management Corp.'s income tax returns through 2015 were assessed by the Tax Authority.
- c. Subsidiary - Capital Futures Corp.'s income tax returns through 2015 were assessed by the Tax Authority.
- d. Subsidiary - Taiwan International Securities Investment Consulting Corp.'s income tax returns for the liquidation date as of June 30, 2012 were assessed by the Tax Authority.
- e. Subsidiary - Taiwan International Futures Corp.'s income tax returns for the liquidation date as of September 18, 2008 were assessed by the Tax Authority.
- f. Subsidiary - Capital International Technology Corp.'s income tax returns through 2015 were assessed by the Tax Authority.

E. The information about imputation system is as follows:

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|-----------------------------------|----------------|-------------------|----------------|
| Undistributed earnings after 1998 | \$ 1,701,918 | 1,188,633 | 1,748,801 |
| Imputation credit account | 2,675,250 | 2,675,250 | 3,072,442 |

| | 2016 (Estimated) | 2015 (Actual) |
|--|------------------|---------------|
| Deductible ratio for earnings distributed to ROC residents | 24.20% | 23.80% |

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

F. Income tax administrative relief

Since income tax of securities trading and amortization of intangible assets withheld from year 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. And the different assessment of amortization of intangible assets, which resulted to decrease on loss of income tax, is in the procedures for administrative remedies. The Company disclosed the total of deferred income tax assets and liabilities separately and appropriately, based on conservative concept.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(19) Capital and other equity

A. Capital stock

As of March 31, 2017, December 31, 2016 and March 31, 2016, the Company had authorized capital of \$30,000,000 and issued common stock of \$2,169,073 thousand, \$2,269,073 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 three months ended March 31, 2017 and 2016, please refer to Note 6(19) D for more details.

B. Capital surplus

In accordance with the ROC Company Act amended in January 2012, realized capital surplus can only be used to cover accumulated deficit or to issue new shares or cash to shareholders in proportion to their share ownership, provided that the company has no accumulated deficit. The aforementioned capital surplus includes share premiums and donation gains. In accordance with the “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:

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> | <u>March 31, 2016</u> |
|--|-----------------------|--------------------------|-----------------------|
| Premium from stock issuance | \$ 1,776,413 | 1,858,310 | 1,858,310 |
| Treasury stock transactions | 437,096 | 253,940 | 253,940 |
| Paid-in capital from merger | 602,665 | 630,450 | 630,450 |
| Difference between consideration and carrying amount of subsidiaries acquired and disposed | 1,338 | 1,399 | 1,399 |
| Changes in ownership interests in subsidiaries | 33,337 | 6,873 | 6,287 |
| | <u>\$ 2,850,849</u> | <u>2,750,972</u> | <u>2,750,386</u> |

C. Retained earnings

a. Legal reserve

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

b. Special reserve

In accordance with Article 41 of the Securities and Exchange 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.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

In accordance with Ruling No. 10500278285 issued by the Financial Supervisory Commission on August 5, 2016, 0.5% to 1% 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.

c. 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 budget plan, stock dividends are distributed to retain necessary funds first, and may then be paid as cash dividends subsequently. Cash dividends cannot be less than 10%.

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 \$802,557 had been resolved by the board meeting on March 27, 2017. The stockholders had not resolved the distribution of earnings mentioned above.

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

D. Treasury stocks

Pursuant to Article 28-2 of the Securities and Exchange Act, the Company repurchased 200,000 thousand shares as treasury shares to maintain the Company's credit standing and shareholders' equity from January 1, 2015 to March 31, 2017. As of March 31, 2017, a total 200,000 thousand 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 September 21, 2015, the Company's board meeting resolved a share buyback plan, which was based on the latest audited financial report on June 30, 2015. The cap of the repurchase was 236,907 thousand shares which were amounted to \$6,809,506. The company repurchased 50,000 thousand shares at this buyback plan. All the repurchased shares were retired and the registration of capital reduction was completed on November 26, 2015.

On November 11, 2015, the Company's board meeting resolved a share buyback plan, which was based on the latest reviewed financial report on September 30, 2015. The cap of

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

the repurchase was 236,907 thousand shares which were amounted to \$6,791,127. The company repurchased 50,000 thousand shares at this buyback plan. All the repurchased shares were retired and the registration of capital reduction was completed on February 15, 2016.

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.

(20) Earnings per share

The basic earnings per share and dilutive earnings per share for the three months ended, March 31, 2017 and 2016, were calculated as follows:

| | For the three months ended March 31, | |
|---|---|------------------|
| | 2017 | 2016 |
| Net income attributable to ordinary shareholders of the Company | <u>\$ 513,285</u> | <u>161,807</u> |
| Weighted-average number of common stock shares outstanding (thousands of shares) | <u>2,169,561</u> | <u>2,269,243</u> |
| Basic earnings per share (dollar) | <u>\$ 0.24</u> | <u>0.07</u> |
| Effect of potentially dilutive common stock | | |
| - Employee remuneration (thousands of shares) (Note) | <u>1,007</u> | <u>337</u> |
| Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares) | <u>2,170,568</u> | <u>2,269,580</u> |
| Dilutive earnings per share (dollar) | <u>\$ 0.24</u> | <u>0.07</u> |

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

(21) Items of the comprehensive income statement

A. Brokerage commissions

| | For the three months ended March 31, | |
|---------------------------------------|---|----------------|
| | 2017 | 2016 |
| Brokerage commission from TSE market | \$ 322,501 | 314,127 |
| Brokerage commission from OTC market | 130,665 | 137,992 |
| Handling fee from security financing | 6,136 | 8,929 |
| Futures commission income - brokerage | 324,862 | 374,343 |
| Overseas subsidiaries | 14,224 | 17,091 |
| Others | 16,684 | 10,200 |
| | <u>\$ 815,072</u> | <u>862,682</u> |

B. Underwriting commissions

| | For the three months ended March 31, | |
|---|---|---------------|
| | 2017 | 2016 |
| Revenue from underwriting securities on a firm commitment basis | \$ 13,206 | 2,832 |
| Handling fee revenues from underwriting securities on best-efforts basis | 861 | 204 |
| Processing fee revenues from underwriting operations | 19,096 | 3,948 |
| Revenue from underwriting consultation | 1,390 | 2,125 |
| Others | 13,970 | 7,127 |
| | <u>\$ 48,523</u> | <u>16,236</u> |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

| | For the three months ended March 31, | |
|--|---|-------------------------|
| | 2017 | 2016 |
| Revenue from securities sold - proprietary trading | \$ 46,531,077 | 63,782,682 |
| Cost of securities sold - proprietary trading | (46,269,697) | (63,891,039) |
| Subtotal | <u>261,380</u> | <u>(108,357)</u> |
| Revenue from securities sold - underwriting | 91,432 | 11,364 |
| Cost of securities sold - underwriting | (82,290) | (10,800) |
| Subtotal | <u>9,142</u> | <u>564</u> |
| Revenue from securities sold - hedging | 5,572,868 | 6,614,933 |
| Cost of securities sold - hedging | (5,469,892) | (6,653,152) |
| Subtotal | <u>102,976</u> | <u>(38,219)</u> |
| Total | <u>\$ 373,498</u> | <u>(146,012)</u> |

D. Interest revenue

| | For the three months ended March 31, | |
|---------------------------------|---|-----------------------|
| | 2017 | 2016 |
| Interest revenue - margin loans | \$ 177,651 | 193,737 |
| Interest revenue - bonds | 244,995 | 126,109 |
| Overseas subsidiaries | 8,503 | 11,942 |
| Others | 10,112 | 9,689 |
| | <u>\$ 441,261</u> | <u>341,477</u> |

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

| | For the three months ended March 31, | |
|---|---|-----------------------|
| | 2017 | 2016 |
| Trading securities - Proprietary | \$ 24,630 | 86,055 |
| Trading securities - Underwriting | (5,266) | 3,855 |
| Trading securities - Hedging | 116,198 | 59,172 |
| Settlement coverage bonds payable of short sale | - | (1,146) |
| | <u>\$ 135,562</u> | <u>147,936</u> |

F. Net gains on stock warrants issued

| | For the three months ended March 31, | |
|---|---|-----------------------|
| | 2017 | 2016 |
| Gains on changes in fair value of stock warrants | \$ 3,405,351 | 8,092,959 |
| Gains on exercise of stock warrants before maturity | 4,383,025 | 1,199,161 |
| Losses on changes in fair value of stock warrants repurchased | (7,710,126) | (9,052,822) |
| Gains on expiration of stock warrants | 2,424 | 8,424 |
| Stock warrants issuance expenses | (39,872) | (31,678) |
| | <u>\$ 40,802</u> | <u>216,044</u> |

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

G. Employee benefits, depreciation, and amortization expenses

| | For the three months ended March 31, | |
|------------------------------------|---|----------------|
| | 2017 | 2016 |
| Employee benefit expenses | | |
| Salary expense | \$ 551,330 | 513,844 |
| Health and labor insurance expense | 42,946 | 43,090 |
| Pension expense | 25,050 | 26,587 |
| Others | 14,515 | 15,127 |
| Depreciation expense | 46,057 | 44,272 |
| Amortization expense | 8,207 | 10,076 |
| | \$ 688,105 | 652,996 |

H. Other operating expenses

| | For the three months ended March 31, | |
|--------------------------------|---|----------------|
| | 2017 | 2016 |
| Rental expense | \$ 39,160 | 47,902 |
| Taxes | 74,109 | 79,533 |
| Information technology expense | 47,351 | 47,904 |
| Postage expense | 32,961 | 32,945 |
| Professional service fee | 16,107 | 30,784 |
| Other expenses | 126,141 | 127,299 |
| | \$ 335,829 | 366,367 |

I. Other gains and losses

| | For the three months ended March 31, | |
|---|---|----------------|
| | 2017 | 2016 |
| Financial revenue | \$ 56,970 | 46,445 |
| Currency exchange gains (losses) | (14,176) | (1,009) |
| Net gains (losses) on disposal of investment | 108 | (1,710) |
| Net gains (losses) on measurement of non-operating instruments at fair value through profit or loss | 12,832 | (15,957) |
| Net gains (losses) on disposal of property and equipment | - | (3,198) |
| Dividend revenue | 1,717 | 2,359 |
| Others | 82,708 | 81,165 |
| | \$ 140,159 | 108,095 |

J. Remuneration to employees, directors and supervisors

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

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

For the three months ended March 31, 2017 and 2016, the estimated amounts of remuneration to employee were \$10,117 and \$2,959, and to directors and supervisors by the Company were \$18,789 and \$4,931, respectively, which were calculated based on the

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

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 three months ended March 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 and director and supervisors by the Company for 2016 and 2015 were \$12,090 and \$17,241 and \$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.

For the three months ended March 31, 2017 and 2016, the estimated amounts of remuneration to employee were \$1,433 and \$2,297 and to directors and supervisors were \$1,450 and \$2,297 by the domestic subsidiaries of the Group, respectively.

(22) Financial instruments

A. Credit risk

a. Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of March 31, 2017, December 31, 2016 and March 31, 2016, the maximum credit exposure amounted to \$101,313,633, \$86,612,218 and \$76,421,899, respectively.

The regional distribution of financial assets' credit risk exposure amount which owned by the Group is as the list below. The region of exposure is mostly in Taiwan (64.22%); secondly, is in Asia (14.41%, exclusion of Taiwan); then, is in Europe (9.79%). Compare to the same period of last year, there is no significant change in proportion of region of investments. Cash and cash equivalent and customers' margin account accounted for major portion of the subsidiary Capital Futures Corp.

| Region | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---------------------------|-----------------------|--------------------------|-----------------------|
| Taiwan | \$ 64,617,904 | 57,799,502 | 58,215,680 |
| Asia (Taiwan is excluded) | 14,498,438 | 12,039,498 | 7,053,591 |
| Europe | 9,848,784 | 8,732,426 | 5,849,434 |
| America | 7,984,354 | 4,247,626 | 2,446,152 |
| Other | 3,669,714 | 3,089,041 | 2,200,799 |
| Total | \$ 100,619,194 | 85,908,093 | 75,765,656 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

b. Impairment loss

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

| | March 31, 2017 | | December 31, 2016 | | March 31, 2016 | |
|-----------------------------|----------------------|--------------|-------------------|--------------|-------------------|--------------|
| | Total amount | Impairment | Total amount | Impairment | Total amount | Impairment |
| Not past due | \$ 19,952,140 | 1,679 | 16,277,081 | 1,389 | 20,557,815 | 2,436 |
| Past due 0~30 days | 144 | 144 | 363 | 363 | 233 | 233 |
| Past due 31~120 days | 193 | 193 | 188 | 188 | 565 | 565 |
| Past due 121~360 days | - | - | - | - | 1,713 | 1,713 |
| Past due more than one year | 1,712 | 1,712 | 1,712 | 1,712 | - | - |
| | \$ 19,954,189 | 3,728 | 16,279,344 | 3,652 | 20,560,326 | 4,947 |

Allowance for doubtful debts under receivables is recorded for the debt expense or impairment loss. Where a claim becomes definitely uncollectible, the allowance for doubtful debts should be written off to financial assets account. As of March 31, 2017, December 31, 2016 and March 31, 2016, the impairment losses of account receivables were recognized \$3,728, \$3,652 and \$4,947, respectively.

B. Liquidity risk

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

| March 31, 2017 | Carrying amount | Contractual cash flows | Within 6 months | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
|--|----------------------|------------------------|-------------------|----------------|----------------|----------------|-------------------|
| Financial liabilities at fair value through profit or loss - current | | | | | | | |
| Bond purchased under resale agreements - short sales | \$ 100,412 | 100,412 | 100,412 | - | - | - | - |
| Liabilities on sale of borrowed securities | 170,380 | 170,380 | 170,380 | - | - | - | - |
| Stock warrants issued | 439,499 | 439,499 | 410,800 | 28,699 | - | - | - |
| Put options - futures | 66,302 | 66,302 | 66,302 | - | - | - | - |
| Interest rate swaps and Currency swaps (including IRS asset swaps) | 7,758 | 7,758 | 5,736 | 621 | 1,384 | 17 | - |
| Put options | 207,795 | 207,795 | 19,597 | 55,887 | 85,270 | 47,041 | - |
| Short-term borrowings | 5,764,959 | 5,764,959 | 5,764,959 | - | - | - | - |
| Commercial paper payable | 4,849,172 | 4,850,000 | 4,850,000 | - | - | - | - |
| Bonds sold under repurchase agreements | 43,348,419 | 43,399,037 | 43,399,037 | - | - | - | - |
| Securities financing refundable deposits | 1,060,615 | 1,060,615 | 1,060,615 | - | - | - | - |
| Deposits payable for securities financing | 1,187,443 | 1,187,443 | 1,187,443 | - | - | - | - |
| Securities lending refundable deposits | 544,618 | 544,618 | 544,618 | - | - | - | - |
| Futures traders' equity | 24,142,693 | 24,142,693 | 24,142,693 | - | - | - | - |
| Notes payable and accounts payable | 222,038 | 222,038 | 222,038 | - | - | - | - |
| Receipts under custody | 154,953 | 154,953 | 154,953 | - | - | - | - |
| Other payables | 565,103 | 565,103 | 563,372 | 1,731 | - | - | - |
| Structured notes | 2,795,376 | 2,795,376 | 2,220,451 | 282,880 | 175,265 | 116,780 | - |
| Currency derivatives | 10,681 | 10,681 | 10,681 | - | - | - | - |
| | \$ 85,638,216 | 85,689,662 | 84,894,087 | 369,818 | 261,919 | 163,838 | - |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| December 31, 2016 | Carrying amount | Contractual cash flows | Within 6 months | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
|---|----------------------------|-----------------------------------|----------------------------|------------------------|------------------|------------------|------------------------------|
| Financial liabilities at fair value through profit or loss - current | | | | | | | |
| Liabilities on sale of borrowed securities | \$ 938,049 | 938,049 | 938,049 | - | - | - | - |
| Stock warrants issued | 275,038 | 275,038 | 254,719 | 19,620 | 699 | - | - |
| Put options - futures | 66,693 | 66,693 | 66,693 | - | - | - | - |
| 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 | 34,956,642 | 35,002,716 | 35,002,716 | - | - | - | - |
| Securities financing refundable deposits | 1,722,840 | 1,722,840 | 1,722,840 | - | - | - | - |
| Deposits payable for securities financing | 1,947,104 | 1,947,104 | 1,947,104 | - | - | - | - |
| Securities lending refundable deposits | 878,866 | 878,866 | 878,866 | - | - | - | - |
| Futures traders' equity | 23,132,231 | 23,132,231 | 23,132,231 | - | - | - | - |
| Notes payable and accounts payable | 416,571 | 416,571 | 416,571 | - | - | - | - |
| Receipts under custody | 147,328 | 147,328 | 147,328 | - | - | - | - |
| Other payables | 663,830 | 663,830 | 661,223 | 2,607 | - | - | - |
| Structured notes | 2,674,610 | 2,674,610 | 2,293,958 | 141,018 | 184,695 | 54,939 | - |
| Currency derivatives | 1 | 1 | 1 | - | - | - | - |
| | \$ 72,244,673 | 72,290,747 | 71,740,604 | 205,596 | 254,774 | 89,773 | - |

| March 31, 2016 | Carrying amount | Contractual cash flows | Within 6 months | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
|---|----------------------------|-----------------------------------|----------------------------|------------------------|------------------|------------------|------------------------------|
| Financial liabilities at fair value through profit or loss - current | | | | | | | |
| Bond purchased under resale agreements - short | \$ 397,277 | 397,277 | 397,277 | - | - | - | - |
| Liabilities on sale of borrowed securities | 886,345 | 886,345 | 886,345 | - | - | - | - |
| Stock warrants issued | 429,208 | 429,208 | 355,927 | 73,281 | - | - | - |
| Put options - futures | 57,918 | 57,918 | 57,918 | - | - | - | - |
| Interest rate swaps and Currency swaps (including IRS asset swaps) | 24,140 | 24,140 | 17,380 | 2,235 | 7,518 | (2,993) | - |
| Put options | 220,328 | 220,328 | 11,901 | 38,019 | 106,856 | 63,552 | - |
| Short-term borrowings | 2,721,573 | 2,721,573 | 2,721,573 | - | - | - | - |
| Commercial paper payable | 299,983 | 300,000 | 300,000 | - | - | - | - |
| Bonds sold under repurchase agreements | 26,903,149 | 26,927,307 | 26,927,307 | - | - | - | - |
| Securities financing refundable deposits | 1,096,435 | 1,096,435 | 1,096,435 | - | - | - | - |
| Deposits payable for securities financing | 1,169,808 | 1,169,808 | 1,169,808 | - | - | - | - |
| Securities lending refundable deposits | 506,189 | 506,189 | 506,189 | - | - | - | - |
| Futures traders' equity | 19,158,296 | 19,158,296 | 19,158,296 | - | - | - | - |
| Notes payable and accounts payable | 279,443 | 279,443 | 279,443 | - | - | - | - |
| Receipts under custody | 103,438 | 103,438 | 103,438 | - | - | - | - |
| Other payables | 651,360 | 651,360 | 649,029 | 2,331 | - | - | - |
| Structured notes | 3,008,409 | 3,008,409 | 2,615,348 | 77,804 | 224,978 | 90,279 | - |
| | \$ 57,913,299 | 57,937,474 | 57,253,614 | 193,670 | 339,352 | 150,838 | - |

C. Currency risk

a. Currency risk exposure

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| March 31, 2017 | | | |
|-------------------------------------|---------------------------------|---------------|------------|
| | Foreign Currency (thousands) | Exchange Rate | Amount |
| <u>Financial assets</u> | | | |
| <u>Monetary Item</u> | | | |
| USD | \$ 421,757 | 30.3300 | 12,791,890 |
| HKD | 68,717 | 3.9040 | 268,271 |
| EUR | 15,648 | 32.4300 | 507,465 |
| JPY | 1,136,586 | 0.2713 | 308,356 |
| GBP | 427 | 37.8200 | 16,149 |
| AUD | 4,104 | 23.2250 | 95,315 |
| SGD | 160 | 21.7100 | 3,474 |
| CNY | 106,432 | 4.4070 | 469,046 |
| PHP | 14 | 0.6219 | 9 |
| KRW | 3,800,052 | 0.0273 | 103,741 |
| THB | 1,075 | 0.8859 | 952 |
| NZD | 1 | 21.1900 | 21 |
| CHF | 2 | 30.3050 | 61 |
| ZAR | 1 | 2.2500 | 2 |
| CAD | 18 | 22.7500 | 410 |
| IDR | 12,175 | 0.0023 | 28 |
| <u>Non-Monetary Item</u> | | | |
| USD | 768,699 | 30.3300 | 23,314,641 |
| AUD | 270,763 | 23.2250 | 6,288,471 |
| JPY | 63,710 | 0.2713 | 17,285 |
| HKD | 21,452 | 3.9040 | 83,749 |
| CNY | 135,275 | 4.4070 | 596,157 |
| <u>Investments at equity</u> | | | |
| HKD | 10,538 | 3.9040 | 41,142 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary Item</u> | | | |
| USD | 1,098,882 | 30.3300 | 33,329,091 |
| AUD | 260,452 | 23.2250 | 6,048,998 |
| JPY | 1,132,707 | 0.2713 | 307,303 |
| CAD | 46 | 22.7500 | 1,047 |
| HKD | 136,987 | 3.9040 | 534,797 |
| EUR | 15,339 | 32.4300 | 497,444 |
| GBP | 653 | 37.8200 | 24,696 |
| THB | 262 | 0.8859 | 232 |
| SGD | 158 | 21.7100 | 3,430 |
| KRW | 3,645,334 | 0.0273 | 99,518 |
| NZD | 1 | - | - |
| CNY | 113,448 | 4.4070 | 499,965 |
| CHF | 2 | 30.3050 | 61 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| December 31, 2016 | | | | |
|-------------------------------------|------------------|-------------|---------------|------------|
| | Foreign Currency | (thousands) | Exchange Rate | Amount |
| <u>Financial assets</u> | | | | |
| <u>Monetary Item</u> | | | | |
| USD | \$ | 361,996 | 32.2500 | 11,674,371 |
| HKD | | 59,547 | 4.1580 | 247,596 |
| EUR | | 19,881 | 33.9000 | 673,966 |
| JPY | | 984,579 | 0.2756 | 271,350 |
| GBP | | 401 | 39.6100 | 15,884 |
| AUD | | 3,024 | 23.2850 | 70,414 |
| SGD | | 176 | 22.2900 | 3,923 |
| CNY | | 106,922 | 4.6170 | 493,659 |
| KRW | | 3,106,094 | 0.0270 | 83,896 |
| THB | | 1,361 | 0.9050 | 1,232 |
| CHF | | 48 | 31.5250 | 1,513 |
| CAD | | 1 | 23.9100 | 24 |
| ZAR | | 3 | 2.3600 | 7 |
| PHP | | 9 | 0.6684 | 6 |
| <u>Non-Monetary Item</u> | | | | |
| USD | | 492,316 | 32.2500 | 15,877,191 |
| HKD | | 29,720 | 4.1580 | 123,576 |
| JPY | | 37,720 | 0.2756 | 10,396 |
| AUD | | 217,379 | 23.2850 | 5,061,670 |
| CNY | | 133,526 | 4.6170 | 616,490 |
| <u>Investments at equity</u> | | | | |
| HKD | | 9,985 | 4.1580 | 41,516 |
| <u>Financial liabilities</u> | | | | |
| <u>Monetary Item</u> | | | | |
| USD | | 820,687 | 32.2500 | 26,467,156 |
| HKD | | 122,451 | 4.1580 | 509,151 |
| CNY | | 112,949 | 4.6170 | 521,486 |
| CHF | | 48 | 31.5250 | 1,513 |
| JPY | | 926,157 | 0.2756 | 255,249 |
| GBP | | 400 | 39.6100 | 15,844 |
| AUD | | 217,296 | 23.2850 | 5,059,737 |
| EUR | | 19,473 | 33.9000 | 660,135 |
| SGD | | 167 | 22.2900 | 3,722 |
| THB | | 817 | 0.9050 | 739 |
| KRW | | 2,970,692 | 0.0270 | 80,238 |

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

| March 31, 2016 | | | | |
|-------------------------------------|----|-------------|---------------|------------|
| Foreign Currency | | | | |
| | | (thousands) | Exchange Rate | Amount |
| <u>Financial assets</u> | | | | |
| <u>Monetary Item</u> | | | | |
| USD | \$ | 303,359 | 32.1850 | 9,763,609 |
| HKD | | 33,336 | 4.1500 | 138,344 |
| EUR | | 3,419 | 36.5100 | 124,828 |
| JPY | | 1,050,543 | 0.2863 | 300,770 |
| GBP | | 301 | 46.1700 | 13,897 |
| AUD | | 26,015 | 24.5950 | 639,839 |
| SGD | | 489 | 23.8500 | 11,663 |
| CNY | | 118,417 | 4.9720 | 588,769 |
| KRW | | 2,603,037 | 0.0284 | 73,926 |
| THB | | 1,337 | 0.9185 | 1,228 |
| MYR | | 58 | 7.8955 | 458 |
| CHF | | 66 | 33.3650 | 2,202 |
| ZAR | | 2 | 2.1700 | 4 |
| <u>Non-Monetary Item</u> | | | | |
| USD | | 301,308 | 32.1850 | 9,697,598 |
| HKD | | 19,135 | 4.1500 | 79,410 |
| CNY | | 201,453 | 4.9720 | 1,001,624 |
| <u>Investments at equity</u> | | | | |
| HKD | | 8,864 | 4.1500 | 36,786 |
| <u>Financial liabilities</u> | | | | |
| <u>Monetary Item</u> | | | | |
| USD | | 584,051 | 32.1850 | 18,797,681 |
| HKD | | 132,065 | 4.1500 | 548,070 |
| EUR | | 3,169 | 36.5100 | 115,700 |
| JPY | | 1,047,833 | 0.2863 | 299,995 |
| GBP | | 299 | 46.1700 | 13,805 |
| AUD | | 79,379 | 24.5950 | 1,952,327 |
| SGD | | 486 | 23.8500 | 11,591 |
| KRW | | 2,521,198 | 0.0284 | 71,602 |
| THB | | 1,026 | 0.9185 | 942 |
| MYR | | (18) | 7.8955 | (142) |
| CNY | | 45,932 | 4.9720 | 228,374 |
| CHF | | 65 | 33.3650 | 2,169 |

Because there are a variety of functional currencies, the Group discloses a summary of its information on exchange gain or loss. The realized and unrealized currency exchange gains amounted to \$7,917 and \$66,834 for the three months ended March 31, 2017 and 2016, respectively.

b. Sensitivity analysis

The currency risk of the Group arises mainly from cash and cash equivalents, other receivables, security borrowing margin, financial assets measured at fair value through profit or loss, customer margin account, futures traders' equity, and securities lending

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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 three months ended March 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 \$991,009, \$387,983, \$1,138,751 and \$468,005, respectively.

D. Sensitivity analysis of interest rate risk

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and non-derivative financial instruments on the reporting date. For floating rate instruments, the sensitivity analysis assumes the liabilities are outstanding for the whole year at the reporting date. The variable rate is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. This is mainly attributable to the Group's exposure to floating rates on its bond position.

| Market risk type | March 31, 2017 | March 31, 2016 | For the three months ended March 31, | | | | | |
|------------------|----------------|----------------|--------------------------------------|-----------|-----------|-----------|-----------|-----------|
| | | | 2017 | | | 2016 | | |
| | | | Mean | Maximum | Minimum | Mean | Maximum | Minimum |
| Interest risk | 1,873,264 | 1,173,670 | 1,810,771 | 1,873,264 | 1,746,721 | 1,185,283 | 1,263,024 | 1,119,156 |

E. Fair value information and hierarchy

a. Fair value information

(1) General description

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

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

(2) Definition of fair value hierarchy

A) Level 1

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

B) Level 2

The input of Level 2 refers to observable price except public quote in an active

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

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

C) Level 3

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

b. Not based on fair value measurement

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

1) Fair value information

| | March 31, 2017 | | December 31, 2016 | | March 31, 2016 | |
|---|----------------|------------|-------------------|------------|----------------|------------|
| | Book value | Fair value | Book value | Fair value | Book value | Fair value |
| Financial assets : | | | | | | |
| Cash and cash equivalents | \$ 6,282,083 | 6,282,083 | 5,423,415 | 5,423,415 | 6,037,993 | 6,037,993 |
| Bonds purchased under resale agreements | 451,918 | 451,918 | - | - | 397,256 | 397,256 |
| Accrued receivable | 20,531,607 | 20,531,607 | 18,088,832 | 18,088,832 | 21,963,549 | 21,963,549 |
| Customers' margin account | 24,179,107 | 24,179,107 | 23,169,842 | 23,169,842 | 19,215,771 | 19,215,771 |
| Restricted assets - current | 638,536 | 638,536 | 637,002 | 637,002 | 521,129 | 521,129 |
| Financial assets measured at cost-non-current | 644,225 | 644,225 | 448,460 | 448,460 | 487,231 | 487,231 |
| Other non-current assets | 1,683,124 | 1,683,124 | 1,717,516 | 1,717,516 | 1,805,087 | 1,805,087 |
| Financial liabilities : | | | | | | |
| Short-term borrowings | 5,764,959 | 5,764,959 | 4,236,402 | 4,236,402 | 2,721,573 | 2,721,573 |
| Commercial paper payable | 4,849,172 | 4,849,172 | - | - | 299,983 | 299,983 |
| Bonds sold under repurchase agreements | 43,348,419 | 43,348,419 | 34,956,642 | 34,956,642 | 26,903,149 | 26,903,149 |
| Accrued payable | 9,226,521 | 9,226,521 | 9,069,391 | 9,069,391 | 9,969,628 | 9,969,628 |
| Futures traders' equity | 24,142,693 | 24,142,693 | 23,132,231 | 23,132,231 | 19,158,296 | 19,158,296 |
| Other financial liabilities - current | 2,495,416 | 2,495,416 | 2,427,461 | 2,427,461 | 2,684,400 | 2,684,400 |
| Other financial liabilities - non-current | 292,045 | 292,045 | 239,634 | 239,634 | 315,257 | 315,257 |
| Other non-current liabilities | 342,727 | 342,727 | 362,077 | 362,077 | 337,611 | 337,611 |

2) Unmeasured by fair value, which has to be disclosed with hierarchy information of fair value

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------|---------|---------|-----------|-----------|
| Investment property | | | | |
| March 31, 2017 | \$ - | - | 2,740,795 | 2,740,795 |
| December 31, 2016 | - | - | 2,740,795 | 2,740,795 |
| March 31, 2016 | - | - | 2,740,795 | 2,740,795 |

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

A) For short term financial instruments, the fair values are determined based on their book value because of their short maturities. The method is applied to cash and cash equivalents, bonds purchased under resale agreements, accrued receivable, other current assets, other 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.

B) Financial assets measured at cost and equity investments in unlisted stocks do not have the quoted market prices in an active market and the variability in the range of reasonable fair values is significant or the probabilities of the various estimates within the range cannot be reasonably assessed, so the fair value is

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

unable to be reliably measured. Therefore, the Group considers the book value as a reasonable approximation of fair value.

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

c. Based on fair value measurement

1) Hierarchy information of fair value

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

| | Level 1 | Level 2 | Level 3 | Total |
|--|----------------------|-------------------|----------|-------------------|
| March 31, 2017 | | | | |
| Financial assets at fair value through profit or loss | \$ 12,783,226 | 17,784,557 | - | 30,567,783 |
| Financial assets available for sale | 476,105 | 27,379,745 | - | 27,855,850 |
| Derivative financial assets | 455,874 | 70,807 | - | 526,681 |
| | \$ 13,715,205 | 45,235,109 | - | 58,950,314 |
| Financial liabilities at fair value through profit or loss | \$ 710,291 | - | - | 710,291 |
| Derivative financial liabilities | 66,302 | 234,149 | - | 300,451 |
| | \$ 776,593 | 234,149 | - | 1,010,742 |
| December 31, 2016 | | | | |
| Financial assets at fair value through profit or loss | \$ 9,910,349 | 17,536,458 | - | 27,446,807 |
| Financial assets available for sale | 494,831 | 18,919,308 | - | 19,414,139 |
| Derivative financial assets | 421,317 | 47,957 | - | 469,274 |
| | \$ 10,826,497 | 36,503,723 | - | 47,330,220 |
| Financial liabilities at fair value through profit or loss | \$ 1,213,087 | - | - | 1,213,087 |
| Derivative financial liabilities | 66,693 | 195,984 | - | 262,677 |
| | \$ 1,279,780 | 195,984 | - | 1,475,764 |
| March 31, 2016 | | | | |
| Financial assets at fair value through profit or loss | \$ 7,123,296 | 16,925,460 | - | 24,048,756 |
| Financial assets available for sale | 186,949 | 11,193,260 | - | 11,380,209 |
| Derivative financial assets | 425,137 | 42,102 | - | 467,239 |
| | \$ 7,735,382 | 28,160,822 | - | 35,896,204 |
| Financial liabilities at fair value through profit or loss | \$ 1,712,830 | - | - | 1,712,830 |
| Derivative financial liabilities | 57,918 | 253,220 | - | 311,138 |
| | \$ 1,770,748 | 253,220 | - | 2,023,968 |

2) Valuation techniques

A) Non-derivative financial instruments

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

B) Derivative financial instruments

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

d. Transfer between Level 1 and Level 2

There is no significant transfer between Level 1 and Level 2 for the three months end March 31, 2017 and 2016.

e. Fair value adjustments

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

F. Transfer of financial assets

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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:

| March 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 | \$ 43,404,237 | 43,348,419 | - | - | - |
| December 31, 2016 | | | | | |
| 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 | \$ 35,130,407 | 34,956,642 | - | - | - |
| March 31, 2016 | | | | | |
| 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 | \$ 26,672,040 | 26,903,149 | - | - | - |

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

G. Offsetting financial assets and financial liabilities

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

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

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

| March 31, 2017 | | | | | | |
|---|--|--|--|------------------------------|-------------|--------|
| Gross amount of recognized financial assets | Financial assets under offsetting or general agreement of net amount settlement or similar norms | | | | | |
| | Gross amount of recognized financial liabilities offsetting in the balance sheet | Net amount of financial assets presented in the balance sheets | Related amount not offset in the balance sheet (d) | | | |
| | | | Financial instruments | Cash received as collaterals | Net amount | |
| (a) | (b) | (c)=(a)-(b) | (Note) | - | (e)=(c)-(d) | |
| Derivative financial assets | \$ 70,807 | - | 70,807 | - | - | 70,807 |

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March 31, 2017

| | Financial liabilities under offsetting or general agreement of net amount settlement or similar norms | | | | | |
|----------------------------------|---|--|--|---|---------------------------------|------------------------------|
| | Gross amount of recognized financial liabilities | Gross amount of recognized financial assets offsetting in the balance sheet | Net amount of financial liabilities presented in the balance sheets | Related amount not offset in the balance sheet (d) | | Net amount (e)=(c)-(d) |
| | | | | Financial instruments | Cash received as collaterals | |
| (a) | (b) | (c)=(a)-(b) | (Note) | | | |
| Derivative financial liabilities | \$ 234,149 | - | 234,149 | - | - | 234,149 |
| Under repurchase agreements | 43,348,419 | - | 43,348,419 | 43,348,419 | - | - |
| Total | \$ 43,582,568 | - | 43,582,568 | 43,348,419 | - | 234,149 |

December 31, 2016

| | Financial assets under offsetting or general agreement of net amount settlement or similar norms | | | | | |
|-----------------------------|--|---|---|---|---------------------------------|------------------------------|
| | Gross amount of recognized financial assets | Gross amount of recognized financial liabilities offsetting in the balance sheet | Net amount of financial assets presented in the balance sheets | Related amount not offset in the balance sheet (d) | | Net amount (e)=(c)-(d) |
| | | | | Financial instruments | Cash received as collaterals | |
| (a) | (b) | (c)=(a)-(b) | (Note) | | | |
| Derivative financial assets | \$ 47,957 | - | 47,957 | - | - | 47,957 |

December 31, 2016

| | Financial liabilities under offsetting or general agreement of net amount settlement or similar norms | | | | | |
|----------------------------------|---|--|--|---|---------------------------------|------------------------------|
| | Gross amount of recognized financial liabilities | Gross amount of recognized financial assets offsetting in the balance sheet | Net amount of financial liabilities presented in the balance sheets | Related amount not offset in the balance sheet (d) | | Net amount (e)=(c)-(d) |
| | | | | Financial instruments | Cash received as collaterals | |
| (a) | (b) | (c)=(a)-(b) | (Note) | | | |
| Derivative financial liabilities | \$ 195,984 | - | 195,984 | - | - | 195,984 |
| Under repurchase agreements | 34,956,642 | - | 34,956,642 | 34,956,642 | - | - |
| Total | \$ 35,152,626 | - | 35,152,626 | 34,956,642 | - | 195,984 |

March 31, 2016

| | Financial assets under offsetting or general agreement of net amount settlement or similar norms | | | | | |
|-----------------------------|--|---|---|---|---------------------------------|------------------------------|
| | Gross amount of recognized financial assets | Gross amount of recognized financial liabilities offsetting in the balance sheet | Net amount of financial assets presented in the balance sheets | Related amount not offset in the balance sheet (d) | | Net amount (e)=(c)-(d) |
| | | | | Financial instruments | Cash received as collaterals | |
| (a) | (b) | (c)=(a)-(b) | (Note) | | | |
| Derivative financial assets | \$ 42,102 | - | 42,102 | - | - | 42,102 |

March 31, 2016

| | Financial liabilities under offsetting or general agreement of net amount settlement or similar norms | | | | | |
|----------------------------------|---|--|--|---|---------------------------------|------------------------------|
| | Gross amount of recognized financial liabilities | Gross amount of recognized financial assets offsetting in the balance sheet | Net amount of financial liabilities presented in the balance sheets | Related amount not offset in the balance sheet (d) | | Net amount (e)=(c)-(d) |
| | | | | Financial instruments | Cash received as collaterals | |
| (a) | (b) | (c)=(a)-(b) | (Note) | | | |
| Derivative financial liabilities | \$ 253,220 | - | 253,220 | - | - | 253,220 |
| Under repurchase agreements | 26,903,149 | - | 26,903,149 | 26,903,149 | - | - |
| Total | \$ 27,156,369 | - | 27,156,369 | 26,903,149 | - | 253,220 |

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

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

(23) Financial risk management

There is no material change in object and policy of financial risk management which was disclosed in Note 6(21) of the consolidated financial statements as of and for the year ended December 31, 2016.

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

Stock warrants

A. Notional principal (nominal amount) and credit risk

| <u>Financial Instruments</u> | <u>March 31, 2017</u> | | <u>December 31, 2016</u> | | <u>March 31, 2016</u> | |
|------------------------------|--|--------------------|--|--------------------|--|--------------------|
| | <u>Notional principal / Nominal amount</u> | <u>Credit Risk</u> | <u>Notional principal / Nominal amount</u> | <u>Credit Risk</u> | <u>Notional principal / Nominal amount</u> | <u>Credit Risk</u> |
| For trading purpose: | | | | | | |
| Stock warrants issued | \$ 11,717,235 | - | 7,931,022 | - | 10,725,110 | - |

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

B. Market risk:

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

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

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

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

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

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

E. Presentation of financial derivatives

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

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

a. For the three months ended March 31, 2017 and 2016:

1) Gains (losses) on valuation

| | For the three months ended March 31, | | Account |
|----------------------------|---|-------------|---|
| | 2017 | 2016 | |
| Stock warrants issued | \$ 4,401,160 | 4,731,244 | Gains (losses) on stock warrants issued |
| Stock warrants repurchased | (4,344,700) | (4,641,765) | Gains (losses) on stock warrants issued |

2) Gains (losses) on sale

| | For the three months ended March 31, | | Account |
|------------------------------|---|-------------|--|
| | 2017 | 2016 | |
| Security borrowing | \$ 9,328 | 70,633 | Gains (losses) on covering of borrowed securities and bonds with resale agreements |
| Trading securities - hedging | 50,899 | (45,871) | Gains (losses) on sale of trading securities |
| Futures transaction | (42,048) | (43,498) | Gains (losses) on derivative financial instruments - futures |

3) Gains (losses) on maturity

| | For the three months ended March 31, | | Account |
|----------------------------|---|-------------|---|
| | 2017 | 2016 | |
| Stock warrants issued | \$ 3,389,640 | 4,569,300 | Gains (losses) on stock warrants issued |
| Stock warrants repurchased | (3,365,426) | (4,411,057) | Gains (losses) on stock warrants issued |

Futures

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

| Financial Instruments | March 31, 2017 | | December 31, 2016 | | March 31, 2016 | |
|--|--|------------------------|--|------------------------|--|------------------------|
| | Notional principal / Nominal amount | Credit Risk | Notional principal / Nominal amount | Credit Risk | Notional principal / Nominal amount | Credit Risk |
| <i>For trading purpose:</i> | | | | | | |
| Taixex Futures | \$ 2,037,016 | - | 1,246,867 | - | 1,809,291 | - |
| Electronic Sector Index Futures | 20,884 | - | 1,477 | - | 37,575 | - |
| Finance Sector Index Futures | 28,100 | - | 46,101 | - | 6,667 | - |
| Non-Finance Non-Electronics Sub-Index Futures | 15,330 | - | 4,547 | - | 13,062 | - |
| Stock Futures | 132,791 | - | 140,814 | - | 334,662 | - |
| USD/CNY FX Futures | 76,595 | - | 86,582 | - | - | - |
| Nifty 50 Futures | 53,963 | - | 248,013 | - | - | - |
| Mini-USD/CNY FX Futures | 2,428 | - | - | - | - | - |
| USD/JPY FX Futures | 63,652 | - | 326,514 | - | - | - |
| EUR/USD FX Futures | 156,204 | - | 550,668 | - | - | - |
| Euro dollar Futures | 155,981 | - | 270,616 | - | 9,064 | - |
| H stocks Index Futures | 22,221 | - | 1,921 | - | 27,938 | - |
| HSI Futures | 14,147 | - | 13,448 | - | 17,033 | - |
| Mini-DOW Futures | 15,646 | - | - | - | - | - |
| FTSE China A50 Index Futures | 3,120 | - | 124,946 | - | 42,746 | - |
| SGX Nifty 50 Futures | 47,841 | - | 7,925 | - | 29,840 | - |
| S&P Futures | - | - | - | - | 285,203 | - |
| Mini-S&P Futures | 594,819 | - | 36,100 | - | 3,315 | - |
| JPY dollar Futures | 64,643 | - | 13,867 | - | 14,277 | - |
| GBP dollar Futures | 199,799 | - | - | - | 5,777 | - |
| CAD dollar Futures | - | - | - | - | 7,296 | - |
| USD dollar Futures | 45,322 | - | - | - | - | - |
| AUD dollar Futures | - | - | - | - | 7,251 | - |

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

| Financial Instruments | March 31, 2017 | | December 31, 2016 | | March 31, 2016 | |
|--------------------------------------|--|----------------|--|----------------|--|----------------|
| | Notional principal / Nominal amount | Credit Risk | Notional principal / Nominal amount | Credit Risk | Notional principal / Nominal amount | Credit Risk |
| <i>For trading purpose:</i> | | | | | | |
| MSCI Taiwan Index Futures | - | - | 351,842 | - | - | - |
| Crude oil Futures | 21,182 | - | - | - | - | - |
| VIX Futures | 31,060 | - | 46,924 | - | 8,879 | - |
| U.S. 5-Year T-Note Futures | 249,852 | - | 169,495 | - | - | - |
| U.S. 10-Year T-Note Futures | 796,682 | - | 40,005 | - | - | - |
| U.S. 30-Year T-Bond Futures | - | - | - | - | 26,361 | - |
| NT Dollar Gold Futures | 12,871 | - | 5,437 | - | - | - |
| Taiex Options | 67,696 | - | 86,416 | - | 67,475 | - |
| Stock Options | 8,701 | - | 8,219 | - | 11,425 | - |
| Taiex Weekly Options | 19,140 | - | 23,600 | - | 7,344 | - |
| Electronic Sector Index Options | 897 | - | 2,006 | - | 2,499 | - |
| Finance Sector Index Options | 1,282 | - | 4,482 | - | 1,210 | - |
| Mini-S&P Sector Index Options | - | - | 18,722 | - | - | - |
| S&P Sector Index Options | 21,769 | - | - | - | 3,418 | - |
| Gold Options | 678 | - | 223 | - | 4,357 | - |
| Mini-USD/CNY FX Options | 3,196 | - | 14,141 | - | - | - |
| USD/CNY FX Options | 2,052 | - | 6,238 | - | - | - |
| VIX Options | 4,654 | - | - | - | - | - |
| <i>For non-trading purpose:</i> | | | | | | |
| Taiex Futures | 124,035 | - | 239,765 | - | 538,508 | - |
| Stock Futures | 843,035 | - | 501,055 | - | 613,813 | - |
| Electronic Sector Index Futures | - | - | 7,357 | - | 1,388 | - |
| Finance Sector Index Futures | 7,900 | - | - | - | 1,898 | - |
| HSI Futures | 9,551 | - | 4,569 | - | - | - |
| MSCI Taiwan Index Futures | 60,728 | - | - | - | - | - |
| Mini-HSI Futures | - | - | 17,930 | - | - | - |
| Gold Futures | - | - | 11,151 | - | 23,791 | - |
| Crude oil Futures | 13,959 | - | - | - | - | - |
| FTSE China A50 Index Futures | 249,643 | - | 66,764 | - | 13,292 | - |
| Nikkei Index Futures | - | - | 10,209 | - | - | - |
| Taiex Options | - | - | - | - | 8,204 | - |
| Cathay FTSE China A50 ETF Options | 76 | - | - | - | - | - |
| Stock Options | - | - | - | - | 1,960 | - |

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

B. Market risk:

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

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

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

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

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

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

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

D. Presentation of financial derivatives:

For the three months ended March 31, 2017 and 2016, losses on futures and options transactions amounted to \$82,286 and \$117,377, respectively, and were reflected as gains or losses on derivatives - futures. As of March 31, 2017, December 31, 2016 and March 31, 2016, futures margin - proprietary fund amounted to \$407,856, \$352,755 and \$385,027, 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 \$1,092,932, \$818,437 and \$746,485, respectively.

As of March 31, 2017, December 31, 2016 and March 31, 2016, the balance of call options which recognized as financial assets at fair value through profit or loss - current amounted to \$48,018, \$68,562 and \$40,110, respectively, put options which recognized as financial liabilities at fair value through profit or loss - current amounted to \$66,302, \$66,693 and \$57,918, respectively.

Derivative financial instruments - OTC

A. Interest rate financial derivatives

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

| <u>Financial Instruments</u> | <u>March 31, 2017</u> | | <u>December 31, 2016</u> | | <u>March 31, 2016</u> | |
|------------------------------|--|--------------------|--|--------------------|--|--------------------|
| | <u>Notional principal / Nominal amount</u> | <u>Credit Risk</u> | <u>Notional principal / Nominal amount</u> | <u>Credit Risk</u> | <u>Notional principal / Nominal amount</u> | <u>Credit Risk</u> |
| For trading purpose: | | | | | | |
| NT dollar interest swaps | \$ 44,600,000 | - | 46,500,000 | - | 52,500,000 | - |

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

b. Market risk:

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

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

The Group's non-trading NT dollar interest rate swaps are used to hedge against interest rate fluctuations of claims and obligations. On the settlement date, interest receivables or payables are derived from multiplying the notional principals by interest rate differences, and the 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

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

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.

d. Type, purpose, and strategy of financial derivatives held:

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

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

B. Structured notes

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

| Financial Instruments | March 31, 2017 | | December 31, 2016 | | March 31, 2016 | |
|------------------------------|--|--------------------|--|--------------------|--|--------------------|
| | Notional principal / Nominal amount | Credit Risk | Notional principal / Nominal amount | Credit Risk | Notional principal / Nominal amount | Credit Risk |
| For trading purpose: | | | | | | |
| Equity-linked notes | \$ 30,091 | - | 3,000 | - | 26,000 | - |
| Principal guaranteed notes | 2,224,029 | - | 2,173,544 | - | 2,563,130 | - |
| Credit-linked notes | 475,500 | - | 488,700 | - | 414,700 | - |
| Principle guaranteed notes | USD \$2,052 thousands | - | USD \$100 thousands | - | USD - | - |

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

b. Market risk

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

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

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

C. Convertible bond asset-backed swaps

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

| Financial Instruments | March 31, 2017 | | December 31, 2016 | | March 31, 2016 | |
|-------------------------------------|--|--------------------|--|--------------------|--|--------------------|
| | Notional principal / Nominal amount | Credit Risk | Notional principal / Nominal amount | Credit Risk | Notional principal / Nominal amount | Credit Risk |
| For trading purpose: | | | | | | |
| Convertible bond asset-backed swaps | \$ 913,700 | - | 1,230,100 | - | 1,291,100 | - |
| Convertible bond options | 2,392,700 | - | 2,528,400 | - | 2,994,500 | - |

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

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

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

b. Market risk:

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

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

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

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

D. Options

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

E. Presentation of derivative financial instruments - OTC

As of March 31, 2017, December 31, 2016 and March 31, 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:

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

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> | <u>March 31, 2016</u> |
|--|-----------------------|--------------------------|-----------------------|
| Financial assets at fair value through profit or loss - current | | | |
| IRS asset swaps | \$ 12,693 | 20,743 | 25,160 |
| Interest rate swaps | 1,037 | 4,942 | - |
| Currency swaps | 22,312 | 16,584 | 6,378 |
| Asset swap options - long position | 9,144 | 5,682 | 8,953 |
| Structured notes | 518 | 3 | 1,611 |
| Currency derivatives | 25,103 | 3 | - |
| Total | \$ 70,807 | 47,957 | 42,102 |
| Financial liabilities at fair value through profit or loss - current | | | |
| IRS asset swaps | \$ 1,754 | 1,974 | 4,617 |
| Interest rate swaps | - | - | 815 |
| Currency swaps | 6,004 | 9,089 | 18,708 |
| Asset swap options - short position | 207,795 | 177,405 | 220,328 |
| Structured notes | 7,915 | 7,515 | 8,752 |
| Currency derivative | 10,681 | 1 | - |
| Total | 234,149 | 195,984 | 253,220 |
| Other financial liabilities - current | | | |
| Structured notes principal value | \$ 2,495,416 | 2,427,461 | 2,684,400 |
| Other financial liabilities - non-current | | | |
| Structured notes principal value | \$ 292,045 | 239,634 | 315,257 |

For the three months ended March 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:

| | <u>For the three months ended March 31,</u> | | | |
|----------------------|---|----------------------------------|---|----------------------------------|
| | <u>2017</u> | | <u>2016</u> | |
| | <u>Gains (losses) on derivative financial instrumnets - OTC</u> | <u>Unrealized Gains (losses)</u> | <u>Gains (losses) on derivative financial instrumnets - OTC</u> | <u>Unrealized Gains (losses)</u> |
| Interest rate swaps | \$ (5,152) | 1,037 | (283) | (815) |
| Equity derivatives | - | - | 92 | - |
| Structured notes | (7,937) | (3,323) | (9,124) | (3,273) |
| IRS asset swaps | 103 | 10,939 | 128 | 20,543 |
| Asset swap options | (69,275) | 37,889 | (21,274) | 129,696 |
| Currency swaps | (65,012) | 16,308 | (78,092) | (12,330) |
| Currency derivatives | 6,656 | 14,420 | - | - |
| Total | \$ (140,617) | 77,270 | (108,553) | 133,821 |

(24) Capital management

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

As of March 31, 2017, the Company maintains no change of its capital management.

The Company's capital adequacy ratio on March 31, 2017 was 342%.

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

7. Related Party Transactions

(1) Parent company and ultimate controlling party

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

(2) Names of related parties and relationships

| <u>Names of related parties</u> | <u>Relationships</u> |
|----------------------------------|--------------------------|
| Capital Insurance Advisory Corp. | Subsidiary |
| Capital Insurance Agency Corp | Subsidiary |
| San Ho Enterprise Co., Ltd. | Juristic-person director |
| Kwang Hsing Industrial Co., Ltd. | Juristic-person director |
| Others | Key management personnel |

(3) Key management personnel transactions

A. Key management personnel compensation:

| | <u>For the three months ended March 31,</u> | |
|------------------------------|---|---------------|
| | <u>2017</u> | <u>2016</u> |
| Short-term employee benefits | \$ 83,269 | 62,104 |
| Post-employment benefits | 577 | 493 |
| Total | <u>\$ 83,846</u> | <u>62,597</u> |

B. Bond transactions- bonds sold under repurchase agreements

Bonds sold under repurchase agreements with key management personnel as of March 31, 2017, December 31, 2016 and March 31, 2016 were as follows:

| | <u>March 31, 2017</u> | | <u>December 31, 2016</u> | | <u>March 31, 2016</u> | |
|--------------------------|-----------------------|-----------------------|--------------------------|-----------------------|-----------------------|-----------------------|
| | <u>Par value</u> | <u>Purchase price</u> | <u>Par value</u> | <u>Purchase price</u> | <u>Par value</u> | <u>Purchase price</u> |
| Key management personnel | <u>\$ 43,600</u> | <u>43,800</u> | <u>43,600</u> | <u>43,749</u> | <u>38,600</u> | <u>38,668</u> |

| | <u>For the three months ended March 31,</u> | |
|---------------------------------|---|-------------|
| | <u>2017</u> | <u>2016</u> |
| <u>Total financial expenses</u> | | |
| Key management personnel | <u>\$ 55</u> | <u>82</u> |

C. Structured notes transactions

As of March 31, 2017, December 31, 2016 and March 31, 2016, the balances of structured notes transactions with key management personnel were \$19,850, \$20,700 and \$18,100, respectively.

(4) Significant transactions with related parties

A. Bond transactions- bonds sold under repurchase agreements

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

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

| | March 31, 2017 | | December 31, 2016 | | March 31, 2016 | |
|---------------------------|----------------|----------------|-------------------|----------------|----------------|----------------|
| | Par value | Purchase price | Par value | Purchase price | Par value | Purchase price |
| Subsidiaries | \$ 10,000 | 10,589 | 10,000 | 10,580 | 13,500 | 13,549 |
| Juristic-person directors | 14,800 | 14,800 | 14,900 | 15,000 | 12,400 | 12,400 |
| Total | \$ 24,800 | 25,389 | 24,900 | 25,580 | 25,900 | 25,949 |

| Total financial expense | For the three months ended March 31, | |
|---------------------------|--------------------------------------|------|
| | 2017 | 2016 |
| Subsidiaries | \$ 10 | 15 |
| Juristic-person directors | 20 | 22 |
| Total | \$ 30 | 37 |

Transaction terms are the same as those with general clients.

B. Structured notes transaction

As of March 31, 2017 the balances of structured notes transactions with juristic-person directors of the Group was \$4,995.

C. Lease agreements

a. Lease revenue

| | For the three months ended March 31, | |
|--------------|--------------------------------------|------|
| | 2017 | 2016 |
| Subsidiaries | \$ 260 | 259 |

b. Guarantee deposits received

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|--------------|----------------|-------------------|----------------|
| Subsidiaries | \$ 200 | 200 | 200 |

D. Insurance commission income

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

a. Commission revenues

| | For the three months ended March 31, | |
|--------------|--------------------------------------|-------|
| | 2017 | 2016 |
| Subsidiaries | \$ 6,900 | 3,945 |

b. Accounts receivable

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|--------------|----------------|-------------------|----------------|
| Subsidiaries | \$ 3,549 | 2,452 | 1,761 |

E. Brokerage commissions

The investors of CSC Securities (HK) Ltd. traded market securities with the Company through the trust account named "Capital Securities Nominees Ltd". For the three months ended March 31, 2017 and 2016, the brokerage commissions were \$2,185 and \$1,746 respectively.

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

For the three months ended March 31, 2017, the brokerage commissions from juristic-person directors of the Group were \$162.

- F. The Company issued a 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 March 31, 2017, December 31, 2016 and March 31, 2016:

| | <u>March 31,</u> <u>2017</u> | <u>December 31,</u> <u>2016</u> | <u>March 31,</u> <u>2016</u> | <u>The collateral use</u> |
|--|---------------------------------|------------------------------------|---------------------------------|--|
| Restricted assets - current | \$ 638,536 | 637,002 | 521,129 | Bank borrowings, commercial paper, accounts settled, money trust (Annotation 1), guaranty deposited for business operations (Annotation 2) and the amount of provisional seizure (Note 9(9)) |
| Restricted assets - non - current | 66,998 | 170,167 | 178,775 | Trust to a impartial third party (Note 12(4)) |
| Trading securities and bonds purchased under resale agreements (par value) | 44,394,731 | 35,926,059 | 27,979,588 | Repurchase agreement and bond purchased under resale agreements - short sales |
| Property and equipment | 4,042,955 | 4,049,331 | 4,068,478 | Bank borrowings |
| Financial assets at fair value through profit or loss - non-current | 186,146 | 186,073 | 190,413 | Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business investment |
| Investment property | 878,840 | 881,143 | 888,049 | Bank borrowings |
| Total | <u>\$ 50,208,206</u> | <u>41,849,775</u> | <u>33,826,432</u> | |

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

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

9. SIGNIFICANT CONTINGENT LIABILITY AND UNRECOGNIZED CONTRACT COMMITMENT

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

| | <u>March 31, 2017</u> | | <u>December 31, 2016</u> | | <u>March 31, 2016</u> | |
|---|--------------------------|--------------|--------------------------|-----------|--------------------------|-----------|
| | Shares (in thousands) | Par value | Shares (in thousands) | Par value | Shares (in thousands) | Par value |
| Securities procured through margin purchase | 692,963 | \$ 6,929,630 | 663,916 | 6,639,160 | 733,066 | 7,330,660 |
| Collateral for margin purchase | 9,491 | 94,910 | 12,555 | 125,550 | 24,519 | 245,190 |
| Collateral for short sales | 3,822 | 38,220 | 4,427 | 44,270 | 6,910 | 69,100 |
| Lending securities to customers through short sales | 22,159 | 221,590 | 37,135 | 371,350 | 22,933 | 229,330 |

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

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

| | March 31, 2017 | | December 31, 2016 | | March 31, 2016 | |
|--|--------------------------|-----------|--------------------------|-----------|--------------------------|-----------|
| | Shares (in thousands) | Par value | Shares (in thousands) | Par value | Shares (in thousands) | Par value |
| Securities borrowed from securities finance companies | 111 | \$ 1,110 | 1,346 | 13,460 | 365 | 3,650 |
| Collateral for refinancing margin | 11 | 110 | 144 | 1,440 | 35 | 350 |

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

| | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|------------------|----------------------|-------------------|-------------------|
| Promissory notes | <u>\$ 24,160,000</u> | <u>24,160,000</u> | <u>25,410,000</u> |
| Promissory notes | <u>USD 70,000</u> | <u>85,000</u> | <u>75,000</u> |

- (4) As of March 31, 2017 and December 31, 2016, the market value of collaterals which received from customers on conducting borrowing and lending business with unrestricted purposes were \$1,326,849 and \$311,755 respectively.
- (5) Securities and Futures Investors Protection Center claims against the Company for compensation of \$2,004; due to the fact that the Company, being the underwriter of client's year 2002 cash capital increase case had provided false information on the contents disclosed in the prospectus. The case is under the trial of Taiwan Shilin District Court. According to the opinion from the attorney of the Company, the case had no impact to the Company.
- (6) The client, Mr. Wu, declared that a resigned employee of Tung-Hu branch stole and sold off his stocks and withdrew his deposit illegally. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation for damages of \$36,000 with additional interests. Based on Year 2008 Chung Su No.684 verdict, the Taiwan Taipei District Court ruled in favor of the Company. Mr. Wu was unwilling accept the result and appealed again. This case is currently under the review of the Supreme Court. According to the opinion from the attorney of the Company, the case is a personal financial dispute between customer and the former employee and had no impact to the Company.
- (7) According to the documentation No. 0990030563 verdict of Financial Supervisory Commission (dated June 14, 2010), Taiwan International Securities Corporation (hereinafter known as "TISC") is suspected to violate the Regulations Governing Securities Firms due to some employees selling private placed products of Genesis Growth Income Preferred Shares B1 issued by GVEC (Genesis Voyager Equity Corporation, Danny Pang as related party) privately. According to the understanding and inspection of TISC, some employees may have been selling the aforementioned product and the suspected sales amount is US\$15 million. However, relevant evidence is still under inspection and the legal responsibilities are pending clarification. Some investors instituted proceedings towards TISC and claimed damages amounting to US\$8,464,801 dollars (including claim amount US\$354,006 dollars towards Taiwan International Securities Investment Consulting Corp.). As of March 31, 2017, the damages claimed for amounted to US\$2,930,000, which was in favor of the Company, and US\$5,026,873 that the investors reached compromises to waive off the appeal rights. As of March 31, 2017, there is still one case that currently under the review of the Supreme 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 March 31, 2017, the balance of other liabilities was \$48,034.
- (8) The Company provided the Letter of Comfort for its subsidiary CSC International Holdings Ltd.

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

and CSC securities (HK) Ltd.

- (9) 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 March 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). Two lawsuits had been settled and dismissed. Eleven lawsuits were ruled in favor of TIFC by the Supreme Court, Taiwan High Court and Taiwan Taipei District Court, respectively. Three lawsuits were ruled by the Supreme Court that the resigned-employee and TIFC should be jointly responsible for the compensation for damages, and TIFC had indemnified \$125,117 for the investor. There is one lawsuit that currently under the review of Taiwan Taipei District Court. As of March 31, 2017, TIFC has paid \$162,812 for compensation and the estimated losses amounted to \$235,164 in other non-current liabilities - other.

The plaintiffs applied to the court for provisional seizure and the amount of provisional seizure and execution fees were \$242,216.

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

| | Provisional Seizure Amount |
|---|-----------------------------------|
| Bank deposit | \$ 144,027 |
| Clearing and Settlement fund | 15,121 |
| Accounts receivable and Other accounts receivable | 13 |
| | \$ 159,161 |

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.

- (10) The subsidiary, Capital Futures Corp., acquired hardware and software system for the development of future operation, which cost \$6,760 for contract price. As of March 31, 2017, the remaining balance was \$2,072.
- (11) Due to having preparation for foreign currency margin as a leverage transaction merchant, the subsidiary, Capital Futures Corp., purchased the transaction system for US\$100 thousand (approximate \$3,033) for contract price. As of March 31, 2017, the remaining balance was US\$25 thousand (approximate \$758).
- (12) Due to the business development of Taichung branch, the subsidiary, Capital Futures Corp., planned to move and redecorate, which cost \$4,360 for contract price. As of March 31, 2017, the remaining balance was \$1,224.

10. SIGNIFICANT CATASTROPHIC LOSS : NONE

11. SIGNIFICANT SUBSEQUENT EVENTS :

The subsidiary, Capital Futures Corp., has been approved by the FSC to increase the operating capital of securities proprietary business to 800 million by Ruling No. 1060013199 on April 21, 2017, and the allocation was completed on May 8, 2017.

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

12. OTHERS

(1) As of March 31, 2017, December 31, 2016 and March 31, 2016, the open positions of futures and option contracts were as follows:

A. March 31, 2017

| Item | Trading category | Open positions | | Contract size or paid for (received from) premium | Fair value | Note |
|-----------------------------|---|----------------|---------------------|---|-------------|------|
| | | Long/Short | Number of contracts | | | |
| Futures Contract: | Taixex Futures | Long | 29 | \$ 53,974 | 54,648 | |
| | Taixex Futures | Short | 1,086 | (2,107,077) | (2,131,996) | |
| | Electronic Sector Index Futures | Long | 13 | 20,884 | 20,797 | |
| | Non-Finance Non-Electronics Sub-Index Futures | Long | 12 | 14,150 | 14,122 | |
| | Non-Finance Non-Electronics Sub-Index Futures | Short | 1 | (1,180) | (1,175) | |
| | Stock Futures | Long | 1,836 | 146,424 | 146,013 | |
| | Stock Futures | Short | 7,286 | (829,402) | (830,613) | |
| | Finance Sector Index Futures | Short | 32 | (36,000) | (35,642) | |
| | H stocks Index Futures | Long | 11 | 22,221 | 21,921 | |
| | SGX Nifty 50 Futures | Short | 86 | (47,841) | (47,984) | |
| | HSI Futures | Long | 3 | 14,147 | 14,023 | |
| | HSI Futures | Short | 2 | (9,551) | (9,421) | |
| | MSCI Taiwan Index Futures | Long | 55 | 60,728 | 60,504 | |
| | VIX Futures | Long | 75 | 31,060 | 29,966 | |
| | GBP dollar Futures | Long | 85 | 199,799 | 202,312 | |
| | EUR dollar Futures | Long | 38 | 155,981 | 154,469 | |
| | JPY dollar Futures | Short | 19 | (64,643) | (64,913) | |
| | Mini-DOW Futures | Long | 5 | 15,646 | 15,623 | |
| | NT Dollar Gold Futures | Short | 28 | (12,871) | (12,810) | |
| | USD/CNY FX Futures | Long | 18 | 55,345 | 55,255 | |
| | USD/CNY FX Futures | Short | 7 | (21,250) | (21,266) | |
| | Nifty 50 Futures | Long | 111 | 50,961 | 51,020 | |
| | Nifty 50 Futures | Short | 7 | (3,002) | (3,238) | |
| | Mini-USD/CNY FX Futures | Short | 4 | (2,428) | (2,430) | |
| | USD/JPY FX Futures | Short | 106 | (63,652) | (63,998) | |
| | EUR/USD FX Futures | Short | 238 | (156,204) | (154,939) | |
| | USD dollar Futures | Short | 15 | (45,322) | (45,594) | |
| | Crude oil Futures | Long | 9 | 13,959 | 13,812 | |
| | Crude oil Futures | Short | 14 | (21,182) | (21,531) | |
| | Mini-S&P Futures | Short | 168 | (594,819) | (596,458) | |
| | FTSE China A50 Index Futures | Long | 30 | 9,462 | 9,486 | |
| | FTSE China A50 Index Futures | Short | 769 | (243,301) | (243,792) | |
| | U.S. 5-Year T-Note Futures | Short | 70 | (249,852) | (249,945) | |
| U.S. 10-Year T-Note Futures | Short | 211 | (796,682) | (797,154) | | |
| | Subtotal | | | (4,441,518) | | |
| Options contract: | Taixex Options (Call) | Long | 4,448 | \$ 13,569 | 11,498 | |
| | Taixex Options (Put) | Long | 12,919 | 14,058 | 11,262 | |
| | Taixex Options (Call) | Short | 6,192 | (19,433) | (26,441) | |
| | Taixex Options (Put) | Short | 9,932 | (20,636) | (17,995) | |
| | Stock Options (Call) | Long | 1,758 | 4,313 | 2,930 | |
| | Stock Options (Put) | Long | 1,682 | 3,592 | 3,658 | |
| | Stock Options (Call) | Short | 53 | (568) | (565) | |
| | Stock Options (Put) | Short | 25 | (228) | (316) | |
| | Taixex Weekly Options (Call) | Long | 9,969 | 2,315 | 797 | |
| | Taixex Weekly Options (Put) | Long | 43,897 | 3,237 | 2,082 | |
| | Taixex Weekly Options (Call) | Short | 2,519 | (4,629) | (1,239) | |
| | Taixex Weekly Options (Put) | Short | 3,962 | (8,959) | (10,614) | |
| | Cathay FTSE China A50 ETF Options (Call) | Short | 10 | (43) | (19) | |
| | Cathay FTSE China A50 ETF Options (Put) | Short | 30 | (33) | (21) | |
| | Electronic Sector Index Options (Call) | Long | 217 | 431 | 223 | |
| | Electronic Sector Index Options (Put) | Long | 48 | 107 | 21 | |
| | Electronic Sector Index Options (Call) | Short | 14 | (69) | (76) | |
| | Electronic Sector Index Options (Put) | Short | 88 | (290) | (298) | |
| | Finance Sector Index Options (Call) | Long | 553 | 759 | 294 | |
| | Finance Sector Index Options (Put) | Long | 484 | 519 | 539 | |
| | Finance Sector Index Options (Call) | Short | 44 | (4) | (5) | |
| | S&P Sector Index Options (Call) | Long | 716 | 9,934 | 7,223 | |
| | S&P Sector Index Options (Put) | Long | 139 | 4,978 | 3,265 | |
| | S&P Sector Index Options (Call) | Short | 13 | (321) | (240) | |
| | S&P Sector Index Options (Put) | Short | 249 | (6,536) | (3,366) | |
| | Gold Option (Call) | Long | 176 | 451 | 398 | |
| | Gold Option (Put) | Long | 76 | 146 | 116 | |
| | Gold Option (Put) | Short | 20 | (81) | (63) | |
| | Mini-USD/CNY FX Options (Call) | Long | 21 | 1,174 | 1,133 | |
| | Mini-USD/CNY FX Options (Put) | Long | 25 | 1,696 | 1,377 | |
| | Mini-USD/CNY FX Options (Call) | Short | 23 | (215) | (142) | |
| | Mini-USD/CNY FX Options (Put) | Short | 23 | (111) | (178) | |
| | USD/CNY FX Options (Call) | Long | 51 | 247 | 95 | |
| USD/CNY FX Options (Put) | Long | 78 | 1,375 | 1,107 | | |
| USD/CNY FX Options (Call) | Short | 78 | (430) | (412) | | |
| VIX Options (Put) | Short | 1,025 | (4,654) | (4,312) | | |
| | Subtotal | | | (4,339) | | |
| Total | | | | \$ (4,445,857) | | |

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

B. December 31, 2016

| Item | Trading category | Open positions | | Contract size or paid for (received from) premium | Fair value | Note | |
|--|---|---------------------|---------------------|---|-------------|----------|--|
| | | Long/Short | Number of contracts | | | | |
| Futures contract : | Taix Futures | Long | 18 | \$ 32,699 | 33,253 | | |
| | Taix Futures | Short | 788 | (1,453,933) | (1,458,394) | | |
| | Electronic Sector Index Futures | Short | 6 | (8,834) | (8,868) | | |
| | Finance Sector Index Futures | Short | 43 | (46,101) | (46,345) | | |
| | Non-Finance Non-Electronics Sub-Index Futures | Short | 4 | (4,547) | (4,542) | | |
| | Stock Futures | Long | 1,016 | 118,049 | 118,491 | | |
| | Stock Futures | Short | 4,933 | (523,820) | (521,273) | | |
| | USD/CNY FX Futures | Short | 26 | (86,582) | (86,961) | | |
| | USD/JPY FX Futures | Long | 246 | 154,546 | 157,738 | | |
| | USD/JPY FX Futures | Short | 267 | (171,968) | (171,689) | | |
| | Nifty 50 Futures | Long | 19 | 7,800 | 7,754 | | |
| | Nifty 50 Futures | Short | 357 | (240,213) | (241,492) | | |
| | EUR/USD FX Futures | Long | 201 | 139,916 | 136,750 | | |
| | EUR/USD FX Futures | Short | 603 | (410,752) | (410,249) | | |
| | Euro dollar Futures | Long | 64 | 270,616 | 272,809 | | |
| | H stocks Index Futures | Short | 1 | (1,921) | (1,938) | | |
| | HSI Futures | Long | 4 | 18,017 | 18,165 | | |
| | Mini-HSI Futures | Short | 20 | (17,930) | (18,264) | | |
| | SGX Nifty 50 Futures | Short | 15 | (7,925) | (7,918) | | |
| | JPY dollar Futures | Short | 4 | (13,867) | (13,863) | | |
| | NT Dollar Gold Futures | Long | 12 | 5,437 | 5,451 | | |
| | Gold Futures | Long | 3 | 11,151 | 11,143 | | |
| | MSCI Taiwan Index Futures | Long | 317 | 351,842 | 351,475 | | |
| | VIX Futures | Short | 95 | (46,924) | (48,210) | | |
| | FTSE China A50 Index Futures | Short | 588 | (191,710) | (188,819) | | |
| | Mini-S&P Futures | Long | 10 | 36,100 | 35,791 | | |
| | Nikkei Index Futures | Long | 4 | 10,209 | 10,511 | | |
| | U.S. 5-Year T-Note Futures | Short | 45 | (169,495) | (170,760) | | |
| | U.S. 10-Year T-Note Futures | Long | 10 | 40,005 | 40,081 | | |
| | | Subtotal | | | (2,200,135) | | |
| | Options contract : | Taix Options (Call) | Long | 17,162 | \$ 32,562 | 27,543 | |
| | | Taix Options (Put) | Long | 9,632 | 13,323 | 7,145 | |
| | | Taix Options (Call) | Short | 4,730 | (26,028) | (27,259) | |
| Taix Options (Put) | | Short | 7,286 | (14,503) | (6,477) | | |
| Stock Options (Call) | | Long | 749 | 2,082 | 1,869 | | |
| Stock Options (Put) | | Long | 887 | 3,116 | 2,690 | | |
| Stock Options (Call) | | Short | 334 | (1,774) | (1,013) | | |
| Stock Options (Put) | | Short | 331 | (1,247) | (1,156) | | |
| Taix Weekly Options (Call) | | Long | 16,137 | 3,295 | 3,533 | | |
| Taix Weekly Options (Put) | | Long | 14,685 | 2,411 | 1,081 | | |
| Taix Weekly Options (Call) | | Short | 3,990 | (6,739) | (10,733) | | |
| Taix Weekly Options (Put) | | Short | 4,755 | (11,155) | (6,233) | | |
| Gold Option (Call) | | Long | 7 | 26 | 27 | | |
| Gold Option (Put) | | Long | 13 | 68 | 67 | | |
| Gold Option (Call) | | Short | 54 | (125) | (190) | | |
| Gold Option (Put) | | Short | 5 | (4) | (2) | | |
| Electronic Sector Index Options (Call) | | Long | 256 | 721 | 855 | | |
| Electronic Sector Index Options (Put) | | Long | 85 | 271 | 164 | | |
| Electronic Sector Index Options (Call) | | Short | 1 | (5) | (7) | | |
| Electronic Sector Index Options (Put) | | Short | 263 | (1,009) | (722) | | |
| Finance Sector Index Options (Call) | | Long | 825 | 2,591 | 2,854 | | |
| Finance Sector Index Options (Put) | | Long | 813 | 1,693 | 1,078 | | |
| Finance Sector Index Options (Put) | | Short | 95 | (198) | (118) | | |
| Mini-S&P Sector Index Options (Call) | | Long | 93 | 1,866 | 1,021 | | |
| Mini-S&P Sector Index Options (Put) | | Long | 72 | 1,900 | 2,685 | | |
| Mini-S&P Sector Index Options (Call) | | Short | 120 | (6,083) | (3,562) | | |
| Mini-S&P Sector Index Options (Put) | | Short | 209 | (8,873) | (5,848) | | |
| Mini-USD/CNY FX Options (Call) | | Long | 64 | 10,652 | 10,725 | | |
| Mini-USD/CNY FX Options (Put) | | Short | 80 | (3,489) | (2,461) | | |
| USD/CNY FX Options (Call) | | Long | 153 | 5,194 | 5,225 | | |
| USD/CNY FX Options (Call) | | Short | 4 | (93) | (103) | | |
| USD/CNY FX Options (Put) | | Short | 153 | (951) | (809) | | |
| | | Subtotal | | | (505) | | |
| Total | | | | \$ (2,200,640) | | | |

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

C. March 31, 2016

| Item | Trading category | Open positions | | Contract size or paid | Fair value | Note |
|--------------------|---|----------------|------------------------|--------------------------------|-------------|------|
| | | Long/ Short | Number of contracts | for (received from) premium | | |
| Futures contract : | | | | | | |
| | Taix Futures | Long | 387 | 678,501 | 674,618 | |
| | Taix Futures | Short | 962 | (1,669,298) | (1,675,541) | |
| | Electronic Sector Index Futures | Short | 28 | (38,963) | (39,009) | |
| | Non-Finance Non-Electronics Sub-Index Futures | Long | 11 | 11,964 | 11,999 | |
| | Non-Finance Non-Electronics Sub-Index Futures | Short | 1 | (1,098) | (1,090) | |
| | Stock Futures | Long | 2,062 | 195,518 | 196,000 | |
| | Stock Futures | Short | 4,277 | (752,957) | (760,857) | |
| | Finance Sector Index Futures | Short | 9 | (8,565) | (8,622) | |
| | H stocks Index Futures | Long | 8 | 14,925 | 14,943 | |
| | H stocks Index Futures | Short | 7 | (13,013) | (13,008) | |
| | SGX Nifty 50 Futures | Short | 60 | (29,840) | (30,077) | |
| | HSI Futures | Long | 4 | 17,033 | 17,145 | |
| | Gold Futures | Long | 1 | 3,923 | 3,997 | |
| | Gold Futures | Short | 5 | (19,868) | (19,884) | |
| | AUD dollar Futures | Long | 3 | 7,251 | 7,386 | |
| | GBP dollar Futures | Short | 2 | (5,777) | (5,782) | |
| | CAD dollar Futures | Short | 3 | (7,296) | (7,441) | |
| | Euro dollar Futures | Short | 2 | (9,064) | (9,182) | |
| | JPY dollar Futures | Short | 4 | (14,277) | (14,329) | |
| | S&P Futures | Short | 87 | (285,203) | (285,088) | |
| | Mini-S&P Futures | Short | 1 | (3,315) | (3,301) | |
| | VIX Futures | Short | 16 | (8,879) | (8,140) | |
| | FTSE China A50 Index Futures | Short | 181 | (56,038) | (55,868) | |
| | US 30-Year T-bond Futures | Short | 5 | (26,361) | (26,462) | |
| | Subtotal | | | (2,020,697) | | |
| Options contract : | | | | | | |
| | Taix Options (Call) | Long | 6,973 | \$ 9,499 | 16,820 | |
| | Taix Options (Put) | Long | 10,106 | 12,640 | 6,333 | |
| | Taix Options (Call) | Short | 8,067 | (31,644) | (33,561) | |
| | Taix Options (Put) | Short | 5,409 | (21,896) | (12,737) | |
| | Stock Options (Call) | Long | 927 | 3,202 | 3,113 | |
| | Stock Options (Put) | Long | 1,310 | 5,671 | 4,013 | |
| | Stock Options (Call) | Short | 414 | (2,435) | (2,293) | |
| | Stock Options (Put) | Short | 294 | (2,077) | (1,785) | |
| | Taix Weekly Options (Call) | Long | 1,715 | 1,050 | 980 | |
| | Taix Weekly Options (Put) | Long | 2,137 | 2,537 | 2,375 | |
| | Taix Weekly Options (Call) | Short | 247 | (2,481) | (2,328) | |
| | Taix Weekly Options (Put) | Short | 627 | (1,276) | (1,590) | |
| | Gold option (Call) | Long | 160 | 629 | 281 | |
| | Gold option (Put) | Long | 800 | 1,672 | 1,646 | |
| | Gold option (Call) | Short | 90 | (156) | (8) | |
| | Gold option (Put) | Short | 119 | (1,900) | (2,645) | |
| | Electronic Sector Index Options (Call) | Long | 911 | 1,476 | 1,481 | |
| | Electronic Sector Index Options (Put) | Long | 420 | 555 | 257 | |
| | Electronic Sector Index Options (Put) | Short | 80 | (468) | (265) | |
| | Finance Sector Index Options (Call) | Long | 353 | 234 | 131 | |
| | Finance Sector Index Options (Put) | Long | 66 | 108 | 47 | |
| | Finance Sector Index Options (Call) | Short | 50 | (85) | (89) | |
| | Finance Sector Index Options (Put) | Short | 104 | (783) | (617) | |
| | S&P Sector Index Options (Call) | Long | 408 | 2,891 | 2,341 | |
| | S&P Sector Index Options (Put) | Long | 33 | 527 | 292 | |
| | Subtotal | | | (22,510) | | |
| Total | | | | \$ (2,043,207) | | |

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

- (2) Restrictions and enforcement of the Group's various financial ratios under futures trading law
 Subsidiary - Capital Futures Corp.'s the restrictions and enforcement of each financial ratio was calculated in accordance with Regulations Governing Futures Commission Merchants as follow:

| Art. | Calculation formula | Current Period | | Last Period | | Standard | Enforcement |
|------|---|----------------|---------|-------------|---------|----------|-----------------------------|
| | | Calculation | Ratio | Calculation | Ratio | | |
| 17 | Stockholders' equity | 4,416,108 | 9.37 | 3,091,082 | 6.64 | ≥ 1 | Satisfactory to requirement |
| | (Total liabilities –futures traders' equity) | 471,081 | | 465,493 | | | |
| 17 | Current Assets | 26,715,869 | 1.13 | 21,413,782 | 1.11 | ≥ 1 | " |
| | Current Liabilities | 23,737,166 | | 19,278,305 | | | |
| 22 | Stockholders' equity | 4,416,108 | 396.06% | 3,091,082 | 277.23% | ≥ 60% | " |
| | Minimum paid-in capital | 1,115,000 | | 1,115,000 | | | |
| 22 | Post-adjustment net capital | 3,042,096 | 71.89% | 2,143,414 | 65.16% | ≥ 20% | " |
| | Total customers' margin deposits required for open positions of customers | 4,231,574 | | 3,289,584 | | | |

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

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

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

As of March 31, 2017, TIFC had reached partial consensus with its investors, and the accumulated amount of compensation was \$162,812. According to the indemnification to the former stockholders of First Securities Co., Ltd. and Far Eastern Securities Co., Ltd, the Company needs to pay all of the compensation to the company participating in the merger. As of March 31, 2017, the trust amount of the impartial third party is \$130,586 and the accumulated compensation expense is \$51,414.

13. DISCLOSURES REQUIRED

- (1) Information on significant transaction:

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

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

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

- E. Discount on commissions of transactions with related parties over \$5 millions: None.
 F. Receivables from related parties over \$100 millions or 20% of paid-in capital: None.
 G. Details of material transactions between parent company and subsidiaries: Exhibit 2.

(2) Information on reinvestment business: Exhibit 3.

(3) Information on branch units or representative offices overseas

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

(4) Information on investments in China:

A. Investment in Mainland China and related information :

Unit: NT\$ thousands

| Name of the investee in Mainland China | Major operations | Issued capital | Method of investment (Note 1) | Accumulated remittance as of January 1, 2017 | Remittance or recoverable investment this period | | Accumulated remittance as of March 31, 2017 | Net gains or losses of investee | Direct or indirect shareholdings (%) by the company | Investment gains and losses recognized during this period (Note 2) | Ending balance of investment | Investment income remitted back as of March 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 | 272 | 28.67% | 107 B (3) | 12,141 | - |
| Capital Futures Technology (Shanghai) Co., Ltd. | Management, consulting and information service business. | 18,863 | C | - | 18,863 | - | 18,863 | (405) | 56.21% | (228) B (3) | 9,632 | - |

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

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

Note 2: Investment gains and losses recognized during the period

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

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

B. Limitation of investment in China:

Unit: NT\$ thousands

| Company Name | Accumulated investments in Mainland China | Investment Amounts Authorized by Investment Commission (MOEA) | Upper Limit on Investment regulated by Investment Commission (MOEA) |
|--|---|---|---|
| Capital International Technology Corp. | 43,235 | 43,235 | 80,000 |

Note: The Company invests through subsidiaries, Capital International Technology Corp. and Capital Futures Technology (Shanghai) Co., Ltd., 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.

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

14. SEGMENT INFORMATION:

(1) Operating segment information

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

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

(2) Measurement of segmental information

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

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

| For the three months ended March 31, 2017 | | | | | | | | |
|---|-----------------------|--------------------------|---------------------|--------------------------------------|-----------|--------------------------|-------------------------------|-----------|
| | Brokerage business | Underwriting business | Dealing business | Derivative instrument business | Others | Capital Futures Corp. | Adjustment and elimination | Total |
| Revenue | \$ 744,401 | 86,506 | 438,002 | 77,984 | 52,208 | 504,785 | (65,528) | 1,838,358 |
| Income | \$ 260,805 | 40,924 | 300,077 | 46,239 | (111,038) | 111,934 | (39,706) | 609,235 |
| For the three months ended March 31, 2016 | | | | | | | | |
| | Brokerage business | Underwriting business | Dealing business | Derivative instrument business | Others | Capital Futures Corp. | Adjustment and elimination | Total |
| Revenue | \$ 738,826 | 58,128 | (25,162) | 140,899 | 56,700 | 564,979 | (67,673) | 1,466,697 |
| Income | \$ 222,383 | 14,696 | (102,198) | 100,830 | (27,800) | 163,137 | (85,110) | 285,938 |

Note 1: Internal segment revenues are eliminated on consolidation.

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

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

(4) Information about products and services

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

(5) Information about geographical areas

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

(6) Information about major customers

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

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

Exhibit 1: Loans to others

(In thousands dollars)

| No. | Name of the company providing Loans to Others | Party to Transactions | Account Classification | Related Party | Maximum Balance of the Period | Ending Balance | Capital Employed | Range of interest Rate | Type of Loans (Note) | Amount of Transactions | Purposes of the Borrowers | Allowance of Doubtful Accounts | Collateral | | Limit on loans to a single business | Limit on the Amount of Loans |
|-----|---|--|-------------------------------------|---------------|-------------------------------|----------------|------------------|------------------------|----------------------|------------------------|-------------------------------------|--------------------------------|------------|-------|-------------------------------------|------------------------------|
| | | | | | | | | | | | | | Name | Value | | |
| 1 | CSC International Holdings Ltd. | CSC Securities (HK) Ltd. | Account receivables - Related party | Yes | US 19,322 | US 19,322 | US 19,322 | - | 2 | - | Operations | - | | - | US 54,118 | US 54,118 |
| 2 | Taiwan International Securities (B.V.I) Corp. | TIS Securities (HK) Ltd. | Other receivables - Related party | Yes | US 3,380 | US 3,403 | US 3,380 | - | 2 | - | Operations & repayment of financing | - | | - | US 3,403 | US 3,403 |
| 3 | TIS Securities (HK) Ltd. | Taiwan International Capital (HK) Ltd. | Other receivables | Yes | HK 1,463 | HK 1,463 | HK 1,463 | - | 2 | - | Repayment of financing | - | | - | HK 1,463 | HK 1,463 |
| 4 | CSC Futures (HK) Ltd. | Ap Capital Investment Limited | Account receivables - Customer | No | HK - | HK 10,879 | HK - | 5% | 2 | - | Tradings | - | | - | HK 23,699 | HK 94,796 |
| 5 | CSC Futures (HK) Ltd. | Klaw Trading Limited | Account receivables - Customer | No | HK 4,662 | HK 10,879 | HK - | 5% | 2 | - | Tradings | - | | - | HK 23,699 | HK 94,796 |
| 6 | CSC Futures (HK) Ltd. | Three Arrows Capital Ltd. | Account receivables - Customer | No | HK 12,426 | HK 21,757 | HK - | 5% | 2 | - | Tradings | - | | - | HK 23,699 | HK 94,796 |
| 7 | CSC Futures (HK) Ltd. | Future Leading Investment Pte. Ltd. | Account receivables - Customer | No | HK 10,879 | HK 10,879 | HK - | 3.5% | 2 | - | Tradings | - | | - | HK 23,699 | HK 94,796 |
| 8 | CSC Futures (HK) Ltd. | Pinnacle Corp. Pte. Ltd. | Account receivables - Customer | No | HK - | HK 21,757 | HK - | 4% | 2 | - | Tradings | - | | - | HK 23,699 | HK 94,796 |

Note: Type of Loans

1. Business transactions

2. Necessaries of short-term financing

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

Exhibit 2: Significant transactions between parent company and subsidiaries for the three months ended March 31, 2017

(In thousands dollars)

| Ref No. (Note 1) | Name of counterparty | Name of transaction parties | Relationship (Note 2) | Transaction details | | | Percentage(%) of total consolidated revenue or total assets |
|---------------------|--|---|--------------------------|---|------------|---------------------|---|
| | | | | General ledger account | Amount | Trading terms | |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Accounts payable | 333 | | - % |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Accounts receivable | 19,146 | | 0.01% |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Other receivables | 147 | | - % |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Bonds sold under repurchase agreements | 49,001 | | 0.04% |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Other payables | 120 | | - % |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Guarantee deposits received | 3,508 | | - % |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Future commission revenue | 33,432 | General transaction | 1.82% |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Lease revenue | 3,968 | General transaction | 0.22% |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Revenue from securities management, distribution, and management fees | 96 | General transaction | 0.01% |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Financial costs | 258 | General transaction | 0.01% |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Other operating revenue | 9 | General transaction | - % |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Securities commission expense | 728 | General transaction | 0.06% |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Interest revenue | 4 | General transaction | - % |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Miscellaneous expenses | 4,142 | General transaction | 0.23% |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Non-operating revenues | 5,607 | General transaction | 0.30% |
| 0 | Capital Securities Corp. | Capital Futures Corp. | 1 | Brokerage commissions | 6 | General transaction | - % |
| 1 | Capital Securities Corp. | Capital Investment Management Corp. | 1 | Professional service fees | 20,500 | General transaction | 1.12% |
| 0 | Capital Securities Corp. | Capital Investment Management Corp. | 1 | Lease revenue | 300 | General transaction | 0.02% |
| 0 | Capital Securities Corp. | Taiwan International Securities Investment Consulting Corp. | 1 | Guarantee deposits received | 30 | | - % |
| 0 | Capital Securities Corp. | Taiwan International Securities Investment Consulting Corp. | 1 | Lease revenue | 30 | General transaction | - % |
| 0 | Capital Securities Corp. | Taiwan International Securities Investment Consulting Corp. | 1 | Non-operating revenues | 30 | General transaction | - % |
| 0 | Capital Securities Corp. | Taiwan International Futures Corp. | 1 | Guarantee deposits received | 171 | | - % |
| 0 | Capital Securities Corp. | Taiwan International Futures Corp. | 1 | Lease revenue | 249 | General transaction | 0.01% |
| 0 | Capital Securities Corp. | Taiwan International Futures Corp. | 1 | Non-operating revenues | 150 | General transaction | 0.01% |
| 0 | Capital Securities Corp. | CSC Securities (HK) Ltd. | 1 | Other receivables | 73 | | - % |
| 0 | Capital Securities Corp. | CSC Securities (HK) Ltd. | 1 | Receipts under custody | 12 | | - % |
| 0 | Capital Securities Corp. | CSC Venture Capital Corp. | 1 | Guarantee deposits received | 160 | | - % |
| 0 | Capital Securities Corp. | CSC Venture Capital Corp. | 1 | Other receivables | 42 | | - % |
| 0 | Capital Securities Corp. | CSC Venture Capital Corp. | 1 | Lease revenue | 240 | General transaction | 0.01% |
| 0 | Capital Securities Corp. | CSC International Holdings Ltd. | 1 | Other operating expenditure | 1,932 | General transaction | 0.11% |
| 0 | Capital Securities Corp. | Capital International Technology Corp. | 1 | Other non-operating revenue | 15 | General transaction | - % |
| 1 | Capital Futures Corp. | Capital Securities Corp. | 2 | Customers' margin account | 563,075 | | 0.45% |
| 1 | Capital Futures Corp. | Capital Securities Corp. | 2 | Futures traders' equity | 563,075 | | 0.45% |
| 1 | Capital Futures Corp. | CSC Futures (HK) Ltd. | 3 | Customers' margin account | 198,029 | | 0.16% |
| 1 | Capital Futures Corp. | CSC Futures (HK) Ltd. | 3 | Futures traders' equity | 1,151,863 | | 0.92% |
| 1 | Capital Futures Corp. | CSC Futures (HK) Ltd. | 3 | Other payables | 750 | | - % |
| 1 | Capital Futures Corp. | CSC Futures (HK) Ltd. | 3 | Commission expense - futures | 1,942 | General transaction | 0.11% |
| 1 | Capital Futures Corp. | CSC Futures (HK) Ltd. | 3 | Brokerage commissions | 9,298 | General transaction | 0.51% |
| 1 | Capital Futures Corp. | CSC Futures (HK) Ltd. | 3 | Financial costs | 211 | General transaction | 0.01% |
| 1 | Capital Futures Corp. | Capital International Technology Corp. | 3 | Lease revenue | 36 | General transaction | - % |
| 2 | CSC Futures (HK) Ltd. | Capital Futures Corp. | 3 | Customers' margin account | 1,367,883 | | 1.40% |
| 2 | CSC Futures (HK) Ltd. | Capital Futures Corp. | 3 | Futures traders' equity | 205,305 | | 0.16% |
| 2 | CSC Futures (HK) Ltd. | Capital True Partner Technology Co., Ltd. | 3 | Information technology expense | 623 | General transaction | 0.03% |
| 2 | CSC Futures (HK) Ltd. | Capital True Partner Technology Co., Ltd. | 3 | Accumulated depreciation | 100 | | - % |
| 2 | CSC Futures (HK) Ltd. | Capital True Partner Technology Co., Ltd. | 3 | Depreciation expense | 100 | | 0.01% |
| 2 | CSC Futures (HK) Ltd. | Capital True Partner Technology Co., Ltd. | 3 | Prepayments | 337 | | - % |
| 2 | CSC Futures (HK) Ltd. | Capital True Partner Technology Co., Ltd. | 3 | Professional service fees | 818 | | 0.04% |
| 3 | CSC Securities (HK) Ltd. | CSC Futures (HK) Ltd. | 3 | Other receivables | HK 72 | | - % |
| 3 | CSC Securities (HK) Ltd. | CSC Futures (HK) Ltd. | 3 | Other operating revenue | HK 930 | General transaction | 0.20% |
| 3 | CSC Securities (HK) Ltd. | CSC Futures (HK) Ltd. | 3 | Brokerage handling fee expense | HK 231 | General transaction | 0.05% |
| 3 | CSC Securities (HK) Ltd. | CSC International Holdings Ltd. | 3 | Other payables | USD 19,322 | | 0.47% |
| 4 | Capital Securities (Hong Kong) Ltd. | CSC International Holdings Ltd. | 3 | Other receivables | HK 3,370 | | 0.01% |
| 5 | Taiwan International Securities (B.V.) Corp. | TIS Securities (HK) Ltd. | 3 | Other receivables | HK 26,264 | | 0.08% |

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

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

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

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

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

Exhibit 3: Disclosure required of investee companies

| 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 (Note 3) | | | Operating income of investee company | Net income or loss of investee company during the period | Investment gain or loss recognized during the period | Cash dividend | Note |
|---------|--|------------------------|-----------------------|--|---|----------------------------|------------------------------|-------------|--------------------------------------|---------------------|-------------------|--------------------------------------|--|--|--|------|
| | | | | | | Balance on March 31, 2017 | Balance on December 31, 2016 | | Shares | Ratio | Book value | | | | | |
| 0 | Capital Investment Management Corp. | Taipei, Taiwan, R.O.C. | February 16, 1990 | | Engaged in providing advice on securities investment and related matters, or securities investment consultancy analyzing the published materials on securities investments. | 72,515 | 72,515 | 7,000,000 | 100.00% | 108,672 | 20,500 | 3,342 | 3,342 | - | The transaction has been writtenoff in the consolidated financial statements | |
| 0 | Capital Futures Corp. | Taipei, Taiwan, R.O.C. | February 26, 1997 | No. FSC-105004467 dated November 15, 2016 | Engaged in domestic and foreign futures business. | 1,212,539 | 649,610 | 90,166,223 | 56.21% | 2,482,295 | 374,859 | 94,329 | 53,755 | - | | |
| 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% | 1,622,892 | (11,265) | (15,259) | (15,259) | - | | |
| 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% | 131,246 | 75,418 | 26,758 | 26,758 | - | Subsidiary | |
| 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% | 54,011 | 28,161 | 1,811 | 1,811 | - | | |
| 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% | - | - | - | - | - | The transaction has been writtenoff in the consolidated financial statements | |
| 0 | Taiwan International Securities (B.V.I) Corp. | British Virgin Island | December 10, 1996 | No. FSC-53981 | Holding company for international securities business. | 1,394,817 | 1,394,817 | 300 | 100.00% | (409) | (443) | (433) | (443) | - | | |
| 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% | 13,240 | - | (58) | (58) | - | | |
| 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% | 997,182 | 46 | (901) | (901) | - | | |
| 1 | Capital Securities (Hong Kong) Ltd. (Note 7) | Hong Kong | June 29, 1993 | No. FSC-17433 dated April 7, 1993 | Liquidation in progress. | HK48,644 thousand | HK48,644 thousand | 4,864,400 | 100.00% | HK52,429 thousand | HK- | HK- | - | - | | |
| 1 | CSC Securities (HK) Ltd. | 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. | HK89,600 thousand | HK89,600 thousand | 89,600,000 | 70.00% | HK111,677 thousand | HK 6,122 thousand | HK(2,795) thousand | - | - | | |
| 2 | CSC Securities (HK) Ltd. | 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. | HK38,400 thousand | HK38,400 thousand | 38,400,000 | 30.00% | HK49,059 thousand | HK 6,122 thousand | HK(2,795) thousand | - | - | | |
| 3 | TIS Securities (HK) Ltd. (Note 6) | Hong Kong | August 17, 1993 | No. FSC-40912 dated November 4, 1993 | Liquidation in progress. | HK265,000 thousand | HK265,000 thousand | 265,000,000 | 100.00% | HK(26,542) thousand | HK- | HK(110) thousand | - | - | | |
| 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(49,222) thousand | HK- | HK(7) thousand | - | - | | |
| 5 | CSC Futures (HK) Ltd. | Hong Kong | December 9, 1998 | No. FSC-1010027412 dated August 24, 2012 | Futures dealing business. | 862,631 | 862,631 | 214,000,000 | 97.27% | 893,035 | 136,505 | 22,796 | - | - | | |
| 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% | 45,743 | 1,806 | 1,041 | - | - | | |
| 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% | 41,142 | 19,272 | 674 | - | - | Associates | |
| 6 | Capital Securities Nominees Ltd. | Hong Kong | April 7, 1995 | | Agency services. | HK 2 | HK 2 | 2 | 100.00% | HK- | HK- | HK- | - | - | The transaction has been writtenoff in the consolidated financial statements | |

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) Ltd. (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.

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