Stock Code:6005

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

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016
AND
INDEPENDENT ACCOUNTANTS' REPORT

Address: **4th Fl. No. 101, Sung-Jen Road, Taipei, Taiwan, R.O.C.**
Telephone: **886-2-87898888**

Table of contents

Representation Letter

The entities that are required to be included in the combined financial statements of Capital Securities Corporation as of and for the year ended December 31, 2017 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Capital Securities Corporation and its Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Capital Securities Corporation
Chairman: Jiunn- Chih Wang
Date: March 26, 2018

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 Auditors' Report

The Board of Directors
Capital Securities Corporation

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

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

1. Valuation of financial instruments

   Please refer to Note 4(g) for the related accounting policy regarding the valuation of financial instruments, Note 6(b) financial assets, note 6(k) Financial liabilities at fair value through profit or loss and note 6(u)(v) fair value and fair value hierarchy of financial instruments for details about the valuation of financial instruments.

Risk and descriptions of the key audit matter:

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

Procedures performed:

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

2. Goodwill impairment

Please refer to Note 4(q) for the related accounting policy regarding the impairment of non-financial assets, Note 5 for accounting assumptions and estimation uncertainty of the goodwill impairment, and Note 6(h)(i) for details about measurement of goodwill impairment.

Risk and descriptions of the key audit matter:

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

Procedures performed:

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

Other Matter

The Group has prepared its parent-company-only financial statements as of and for the years ended December 31, 2017 and 2016, on which we have issued an unqualified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Firms with the IFRSs, IASs, interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.

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

KPMG

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

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

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

KPMG

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

Notes to Readers

The accompanying 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 audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

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

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

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2017		December 31, 2016	
	Assets	**Amount**	**%**	**Amount**	**%**
110000	**Current assets:**				
111100	Cash and cash equivalents (note 6(a))	$ 7,104,077	5	5,423,415	5
112000	Financial assets at fair value through profit or loss - current (note 6(b))	34,737,268	24	27,730,008	25
113400	Financial assets available for sale - current (note 6(b))	32,807,779	23	19,337,878	18
114030	Receivable for securities provided as collateral	14,886,813	11	11,924,515	11
114040	Refinancing margin	46,095	-	93,353	-
114050	Refinancing collateral receivable	38,888	-	79,289	-
114060	Receivable of securities business money lending	1,532,231	1	144,552	-
114070	Customers' margin account (note 6(d))	27,302,712	19	23,169,842	21
114080	Receivable - futures margin	1	-	894	-
114090	Collateral for securities borrowed	914,343	1	802,737	1
114100	Security borrowing margin	931,868	1	775,251	1
114110	Notes receivable	21,811	-	16,931	-
114130	Accounts receivable (note 6(c))	6,726,055	5	4,106,313	4
114150	Prepayments	33,940	-	50,564	-
114170	Other receivables	70,107	-	100,312	-
114300	Leverage contract trading - customers' margin account	151,540	-	72	-
114600	Current income tax assets	26,763	-	44,685	-
119000	Other current assets	888,582	1	705,402	1
		128,220,873	91	94,506,013	87
120000	**Non-current assets:**				
122000	Financial assets at fair value through profit or loss - non-current (notes 6(b) and 8)	186,015	-	186,073	-
123100	Financial assets measured at cost - non-current (note 6(b))	754,545	1	448,460	-
123400	Financial assets available for sale - non-current (note 6(b))	-	-	76,261	-
124100	Investments accounted for under equity method (note 6(e))	173,588	-	198,205	-
125000	Property and equipment (notes 6(f) and 8)	4,966,752	3	5,129,823	5
126000	Investment property (notes 6(g) and 8)	1,796,541	1	1,727,324	2
127000	Intangible assets (note 6(h))	3,628,174	3	3,612,248	3
128000	Deferred income tax assets (note 6(q))	174,236	-	407,397	1
129000	Other non-current assets	1,585,594	1	1,752,409	2
		13,265,445	9	13,538,200	13
	Total assets	$ 141,486,318	100	108,044,213	100

		December 31, 2017		December 31, 2016	
	Liabilities and Equity	**Amount**	**%**	**Amount**	**%**
210000	**Current liabilities:**				
211100	Short-term borrowings (note 6(i))	$ 7,081,698	5	4,236,402	4
211200	Commercial paper payable (note 6(j))	4,099,184	3	-	-
212000	Financial liabilities at fair value through profit or loss - current (note 6(k))	2,903,193	2	1,475,764	2
214010	Bonds sold under repurchase agreements (note 6(l))	47,056,312	33	34,956,642	32
214040	Guarantee deposited for short sales	2,226,264	2	1,722,840	2
214050	Proceeds payable from short sales	2,500,853	2	1,947,104	2
214070	Securities lending refundable deposits	1,190,277	1	878,866	1
214080	Futures traders' equity (note 6(d))	27,268,226	19	23,132,231	21
214090	Customer equity of separate account ledger in settlement account (note 6(m))	13,479	-	4,537	-
214100	Leverage contract trading - customers' equity	152,840	-	70	-
214110	Notes payable	879	-	879	-
214130	Accounts payable (note 6(n))	5,778,758	4	3,478,124	3
214150	Advance receipts	55,544	-	33,569	-
214160	Receipts under custody	346,023	-	147,328	-
214170	Other payables	995,443	1	663,830	1
214200	Other financial liabilities - current (note 6(v))	4,509,983	3	2,427,461	2
214600	Current income tax liabilities	228,401	-	225,883	-
215100	Provisions - current (note 6(p))	49,066	-	65,365	-
219000	Other current liabilities	6,726	-	3,065	-
		106,463,149	75	75,399,960	70
220000	**Non-Current liabilities:**				
224200	Other financial liabilities - non-current (note 6(v))	266,037	-	239,634	-
228000	Deferred income tax liabilities (note 6(q))	479,193	-	675,975	1
229000	Other non-current liabilities (note 6(p))	799,939	1	884,366	1
		1,545,169	1	1,799,975	2
	Total liabilities	108,008,318	76	77,199,935	72
	Equity attributable to shareholders of the parent:				
301000	Common stock (note 6(r))	21,690,730	15	22,690,730	21
302000	Capital surplus:				
302010	Premium from stock issuance	1,776,413	1	1,858,310	2
302020	Treasury stock transactions	437,096	-	253,940	-
302070	Paid-in capital from merger	602,665	1	630,450	1
302095	Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,338	-	1,399	-
302096	Changes in ownership interests in subsidiaries	34,787	-	6,873	-
304000	Retained earnings:				
304010	Legal reserve	1,230,275	1	1,110,600	1
304020	Special reserve	2,709,623	2	2,464,288	2
304040	Unappropriated earnings (note 6(q))	2,850,553	2	1,188,633	1
305120	Exchange differences on translation of foreign operations	(103,566)	-	97,158	-
305150	Unrealized gains (losses) on financial assets available for sale	191,716	-	53,215	-
305500	Treasury stocks (note 6(r))	-	-	(835,048)	(1)
	Total equity attributable to the parent company	31,421,630	22	29,520,548	27
306000	**Non-controlling interests**	2,056,370	2	1,323,730	1
	Total equity	33,478,000	24	30,844,278	28
	Total liabilities and equity	$ 141,486,318	100	108,044,213	100

See accompanying notes to consolidated financial statements.

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

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

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

		2017		2016	
		Amount	%	Amount	%
	Income:				
401000	Brokerage commissions (note 6(t))	$ 3,932,846	43	3,226,451	50
402000	Revenues from securities business money lending	620	-	46	-
403000	Revenue from securities lending	112,679	1	71,164	1
404000	Underwriting commissions (note 6(t))	121,517	1	93,463	1
406000	Commissions on wealth management business	103,629	1	64,802	1
410000	Net gains (losses) on sale of trading securities (note 6(t))	1,592,039	17	87,379	1
421100	Securities management, distribution, and management fees	137,373	1	139,497	3
421200	Interest revenue (note 6(t))	2,029,921	22	1,463,945	22
421300	Dividend revenue	227,475	3	175,857	3
421500	Net gains (losses) on measurement of trading securities at fair value through profit or loss (note 6(t))	72,955	1	45,390	1
421600	Net gains (losses) on covering of borrowed securities and bonds with resale agreements	(2,549)	-	17,194	-
421610	Net gains (losses) on measurement of borrowed securities and bonds with resale agreements	27,654	-	36,005	1
422200	Net gains (losses) on stock warrants issued (notes 6(t) and 6(v))	691,161	8	747,109	12
424100	Futures commission income (note 6(t))	770,614	8	564,369	9
424400	Net gains (losses) on derivative instruments - futures (note 6(v))	(421,005)	(5)	(254,211)	(4)
424500	Net gains (losses) on derivative instruments - OTC (note 6(v))	(323,820)	(3)	(238,978)	(4)
424800	Management fee revenue	37	-	76	-
424900	Consultancy fee revenue	18,009	-	14,251	-
428000	Other operating revenues	153,742	2	183,836	3
		9,244,897	100	6,437,645	100
	Expenses:				
501000	Brokerage fees	546,603	6	474,143	7
502000	Brokerage and clearing fees - proprietary trading	20,227	-	16,577	-
503000	Clearing and exchange fees - refinancing	2,192	-	3,309	-
504000	Clearing and exchange fees - underwriting	1,413	-	1,749	-
521200	Financial costs	638,730	7	288,309	4
524100	Commission expense - futures (note 6(t))	646,399	7	411,695	7
524300	Clearing and settlement expenses	147,313	2	143,607	3
528000	Other operating expenditure	4,634	-	6,807	-
531000	Employee benefits expenses (note 6(t))	2,682,982	29	2,418,060	38
532000	Depreciation and amortization expense (note 6(t))	215,975	2	217,980	3
533000	Other operating expenses (note 6(t))	1,586,888	17	1,344,841	21
		6,493,356	70	5,327,077	83
	Other income (expenses):				
601000	Share of profits of associates and joint venture (note 6(e))	67,844	1	106,717	2
602000	Other gains and losses (note 6(t))	684,252	7	454,948	7
		752,096	8	561,665	9
902001	**Net income before income tax**	3,503,637	38	1,672,233	26
701000	**Income tax expense (note 6(q))**	(288,242)	(3)	(265,736)	(4)
	Net income	3,215,395	35	1,406,497	22
805000	**Other comprehensive income:**				
805500	**Items that may not be reclassified to profit or loss in subsequent periods**				
805510	Gains (losses) on remeasurements of defined benefit plans	(28,741)	-	(19,494)	-
805599	Income tax related to components of other comprehensive income	-	-	-	-
	Subtotal of items that may not be subsequently reclassified into profit or loss	(28,741)	-	(19,494)	-
805600	**Items that may be reclassified to profit or loss in subsequent periods**				
805610	Exchange differences on translation of foreign operations	(271,032)	(3)	(49,443)	(1)
805620	Unrealized gains (losses) on financial assets available for sale, net	122,771	1	66,182	1
805699	Income tax benefit related to components of other comprehensive income (note 6(q))	37,769	1	6,951	-
	Subtotal of items that may be subsequently reclassified into profit or loss	(110,492)	(1)	23,690	-
805000	**Other comprehensive income for the year, net of income tax**	(139,233)	(1)	4,196	-
902006	**Total comprehensive income for the year**	**$ 3,076,162**	**34**	**1,410,693**	**22**
	Net income attributable to:				
913100	Shareholders of the parent	$ 2,893,600	31	1,196,756	19
913200	Non-controlling interests	321,795	4	209,741	3
		$ 3,215,395	**35**	**1,406,497**	**22**
	Total comprehensive income attributable to:				
914100	Shareholders of the parent	$ 2,827,707	31	1,199,521	19
914200	Non-controlling interests	248,455	3	211,172	3
		$ 3,076,162	**34**	**1,410,693**	**22**
975000	**Basic earnings per share (note 6(s))**	**$**	**1.33**		**0.53**
985000	**Diluted earnings per share (note 6(s))**	**$**	**1.33**		**0.53**

See accompanying notes to consolidated financial statements.

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

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to the parent company										
	Stock		Retained earnings			Total other equity interest					
	Common stocks	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences on translation of foreign operations	Unrealized gains (losses) on financial assets available for sale	Treasury stocks	Total equity attributable to the parent company	Non-controlling interests	Total equity
Balance at January 1, 2016	$ 23,190,730	2,742,807	955,667	2,154,422	1,586,994	135,985	(6,850)	(469,155)	30,290,600	1,237,067	31,527,667
Net income for the year ended December 31, 2016	-	-	-	-	1,196,756	-	-	-	1,196,756	209,741	1,406,497
Other comprehensive income	-	-	-	-	(18,473)	(38,827)	60,065	-	2,765	1,431	4,196
Total comprehensive income	-	-	-	-	1,178,283	(38,827)	60,065	-	1,199,521	211,172	1,410,693
Appropriation and distribution of retained earnings:											
Legal reserve	-	-	154,933	-	(154,933)	-	-	-	-	-	-
Special reserve	-	-	-	309,866	(309,866)	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	(1,111,845)	-	-	-	(1,111,845)	(123,923)	(1,235,768)
Purchase of treasury shares	-	-	-	-	-	-	-	(858,314)	(858,314)	-	(858,314)
Retirement of treasury shares	(500,000)	7,579	-	-	-	-	-	492,421	-	-	-
Capital surplus changes in ownership interests in subsidiaries	-	586	-	-	-	-	-	-	586	(586)	-
Balance at December 31, 2016	22,690,730	2,750,972	1,110,600	2,464,288	1,188,633	97,158	53,215	(835,048)	29,520,548	1,323,730	30,844,278
Net income for the year ended December 31, 2017	-	-	-	-	2,893,600	-	-	-	2,893,600	321,795	3,215,395
Other comprehensive income	-	-	-	-	(28,401)	(200,724)	163,232	-	(65,893)	(73,340)	(139,233)
Total comprehensive income	-	-	-	-	2,865,199	(200,724)	163,232	-	2,827,707	248,455	3,076,162
Appropriation and distribution of retained earnings:											
Legal reserve	-	-	119,675	-	(119,675)	-	-	-	-	-	-
Special reserve	-	-	-	245,335	(245,335)	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	(802,558)	-	-	-	(802,558)	(155,227)	(957,785)
Purchase of treasury shares	-	-	-	-	-	-	-	(91,539)	(91,539)	-	(91,539)
Retirement of treasury shares	(1,000,000)	73,413	-	-	-	-	-	926,587	-	-	-
Capital surplus changes in ownership interests in subsidiaries	-	27,914	-	-	-	-	(24,731)	-	3,183	639,412	642,595
Indemnification to stockholders due to merger (note 12)	-	-	-	-	(35,711)	-	-	-	(35,711)	-	(35,711)
Balance at December 31, 2017	**$ 21,690,730**	**2,852,299**	**1,230,275**	**2,709,623**	**2,850,553**	**(103,566)**	**191,716**	**-**	**31,421,630**	**2,056,370**	**33,478,000**

See accompanying notes to consolidated financial statements.

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

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

		2017	2016
Cash flows from (used in) operating activities:			
Net income before tax	$	3,503,637	1,672,233
Adjustments:			
Income and expenses items with no effect on cash flows:			
Depreciation expense		179,486	180,741
Amortization expense		36,489	37,239
Provision of bad debt expense		138,530	7,393
Net losses (gain) on financial assets or liabilities at fair value through profit or loss		(72,955)	(45,390)
Interest expense		638,730	288,309
Interest revenue (including financial income)		(2,289,092)	(1,666,227)
Dividend revenue		(258,256)	(207,993)
Share-based payment compensation cost		17,530	-
Cash dividend received from investments under equity method		91,452	65,987
Share of profit of associates and joint ventures		(67,844)	(106,717)
Net losses (gains) on disposal and retirement of property and equipment		3,034	4,202
Losses (gains) on disposal of investment		(40,386)	(90)
Net losses (gains) on non-operating financial instruments at fair value through profit or loss		(23,198)	31,837
Net changes of income and expense items with no effect on cash flows		(1,646,480)	(1,410,709)
Changes in assets and liabilities from operating activities:			
Changes in operating assets:			
Decrease (increase) in financial assets at fair value through profit or loss		(6,911,031)	(1,726,844)
Decrease (increase) in financial assets available for sale - current		(13,305,842)	(11,451,162)
Decrease (increase) in receivable for securities provided as collateral		(3,108,222)	3,230,705
Decrease (increase) in refinancing margin		47,258	(84,269)
Decrease (increase) in receivable on refinancing collateral		40,401	(71,739)
Decrease (increase) in receivable of securities business money lending		(1,387,679)	(144,552)
Decrease (increase) in customers' margin account		(4,132,870)	(6,865,086)
Decrease (increase) in margin receivable of futures trading		893	6
Decrease (increase) in collateral for securities borrowed		(111,606)	271,393
Decrease (increase) in security borrowing margin		(156,617)	685,298
Decrease (increase) in notes receivable		(4,880)	(8,976)
Decrease (increase) in accounts receivable		(2,478,807)	911,973
Decrease (increase) in prepayments		18,090	(14,112)
Decrease (increase) in other receivables		34,752	(12,186)
Decrease (increase) in pledged assets - current		-	73,717
Decrease (increase) in current income tax assets		17,896	15,097
Decrease (increase) in other current assets		(255,111)	1,049,937
Decrease (increase) in guarantee deposited for business operations		(2,106)	54,540
Decrease (increase) in settlement fund		5,614	17,633
Decrease (increase) in refundable deposits		54,698	16,507
Decrease (increase) in leverage contract trading - customers' margin account		(151,468)	(72)
Decrease (increase) in other non-current assets		135,247	44,858
Total changes in assets from operating activities		(31,651,390)	(14,007,334)

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

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Changes in liabilities from operating activities:		
Increase (decrease) in financial liabilities at fair value through profit or loss	$ 1,427,429	(933,192)
Increase (decrease) in bonds sold under repurchase agreements	12,099,670	11,380,399
Increase (decrease) in guarantee deposited for short sales	503,424	(302,171)
Increase (decrease) in proceeds payable from short sales	553,749	(295,576)
Increase (decrease) securities lending refundable deposits	311,411	(744,071)
Increase (decrease) in futures traders' equity	4,135,995	6,844,919
Increase (decrease) in customers' equity of separate account ledger in settlement account	8,942	433
Increase (decrease) in leverage contract trading - customers' equity	152,770	70
Increase (decrease) in notes payable	-	33
Increase (decrease) in accounts payable	2,300,634	(369,640)
Increase (decrease) in advance receipts	21,975	13,634
Increase (decrease) in receipts under custody	198,695	(1,199,831)
Increase (decrease) in other payable	308,458	(120,360)
Increase (decrease) in other current liabilities	12,250	5,755
Increase (decrease) in other financial liabilities - current	2,082,522	(1,407,114)
Increase (decrease) in other financial liabilities - non-current	26,403	(2,357)
Increase (decrease) in provision - current	(16,299)	15,714
Increase (decrease) in other non-current liabilities	(113,130)	(708)
Total changes in liabilities from operating activities	24,014,898	12,885,937
Total changes in assets and liabilities from operating activities	(7,636,492)	(1,121,397)
Total cash generated from adjustment items	(9,282,972)	(2,532,106)
Cash generated from operating activities	(5,779,335)	(859,873)
Interest received	2,151,528	1,624,466
Dividends received	258,256	208,790
Interest paid	(616,098)	(269,740)
Income taxes paid	(211,577)	(128,279)
Net cash provided by (used in) operating activities	(4,197,226)	575,364
Cash flows from (used in) investing activities:		
Proceeds from disposal of financial assets available for sale	71,827	-
Acquisitions of financial assets measured at cost	(315,453)	(75,901)
Decrease (increase) in deferred debits	(343)	(1,902)
Proceeds from capital reduction of financial assets measured at cost	9,368	38,762
Acquisitions of property and equipment	(95,061)	(125,995)
Acquisitions of intangible assets	(50,454)	(17,116)
Net cash provided by (used in) investing activities	(380,116)	(182,152)
Cash flows from financing activities:		
Increase (decrease) in short-term borrowing	2,845,296	2,445,241
Increase (decrease) in commercial papers payable	4,099,184	-
Payments to acquire treasury shares	(91,539)	(858,314)
Cash dividends paid	(957,785)	(1,235,768)
Issuance of common stock for cash	626,096	-
Net cash provided by (used in) financing activities	6,521,252	351,159
Effect of exchange rate changes on cash and cash equivalents	(263,248)	(47,454)
Increase in cash and cash equivalents	1,680,662	696,917
Cash and cash equivalents, beginning of the year	5,423,415	4,726,498
Cash and cash equivalents, end of the year	**$ 7,104,077**	**5,423,415**

See accompanying notes to consolidated financial statements.

(1) Overview:

Capital Securities Corporation (the "Company") was registered under the Ministry of Economic Affairs, R.O.C. on June 21, 1988. The address of the Company's registered office is 4th Fl. No. 101, Song-Jen Road, Taipei, Taiwan, R.O.C. As of December 31, 2017, the composition of the consolidated financial statements includes the Company and the subsidiaries (the "Group"). As of December 31, 2017, the Company has 53 branches nationwide.

The Company is authorized to conduct the following businesses:

(a) Underwriting of marketable securities;

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

(c) Brokerage of marketable securities on stock exchange;

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

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

(f) Margin loan, short sale and refinancing;

(g) Securities registration agency services;

(h) Dealership of foreign marketable securities;

(i) Short-term bills service;

(j) Accessory services of futures trading;

(k) Futures trading on a proprietary basis;

(l) Securities business money lending;

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

(n) Trust business;

(o) Offshore securities business;

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

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

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

(Continued)

(3) New standards, amendments and interpretations adopted:

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

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

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

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

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

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

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

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

(i) IFRS 9 "Financial Instruments"

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

1) Classification and measurement Financial assets

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

Based on the Group's assessments, the new classification requirements would not have a material impact on its accounting for account receivables, debt instruments investments and investments in equity securities that are managed on a fair value basis. As of December 31, 2017, the Group had equity investments classified as financial assets at fair value through profit or loss of $6,438 thousand, equity investments classified as financial assets available for sale with a fair value of $30,996, and financial assets measured at cost of $754,545 that are held for long-term strategic purposes. At initial

(Continued)

application of IFRS 9, the Group designated to classify them as FVOCI. Consequently, all fair value gains and losses would be reported in other comprehensive income, impairment losses would not be recognized in profit or loss, and no gains or losses would be reclassified to profit or loss on disposal. The Group estimated the application of IFRS 9's classification requirements on January 1, 2018 resulting in an increase of $661,379 and $27,521 in other equity items and retained earnings, respectively.

2) Impairment-Financial assets and contact assets

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

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

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

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

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

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

3) Disclosures

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

4) Transition

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

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

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

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

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

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

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

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

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

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

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

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

(Continued)

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

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

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

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

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 "Leases"	The new standard of accounting for lease is amended as follows: • For a contract that is, or contains, a lease, the lessee shall recognize a right of use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right of-use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

(4) Summary of significant accounting policies:

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

(a) 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 IFRSs, IAS and interpretations endorsed by the FSC.

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Basis of preparation

(i) Basis of measurement

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

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

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

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

(ii) Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional currency. All financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements.

The consolidated financial statements comprise the Company and its subsidiaries.

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

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

(ii) List of subsidiaries in the consolidated financial statements

Subsidiaries included in the consolidated financial report are as follows:

			Ratio of Equity Ownership		
Name of the investor	**Subsidiaries**	**Business type**	**December 31, 2017**	**December 31, 2016**	**Note**
The Company	Capital Investment Management Corp.	Engaged in providing advice on securities investment and securities investment consultancy	100.00 %	100.00 %	The corporation established in February, 1990. As of December 31, 2017, the paid-in capitals amounted to $70,000.
〃	CSC International Holdings Ltd.	Long-term equity investment business	100.00 %	100.00 %	The corporation established in March, 1996. As of December 31, 2017, the paid-in capitals amounted to US$45,000 thousands.
〃	Capital Futures Corp.	Engaged in domestic and foreign futures business	56.21 %	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 December 31, 2017, the paid-in capitals amounted to $1,603,979.

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership December 31, 2017	Ratio of Equity Ownership December 31, 2016	Note
The Company	Taiwan International Futures Corp.	Management consultancy	99.99 %	99.99 %	Liquidation in progress.
〃	Taiwan International Securities (B.V.I) Corp.	Holding company for offshore securities units	100.00 %	100.00 %	The corporation established in December, 1996. As of December 31, 2017, the paid-in capitals amounted to US$9,516 thousands.
〃	Taiwan International Securities Investment Consulting Corp.	Investment consultancy	99.92 %	99.92 %	Liquidation in progress.
〃	CSC Venture Capital Corp.	Venture Capital and consulting business	100.00 %	100.00 %	The corporation established in January, 2016. As of December 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 %	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 then acquire additional 2.27% equity on December 12, 2016. As of December 31, 2017, the paid-in capitals amounted to HK$220,000 thousands.
〃	Capital International Technology Corp.	Management, consulting and information service business	100.00 %	100.00 %	The corporation established in December, 2014. As of December 31, 2017, the paid-in capitals amounted to 50,000.
Capital International Technology Corp.	Capital True Partner Technology Co., Ltd.	Management, consulting and information service business.	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 December 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 December 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	100.00 %	CSC International Holdings Ltd. and Capital Securities (Hong Kong) Ltd. own 70% and 30% equity, respectively	The corporation established in May, 1994. Acquired 30% of the equity from Capital Securities (Hong Kong) Ltd. in September, 2017.
〃	Capital Securities (Hong Kong) Ltd.	Long-term equity investment business	- %	100.00 %	The board of directors of the Company resolved to cease operation on October 30, 2012. The corporation's registration is cancelled on February 3, 2018.
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	The corporation established in May, 1994.
CSC Securities (HK) Ltd.	Capital Securities Nominees Ltd.	Agency service	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) Limited.	Long-term equity investment business.	100.00 %	100.00 %	Not complied with the requirement of Financial Resources Rules (the "FRR") of the Hong Kong Securities and Futures Commission, the operations remain stagnant currently.

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership December 31, 2017	Ratio of Equity Ownership December 31, 2016	Note
TIS Securities (HK) Ltd.	Taiwan International Capital (HK) Ltd.	Direct investment	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.

(iii) Subsidiaries not listed in the consolidated financial statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership December 31, 2017	Ratio of Equity Ownership December 31, 2016	Note
The Company	Capital Insurance Agency Corp.	Manages personal insurance agent business.	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 December 31, 2017 and 2016, the total assets constituted 0.03% and 0.06% of the Group's total assets. For the year ended December 31, 2017 and 2016, the operating revenue were merely 0.79% and 1.74% 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 %	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 December 31, 2017 and 2016, the total assets constituted 0.07% and 0.13% of the Group's total assets. For the year ended December 31, 2017 and 2016, the operating revenue were merely 2.06% and 3.94% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.

(d) Foreign currencies

(i) Foreign currency transactions

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

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

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

(ii) Foreign operations

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

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

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

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

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

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

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

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

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

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

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

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

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

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(f) Cash and cash equivalents

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

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

(g) Financial instruments

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

(i) Financial assets

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

1) Financial assets at fair value through profit or loss

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

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

2) Financial assets available for sale

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

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

(Continued)

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

3) Held-to-maturity financial assets

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

4) Loans and receivables

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

5) Impairment of financial assets

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

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

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

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

(Continued)

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

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

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

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

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

6) Derecognition of financial assets

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

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

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

(Continued)

(ii) Financial liabilities

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

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

2) Other financial liabilities

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

3) Derecognition of financial liabilities

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

4) Offsetting of financial assets and liabilities

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

(iii) Derivative financial instruments

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

1) Interest rate swaps

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

(Continued)

2) Convertible bond asset-backed swaps

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

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

3) Structured instruments

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

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

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

4) Interest options

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

5) Bond options

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

6) Equity options

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

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

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

7) Forward rate agreement

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

8) Futures contracts and options

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

9) Stock warrants

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

(h) Margin loan, short sale and refinancing

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

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

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

(Continued)

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

(i) Bonds with resell and repurchase agreements

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

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

(j) Customers’ margin accounts and futures traders’equity

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

(k) Securities borrowing transactions

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

(l) Investment in associates

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

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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. When changes in an associate's equity are not recognized in profit or loss or other comprehensive income of the associate and such changes do not affect the Group’s ownership percentage of the associate, the Group recognizes change in ownership interests in the associate in capital surplus in proportion to its ownership.

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

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

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 the investments in associates become the investment in joint ventures, or vice versa, the Group is accounted for using the equity method consistently and does no remeasure the retained equity.

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.

(m) Property and equipment

(i) Recognition and measurement

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

(Continued)

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

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

(ii) Reclassification to investment property

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

(iii) Subsequent cost

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

(iv) Depreciation

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

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

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

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

1) Buildings 3~55 years

2) Transportation equipment 5 years

3) Office equipment and computer facilities 3~5 years

4) Miscellaneous equipment 5~10 years

5) Leasehold improvements are depreciated evenly by the shorter of the estimated useful life or the lease period.

(Continued)

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

(n) Investment property

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

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

(o) Intangible assets

(i) Goodwill

1) Initial recognition

Goodwill resulted in acquisition of subsidiaries includes in intangible assets.

2) Subsequent measurement

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

(ii) Other intangible assets

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

(iii) Amortization

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

1) Customer relationships: 5 years

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

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

(Continued)

(p) Leases

(i) Lessor

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

(ii) Lessee

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

(q) Non-financial assets impairment

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

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

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

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

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(r) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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

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

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

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

(iii) Termination benefits

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

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Short-term employee benefits

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

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

(s) Provisions

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

.

(t) Revenue recognition

(i) Brokerage commissions

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

(ii) Underwriting commissions

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

(iii) Interest revenue

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

(u) Income tax

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

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

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

(iii) Initial recognition of goodwill.

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

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

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

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

1) levied by the same taxing authority; or

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

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

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

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

(v) Business combinations

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

(w) Earnings per share (EPS)

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

(x) Segment information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's CEO who allocates resources and assesses segment performance. Each operating segment consists of standalone financial information.

(y) Treasury stocks

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

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

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

The preparation of the consolidated financial statements in conformity with the Regulations and the IFRSs endorsed by the FSC requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash	$ 2,767	2,850
Bank deposits		
Checking accounts	53,094	58,106
Demand deposits	956,250	422,816
Time deposits	2,971,870	2,143,168
Foreign currency deposits	1,875,088	1,978,038
Subtotal	5,856,302	4,602,128
Cash equivalents		
Futures margin - excess margin	1,098,046	818,437
Commercial papers	146,962	-
Subtotal	1,245,008	818,437
Total	**$ 7,104,077**	**5,423,415**

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Financial assets

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

	December 31, 2017	December 31, 2016
Open-ended funds and money-market instruments		
Open-ended funds and money-market instruments	$ 323,962	1,201,307
Valuation adjustment	(1,886)	(21,007)
Subtotal	322,076	1,180,300
Trading securities - proprietary trading		
Listed stocks	1,495,906	626,599
Listed funds	1,122,398	798,932
OTC stocks	742,663	249,061
OTC funds	40,000	-
Emerging market stocks	455,025	259,637
Emerging market funds	9,848	7,964
Convertible corporate bonds	767,352	455,796
Government bonds	6,695,553	4,041,386
Corporate bonds	9,403,722	9,874,420
International bonds	2,838,568	1,926,990
Financial debentures	300,000	1,659,501
Foreign stocks	646,649	269,804
Overseas bonds	59,353	64,320
Other	34,858	32,603
	24,611,895	20,267,013
Valuation adjustment	132,192	42,273
Subtotal	24,744,087	20,309,286

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2017	December 31, 2016
Trading securities - underwriting:		
Listed stocks	$ 81,823	43,898
OTC stocks	48,763	11,396
Convertible corporate bonds	129,277	57,200
	259,863	112,494
Valuation adjustment	11,400	2,140
Subtotal	271,263	114,634
Trading securities - hedging		
Listed stocks	4,022,877	1,810,735
OTC stocks	1,191,800	446,088
Convertible corporate bonds	3,456,957	3,437,205
Foreign stocks	999	1,092
	8,672,633	5,695,120
Valuation adjustment	(65,965)	(38,606)
Subtotal	8,606,668	5,656,514
Derivatives		
Call options	132,472	68,562
Interest rate swaps	1,920	4,942
Futures margin - proprietary fund	611,870	352,755
IRS asset swaps	16,479	20,743
Asset swap options - long position	2,572	5,682
Currency derivatives	22,446	3
Structured notes	1,343	3
Currency swaps	4,072	16,584
Subtotal	793,174	469,274
Total	**$ 34,737,268**	**27,730,008**

As of December 31, 2017 and 2016, the par value of trading securities and financial assets available for sale - bonds under repurchase agreement of the Group were $49,006,659 and $35,926,059, respectively, please refer to Note 6(l) and Note 8 for details.

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Financial assets available for sale - current:

	December 31, 2017	December 31, 2016
Listed stocks	$ 101,209	221,734
OTC stocks	77,668	162,878
Emerging market stocks	24,907	29,482
International bonds	1,532,767	-
Foreign stocks	104,055	-
Overseas bonds	30,797,054	18,904,893
Subtotal	32,637,660	19,318,987
Valuation adjustment	170,119	18,891
Total	$ **32,807,779**	**19,337,878**

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

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

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

(iv) Financial assets available for sale - non-current:

Name of investee	December 31, 2017	December 31, 2016
CME Group Inc.	$ -	33,733
Valuation adjustment	-	42,528
Total	$ **-**	**76,261**

The purpose for obtaining the stock of CME Group Inc. is to acquire the membership of foreign futures exchange. Due to membership requirements on shareholding being changed to paying the subscription fee by CME Group Inc., the Group disposed of 20,000 shares of stock of CME Group Inc. on April 2017, which generated a gain on disposal of this investment of $38,920. For the years ended December 31, 2017 and 2016, due to changes in fair value, the Group had recognized $0 and $14,922 in other comprehensive income, respectively. The amount reclassified from equity to net losses is $41,494 and $0, respectively.

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

Non-listed (or non-over-the-counter)	December 31, 2017 Ownership ratio	December 31, 2017 Amount
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 %	32,858
Prudence Venture Investment Corp.	1.50 %	27,397
Chanyee Hotelday Co., Ltd.	7.33 %	33,000
Miho International Co., Ltd.	2.37 %	49,962
LIPS Corp.	18.77 %	149,625
Xianlife Limited	2.36 %	46,140
FlexUP Technologies Corp.	15.31 %	30,000
Han Biomedical Inc.	9.20 %	23,000
Yonggu Group Co., Ltd.	1.66 %	59,726
Total		**$ 754,545**

Non-listed (or non-over-the-counter)	December 31, 2016 Ownership ratio	December 31, 2016 Amount
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		**$ 448,460**

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

The Group acquired shares of LIPS Corp., Xianlife Limited, FlexUP Technologies Corp. and Han Biomedical Inc. and Yonggu Group Co., Ltd. in March, April, June and December 2017, respectively.

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. Due to Jason's Entertainment Co., Ltd. registering to Emerging Stock Board on August, 2016, it is reclassified to financial assets available for sale - current.

The Group disposed of 1,000 shares of stock of Taiwan Futures Exchange Corp. on December 29, 2016, which generated a disposal investment gain $90.

(vi) The Group uses Value at risk (VaR) to monitor and measure the market risk of its investment in equity stocks. VaR refers to the unexpected loss of financial instruments derived from the changes in market risk factors within certain time periods and confidence level. The table below discloses the VaR, which is the estimation of potential loss in ten days and is covered by 99% of the adverse changes in market prices. In the table below by using this assumption, 2.5 out of 250 days VaR will exceed the disclosed amounts due to the changes in market price. For the years ended December 31, 2017 and 2016 VaR (99%, per 10-day) of equity stocks are as follows:

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

(c) Accounts Receivable

	December 31, 2017	December 31, 2016
Receivable on securities purchased by customers	$ 27,055	22,024
Settlement	1,000,019	-
Interests receivable	627,789	494,248
Receivables on securities sold	5,015,345	3,503,940
Others	57,560	89,525
Subtotal	6,727,768	4,109,737
Less: allowance for doubtful accounts	(1,713)	(3,424)
Total	$ **6,726,055**	**4,106,313**

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) Customers' margin account / Future traders' equity

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

	December 31, 2017	December 31, 2016
Customers' margin account		
Add:		
Cash in banks	$ 20,131,841	18,011,775
Customers' margin account - futures clearing house	3,485,434	2,126,035
Customers' margin account - other futures commission merchants	3,683,324	3,030,438
Marketable securities	2,113	1,594
Total customers' margin account	**27,302,712**	**23,169,842**
Add:		
Commission expense	$ 1,651	-
Other	33	1
Less:		
Commission revenue	(11,431)	(30,670)
Futures transaction tax	(1,356)	(1,045)
Interest revenues	(2,326)	(1,200)
Temporary receipts	(590)	(134)
Remittance amount of the customers after the market closed	(2,424)	(1,749)
Others	(18,043)	(2,814)
Futures traders' equity	**$ 27,268,226**	**23,132,231**

(e) Investments under equity method

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

	December 31, 2017	December 31, 2016
Subsidiaries		
Capital Insurance Advisory Corp.	$ 90,506	104,489
Capital Insurance Agency Corp.	41,547	52,200
Subtotal	132,053	156,689
Associates		
True Partner Advisor Hong Kong Ltd.	41,535	41,516
Total	**$ 173,588**	**198,205**

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Subsidiaries:

For the year 2017 and 2016, the Group's share of gains or losses of the subsidiaries were as follows:

	For the years ended December 31, 2017	For the years ended December 31, 2016
Based on the the audited financial statements	$ 66,816	101,682

	December 31, 2017	December 31, 2016
Total assets	$ 151,103	194,974
Total liabilities	$ 19,050	38,285

	For the years ended December 31, 2017	For the years ended December 31, 2016
Revenue	$ 263,492	360,440
Net income	$ 66,816	101,682

(ii) 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 December 31, 2017	% of Ownership and Voting Rights December 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 %

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

	December 31, 2017	December 31, 2016
Total carrying amount of the associates that were not individually material	$ 41,535	41,516

	For the years ended December 31, 2017	For the years ended December 31, 2016
Based on the self-prepared financial statements Attributable to the Group:		
Net gains from continuing operations	$ 1,028	5,035
Other comprehensive loss	(1,009)	(200)
Total comprehensive income (losses)	$ 19	4,835

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Collateral

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

(f) Property and equipment

	Land	Buildings	Equipment	Leasehold improvements	Total
Cost or deemed cost					
Balance at January 1, 2017	$ 3,707,942	1,690,000	587,821	133,832	6,119,595
Additions	-	-	74,113	20,701	94,814
Reclassified to investment property	(55,468)	(57,484)	-	-	(112,952)
Disposals and retirements	-	(119)	(59,001)	(16,028)	(75,148)
Effect of changes in foreign exchange rates	-	(8,743)	(6,814)	(1,074)	(16,631)
Balance at December 31, 2017	**$ 3,652,474**	**1,623,654**	**596,119**	**137,431**	**6,009,678**
Balance at January 1, 2016	$ 3,709,682	1,956,866	624,246	97,963	6,388,757
Additions	-	-	76,072	49,900	125,972
Reclassified to investment property	(1,740)	(1,290)	-	-	(3,030)
Disposals and retirements	-	(263,557)	(110,580)	(13,811)	(387,948)
Effect of changes in foreign exchange rates	-	(2,019)	(1,917)	(220)	(4,156)
Balance at December 31, 2016	**$ 3,707,942**	**1,690,000**	**587,821**	**133,832**	**6,119,595**
Depreciation and impairment					
Balance at January 1, 2017	$ -	573,289	360,524	55,959	989,772
Depreciation	-	29,461	104,816	25,528	159,805
Reclassified to investment property	-	(24,054)	-	-	(24,054)
Disposals and retirements	-	(119)	(58,706)	(13,289)	(72,114)
Effect of changes in foreign exchange rates	-	(3,440)	(6,209)	(834)	(10,483)
Balance at December 31, 2017	**$ -**	**575,137**	**400,425**	**67,364**	**1,042,926**
Balance at January 1, 2016	$ -	804,241	363,129	43,981	1,211,351
Depreciation	-	34,063	108,889	22,578	165,530
Reclassified to investment property	-	(702)	-	-	(702)
Disposals and retirements	-	(263,557)	(109,770)	(10,419)	(383,746)
Effect of changes in foreign exchange rates	-	(756)	(1,724)	(181)	(2,661)
Balance at December 31, 2016	**$ -**	**573,289**	**360,524**	**55,959**	**989,772**
Carrying amount:					
December 31, 2017	**$ 3,652,474**	**1,048,517**	**195,694**	**70,067**	**4,966,752**
December 31, 2016	**$ 3,707,942**	**1,116,711**	**227,297**	**77,873**	**5,129,823**

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

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(g) Investment property

	Land and improvements	Buildings	Total
Cost or deemed cost			
Balance at January 1, 2017	$ 1,257,200	738,705	1,995,905
Transferred from property and equipment	55,468	57,484	112,952
Disposal and retirements	-	(120)	(120)
Balance at December 31, 2017	$ **1,312,668**	**796,069**	**2,108,737**
Balance at January 1, 2016	$ 1,255,460	862,610	2,118,070
Transferred from property and equipment	1,740	1,290	3,030
Disposal and retirements	-	(125,195)	(125,195)
Balance at December 31, 2016	$ **1,257,200**	**738,705**	**1,995,905**
Depreciation and impairment loss			
Balance at January 1, 2017	$ -	268,581	268,581
Depreciation	-	19,681	19,681
Transferred from property and equipment	-	24,054	24,054
Disposal and retirements	-	(120)	(120)
Balance at December 31, 2017	$ **-**	**312,196**	**312,196**
Balance at January 1, 2016	$ -	377,863	377,863
Depreciation	-	15,211	15,211
Transferred from property and equipment	-	702	702
Disposal and retirements	-	(125,195)	(125,195)
Balance at December 31, 2016	$ **-**	**268,581**	**268,581**
Carrying Amount:			
December 31, 2017	$ **1,312,668**	**483,873**	**1,796,541**
December 31, 2016	$ **1,257,200**	**470,124**	**1,727,324**
Fair Value:			
December 31, 2017			**2,809,179**
December 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.

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

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(h) Intangible assets

(i) Goodwill

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

Goodwill is allocated to the operating segments as follows:

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

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

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

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

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 December 31, 2017 and 2016, the book value of goodwill was $22,088 for the both year.

(ii) Other intangible assets - Operation franchise

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

(iii) Other intangible assets - 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 December 31, 2017 and 2016, the book values of intangible assets were $48,102 and $48,453, respectively.

(iv) Other intangible assets - Computer software

Computer software was booked at cost and amortized by using the straight-line method over the estimated useful lives. As of December 31, 2017 and 2016, the amortized book value was $41,287 and $25,010, respectively.

(i) Short-term borrowings

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

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

(j) Commercial paper payable

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

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	December 31, 2017	December 31, 2016
Liabilities on sale of borrowed securities	$ 1,130,377	1,009,334
Redeem liabilities on sale of borrowed securities	(6,714)	(4,632)
Valuation adjustment	(94,120)	(66,653)
Subtotal	1,029,543	938,049
Settlement coverage bonds payable of short sale	49,983	-
Valuation adjustment	(29)	-
Subtotal	49,954	-
Stock warrants issued	14,405,116	10,892,801
Stock warrants repurchased	(13,098,267)	(10,617,763)
Subtotal	1,306,849	275,038
Put options	131,636	66,693
Equity derivatives	61	-
IRS asset swaps	239	1,974
Asset swap options - short position	364,910	177,405
Structured notes	9,234	7,515
Currency derivatives	2,847	1
Currency swaps	7,920	9,089
Subtotal	516,847	262,677
Total	**$ 2,903,193**	**1,475,764**

(l) Bonds sold under repurchase agreements

	December 31, 2017	December 31, 2016
Bonds sold under repurchase agreements	**$ 47,056,312**	**34,956,642**
Agreed-upon repurchase amounts	**47,174,205**	**35,002,716**
Interest rates	**0.20%~4.30%**	**0.30%~9.00%**
Date of repurchase	**2018.1.2~2018.12.27**	**2017.1.3~2017.3.30**

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

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

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

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(n) Accounts payable

	December 31, 2017	December 31, 2016
Payable of securities sold by customers	$ 44,575	21,890
Settlement	-	49,986
Payable on securities purchased	5,440,461	3,183,985
Others	293,722	222,263
Total	**$ 5,778,758**	**3,478,124**

(o) Operating leases

(i) Lessee

Non-cancellable operating lease payables are as follows:

	December 31, 2017	December 31, 2016
Within 1 year	$ 97,864	113,003
1-5 years	142,113	185,695
Over 5 years	11,859	-
	$ 251,836	**298,698**

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

For the years ended December 31, 2017 and 2016, the operating lease expenses recognized in profit or loss were $157,805 and $172,855 respectively.

(ii) Lessor

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

	December 31, 2017	December 31, 2016
Within 1 year	$ 34,856	7,663
1-5 years	46,799	63,940
Over 5 years	40,366	-
	$ 122,021	**71,603**

The rental revenue from investment property for the year 2017 and 2016 amounted to $69,409 and $61,091 respectively.

(Continued)

(p) Employee benefit

(i) Defined benefit plans

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

	December 31, 2017	December 31, 2016
Present value of defined benefit obligations	$ (1,009,545)	(1,039,300)
Fair value of plan assets	458,883	517,011
Recognized liabilities for defined benefit obligations	**$ (550,662)**	**(522,289)**

The Group's employee benefits liabilities are as follows:

	December 31, 2017	December 31, 2016
Compensated absences	**$ 49,066**	**65,365**

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

1) Composition of plan assets

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

As of December 31, 2017 and 2016, the balance of the Group's labor pension preparatory special account in Bank of Taiwan amounted to $276,467 and $336,643 respectively. The utilization of the labor pension fund includes the assets allocation and yield of the fund, please refers to the information published on the website under Labor Pension Fund Supervisory Committee of the Council of Labor Affairs Executive Yuan.

As of December 31, 2017 and 2016, the balance of employee pension fund management committee was $185,442 and $181,283, respectively.

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Movements in present value of the defined benefit obligations

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

	2017	2016
Defined benefit obligation on January 1	$ 1,039,300	1,069,335
Current service costs and interest	20,005	23,601
Remeasurement of net defined liabilities		
-Actuarial loss (gain) arising from changes in demographical assumptions	4,203	-
-Actuarial loss (gain) arising from changes in financial assumptions	(1,089)	12,517
-Experience adjustments	25,279	4,653
Benefits paid by the plan	(78,153)	(70,806)
Defined benefit obligation on December 31	**$ 1,009,545**	**1,039,300**

3) Movements in fair value of defined benefit plan assets

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

	For the years ended December 31,	
	2017	**2016**
Fair value of plan assets on January 1	$ 517,011	566,401
Contributions from the employer	14,854	16,747
Benefits paid from plan assets	(77,945)	(70,803)
Interest revenue	5,311	6,989
Remeasurement of net defined liabilities		
-Return on plan assets (excluding interest)	(348)	(2,323)
Fair value of plan assets on December 31	**$ 458,883**	**517,011**

4) Expense recognized in profit or loss

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

	For the years ended December 31,	
	2017	**2016**
Current service cost	$ 9,324	10,571
Net interest of net defined benefit liabilities (assets)	5,370	6,041
Current pension cost	**$ 14,694**	**16,612**

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

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

	For the years ended December 31, 2017	2016
Balance at January 1	$ (96,364)	(76,870)
Recognized amount during the period	(28,741)	(19,494)
Balance at December 31	**$ (125,105)**	**(96,364)**

6) Actuarial assumptions

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

	December 31, 2017	December 31, 2016
Discount rate	1.05%	1.03%～1.10%
Future salary growth rate	2.00%~2.50%	2.00%～2.50%

The expected contribution to the defined benefit plan for the within one year is $16,271. The weighted average duration of the defined benefit obligation is 2~3 years.

7) Sensitivity Analysis

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

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

	Effects to Defined Benefit Obligations: Increase 0.5%	Decrease 0.5%
December 31, 2017		
Discount rate	(27,419)	28,649
Future salary growth rate	23,205	(22,495)
December 31, 2016		
Discount rate	(29,435)	30,803
Future salary growth rate	25,150	(24,343)

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

(Continued)

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

(ii) Defined contribution plan

In accordance with the Labor Pension Act of R.O.C, the 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 $82,937 and $85,018 under defined contribution plan to the Bureau of the Labor Insurance in the year 2017 and 2016, respectively.

(iii) For the years ended December 31, 2017 and 2016, the pension costs contributed by overseas subsidiaries in compliance with local ordinance were $4,226 and $4,561, respectively.

(q) Income tax

(i) Income tax expense (benefit)

The amount of income tax expense (benefit) for the year 2017 and 2016 were as follows:

	For the years ended December 31, 2017	2016
Current tax expense		
Current year	$ 250,718	168,692
Adjustment to the prior years' income tax	(36,624)	30,597
	214,094	199,289
Deferred tax expense		
Unrealized gains (losses) on derivative financial instruments	49,461	(12,041)
Unrealized gains (losses) on foreign investments under Equity Method	(1,499)	(6,959)
Amortization of goodwill	-	35,436
Decrease in tax loss carried forward	117,021	-
Adjustments of deferred income tax assets and liabilities	(90,835)	50,011
	74,148	66,447
Income tax expenses	**$ 288,242**	**265,736**

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

	For the years ended December 31, 2017	2016
Foreign exchange difference from translating financial statements of foreign operations	**$ (37,769)**	**(6,951)**

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	For the years ended December 31, 2017	2016
Net income before tax	$ 3,503,637	1,672,233
Income tax using the Company's domestic tax rate	$ 667,856	336,719
Effect of tax rates in foreign jurisdiction (not applicable for separate financial statements)	(194)	-
Tax-exempt income	(392,119)	(148,673)
Alternative minimum tax	148,030	-
Unrecognized deferred tax assets for current-year losses	333	146
Unrecognized temporary differences for current years	(7)	721
Additional surtax on undistributed retained earnings	1,076	-
Income tax difference of bonds purchased under resale agreements and income tax separately levied	(40)	(163)
Adjustments to prior years' income tax	(36,624)	30,597
Unrecognized temporary differences for prior years	(90,835)	50,011
Others	(9,234)	(3,622)
Total	**$ 288,242**	**265,736**

(ii) Deferred income tax assets and liabilities

1) Recognized deferred income tax assets

	December 31, 2017	December 31, 2016
Tax loss carried forward	$ 156,117	404,694
Unrealized losses on foreign investments under Equity Method	4,352	2,678
Foreign exchange difference from translating financial statements of foreign operations	13,767	25
Deferred income tax assets	**$ 174,236**	**407,397**

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

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

Year of loss	Amount	Expiry date
2011(Approved)	**$ 760,953**	2026

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Unrecognized deferred tax assets

	December 31, 2017	December 31, 2016
Unrealized losses on foreign investments under Equity Method	$ 419	425
Tax loss carried forward	481	146
Total	**$ 900**	**571**

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

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom.

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

Year of loss	Amount	Expiry date
2016 (Declared)	$ 874	2026
2017 (Estimated)	1,957	2027
Total	**$ 2,831**	

3) Recognized deferred income tax liabilities

	December 31, 2017	December 31, 2016
Foreign exchange difference from translating financial statements of foreign operations	$ -	24,027
Unrealized gains on derivative financial instruments	84,093	34,631
Unrealized gains on foreign investments under Equity Method	1,030	-
Losses on intercompany transactions	1,639	1,639
Amortization of operation franchise	36,448	36,448
Amortization of goodwill	308,292	531,539
Land value incremental tax	47,691	47,691
Deferred income tax liabilities	**$ 479,193**	**675,975**

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

4) Unrecognized deferred tax liabilities

As of December 31, 2017 and 2016, the Group' s temporary differences are not recognized under deferred tax liabilities are as follows:

	December 31, 2017	December 31, 2016
Aggregate amount of temporary differences related to investments in subsidiaries	$ 18,983	5,783

The dividend policies of the Group's subsidiaries, CSC Futures (HK) Ltd. and Capital Futures Technology (Shanghai) Co., Ltd, were prescribed not to appropriate the retain earning until December 31, 2017. Also, the Group does not plan to dispose of the investees in foreseeable future. Thus, the temporary differences related to investments in subsidiaries for the portion of not to intend to dispose or to appropriate are not recognized under deferred tax liabilities.

(iii) Income tax assessment status

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

2) Subsidiary - Capital Investment Management Corp.'s income tax returns through 2016 were assessed by the Tax Authority.

3) Subsidiary - Capital Futures Corp.'s income tax returns through 2015 were assessed by the Tax Authority.

4) Subsidiary - Taiwan International Securities Investment Consulting Corp.'s income tax returns for the liquidation date as of June 30, 2012 were assessed by the Tax Authority.

5) Subsidiary - Taiwan International Futures Corp.'s income tax returns for the liquidation date as of September 18, 2008 were assessed by the Tax Authority.

6) Subsidiary - Capital International Technology Corp.'s income tax returns through 2015 were assessed by the Tax Authority.

7) Subsidiary - CSC Venture Capital Corp.' s income tax returns through 2016 were assessed by the Tax Authority.

(iv) Information related to the ICA is summarized as follows:

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

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

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

(v) Income tax administrative relief

Since income tax of securities trading and amortization of intangible assets withheld from year 2010 to 2014 were assessed differently from those reported by the Company, and the Company has filed for administrative relief. The additional tax was accrued based on conservative concept.

(r) Capital and other equity

(i) Capital stock

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

(ii) Capital surplus

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

The followings are the capital surplus of the Company:

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

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Retained earnings

1) Legal reserve

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

2) Special reserve

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

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

3) Undistributed earnings

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

The Company's earnings distribution was proposed by board of directors and is subject to the resolution of the shareholders' meeting. The shareholders' meeting may declare dividends after retaining a certain portion of earnings. The amount of earnings to distribute after retaining earnings must be higher than 10% of the distributable balance. According to the capital budget of the Company, the payout of stock dividend is for retaining necessary capital and the remainder can be paid as cash dividend. Cash dividend shall not fall below 10% of the total dividend.

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

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

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(iv) Treasury stocks

Pursuant to Article 28-2 of the "Securities and Exchange Act", the Company repurchased 100,000 thousand shares back to maintain the Company's credit standing and shareholders' equity from January 1, 2016 to December 31, 2017. As of December 31, 2017, all the repurchased shares were retired.

Based on the "Securities and Exchange Act" of the ROC, the number of reacquired shares should not exceed 10% of a company's issued and outstanding shares, and the total purchase amount should not exceed the sum of the retained earnings, additional paid-in capital in excess of par and realized capital surplus. Under the "Securities and Exchange Act", the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

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

(s) Earnings per share

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

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

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

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(t) Items of the comprehensive income statement

(i) Brokerage commissions

	For the years ended December 31, 2017	2016
Brokerage commission from TSE market	$ 1,620,114	1,133,422
Brokerage commission from OTC market	656,041	474,588
Handling fee from security financing	30,903	32,595
Futures commission income - brokerage	1,490,999	1,463,945
Overseas subsidiaries	62,782	70,438
Others	72,007	51,463
	$ 3,932,846	**3,226,451**

(ii) Underwriting commissions

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

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

	For the years ended December 31, 2017	2016
Revenue from securities sold - proprietary trading	$ 207,304,254	203,630,026
Cost of securities sold - proprietary trading	(206,174,139)	(203,461,507)
Subtotal	1,130,115	168,519
Revenue from securities sold - underwriting	201,997	2,568,524
Cost of securities sold - underwriting	(194,190)	(2,560,057)
Subtotal	7,807	8,467
Revenue from securities sold - hedging	34,882,103	23,463,311
Cost of securities sold - hedging	(34,427,986)	(23,552,918)
Subtotal	454,117	(89,607)
Total	**$ 1,592,039**	**87,379**

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Interest revenue

	For the years ended December 31, 2017	2016
Interest revenue - margin loans	$ 771,449	737,656
Interest revenue - bonds	1,167,972	657,211
Overseas subsidiaries	43,518	35,326
Others	46,982	33,752
	$ 2,029,921	1,463,945

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

	For the years ended December 31, 2017	2016
Trading securities - proprietary	$ 91,025	(20,955)
Trading securities - underwriting	9,259	918
Trading securities - hedging	(27,358)	66,573
Settlement coverage bonds payable of short sale	29	(1,146)
	$ 72,955	45,390

(vi) Net gains or losses on stock warrants issued

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

(vii) Futures commission income

	For the years ended December 31, 2017	2016
Futures commission income - CSC Futures(HK) Ltd.	$ 770,614	564,369

Future commission income is the commission revenue from future trading by CSC Futures (HK) Ltd, the second level subsidiary, which is reflected under "brokerage commission income". The Group recognized the commission from CSC Futures (HK) Ltd as "Futures commission income" in the consolidated financial statements.

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(viii) Commission expenses - future

	For the years ended December 31,	
	2017	2016
Future trading - reconsignment	$ 87,106	51,301
Future trading - introducing brokers	152,941	158,440
Commission expenses - CSC Futures (HK) Ltd.	406,352	201,954
	$ 646,399	**411,695**

(ix) Employee benefits, depreciation, and amortization expenses

	For the years ended December 31,	
	2017	2016
Employee benefit expenses		
Salary expense	$ 2,361,609	2,092,387
Health and labor insurance expense	157,994	157,870
Pension expense	101,857	106,191
Others	61,522	61,612
Depreciation expense	179,486	180,741
Amortization expense	36,489	37,239
	$ 2,898,957	**2,636,040**

(x) Other operating expenses

	For the years ended December 31,	
	2017	2016
Rental expense	$ 157,805	172,855
Taxes	371,401	298,817
Information technology expense	194,003	191,755
Postage expense	136,181	135,745
Professional service fee	87,467	96,802
Other expenses	640,031	448,867
	$ 1,586,888	**1,344,841**

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(xi) Other gains and losses

	For the years ended December 31, 2017	2016
Financial revenue	$ 259,171	202,282
Currency exchange gains (losses)	(11,725)	(15,947)
Net gains (losses) on disposal of investment	72,760	86
Net gains (losses) on measurement of non-operating instruments at fair value through profit or loss	23,198	(31,837)
Revenue from bank's allocation fee	139,255	142,111
Net gains (losses) on disposal of property and equipment	(3,034)	(4,202)
Rental income	69,409	61,091
Gains on reversal of prior year's liabilities	25,875	34,584
Dividend revenue	30,781	32,136
Others	78,562	34,644
	$ 684,252	**454,948**

(xii) Remuneration to employees, directors and supervisors

According to the Company's Articles of Incorporation, the Company shall appropriate 0.6% to 2.0% of its earnings, if applicable, as remuneration to employees. The Board of Directors shall determine if the employees' remuneration distributed, in the form of shares or in cash. The targets of remuneration shall include the employees of subsidiaries meeting certain specific requirement that shall be determined by the Company's Board of Directors. The Company shall also allocate no more than 3% of the aforementioned amount of earnings as remuneration to the Directors. The proposal for the remuneration to employees and directors shall be reported to the shareholders' meeting.

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

For the years ended December 31, 2017 and 2016, the estimated amounts of remuneration to employee were $33,369 and $12,090, and to directors and supervisors by the Company were $61,971 and $20,149, respectively, which were calculated based on the Company's net profit before income tax and remuneration to employees and directors and supervisors multiple the earnings allocation percentage as stated under the Company's articles of incorporation. It is recognized as operating expense for the years ended December 31, 2017 and 2016. If the actual amounts were subsequently decided after the approval and the issuance date of the financial statements in the following year differ from the estimated amounts, the differences are accounted for as changes in accounting estimates and recognized in profit or loss in the following year. If the Board of Directors resolved to distribute the employees' remuneration in the form of shares, the number of shares of the distribution is based on the closing price of the day before the Board of Directors' meeting date.

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

For the years ended December 31, 2017 and 2016, the estimated amounts of remuneration to employee were $11,027 and $7,547 and to directors and supervisors were $11,238 and $7,642 by the domestic subsidiaries of the Group, respectively.

(u) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of December 31, 2017 and 2016, the maximum credit exposure amounted to $111,108,809 and $85,908,093, 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 (61.66%); secondly, is in Asia (18.48%, exclusion of Taiwan); then, is in America (11.13%). 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	December 31, 2017	December 31, 2016
Taiwan	$ 68,514,346	57,799,502
Asia (Taiwan is excluded)	20,531,390	12,039,498
Europe	8,375,096	8,732,426
America	12,370,332	4,247,626
Other	1,317,645	3,089,041
Total	**$ 111,108,809**	**85,908,093**

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Impairment loss

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

	December 31, 2017		December 31, 2016	
	Total amount	Impairment	Total amount	Impairment
Not past due	$ 23,216,757	1,551	16,277,081	1,389
Past due 0~30 days	2,115	2,115	1,062	1,062
Past due 31~120 days	31	31	280	280
Past due 121~360 days	85,694	85,694	-	-
Past due more than one year	135,899	128,771	141,333	114,604
	$ 23,440,496	218,162	16,419,756	117,335

Allowance for doubtful debts under receivables is recorded for the debt expense or impairment loss. Where a claim becomes definitely uncollectible, the allowance for doubtful debts should be written off to financial assets account. As of December 31, 2017 and 2016, the impairment losses of accrued receivables were recognized $218,162 and $117,335, respectively.

(ii) Liquidity risk

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

	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
December 31, 2017							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	$ 1,029,543	1,029,543	1,029,543	-	-	-	-
Settlement coverage bonds payable of short sale	49,954	49,954	49,954	-	-	-	-
Stock warrants issued	1,306,849	1,306,849	1,265,875	40,974	-	-	-
Put options - futures	131,636	131,636	131,636	-	-	-	-
Equity derivatives	61	61	61	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	8,159	8,159	7,770	155	234	-	-
Put options	364,910	364,910	44,131	51,385	106,359	163,035	-
Short-term borrowings	7,081,698	7,081,698	7,081,698	-	-	-	-
Commercial paper payable	4,099,184	4,100,000	4,100,000	-	-	-	-
Bonds sold under repurchase agreements	47,056,312	47,174,205	47,174,205	-	-	-	-
Guarantee deposited for short sales	2,226,264	2,226,264	2,226,264	-	-	-	-
Proceeds payable from short sales	2,500,853	2,500,853	2,500,853	-	-	-	-
Securities lending refundable deposits	1,190,277	1,190,277	1,190,277	-	-	-	-
Futures traders' equity	27,268,226	27,268,226	27,268,226	-	-	-	-
Notes payable and accounts payable	296,967	296,967	296,967	-	-	-	-
Other payables	995,443	995,443	994,660	783	-	-	-
Receipts under custody	346,023	346,023	346,023	-	-	-	-
Structured notes	4,785,254	4,785,254	4,380,929	138,288	151,580	114,457	-
Currency derivatives	2,847	2,847	2,847	-	-	-	-
	$ 100,740,460	100,859,169	100,091,919	231,585	258,173	277,492	-

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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	-	-	-	-
Guarantee deposited for short sales	1,722,840	1,722,840	1,722,840	-	-	-	-
Proceeds payable from short sales	1,947,104	1,947,104	1,947,104	-	-	-	-
Securities lending refundable deposits	878,866	878,866	878,866	-	-	-	-
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**	**-**

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Currency risk

1) Currency risk exposure

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

	December 31, 2017		
	Foreign Currency (thousands)	Exchange Rate	Amount
Financial assets			
Monetary Item			
USD	$ 502,643	29.7600	14,958,656
HKD	96,636	3.8070	367,893
EUR	7,470	35.5700	265,708
JPY	1,031,092	0.2642	272,415
GBP	1,764	40.1100	70,754
AUD	6,898	23.1850	159,930
SGD	751	22.2600	16,717
CNY	85,660	4.5650	391,038
KRW	226,616	0.0281	6,368
THB	121	0.9176	111
CHF	18	30.4550	548
CAD	13	23.7100	308
NZD	234	21.1400	4,947
IDR	4,402	0.0022	10
ZAR	8	2.4100	19
Non-Monetary Item			
USD	919,907	29.7600	27,376,432
AUD	351,673	23.1850	8,153,539
GBP	4	40.1100	160
JPY	4,392	0.2642	1,160
HKD	46,999	3.8070	178,925
CNY	163,599	4.5650	746,829
NZD	1	21.1400	21
Investments under equity method			
HKD	10,910	3.8070	41,535

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2017		
	Foreign Currency (thousands)	Exchange Rate	Amount
Financial liabilities			
Monetary Item			
USD	$ 1,381,491	29.7600	41,113,172
AUD	349,769	23.1850	8,109,394
JPY	959,895	0.2642	253,604
CAD	20	23.7100	474
HKD	163,657	3.8070	623,042
EUR	6,981	35.5700	248,314
GBP	1,686	40.1100	67,625
SGD	744	22.2600	16,561
KRW	28,139	0.0281	791
CNY	148,453	4.5650	677,688
CHF	18	30.4550	548
Non-Monetary Item			
USD	49	29.7600	1,458
JPY	3,635	0.2642	960
CAD	18	23.7100	427

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2016		
	Foreign Currency (thousands)	Exchange Rate	Amount
Financial assets			
Monetary Item			
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
Non-Monetary Item			
USD	492,316	32.2500	15,877,191
AUD	217,379	23.2850	5,061,670
JPY	37,720	0.2756	10,396
HKD	29,720	4.1580	123,576
CNY	133,526	4.6170	616,490
Investments under equity method			
HKD	9,985	4.1580	41,516
Financial liabilities			
Monetary Item			
USD	820,687	32.2500	26,467,156
HKD	122,451	4.1580	509,151
EUR	19,473	33.9000	660,135
JPY	926,157	0.2756	255,249
GBP	400	39.6100	15,844
AUD	217,296	23.2850	5,059,737
SGD	167	22.2900	3,722
KRW	2,970,692	0.0270	80,238
THB	817	0.9050	739
CNY	112,949	4.6170	521,486
CHF	48	31.5250	1,513

(Continued)

Because there are a variety of functional currencies, the Group discloses a summary of its information on currency exchange gain or loss. The realized and unrealized currency exchange gains amounted to $31,396 and $74,687 for year ended December 31, 2017 and 2016, respectively.

2) 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, customers' margin account, futures traders' equity and securities lending refundable deposits, which are denominated in foreign currencies. Currency exchange gains or losses occur when translating the foreign currency assets to NTD assets. For the year ended December 31, 2017 and 2016, given other factors remain the same, if NTD appreciates or depreciates 5% against other currencies, the net income will increase or decrease by $1,277,950, $718,311, and other comprehensive income will increase or decrease by $1,355,076 and $786,878, respectively.

(iv) Sensitivity analysis of interest rate risk

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

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

(v) Fair value information and hierarchy

1) Fair value information

a) General description

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

Initially, financial instruments should be measured at fair value, which mostly refers to transaction price. Except for those measured at amortized cost, financial instruments are subsequently measured at fair value. A quoted market in an active market provides the most reliable evidence of fair value. If the market is not active, the 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.

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

b) Definition of fair value hierarchy

i) Level 1

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

ii) Level 2

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

iii) Level 3

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

2) Not based on fair value measurement

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

a) Fair value information

	December 31, 2017		December 31, 2016	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial assets :				
Cash and cash equivalents	$ 7,104,077	7,104,077	5,423,415	5,423,415
Accrued receivable	25,194,975	25,194,975	18,088,832	18,088,832
Customers' margin account	27,302,712	27,302,712	23,169,842	23,169,842
Leverage contract trading - customers' margin account	151,540	151,540	72	72
Restricted assets - current	554,215	554,215	637,002	637,002
Financial assets measured at cost - non-current	754,545	754,545	448,460	448,460
Other non-current assets	1,565,354	1,565,354	1,717,561	1,717,516

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2017		December 31, 2016	
	Book value	Fair value	Book value	Fair value
Financial liabilities :				
Short-term borrowings	$ 7,081,698	7,081,698	4,236,402	4,236,402
Commercial paper payable	4,099,184	4,099,184	-	-
Bonds sold under repurchase agreements	47,056,312	47,056,312	34,956,642	34,956,642
Accrued payable	13,280,377	13,280,377	9,069,391	9,069,391
Futures traders' equity	27,268,226	27,268,226	23,132,231	23,132,231
Leverage contract trading -customers' equity	152,840	152,840	70	70
Other financial liabilities - current	4,509,983	4,509,983	2,427,461	2,427,461
Other financial liabilities - non-current	266,037	266,037	239,634	239,634
Other non-current liabilities	249,277	249,277	362,077	362,077

b) Hierarchy information of fair value

	Level 1	Level 2	Level 3	Total
Investment property				
December 31, 2017	$ -	-	2,809,179	2,809,179
December 31, 2016	$ -	-	2,740,795	2,740,795

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

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

ii) Financial assets measured at cost and equity investments in unlisted stocks do not have the quoted market prices in an active market and the variability in the range of reasonable fair values is significant or the probabilities of the various estimates within the range cannot be reasonably assessed, so the fair value is unable to be reliably measured. Therefore, the Group considers the book value as a reasonable approximation of fair value.

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

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Based on fair value measurement

a) Hierarchy information of fair value

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

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Financial assets at fair value through profit or loss	$ 20,578,355	13,551,754	-	34,130,109
Financial assets available for sale	27,670,817	5,136,962	-	32,807,779
Derivative financial assets	744,342	48,832	-	793,174
	$ 48,993,514	**18,737,548**	**-**	**67,731,062**
Financial liabilities at fair value through profit or loss	$ 2,386,346	-	-	2,386,346
Derivative financial liabilities	131,636	385,211	-	516,847
	$ 2,517,982	**385,211**	**-**	**2,903,193**
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**

b) Valuation techniques

i) Non-derivative financial instruments

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

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

(Continued)

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).

ii) Derivative financial instruments

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

4) Transfer between Level 1 and Level 2

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

5) Fair value adjustments

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

(vi) Transfer of financial assets

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

December 31, 2017					
Types of financial assets	**Book value of the transferred financial assets**	**Book value of relevant financial liabilities**	**Fair value of the transferred financial assets (Note)**	**Fair value of relevant financial liabilities (Note)**	**Fair value net position (Note)**
Under repurchase agreements	$ 47,104,528	47,056,312	-	-	-

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	-	-	-

Note: The counterparties in repurchase agreements hold the right of recourse not merely on the transferred assets against the Group; hence according to IFRS7p42D(d), disclosure of the fair values of transferred assets and their relevant liabilities and fair value net position is not mandatory.

(vii) Offsetting financial assets and financial liabilities

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

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

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

	December 31, 2017					
	Financial assets under offsetting or general agreement of net amount settlement or similar norms					
				Related amount not offset in the balance sheet (d)		
	Gross amount of recognized financial assets (a)	**Gross amount of recognized financial liabilities offsetting in the balance sheet (b)**	**Net amount of financial assets presented in the balance sheets (c)=(a)-(b)**	**Financial instruments (Note)**	**Cash received as collaterals**	**Net amount (e)=(c)-(d)**
Derivative financial assets	$ 48,832	-	48,832	-	-	48,832

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2017

Financial liabilities under offsetting or general agreement of net amount settlement or similar norms

	Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets offsetting in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d): Financial instruments (Note)	Related amount not offset in the balance sheet (d): Cash received as collaterals	Net amount (e)=(c)-(d)
Derivative financial liabilities	$ 385,211	-	385,211	-	-	385,211
Under repurchase agreements	47,056,312	-	47,056,312	47,056,312	-	-
Total	$ 47,441,523	-	47,441,523	47,056,312	-	385,211

December 31, 2016

Financial assets under offsetting or general agreement of net amount settlement or similar norms

	Gross amount of recognized financial assets (a)	Gross amount of recognized financial liabilities offsetting in the balance sheet (b)	Net amount of financial assets presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d): Financial instruments (Note)	Related amount not offset in the balance sheet (d): Cash received as collaterals	Net amount (e)=(c)-(d)
Derivative financial assets	$ 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 (a)	Gross amount of recognized financial assets offsetting in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d): Financial instruments (Note)	Related amount not offset in the balance sheet (d): Cash received as collaterals	Net amount (e)=(c)-(d)
Derivative financial liabilities	$ 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

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

(v) Financial risk management

(i) Overview

The Group exposed to the following risks from its financial instruments:

1) credit risk

2) liquidity risk

3) market risk

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

(ii) Structure of risk management

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

(iii) Credit risk

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

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

(iv) Liquidity risk

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

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

(v) Market risk

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

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

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

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

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

(vi) Hedging strategies (financial hedging)

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

1) Equity securities:

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

2) Fixed income instruments:

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

3) Stock warrants:

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

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

4) Structured notes:

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

5) Asset swap:

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

(vii) Financial risk information of derivative financial instruments

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

Stock warrants

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

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

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

(ii) Market risk:

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

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

The 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.

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) 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.

(v) Presentation of financial derivatives

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

1) For the years ended December 31, 2017 and 2106:

a) Gains (losses) on valuation

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

b) Gains (losses) on sale

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

c) Gains (losses) on maturity

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

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Futures

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

Financial Instruments	December 31, 2017 Notional principal / Nominal amount	December 31, 2017 Credit Risk	December 31, 2016 Notional principal / Nominal amount	December 31, 2016 Credit Risk
For trading purpose:				
Taiex Futures	$ 4,733,190	-	1,246,867	-
Mini Taiex Futures	59,538	-	-	-
Electronic Sector Index Futures	126,534	-	1,477	-
Finance Sector Index Futures	2,374	-	46,101	-
Non-Finance Non-Electronics Sub-Index Futures	29,054	-	4,547	-
Stock Futures	276,599	-	140,814	-
USD/CNY FX Futures	77,173	-	86,582	-
Nifty 50 Index Futures	52,266	-	248,013	-
Mini-USD/CNY FX Futures	52,641	-	-	-
USD/JPY FX Futures	98,231	-	326,514	-
EUR/USD FX Futures	229,760	-	550,668	-
Euro dollar Futures	40,182	-	270,616	-
H stocks Index Futures	11,037	-	1,921	-
HSI Futures	-	-	13,448	-
Mini-Dow Futures	29,547	-	-	-
FTSE China A50 Index Futures	40,582	-	124,946	-
SGX Nifty 50 Index Futures	52,124	-	7,925	-
Dow Futures	93,802	-	-	-
S&P 500 Futures	35,382	-	-	-
Mini-S&P 500 Futures	151,459	-	36,100	-
JPY dollar Futures	9,942	-	13,867	-
MSCI Taiwan Index Futures	163,256	-	351,842	-
Sugar Futures	41,196	-	-	-
Soy Meal Futures	3,557	-	-	-
VIX Future	13,313	-	46,924	-
U.S. 5-Year T-Note Futures	328,692	-	169,495	-
U.S. 10-Year T-Note Futures	982,781	-	40,005	-
NT Dollar Gold Futures	1,399	-	5,437	-
Taiex Options	211,079	-	86,416	-
Stock Options	19,796	-	8,219	-
Taiex Weekly Options	22,418	-	23,600	-
Electronic Sector Index Options	7,281	-	2,006	-
Finance Sector Index Options	2,902	-	4,482	-
Mini-S&P 500 Options	653	-	18,722	-
S&P 500 Options	1,075	-	-	-
Gold Options	171	-	223	-
Sugar Options	5,023	-	-	-
Soybean Meal Options	1,014	-	-	-
Mini-USD/CNY FX Options	1,443	-	14,141	-
USD/CNY FX Options	1,618	-	6,238	-

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Financial Instruments	December 31, 2017 Notional principal / Nominal amount	December 31, 2017 Credit Risk	December 31, 2016 Notional principal / Nominal amount	December 31, 2016 Credit Risk
For non-trading purpose:				
Taiex Futures	$ 474,601	-	239,765	-
Stock Futures	1,613,239	-	501,055	-
Electronic Sector Index Futures	79,631	-	7,357	-
Finance Sector Index Futures	18,999	-	-	-
HSI Futures	-	-	4,569	-
Gold Futures	53,446	-	11,151	-
Mini-HSI Futures	-	-	17,930	-
Crude Oil Futures	121,435	-	-	-
FTSE China A50 Index Futures	595,089	-	66,764	-
SGX Nikkei 225 Index Futures	6,025	-	10,209	-
Nikkei 225 Futures	11,799	-	-	-
JPY dollar Futures	6,698	-	-	-
Real Estate Index Futures	4,836	-	-	-
Stock Options	3,451	-	-	-
Crude Oil Options	1	-	-	-
Gold Options	4	-	-	-

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.

(ii) Market risk:

Market risk resulted from the purchase and sale of futures and options. Since the fair values of futures and options are available, and stop-loss points are established in order to manage risk, the 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.

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

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

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

For options trading, 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.

(iv) Presentation of financial derivatives:

For the years ended December 31, 2017 and 2016, losses on futures and options transactions amounted to $421,005 and $254,211, respectively, and were reflected as losses on derivative instruments - futures. As of December 31, 2017 and 2016, futures margin - proprietary fund amounted to $611,870 and $352,755, 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 $1,098,046 and $818,437, respectively.

As of December 31, 2017 and 2016, the balance of call options which recognized as financial assets at fair value through profit or loss - current amounted to $132,472 and $68,562, respectively, put options which recognized as financial liabilities at fair value through profit or loss - current amounted to $131,636 and $66,693, respectively.

Derivative financial instruments - OTC

(i) Interest rate financial derivatives

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

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

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

2) Market risk:

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

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

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

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

(Continued)

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

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

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

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

(ii) Structured notes

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

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

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

2) Market risk

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

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

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

(iii) Convertible bond asset-backed swaps

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

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

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

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

2) Market risk:

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

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

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

Convertible bonds acquired through underwriting or proprietary trading are the underlying assets of asset-backed swaps. The underlying assets are sold to the counterparties for commission. Within the term of the contract, the Group swaps 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.

(iv) 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.

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Presentation of derivative financial instruments - OTC

As of December 31, 2017 and 2016, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options and convertible bond asset-backed swaps were presented on the balance sheets as follows:

	December 31, 2017	December 31, 2016
Financial assets at fair value through profit or loss - current		
IRS asset swaps	$ 16,479	20,743
Interest rate swaps	1,920	4,942
Currency swaps	4,072	16,584
Asset swap options - long position	2,572	5,682
Structured notes	1,343	3
Currency derivatives	22,446	3
Total	$ **48,832**	**47,957**
Financial liabilities at fair value through profit or loss - current		
IRS asset swaps	$ 239	1,974
Currency swaps	7,920	9,089
Asset swap options - short position	364,910	177,405
Equity derivatives	61	-
Structured notes	9,234	7,515
Currency derivatives	2,847	1
Total	$ **385,211**	**195,984**
Other financial liabilities - current		
Structured notes principal value	$ **4,509,983**	**2,427,461**
Other financial liabilities - non-current		
Structured notes principal value	$ **266,037**	**239,634**

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

	For the year ended December 31, 2017		For the year ended December 31, 2016	
	Gains (losses) on derivative financial instruments - OTC	Unrealized Gains (losses)	Gains (losses) on derivative financial instruments - OTC	Unrealized Gains (losses)
Interest rate swaps	$ (8,832)	1,920	3,893	4,942
Equity derivatives	(3,969)	(41)	92	-
Structured notes	(38,864)	(7,924)	(32,536)	(6,146)
IRS asset swaps	301	16,240	533	18,769
Asset swap options	(281,311)	(98,208)	(43,107)	66,482
Currency swaps	(64,026)	(3,848)	(167,857)	7,495
Currency swaps	72,881	19,598	4	4
Total	$ **(323,820)**	**(72,263)**	**(238,978)**	**91,546**

(w) Capital management

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

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

(7) Related party transactions:

(a) Parent company and ultimate controlling party

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

(b) Names of related parties and relationships

The followings are entities that have had transactions with related party during the periods covered in the consolidated financial statements.

Names of related parties	Relationships
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

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Key management personnel transactions

(i) Key management personnel compensation:

	For the years ended December 31, 2017	2016
Short-term employee benefits	$ 224,585	166,365
Post-employment benefits	2,282	2,147
Share-based Payment	5,960	-
Total	$ 232,827	168,512

(ii) Bond transactions - bonds sold under repurchase agreements

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

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

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

(iii) Structured notes transactions

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

(d) Significant transactions with related parties

(i) Bond transactions - bonds sold under repurchase agreements

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

	December 31, 2017		December 31, 2016	
	Par value	Purchase price	Par value	Purchase price
Subsidiaries	$ -	-	10,000	10,580
Juristic-person directors	10,700	10,700	14,900	15,000
Total	$ 10,700	10,700	24,900	25,580

Total financial expenses	For the years ended December 31, 2017	2016
Subsidiaries	$ 42	67
Juristic-person directors	78	77
Total	$ 120	144

Transaction terms are the same as those with general clients.

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Structured notes transaction

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

(iii) Lease agreements

1) Lease revenue

	For the years ended December 31, 2017	For the years ended December 31, 2016
Subsidiaries	$ 1,036	1,036

2) Guarantee deposits received

	December 31, 2017	December 31, 2016
Subsidiaries	$ 200	200

(iv) Insurance commission revenues

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

1) Commission revenues

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

2) Accounts receivable

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

(v) Brokerage commissions

The brokerage commission received from the Juristic-person directors and other related parties of the Group engaging in securities and futures trading were $13,549 and $7,659 in years 2017 and 2016, respectively.

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

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(8) Pledged assets:

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

	December 31, 2017	December 31, 2016	The collateral use
Restricted assets - current	$ 554,215	637,002	Bank borrowings, commercial paper, accounts settled, repurchase agreement, money trust (Annotation 1), guaranty deposited for business operations (Annotation 2) and the amount of provisional seizure (Note 9(j))
Restricted assets - non-current	94,875	170,167	Trust to an impartial third party (Note 12)
Trading securities and bonds purchased under resale agreements (par value)	49,006,659	35,926,059	Repurchase agreement and bond purchased under resale agreements - short sales
Property and equipment	3,938,041	4,049,331	Bank borrowings
Financial assets at fair value through profit or loss - non-current	186,015	186,073	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business investment
Investment property	955,695	881,143	Bank borrowings
Total	$ **54,735,500**	**41,849,775**	

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 its own working capital temporarily for protecting creditors.

(9) Significant contingent liability and unrecognized contract commitment:

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

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

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

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

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

	December 31, 2017	December 31, 2016
Promissory notes	$ 24,890,000	24,160,000
Promissory notes	USD80,000 thousand	85,000 thousand

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

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

(f) The client, Mr. Wu, declared that a resigned employee of Tung-Hu branch stole and sold off his stocks and withdrew his deposit illegally. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation for damages of $36,000 with additional interests. Based on Year 2008 Chung Su No.684 verdict, the Taiwan Taipei District Court ruled in favor of the Company. Mr. Wu was unwilling accept the result and appealed again. According to the final judgment made by the Supreme Court in October, 2017, the Company shall not be held liable to the damages.

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

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

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

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

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.

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(k) 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 December 31, 2017, the remaining balance was $2,072.

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

(i) Balance sheet of trust accounts

Balance Sheet of Trust Accounts

December 31, 2017 and 2016

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

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Income statement of trust accounts

Income Statement of Trust Accounts

For the years ended December 31, 2017 and 2016

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

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) List of trust properties

List of Trust Properties

December 31, 2017 and 2016

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

(10) Significant Catastrophic Loss:None

(11) Significant Subsequent Events:

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

(12) Other:

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

(iv) December 31, 2017

Item	Trading category	Open positions Long/ Short	Open positions Number of contracts	Contract size or paid for (received from) premium	Fair value	Note
Futures contract：						
	Taiex Futures	Long	166	$ 341,696	351,721	
	Taiex Futures	Short	2,305	(4,866,095)	(4,899,355)	
	Mini Taiex Futures	Short	113	(59,538)	(59,835)	
	Electronic Sector Index Futures	Short	118	(206,165)	(208,247)	
	Finance Sector Index Futures	Long	17	20,196	20,190	
	Finance Sector Index Futures	Short	1	(1,177)	(1,189)	
	Non-Finance Non-Electronics Sub-Index Futures	Long	24	29,054	29,801	
	Stock Futures	Long	2,755	365,398	367,120	
	Stock Futures	Short	8,226	(1,524,440)	(1,517,181)	
	H Stocks Index Futures	Long	5	11,037	11,076	

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Item	Trading category	Open positions Long/ Short	Open positions Number of contracts	Contract size or paid for (received from) premium	Fair value	Note
	SGX Nifty 50 Index Futures	Long	83	$ 52,124	52,161	
	Dow Futures	Long	92	45,670	45,711	
	Dow Futures	Short	97	(48,132)	(48,174)	
	Mini-Dow Futures	Long	6	22,185	22,083	
	Mini-Dow Futures	Short	2	(7,362)	(7,366)	
	Sugar Futures	Long	43	41,196	40,977	
	Soybean Meal Futures	Long	32	3,557	3,534	
	Gold Futures	Long	1	3,866	3,896	
	Gold Futures	Short	13	(49,580)	(50,654)	
	MSCI Taiwan Index Futures	Long	140	163,256	163,740	
	FTSE China A50 Index Futures	Long	570	227,493	224,470	
	FTSE China A50 Index Futures	Short	1,030	(408,178)	(405,920)	
	Real Estate Index Futures	Short	5	(4,836)	(4,782)	
	VIX Futures	Long	40	13,313	13,550	
	S&P 500 Futures	Long	63	33,766	33,875	
	S&P 500 Futures	Short	3	(1,616)	(1,614)	
	Mini-S&P 500 Futures	Long	11	43,562	43,479	
	Mini-S&P 500 Futures	Short	27	(107,897)	(107,538)	
	Nikkei 225 Index Futures	Short	2	(11,799)	(12,021)	
	SGX Nikkei 225 Index Futures	Short	2	(6,025)	(6,012)	
	U.S. 5-Year T-Note Futures	Short	95	(328,692)	(328,419)	
	U.S. 10-Year T-Note Futures	Short	267	(982,781)	(985,667)	
	Crude Oil Futures	Long	2	3,446	3,595	
	Crude Oil Futures	Short	69	(117,989)	(124,070)	
	USD/CNY FX Futures	Long	7	22,476	20,937	
	USD/CNY FX Futures	Short	17	(54,697)	(51,083)	
	Mini-USD/CNY FX Futures	Long	81	52,641	48,696	
	Nifty 50 Index Futures	Short	99	(52,266)	(52,272)	
	USD/JPY FX Futures	Long	76	45,094	45,066	
	USD/JPY FX Futures	Short	90	(53,137)	(53,082)	
	EUR/USD FX Futures	Long	134	95,766	96,370	
	EUR/USD FX Futures	Short	188	(133,994)	(134,423)	
	JPY dollar Futures	Long	2	6,698	6,632	
	JPY dollar Futures	Short	3	(9,942)	(9,948)	
	NT dollar Gold Futures	Long	3	1,399	1,399	
	Euro dollar Futures	Long	9	40,182	40,428	
	Subtotal			(7,351,267)		

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Item	Trading category	Open positions: Long/ Short	Open positions: Number of contracts	Contract size or paid for (received from) premium	Fair value	Note
Options contract：						
	Taiex Options (Call)	Long	22,356	40,998	61,369	
	Taiex Options (Put)	Long	26,265	59,047	33,040	
	Taiex Options (Call)	Short	4,712	(30,079)	(40,087)	
	Taiex Options (Put)	Short	27,994	(80,955)	(50,405)	
	Stock Options (Call)	Long	1,724	6,916	4,070	
	Stock Options (Put)	Long	2,277	8,629	9,133	
	Stock Options (Call)	Short	1,181	(4,230)	(4,026)	
	Stock Options (Put)	Short	940	(3,472)	(2,621)	
	Taiex Weekly Options (Call)	Long	3,328	2,811	3,250	
	Taiex Weekly Options (Put)	Long	22,035	2,720	1,137	
	Taiex Weekly Options (Call)	Short	3,236	(10,161)	(24,567)	
	Taiex Weekly Options (Put)	Short	4,941	(6,726)	(4,168)	
	Electronic Sector Index Options (Call)	Long	2,221	4,656	4,830	
	Electronic Sector Index Options (Put)	Long	473	2,066	1,116	
	Electronic Sector Index Options (Call)	Short	40	-	-	
	Electronic Sector Index Options (Put)	Short	130	(559)	(275)	
	Finance Sector Index Options (Call)	Long	826	1,025	853	
	Finance Sector Index Options (Put)	Long	598	1,537	847	
	Finance Sector Index Options (Call)	Short	39	(330)	(294)	
	Finance Sector Index Options (Put)	Short	42	(10)	-	
	Crude Oil Options (Put)	Short	1	(1)	-	
	S&P 500 Options (Call)	Long	145	926	640	
	S&P 500 Options (Put)	Long	5	111	87	
	S&P 500 Options (Put)	Short	4	(38)	(48)	
	Mini-S&P 500 Options (Call)	Short	55	(653)	(134)	
	Sugar Option (Call)	Long	473	1,352	671	
	Sugar Option (Put)	Long	1,068	2,993	4,588	
	Sugar Option (Call)	Short	6	-	-	
	Sugar Option (Put)	Short	150	(678)	(724)	
	Soybean Meal Options (Call)	Short	381	(617)	(447)	
	Soybean Meal Options (Put)	Short	84	(397)	(418)	
	Gold Option (Call)	Long	1	1	1	
	Gold Option (Put)	Long	33	143	128	
	Gold Option (Call)	Short	5	(26)	(26)	
	Gold Option (Put)	Short	4	(5)	(3)	
	Mini-USD/CNY FX Options (Call)	Long	2	12	-	
	Mini-USD/CNY FX Options (Put)	Long	78	1,424	3,734	
	Mini-USD/CNY FX Options (Call)	Short	1	(7)	-	
	USD/CNY FX Options (Put)	Long	12	1,155	2,978	
	USD/CNY FX Options (Put)	Short	22	(463)	(3,393)	
	Subtotal			(885)		
Total				$ (7,352,152)		

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) December 31, 2016

Item	Trading category	Open positions: Long/ Short	Open positions: Number of contracts	Contract size or paid for (received from) premium	Fair value	Note
Futures contract：						
	Taiex Futures	Long	18	$ 32,699	33,253	
	Taiex 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 Index Futures	Long	19	7,800	7,754	
	Nifty 50 Index 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)	
	EUR 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 Index 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 500 Futures	Long	10	36,100	35,791	
	SGX Nikkei 225 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)		

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/ Short	Number of contracts			
Options contract：						
	Taiex Options (Call)	Long	17,162	$ 32,562	27,543	
	Taiex Options (Put)	Long	9,632	13,323	7,145	
	Taiex Options (Call)	Short	4,730	(26,028)	(27,259)	
	Taiex 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)	
	Taiex Weekly Options (Call)	Long	16,137	3,295	3,533	
	Taiex Weekly Options (Put)	Long	14,685	2,411	1,081	
	Taiex Weekly Options (Call)	Short	3,990	(6,739)	(10,733)	
	Taiex 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 500 Options (Call)	Long	93	1,866	1,021	
	Mini-S&P 500 Options (Put)	Long	72	1,900	2,685	
	Mini-S&P 500 Options (Call)	Short	120	(6,083)	(3,562)	
	Mini-S&P 500 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 ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) 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 Calculation	Current Period Ratio	Last Period Calculation	Last Period Ratio	Standard	Enforcement
17	Stockholders' equity / (Total liabilities - futures traders' equity)	4,637,732 / 607,202	7.64	3,167,389 / 272,752	11.61	≧1	Satisfactory to requirement
17	Current Assets / Current Liabilities	30,719,057 / 27,485,827	1.12	24,406,882 / 22,699,891	1.08	≧1	〃
22	Stockholders' equity / Minimum paid-in capital	4,637,732 / 1,115,000	415.94 %	3,167,389 / 1,115,000	284.07 %	≧60% ≧40%	〃
22	Post-adjustment net capital / Total customers' margin deposits required for open positions of customers	3,183,040 / 5,524,491	57.62 %	1,873,933 / 3,607,236	51.95 %	≧20% ≧15%	〃

(c) 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.

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

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

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:

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

(i) Loans to others:

(In Thousands Dollars)

Number	Name of the company providing Loans to Others	Party to Transactions	Account Classification	Related party	Maximum Balance of the Period	Ending balance	Capital Employed	Range of interest rate	Type of Loans (Note)	Amount of Transactions	Purposes of the Borrowers	Allowance of Doubtful Accounts	Collateral		Limit on loans to a single business	Limit on the Amount of Loans
													Name	Value		
1	CSC International Holdings Ltd.	CSC Securities (HK) Ltd	Account receivables - Related party	Yes	US 19,322 thousand	US 19,322 thousand	US 19,322 thousand	- %	2	-	Operations	-		-	US 53,632 thousand	US 53,632 thousand
2	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Other receivables - Related party	Yes	US 3,380 thousand	US 3,402 thousand	US 3,380 thousand	- %	2	-	Operations & repayment of financing	-		-	US 3,402 thousand	US 3,402 thousand
3	TIS Securities (HK) Limited	Taiwan International Capital (HK) Ltd.	Other receivables	Yes	HK 1,463 thousand	HK 1,463 thousand	HK 1,463 thousand	- %	2	-	Repayment of financing	-		-	HK 1,463 thousand	HK 1,463 thousand
4	CSC Futures (HK) Ltd.	Pinnacle Corp. Pte.	Account receivables - Customer	No	30,547	82,656	-	4 %	2	-	Tradings	-		-	94,945	379,779
5	CSC Futures (HK) Ltd.	Klaw Trading Limited	Account receivables - Customer	No	26,568	41,328	-	5 %	2	-	Tradings	-		-	94,945	379,779
6	CSC Futures (HK) Ltd.	Three Arrows Capital Ltd.	Account receivables - Customer	No	47,206	82,656	-	5 %	2	-	Tradings	-		-	94,945	379,779
7	CSC Futures (HK) Ltd.	Future Leading Investment Pte. Ltd.	Account receivables - Customer	No	41,328	41,328	-	3.5 %	2	-	Tradings	-		-	94,945	379,779
8	CSC Futures (HK) Ltd.	Tetrion Capital Limited	Account receivables - Customer	No	6,515	6,810	-	- %	2	-	Tradings	-		-	94,945	379,779

Note: Type of Loans

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

(ii) Guarantees and endorsements for other parties: None

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

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

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

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

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(vii) Business relationships and significant intercompany transactions for the year ended December 31, 2017:

(In Thousands Dollars)

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Intercompany transaction details: General ledger account	Amount	Trading terms	Percentage of total consolidated revenue or total assets
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts payable	524		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts receivable	14,688		0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other receivables	200		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Bonds sold under repurchase agreements	11,501		0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other payables	367		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Guarantee deposits received	3,508		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Futures commission revenue	149,776	General transaction	1.62 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Lease revenue	15,813	General transaction	0.17 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Revenue from securities management, distribution, and management fees	404	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Financial costs	405	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other operating revenue	29	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Securities commission expense	5,147	General transaction	0.06 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Interest revenue	156	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Miscellaneous expenses	21,371	General transaction	0.23 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Non-operating revenues	27,591	General transaction	0.30 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Brokerage commissions	82	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Security lending revenues	2		- %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Other receivables	175		- %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Professional service fees	82,000	General transaction	0.89 %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Lease revenue	1,200	General transaction	0.01 %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Guarantee deposits received	30		- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Lease revenue	120	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Non-operating revenues	120	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Revenue from securities management, distribution, and management fee	24	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	997	General transaction	0.01 %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Financial costs	1	General transaction	- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Non-operating revenues	150	General transaction	- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Revenue from securities management, distribution, and management fee	50		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other receivables	35		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Non-operating expense	6,120	General transaction	0.07 %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Guarantee deposits received	160		- %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Other receivables	88		- %

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Intercompany transaction details			
				General ledger account	Amount	Trading terms	Percentage of total consolidated revenue or total assets
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Lease revenue	962	General transaction	0.01 %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Financial costs	2	General transaction	- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Other non-operating revenue	121	General transaction	- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Guarantee deposits received	36		- %
1	Capital Futures Corp.	Capital Securities Corp.	2	Customers' margin account	718,153		0.51 %
1	Capital Futures Corp.	Capital Securities Corp.	2	Futures traders' equity	718,153		0.51 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Customers' margin account	433,834		0.31 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures traders' equity	2,212,699		1.56 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Other payables	1,494		- %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures commission expense	8,849	General transaction	0.10 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Brokerage commissions revenue	55,092	General transaction	0.60 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Financial costs	888	General transaction	0.01 %
1	Capital Futures Corp.	Capital International Technology Corp.	3	Lease revenue	85	General transaction	- %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Customers' margin account	2,090,067		1.48 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Futures traders' equity	311,201		0.22 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Information echnology expense	1,527	General transaction	0.02 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Accumulated depreciation	966		- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Depreciation expense	400	General transaction	- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Professional service fees	6,399	General transaction	0.07 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Membership fee	465	General transaction	- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other receivables	HK 15 thousand		- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other operating revenue	HK 4,020 thousand	General transaction	0.17 %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Brokerage handling fee expense	HK 738 thousand	General transaction	0.03 %
3	CSC Securities (HK) Ltd.	CSC International Holdings Ltd.	3	Other payables	HK 150,000 thousand		0.41 %
4	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	3	Other receivables	HK 26,405 thousand		0.07 %
4	Taiwan International Securities (B.V.I) Corp.	CSC International Holdings Ltd.	3	Other receivables	41		- %

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.

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Information on reinvestment business:

(In Thousands of New Taiwan Dollars)

Ref. No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and number of FSC	Primary business operation	Original investment amount: Balance on December 31, 2017	Original investment amount: Balance on December 31, 2016	Highest Percentage of ownership during the period	Ending balance: Shares	Ending balance: Ratio	Ending balance: Book value (note 3)	Operating income or loss of investee company during the period	Net income or loss of investee company during the period	Investment gain or loss recognized during the period	Cash dividend	Note
0	Capital Investment Management Corp.	Taipei ,Taiwan, R.O.C.	February 16, 1990		Engaged in providing research, analysis and recommendations pertaining to securities investment, organize seminars and publish materials on securities investments.	72,515	72,515	100.00 %	7,000,000	100.00 %	107,158	82,000	12,258	12,258	10,430	The transaction has been written off in the consolidated financial statements
0	Capital Futures Corp.	Taipei ,Taiwan, R.O.C.	February 26, 1997	No. FSC-1050044467 dated November 15, 2016	Engaged in domestic and foreign futures business.	1,212,359	649,610	59.01 %	90,166,223	56.21 %	2,606,869	1,904,683	731,015	411,651	199,267	〃
0	CSC International Holdings Ltd.	British Virgin Island	March 4, 1996	No. FSC-65350 dated January 12, 1996	Long-term equity investment.	1,339,555	1,339,555	100.00 %	45,000,000	100.00 %	1,593,416	(21,815)	(10,120)	(10,120)	-	〃
0	Capital Insurance Advisory Corp.	Taipei ,Taiwan, R.O.C.	November 9, 2000		Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business.	3,890	3,890	100.00 %	500,000	100.00 %	90,506	190,227	64,667	64,667	78,650	Subsidiary
0	Capital Insurance Agency Corp.	Taipei ,Taiwan, R.O.C.	November 8, 2000		Manages personal insurance agent business.	7,400	7,400	100.00 %	740,000	100.00 %	41,547	73,265	2,149	2,149	12,802	〃
0	Taiwan International Futures Corp. (Note 4)	Taipei ,Taiwan, R.O.C.	November 25, 1993		Liquidation in progress.	429,990	429,990	99.99 %	11,999,721	99.99 %	-	-	-	-	-	The transaction has been written off in the consolidated financial statements
0	Taiwan International Securities (B.V.I) Corp.	British Virgin Island	December 10, 1996	No. FSC-53981	Long-term equity investment business.	1,394,817	1,394,817	100.00 %	300	100.00 %	881	304	272	272	-	〃
0	Taiwan International Securities Investment Consulting Corp. (Note 5)	Taipei ,Taiwan, R.O.C.	March 3, 1994		Liquidation in progress.	9,992	9,992	99.92 %	999,200	99.92 %	13,031	-	(267)	(267)	-	〃
0	CSC Venture Capital Corp.	Taipei ,Taiwan, R.O.C.	January 12, 2016	No. FSC-1040034071 dated September 8, 2015	Venture Capital and consulting business	1,000,000	1,000,000	100.00 %	100,000,000	100.00 %	997,913	1,281	(3,757)	(3,757)	-	〃
1	Capital Securities (Hong Kong) Ltd. (Note 7)	Hong Kong	June 29, 1993	No. FSC-17433 dated April 7, 1993	Completion of liquidation	HK -	HK 48,644 thousand	100.00 %	-	- %	HK -	HK -	HK -	-	-	〃
1	CSC Securities (HK) Ltd. (Note 7)	Hong Kong	May 3, 1994	No. FSC-90931 dated January 5, 1998	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong.	HK 128,000 thousand	HK 89,600 thousand	100.00 %	128,000,000	100.00 %	HK 158,052 thousand	HK 28,434 thousand	HK (5,478) thousand	-	-	〃

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Ref. No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and number of FSC	Primary business operation	Original investment amount		Highest Percentage of ownership during the period	Ending balance			Operating income or loss of investee company during the period	Net income or loss of investee company during the period	Investment gain or loss recognized during the period	Cash dividend	Note
						Balance on December 31, 2017	Balance on December 31, 2016		Shares	Ratio	Book value (note 3)					
2	CSC Securities (HK) Ltd. (Note 7)	Hong Kong	May 3, 1994	No. FSC-90931 dated January 5, 1998	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong.	HK -	HK 38,400 thousand	30.00 %	-	- %	HK -	HK 28,434 thousand	HK (5,478) thousand	-	-	The transaction has been written off in the consolidated financial statements
3	TIS Securities (HK) Limited. (Note 6)	Hong Kong	August 17, 1993	No. FSC-40912 dated November 4, 1993	Liquidation in progress.	HK 265,000 thousand	HK 265,000 thousand	100.00 %	265,000,000	100.00 %	HK (26,355) thousand	HK -	HK 76 thousand	-	-	〃
4	Taiwan International Capital (HK) Ltd. (Note 6)	Hong Kong	July 16, 1997	No. FSC-110159	Liquidation in progress.	HK 2	HK 2	100.00 %	2	100.00 %	HK (66,100) thousand	HK -	HK (16,885) thousand	-	-	〃
5	CSC Futures (HK) Ltd.	Hong Kong	December 9, 1998	No. FSC-1010027412 dated August 24, 2012	Futures brokerage and other businesses permitted by local law of Hong Kong.	862,631	862,631	97.27 %	214,000,000	97.27 %	923,527	825,594	79,824	-	-	〃
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	100.00 %	5,000,000	100.00 %	46,088	1,806	898	-	-	〃
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	49.00 %	245,000	49.00 %	41,535	70,678	2,097	-	-	Associates
6	Capital Securities Nominee Ltd.	Hong Kong	April 7, 1995		Agency services.	HK 2	HK 2	100.00 %	2	100.00 %	HK -	HK -	HK -	-	-	The transaction has been written off 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) Limited (5) Capital Futures Corp. (6) CSC Securities (HK) Ltd.

Note 2: Includes the Group's investment in overseas business and its reinvestments in other businesses, etc.

Note 3: Book value is the investment balance according to equity method, including investment income (loss), cash dividends, and cumulative translation adjustment, etc.

Note 4: The stockholders' special meeting of Taiwan International Securities Corp. resolved to dissolve the investee company on September 18, 2008 and the liquidation procedure is ongoing.

Note 5: The stockholders' special meeting resolved to dissolve on June 27, 2012.

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

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

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(In Thousands of New Taiwan Dollars)

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

(d) Information on investments in China:

(i) Investment in Mainland China and related information:

(In Thousands of New Taiwan Dollars)

Name of investee in Mainland China	Major Operations	Issued capital	Method of investment (Note 1)	Accumulated remittance as of January 1, 2017	Remittance of recoverable investment this period: Remittance amount	Remittance of recoverable investment this period: Recoverable amount	Accumulated remittance as of December 31, 2017	Net gains (losses) of the investee	Direct or indirect Share holdings (%) by the Company	Highest Percentage of ownership	Investment gains (losses) recognized during this period (Note 2)	Ending Balance of Investment	Investment income remitted back as of December 31, 2017
Capital True Partner Technology Co., Ltd.	Management, consulting and information service business	5,013	(C)	24,372	-	-	24,372	83	28.67%	30.10 %	138 B(2)	12,167	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	18,863	(C)	-	18,863	-	18,863	2,553	56.21%	59.01 %	1,435 B(2)	11,626	-

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

A. Directly invest in a company in Mainland China.

B. Through investing in an existing company in the third area, which then invested in the investee in Mainland China (Please indicate the investee name of the third area).

C. Through a subsidiary to invest in a company in Mainland China.

Note 2: Investment gains and losses recognized during the period

A. It should be indicated if the investee was still in the incorporation arrangements and had not yet any profit during this period.

B. Indicate the basis for investment gains and losses recognition in the number of one of the following three categories:

(1) The financial statements that are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.

(2) The financial statements that are audited and attested by R.O.C. parent company's CPA.

(3) The financial statements that are provided by the investee without audited by CPA.

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

(ii) Limitation on investment in Mainland China:

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

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

(Continued)

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

(i) Balance sheet and income statement:

1) Balance sheet

Unit: US $ thousands

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

CAPITAL SECURITIES CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Income statement

Unit: US $ thousands

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

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

Unit: shares / US$ thousands

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

(iii) Transactions of financial derivatives: None.

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

(14) Segment information:

(a) 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:

(i) Brokerage segment: Engaged in brokerage trading, margin trading, and securities lending business.

(ii) 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.

(iii) Dealing segment: Engaged in trading securities and related listed stock instruments on a proprietary basis.

(iv) Derivative instrument segment: Engaged in the investment, consultancy and issuance of derivative instruments.

(v) Capital Futures Corporation: Engaged in the business of domestic futures brokerage services, trading on a proprietary basis, futures consultancy and managed futures enterprises.

(b) 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”.

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

	For the year ended December 31, 2017							
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	$ 3,584,085	307,546	2,085,337	644,265	231,401	2,676,371	(284,108)	9,244,897
Income	$ 1,412,636	139,995	1,439,568	445,399	(344,877)	829,527	(418,611)	3,503,637

	For the year ended December 31, 2016							
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	$ 2,742,954	271,028	698,202	529,354	217,159	2,251,362	(272,414)	6,437,645
Income	$ 777,159	97,508	340,595	371,872	(242,738)	603,707	(275,870)	1,672,233

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.

(d) 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.

(Continued)

(e) Information about geographical areas

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

(f) 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.