

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
**CAPITAL SECURITIES CORPORATION AND
SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Report
for the Six Months Ended June 30, 2018 and 2017**

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

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Independent Auditors' Report

To the Board of Directors of
Capital Securities Corporation:

Opinion

We have audited the consolidated financial statements of Capital Securities Corporation and its subsidiaries (“the Group”), which comprise the consolidated statement of financial position as of June 30, 2018, December 31, 2017 and June 30, 2017, and the consolidated statement of comprehensive income for the three months ended June 30, 2018 and 2017 and the six months ended June 30, 2018 and 2017 as well as the changes in equity and cash flows for the six months ended June 30, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of another auditor (please refer to Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of June 30, 2018, December 31, 2017 and June 30, 2017, and its consolidated financial performance for the three months ended June 30, 2018 and 2017 and the six months ended June 30, 2018 and 2017 as well as its consolidated cash flows for the six months ended June 30, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms and International Accounting Standards (“IASs”) 34 “Interim Financial Reporting”, endorsed and issued into effect 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. Based on our audits and the report of another auditor, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for 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:

Valuation of financial instruments

Please refer to Note 4(f) for the related accounting policy regarding the valuation of financial instruments, Note 6(b) financial assets, note 6(l) Financial liabilities at fair value through profit or loss and note 6w(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 products on balance sheets mainly belong to first or secondary level in fair value hierarchy, and can be achieved by available quoted market prices in an active market and direct or indirect evaluation of observation. Fair value of some derivative financial products invested and issued depends on models and observable 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.

Other Matter

We did not audit the financial statements of Capital Investment Trust Corporation, an associate of Capital Securities Corporation. Those financial statements were audited by another auditor, whose report has been furnished to us, and our conclusion, insofar as it relates to the amounts included for Capital Investment Trust Corporation, is based solely on the report of another auditor. The recognized investment amount of Capital Investment Trust Corporation under equity method constituted 0.91%, 0% and 0% of consolidated total assets as of June 30, 2018, December 31, 2017 and June 30, 2017, respectively, and the recognized profit or loss under equity method constituted 3.25%, 0%, 2.00% and 0% of consolidated net income before income tax for the three months and six months ended June 30, 2018 and 2017, respectively.

Capital Securities Corporation has additionally prepared its parent-company-only financial statements as of and for the six months ended June 30, 2018 and 2017, 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 and with the IFRSs, IASs, endorsed and issued into effect 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 committee, 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.

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)
August 27, 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.

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(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months and six months ended June 30, 2018 and 2017

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

	For the three months ended June 30,				For the six months ended June 30,			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Income:								
401000 Brokerage commissions (note 6(v))	\$ 1,212,947	55	875,132	41	2,373,217	47	1,690,204	43
402000 Revenues from securities business money lending	141	-	282	-	177	-	436	-
403000 Revenue from securities lending	35,742	2	25,881	1	65,695	1	50,682	1
404000 Underwriting commissions (note 6(v))	28,183	1	24,076	1	55,359	1	72,599	2
406000 Commissions on wealth management business	28,522	1	22,877	1	61,043	1	44,656	1
410000 Net gains (losses) on sale of trading securities (note 6(v))	(48,414)	(2)	358,850	17	(38,850)	(1)	732,348	18
421100 Securities management, distribution, and management fees	34,348	2	33,962	2	67,860	1	66,825	2
421200 Interest revenue (note 6(v))	542,694	25	488,804	23	1,104,723	22	930,065	24
421300 Dividend revenue	36,445	2	22,869	1	42,128	1	23,504	1
421500 Net gains (losses) on measurement of trading securities at fair value through profit or loss (note 6(v))	(284,082)	(13)	236,258	11	(187,486)	(4)	371,820	9
421600 Net gains (losses) on covering of borrowed securities and bonds with resale agreements	122,898	6	3,758	-	180,559	4	13,516	-
421610 Net gains (losses) on measurement of borrowed securities and bonds with resale agreements	(78,233)	(4)	(9,193)	-	(17,258)	-	(60,131)	(2)
421750 Realized gains (losses) on financial assets measured at fair value through other comprehensive income - bonds	(100,396)	(5)	-	-	(121,425)	(2)	-	-
422200 Net gains (losses) on stock warrants issued (note 6(v))	543,718	25	(39,403)	(2)	922,488	18	1,399	-
424100 Futures commission revenues (note 6(v))	119,938	5	189,304	9	297,126	6	301,197	8
424400 Net gains (losses) on derivative instruments - futures (note 6(x))	31,501	1	(143,529)	(7)	290,270	6	(225,815)	(6)
424500 Net gains (losses) on derivative instruments - OTC (note 6(x))	(8,956)	-	(19,850)	(1)	(52,316)	(1)	(160,467)	(4)
424800 Management fee revenues	117	-	9	-	205	-	18	-
424900 Consultancy fee revenue	7,982	-	4,165	-	13,142	-	7,757	-
425300 Impairment gain and reversal of impairment loss (note 6(w))	1,776	-	-	-	(52,439)	(1)	-	-
428000 Other operating revenues	(22,514)	(1)	51,169	3	26,406	1	103,166	3
	<u>2,204,357</u>	<u>100</u>	<u>2,125,421</u>	<u>100</u>	<u>5,030,624</u>	<u>100</u>	<u>3,963,779</u>	<u>100</u>
Expenses:								
501000 Brokerage fees	147,242	7	120,825	6	305,405	6	224,558	6
502000 Brokerage and clearing fees - proprietary trading	5,141	-	4,104	-	10,654	-	8,688	-
503000 Clearing and exchange fees - refinancing	594	-	576	-	1,102	-	903	-
504000 Clearing and exchange fees - underwriting	116	-	177	-	293	-	992	-
521200 Financial costs	196,576	9	144,934	7	405,408	8	269,782	7
524100 Futures commission expense (note 6(v))	122,474	6	173,158	8	275,189	6	280,581	7
524300 Cleaning and settlement expenses	41,052	2	34,673	2	83,665	2	67,164	2
528000 Other operating expenditure	1,743	-	3,222	-	4,253	-	3,248	-
531000 Employee benefits expenses (note 6(v))	698,852	32	647,669	30	1,420,842	28	1,281,510	32
532000 Depreciation and amortization expense (note 6(v))	51,802	2	54,646	3	103,305	2	108,910	3
533000 Other operating expenses (note 6(v))	452,286	20	423,344	20	962,136	19	759,173	19
	<u>1,717,878</u>	<u>78</u>	<u>1,607,328</u>	<u>76</u>	<u>3,572,252</u>	<u>71</u>	<u>3,005,509</u>	<u>76</u>
Other income (expenses):								
601000 Share of profits of associates and joint venture (note 6(f))	44,390	2	13,737	1	77,069	1	42,636	1
602000 Other gains and losses (note 6(v))	266,721	12	200,959	9	438,680	9	341,118	9
	<u>311,111</u>	<u>14</u>	<u>214,696</u>	<u>10</u>	<u>515,749</u>	<u>10</u>	<u>383,754</u>	<u>10</u>
902001 Net income before income tax	797,590	36	732,789	34	1,974,121	39	1,342,024	34
701000 Income tax expense (note 6(s))	(132,640)	(6)	(87,041)	(4)	(332,648)	(7)	(141,612)	(4)
Net income	<u>664,950</u>	<u>30</u>	<u>645,748</u>	<u>30</u>	<u>1,641,473</u>	<u>32</u>	<u>1,200,412</u>	<u>30</u>
805000 Other comprehensive income:								
805500 Components that may not be reclassified to profit or loss in subsequent periods:								
805540 Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	(81,009)	(4)	-	-	29,998	1	-	-
805550 Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	2,059	-	-	-	2,059	-	-	-
805599 Income tax related to components of other comprehensive income	-	-	-	-	-	-	-	-
Subtotal of components that may not be subsequently reclassified into profit or loss	<u>(78,950)</u>	<u>(4)</u>	<u>-</u>	<u>-</u>	<u>32,057</u>	<u>1</u>	<u>-</u>	<u>-</u>
805600 Components that may be reclassified to profit or loss in subsequent periods:								
805610 Exchange differences on translation of foreign operations	145,816	7	3,271	-	62,126	1	(189,030)	(5)
805615 Unrealized gains (losses) from investments in debt instruments measured at fair value through other comprehensive income	(97,129)	(4)	-	-	(427,383)	(9)	-	-
805620 Unrealized gains (losses) on financial assets available for sale, net	-	-	7,859	1	-	-	159,831	4
805699 Income tax related to components of other comprehensive income (note 6(s))	(14,688)	(1)	(95)	-	(16,303)	-	27,837	1
Subtotal of items that may be subsequently reclassified into profit or loss	<u>33,999</u>	<u>2</u>	<u>11,035</u>	<u>1</u>	<u>(381,560)</u>	<u>(8)</u>	<u>(1,362)</u>	<u>-</u>
805000 Other comprehensive income, net	<u>(44,951)</u>	<u>(2)</u>	<u>11,035</u>	<u>1</u>	<u>(349,503)</u>	<u>(7)</u>	<u>(1,362)</u>	<u>-</u>
902006 Total comprehensive income	<u>\$ 619,999</u>	<u>28</u>	<u>656,783</u>	<u>31</u>	<u>1,291,970</u>	<u>25</u>	<u>1,199,050</u>	<u>30</u>
Net income attributable to:								
913100 Shareholders of the parent	\$ 587,205	26	552,280	26	1,381,201	27	1,065,565	27
913200 Non-controlling interests	77,745	4	93,468	4	260,272	5	134,847	3
	<u>\$ 664,950</u>	<u>30</u>	<u>645,748</u>	<u>30</u>	<u>1,641,473</u>	<u>32</u>	<u>1,200,412</u>	<u>30</u>
Total comprehensive income attributable to:								
914100 Shareholders of the parent	\$ 521,976	24	604,580	28	1,027,033	20	1,129,319	28
914200 Non-controlling interests	98,023	4	52,203	3	264,937	5	69,731	2
	<u>\$ 619,999</u>	<u>28</u>	<u>656,783</u>	<u>31</u>	<u>1,291,970</u>	<u>25</u>	<u>1,199,050</u>	<u>30</u>
975000 Basic earnings per share (note 6(u))	\$	<u>0.27</u>	\$	<u>0.25</u>	\$	<u>0.64</u>	\$	<u>0.49</u>
985000 Diluted earnings per share (note 6(u))	\$	<u>0.27</u>	\$	<u>0.25</u>	\$	<u>0.64</u>	\$	<u>0.49</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity
For the six months ended June 30, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to the parent company													Non-controlling interests	Total Equity
	Stock		Retained earnings				Total other equity interest				Treasury stocks	Total equity attributable to the parent company			
	Common stocks	Stock dividend to be distributed	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences on translation of foreign operations	Unrealized gains (losses) from financial assets at fair value through other comprehensive income	Unrealized gains (losses) on financial assets available for sale						
Balance at January 1, 2017	\$ 22,690,730	-	2,750,972	1,110,600	2,464,288	1,188,633	97,158	-	53,215	(835,048)	29,520,548	1,323,730	30,844,278		
Net income for the six months ended June 30, 2017	-	-	-	-	-	1,065,565	-	-	-	-	1,065,565	134,847	1,200,412		
Other comprehensive income	-	-	-	-	-	-	(137,571)	-	201,325	-	63,754	(65,116)	(1,362)		
Total comprehensive income	-	-	-	-	-	1,065,565	(137,571)	-	201,325	-	1,129,319	69,731	1,199,050		
Legal reserve	-	-	-	119,675	-	(119,675)	-	-	-	-	-	-	-		
Special reserve	-	-	-	-	245,335	(245,335)	-	-	-	-	-	-	-		
Cash dividends of ordinary share	-	-	-	-	-	(802,558)	-	-	-	-	(802,558)	-	(802,558)		
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	-	3,183		
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	485,218	485,218		
Balance at June 30, 2017	\$ 21,690,730	-	2,852,299	1,230,275	2,709,623	1,086,630	(40,413)	-	229,809	-	29,758,953	1,878,679	31,637,632		
Balance at January 1, 2018	\$ 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		
Effects of retrospective application	-	-	-	-	-	12,367	-	1,205,775	(191,716)	-	1,026,426	400	1,026,826		
Balance at January 1, 2018 after adjustments	21,690,730	-	2,852,299	1,230,275	2,709,623	2,862,920	(103,566)	1,205,775	-	-	32,448,056	2,056,770	34,504,826		
Net income for the six months ended June 30, 2018	-	-	-	-	-	1,381,201	-	-	-	-	1,381,201	260,272	1,641,473		
Other comprehensive income	-	-	-	-	-	(26)	41,222	(395,364)	-	-	(354,168)	4,665	(349,503)		
Total comprehensive income	-	-	-	-	-	1,381,175	41,222	(395,364)	-	-	1,027,033	264,937	1,291,970		
Legal reserve	-	-	-	289,360	-	(289,360)	-	-	-	-	-	-	-		
Special reserve	-	-	-	-	593,188	(593,188)	-	-	-	-	-	-	-		
Cash dividends of ordinary share	-	-	-	-	-	(433,815)	-	-	-	-	(433,815)	-	(433,815)		
Stock dividends of ordinary share	-	1,518,351	-	-	-	(1,518,351)	-	-	-	-	-	-	-		
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	20,044	-	(20,044)	-	-	-	-	-		
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(201,592)	(201,592)		
Balance at June 30, 2018	\$ 21,690,730	1,518,351	2,852,299	1,519,635	3,302,811	1,429,425	(62,344)	790,367	-	-	33,041,274	2,120,115	35,161,389		

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the six months ended June 30, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	For the six months ended June 30	
	2018	2017
Cash flows from (used in) operating activities:		
Net income before tax	\$ 1,974,121	1,342,024
Adjustments:		
Income and expenses items with no effect on cash flows:		
Depreciation expense	86,006	91,973
Amortization expense	17,299	16,937
Impairment loss / Provision for bad debt expense	52,439	76,014
Net gains on financial assets or liabilities at fair value through profit or loss	204,744	(374,130)
Interest expense	405,408	269,782
Interest income (including financial income)	(1,269,603)	(1,046,561)
Dividend revenue	(42,626)	(36,648)
Share-based payment compensation cost	-	17,530
Share of profit of associates and joint ventures	(77,069)	(42,636)
Gain on disposal of investments	-	(38,920)
Net gain on non-operating financial instruments at fair value through profit or loss	(5,323)	(19,749)
Net changes of income and expense items with no effect on cash flows	(628,725)	(1,086,408)
Changes in assets and liabilities from operating activities:		
Decrease (increase) in financial assets at fair value through profit or loss	426,613	(5,091,480)
Increase in financial assets available for sale - current	-	(8,284,811)
Decrease in financial assets at fair value through other comprehensive income	12,979,579	-
Increase in bond purchased under resale agreements	(49,782)	(100,015)
Increase in receivable for securities provided as collateral	(945,397)	(1,438,022)
Decrease in refinancing margin	41,972	72,624
Decrease in receivable on refinancing collateral	34,592	61,468
Decrease (increase) in receivable of securities business money lending	279,676	(919,781)
Increase in customers' margin account	(1,196,995)	(4,241,938)
Decrease (increase) in margin receivable of futures trading	(33,806)	883
Decrease in collateral for securities borrowed	508,903	280,491
Decrease in security borrowing margin	562,089	262,773
Decrease (increase) in notes receivable	6,106	(2,144)
Increase in accounts receivable	(2,028,965)	(3,180,730)
Decrease (increase) in prepayments	(1,817)	11,151
Decrease in other receivables	99,838	177,988
Increase in leverage contract trading - customers' margin account	(59,462)	(158,579)
Decrease in other current assets	129,594	18,926
Decrease (increase) in guarantee deposited for business operations	10,691	(10,408)
Decrease in settlement fund	13,378	5,553
Decrease (increase) in refundable deposits	(39,883)	23,731
Decrease in other non-current assets	47,092	95,141
Increase (decrease) in financial liabilities at fair value through profit or loss	(955,256)	232,103
Increase (decrease) in bonds sold under repurchase agreements	(9,123,223)	9,536,123
Decrease in guarantee deposited for short sales	(1,086,049)	(592,819)
Decrease in proceeds payable from short sales	(1,209,057)	(577,554)
Decrease in securities lending refundable deposits	(426,503)	(390,734)
Increase in futures traders' equity	1,157,372	4,234,794
Increase (decrease) in customers' equity of separate account ledger in settlement account	(9,322)	8,387
Increase in leverage contract trading - customers' equity	64,620	147,777
Decrease in notes payable	(879)	(789)
Increase in accounts payable	1,639,789	3,254,661
Increase (decrease) in advance receipts	(19,822)	20,180
Decrease in receipts under custody	(132,950)	(25,764)
Decrease in other payable	(323,072)	(147,674)
Increase in other financial liabilities - current	857,127	42,194
Increase (decrease) in provision - current	9,768	(2,500)
Increase (decrease) in other current liabilities	(375)	7,161
Increase in other financial liabilities - non-current	10,320	94,792
Decrease in other non-current liabilities	(113)	(113,558)
Total changes in assets and liabilities from operating activities	1,236,391	(6,690,399)
Total cash generated from adjustment items	607,666	(7,776,807)

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the six months ended June 30, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	For the six months ended June 30	
	2018	2017
Cash generated from operating activities	\$ 2,581,787	(6,434,783)
Interest received	1,256,078	960,119
Dividends received	11,837	19,738
Interest paid	(410,989)	(279,392)
Income taxes paid	(149,836)	(114,008)
Net Cash flows provided by (used in) operating activities	3,288,877	(5,848,326)
Cash flows from (used in) investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(1,027,638)	-
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	1,085	-
Proceeds from disposal of financial assets available for sale	-	71,827
Acquisition of financial assets measured at cost	-	(248,765)
Proceeds from capital reduction of financial assets at cost	-	1,400
Acquisition of investments accounted for using equity method	(1,272,505)	-
Decrease (increase) in deferred debits	(777)	(83)
Acquisition of property and equipment	(40,047)	(28,575)
Acquisition of intangible assets	(5,899)	(26,894)
Proceeds from disposal of intangible assets	1,922	-
Net cash flows provided by (used in) investing activities	(2,343,859)	(231,090)
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term borrowings	(4,077,290)	762,120
Increase in commercial papers payable	1,349,850	5,899,081
Payments to acquire treasury shares	-	(91,539)
Increase in long-term borrowings	1,966,222	-
Issuance of common stock for cash	-	626,096
Net cash flows provided by (used in) financing activities	(761,218)	7,195,758
Effect of exchange rate changes on cash and cash equivalents	60,123	(183,399)
Increase in cash and cash equivalents	243,923	932,943
Cash and cash equivalents, beginning of the year	7,104,077	5,423,415
Cash and cash equivalents, end of this period	\$ 7,348,000	6,356,358

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

June 30, 2018 and 2017

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

(1) Overview:

Capital Securities Corporation (the “Company”) was registered under the Ministry of Economic Affairs, R.O.C. on June 21, 1988. The address of the Company’s registered office is 4th Fl. No. 101, Song-Jen Road, Taipei, Taiwan, R.O.C. As of June 30, 2018, the composition of the consolidated financial statements includes the Company and the subsidiaries (the “Group”). As of June 30, 2018, 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 August 27, 2018.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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, 2018.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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
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 “Financial Instruments” replaces IAS 39 “Financial Instruments: Recognition and Measurement” which contains classification and measurement of financial instruments, impairment and hedge accounting.

As a result of the adoption of IFRS 9, the Group adopted the consequential amendments to IAS 1 “Presentation of Financial Statements” which requires impairment of financial assets to be presented in a separate item in the statement of comprehensive income. Previously, the Group’s approach was to include the impairment of account receivables in operating expenses. Additionally, the Group adopted the consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The detail and impact on significant accounting policies of IFRS 9 applied are set out below:

1) Classification of financial assets and financial liabilities

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 classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please refer to note 4(f).

The adoption of IFRS 9 did not have a significant impact on its accounting policies on financial liabilities.

2) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with the ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt instruments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please refer to note 4(f).

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and other equity items as at January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed 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.
- If an investment on debt instruments had low credit risk at the date of initial application of IFRS 9, then the Group assumed that the credit risk on those asset increase insignificantly since its initial recognition.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

4) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original and new measurement categories under IAS 39 and IFRS 9 for each class of the Group's financial assets as of January 1, 2018. There were no changes on the measurement categories and the carrying amount of financial liabilities.

	IAS39		IFRS9	
	Measurement Categories	Carrying Amount	Measurement Categories	Carrying Amount
Financial Assets				
Cash and equivalents	Amortized cost	\$ 7,104,077	Amortized cost	7,104,077
Financial assets at fair value through profit or loss	FVTPL	34,923,283	FVTPL	34,916,845
		-	FVOCI (Note 2)	12,360
Financial assets available for sale	Available-for-sale	32,807,779	FVOCI (Note 1)	32,792,626
Accounts receivable	Amortized cost	25,194,975	Amortized cost	25,194,975
Customers' margin account	Amortized cost	27,302,712	Amortized cost	27,302,712
Leverage contract trading - customers' margin account	Amortized cost	151,540	Amortized cost	151,540
Financial assets measured at cost	Measured at cost	754,545	FVOCI (Note 2)	1,775,449
Other assets	Amortized cost	2,119,569	Amortized cost	2,119,569

Note1: The debt instrument investments were previously classified as financial asset available for sale under IAS 39, are held by the Group in same portfolio to provide interest income; however, they may be sold to meet liquidity requirements arising in the normal course of business. These debentures are held within a business model whose objective is both to collect contractual cash flows and sell financial assets. The contractual terms of these debentures give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. Therefore, these investments were classified as financial assets at FVOCI. With the transition to IFRS 9, an impairment loss \$15,153 was recognized, the adjustments would result in a decrease in retained earnings of \$15,153 and an increase in other equity items of \$15,153 on January 1, 2018.

Note2: These equity instruments (including financial assets measured at cost) represent investments that the Group intends to hold for the long term strategic purposes or not for the trading purposes. In accordance with IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Accordingly, an increase of \$1,026,826 in those assets recognized, and an increase of \$998,906, \$27,520 and \$400 were recognized in other equity items, retained earnings and non-controlling interests on January 1, 2018.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The reconciliations of carrying amount of financial assets transferred from December 31, 2017 under IAS 39, to January 1, 2018 under IFRS 9, were as follows:

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings effect	2018.1.1 Other equity items effect
Financial assets at fair value through profit or loss						
Beginning balance of FVTPL (IAS 39)	\$ 34,923,283	-	-		-	-
Subtraction – equity instruments:						
To FVOCI	-	(6,438)	-		-	-
Total	<u>\$ 34,923,283</u>	<u>(6,438)</u>	<u>-</u>	<u>34,916,845</u>	<u>-</u>	<u>-</u>
Financial assets at fair value through other comprehensive income						
Beginning balance of available for sale (including measured at cost) (IAS 39)	\$ 33,562,324	-	1,020,904		-	1,020,504
Addition – equity instruments:						
From FVTPL	-	6,438	5,922		27,520	(21,598)
Subtractions – debt instruments:						
Cumulative impairment adjustment	-	-	(15,153)		(15,153)	15,153
Total	<u>\$ 33,562,324</u>	<u>6,438</u>	<u>1,011,673</u>	<u>34,580,435</u>	<u>12,367</u>	<u>1,014,059</u>

(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, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
IFRS 16 “Leases”	January 1, 2019
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 19 “Plan Amendment, Curtailment or Settlement”	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

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 16 “Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC-15 “Operating Leases – Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”.

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard, and the lessors will continue to classify a lease as either a finance or an operating lease.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group has completed an initial assessment of the potential impact on its consolidated financial statements, wherein the detailed assessment has yet to be completed. The actual impact of applying IFRS 16 on its financial statements in the period of initial application will depend on future economic conditions, including the Group's discounting rate, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options, and the extent to which the Group chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that the Group will have to recognize the right-of-use assets and lease liabilities for office leases currently classified as operating leases with the application of IAS 17. However, the amount affected requires a further evaluation. The application of IFRS 16 is not expected to have a material impact on the accounting of the Group as lessor.

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Group plans to apply the practical expedient to exempt the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019.

2) Transition

As a lessee, the Group can apply the standard using either of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

On January 1, 2019, the Group plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019. Comparative information will not be restated.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

The Group is not required to make any adjustments for sublease transactions.

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Group should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Group concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Group should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Group should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the Group expects to better predict the resolution of the uncertainty.

So far, the most significant impact identified is that the Group will have to recognize the new income tax liabilities and income tax expense for its uncertainty over income tax treatments. However, the amount affected requires a further evaluation.

(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, the following IFRSs have been issued by the IASB, but have yet to be endorsed by the FSC:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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 17 “Insurance Contracts”	January 1, 2021

The Group is evaluating the impact of its initial adoption of the above mentioned standards or interpretations on its consolidated financial position and consolidated financial performance. The results thereof will be disclosed when the Group completes its evaluation.

(4) Summary of significant accounting policies:

(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 IAS 34 “Interim Financial Reporting” endorsed and issued into effect by the FSC and do not include all of the information required by the Regulations and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC for full annual consolidated financial statements.

Except as described below, the significant accounting policies adopted in the accompanying consolidated financial statements are the same as the consolidated financial statements as of and for the year ended December 31, 2017. Please refer to Note 4 of the consolidated financial statements as of and for the year ended December 31, 2017 for the detail disclosures of significant accounting policies.

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CAPITAL SECURITIES CORPORATION AND 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 at fair value through other comprehensive income; 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.

Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Inter-company transactions, balances and any unrealized gains or losses on transactions between companies within the Group are eliminated.

(ii) List of subsidiaries in the consolidated financial statements

Subsidiaries included in the consolidated financial report are as follows:

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			June 30, 2018	December 31, 2017	June 30, 2017	
The Company	Capital Investment Management Corp.	Engaged in providing advice on securities investment and securities investment consultancy	100.00 %	100.00 %	100.00 %	The corporation established in February, 1990. As of June 30, 2018, the paid-in capitals amounted to \$70,000.
"	CSC International Holdings Ltd.	Long-term equity investment business	100.00 %	100.00 %	100.00 %	The corporation established in March, 1996. As of June 30, 2018, the paid-in capitals amounted to US\$45,000 thousands.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			June 30, 2018	December 31, 2017	June 30, 2017	
The Company	Capital Futures Corp.	Engaged in domestic and foreign futures business	56.21 %	56.21 %	56.21 %	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 June 30, 2018, the paid-in capitals amounted to \$1,603,979.
"	Taiwan International Futures Corp.	Management consultancy	99.99 %	99.99 %	99.99 %	Liquidation in progress.
"	Taiwan International Securities (B.V.I) Corp.	Holding company for offshore securities units	100.00 %	100.00 %	100.00 %	The corporation established in December, 1996. As of June 30, 2018, the paid-in capitals amounted to US\$9,516 thousands.
"	Taiwan International Securities Investment Consulting Corp.	Investment consultancy	99.92 %	99.92 %	99.92 %	Liquidation in progress.
"	CSC Venture Capital Corp.	Venture Capital and consulting business	100.00 %	100.00 %	100.00 %	The corporation established in January, 2016. As of June 30, 2018, the paid-in capitals amounted to \$1,000,000.
Capital Futures Corp.	CSC Futures (HK) Ltd.	Futures dealing business	97.27 %	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 to acquire additional 2.27% equity on December 12, 2016. As of June 30, 2018, the paid-in capitals amounted to HK\$220,000 thousands.
"	Capital International Technology Corp.	Management, consulting and information service business	100.00 %	100.00 %	100.00 %	The corporation established in December, 2014. As of June 30, 2018, 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 %	51.00 %	The corporation established in August 20, 2008. Acquired 51% of the equity on February 9, 2015 and held controlling interest. As of June 30, 2018, 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 %	100.00 %	The corporation established in October, 2016. As of June 30, 2018, 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 %	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, 2018.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			June 30, 2018	December 31, 2017	June 30, 2017	
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 %	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 %	100.00 %	Not complied with the requirement of Financial Resources Rules (the "FRR") of the Hong Kong Securities and Futures Commission, the operations remain stagnant currently.
TIS Securities (HK) Limited	Taiwan International Capital (HK) Ltd.	Direct investment	100.00 %	100.00 %	100.00 %	"

(iii) Subsidiaries not listed in the consolidated financial statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			June 30, 2018	December 31, 2017	June 30, 2017	
The Company	Capital Insurance Agency Corp.	Manages personal insurance agent business.	100.00 %	100.00 %	100.00 %	The corporation established in November 2000. The Company acquired 100% of the equity and gained a controlling interest. The paid-in capitals amounted to \$7,400. As of June 30, 2018, December 31, 2017 and June 30, 2017, the total assets constituted 0.04%, 0.03% and 0.04% of the Group's total assets. For the six months ended June 30, 2018 and 2017, the operation revenue were merely 0.77% and 1.11% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.
The Company	Capital Insurance Advisory Corp.	Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business.	100.00 %	100.00 %	100.00 %	The corporation established in November 2000. The Company acquired 100% of the equity and gained a controlling interest. The paid-in capitals amounted to \$5,000. As of June 30, 2018, December 31, 2017 and June 30, 2017, the total assets constituted 0.11%, 0.07%, and 0.13% of the Group's total assets. For the six months ended June 30, 2018 and 2017, the operation revenue were merely 2.00% and 2.90% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) Income tax

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

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

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

(e) Employee benefits

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

(f) Financial instruments (applicable from January 1, 2018)

(i) Financial assets

Financial assets are classified into the following categories: financial assets measured at amortized cost, financial assets at fair value through other comprehensive income (FVOCI) and financial assets at fair value through profit or loss (FVTPL).

The Group shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following criteria and is not designated as at FVTPL :

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost less impairment losses by using the effective interest method. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. When the financial asset is derecognized, any gain or loss previously recognized is reclassified to profit or loss.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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2) Financial assets at fair value through other comprehensive income (FVOCI)

A debt instrument is measured at FVOCI if it meets both of the following criteria and is not designated as at FVTPL :

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated by using the effective interest method, foreign exchange gains and losses, impairment losses, and dividend income (unless the dividend clearly represents a recovery of part of the cost of the investment.) deriving from debt instruments are recognized in profit or loss. Other changes in the carrying amount are recognized in other comprehensive income and accumulated in other equity items. On derecognition, the cumulative gains and losses of debt instruments will be reclassified to profit or loss. However, the cumulative gains and losses of equity instrument investments will not be reclassified to profit or loss. Instead, they will be transferred to retained earnings.

Dividends derived from equity investments are recognized as revenue when the right to receive payment is established, which is normally the ex-dividend date.

3) Financial assets at fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets. On initial recognition, the Group may irrevocably designate financial assets at amortized cost or at fair value through other comprehensive income as at fair value through profit or loss, if they can eliminate or significantly reduce a measurement or recognition inconsistency.

On initial recognition, the Group measures the financial assets at fair value and recognizes the transaction costs in profit or loss as incurred. The Group subsequently measures the financial assets at fair value, and recognizes the gains or losses (including dividend and interest income) in profit or loss.

4) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, financial assets at amortized costs, notes and accounts receivable, other receivables, refundable deposits and other financial assets), debt instrument investments measured at FVOCI and contract assets.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Group measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e., the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for accounts receivable and contract assets are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the ECLs that result from all possible default events of a financial instrument within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered in estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment as well as forward-looking information.

The Group considers a debt instrument to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due or within 30 days but breached the contract. The Group considers a financial asset to be in default when the financial asset is more than 90 days past due or the borrower is unlikely to pay its credit obligations to the Group in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets measured at amortized cost and debt instruments at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a financial asset because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the carrying amount of the assets. For debt instrument investments at FVOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Group recognizes the amount of expected credit losses (or reversal) in profit or loss.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to reimburse the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a debt instrument in its entirety, the Group recognizes the difference between its carrying amount and the sum of the consideration received or receivable and any cumulative gains or losses that had been recognized in other comprehensive income and presented in "other equity – unrealized gains or losses on fair value through other comprehensive income" in profit or loss.

On derecognition of a debt instruments not in its entirety, the previous carrying amount and the cumulative gains or loss that had been recognized in other comprehensive income of the financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, on the basis of 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 from the part derecognized, and any cumulative gains or losses allocated to it that had been recognized in other comprehensive income, shall be recognized in profit or loss.

(ii) 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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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1) Interest rate swaps

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

2) Convertible bond asset-backed swaps

Convertible bonds acquired through underwriting or proprietary trading are the underlying assets of asset-backed swaps. The contract amount for the counter-parties receiving the convertible bond is the notional principal. The 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 is stated at cost; the fair value and the cost of the delivered securities are recognized as gains (losses) on sale of securities.

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.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 is stated at cost; the fair value and the cost of the delivered securities are recognized as gains (losses) on sale of securities.

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 reporting 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.

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

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

In these consolidated financial statements, judgments and key sources of estimation uncertainty used by management in the application of critical accounting policies are expected to be consistent with those of Note 5 of the consolidated financial statements as of and for the year ended December 31, 2017.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(6) Explanation of significant accounts:

Except for the following disclosures, there is no significant difference as compared with those disclosed in the consolidated financial statements for the year ended December 31, 2017. Please refer to Note 6 of the 2017 annual consolidated financial statements.

(a) Cash and cash equivalents

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Cash	\$ 2,818	2,767	2,912
Bank deposits			
Checking accounts	31,021	53,094	44,412
Demand deposits	646,584	956,250	655,602
Foreign currency deposits	<u>938,570</u>	<u>1,875,088</u>	<u>1,907,633</u>
Subtotal	<u>1,616,175</u>	<u>2,884,432</u>	<u>2,607,647</u>
Cash equivalents			
Time deposits	3,711,132	2,971,870	2,784,280
Futures margin - excess margin	2,013,876	1,098,046	961,519
Commercial papers	<u>3,999</u>	<u>146,962</u>	<u>-</u>
Subtotal	<u>5,729,007</u>	<u>4,216,878</u>	<u>3,745,799</u>
Total	<u>\$ 7,348,000</u>	<u>7,104,077</u>	<u>6,356,358</u>

(b) Financial assets

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

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Open-ended funds and money-market instruments			
Open-ended funds and money-market instruments	\$ 314,666	323,962	647,197
Valuation adjustment	<u>6,446</u>	<u>(1,886)</u>	<u>(2,252)</u>
Subtotal	<u>321,112</u>	<u>322,076</u>	<u>644,945</u>
Investment in securities			
Investment in securities	251,456	-	116,465
Valuation adjustment	<u>(3,379)</u>	<u>-</u>	<u>1,455</u>
Subtotal	<u>248,077</u>	<u>-</u>	<u>117,920</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Trading securities - proprietary trading			
Listed stocks	\$ 2,384,268	1,495,906	1,113,137
Listed funds	889,568	1,122,398	620,284
OTC stocks	675,910	742,663	329,968
OTC funds	49,540	40,000	-
Emerging market stocks	468,610	455,025	236,076
Emerging market funds	8,617	9,848	9,601
Convertible corporate bonds	927,784	767,352	767,569
Government bonds	6,802,490	6,695,553	6,543,151
Corporate bonds	8,652,240	9,403,722	10,473,130
International bonds	3,552,852	2,838,568	1,832,057
Financial debentures	300,000	300,000	1,810,246
Foreign stocks	470,666	646,649	771,421
Overseas bonds	219,556	59,353	60,670
Other	<u>257</u>	<u>34,858</u>	<u>32,619</u>
	25,402,358	24,611,895	24,599,929
Valuation adjustment	<u>18,303</u>	<u>132,192</u>	<u>111,963</u>
Subtotal	<u>25,420,661</u>	<u>24,744,087</u>	<u>24,711,892</u>
Trading securities - underwriting:			
Listed stocks	5,229	81,823	18,267
OTC stocks	43,321	48,763	60,032
Convertible corporate bonds	<u>306,209</u>	<u>129,277</u>	<u>121,560</u>
	354,759	259,863	199,859
Valuation adjustment	<u>17,877</u>	<u>11,400</u>	<u>3,015</u>
Subtotal	<u>372,636</u>	<u>271,263</u>	<u>202,874</u>
Trading securities - hedging			
Listed stocks	3,109,271	4,022,877	3,246,704
OTC stocks	586,825	1,191,800	563,637
Convertible corporate bonds	3,717,147	3,456,957	2,678,425
Foreign stocks	<u>-</u>	<u>999</u>	<u>1,023</u>
	7,413,243	8,672,633	6,489,789
Valuation adjustment	<u>(118,692)</u>	<u>(65,965)</u>	<u>262,249</u>
Subtotal	<u>7,294,551</u>	<u>8,606,668</u>	<u>6,752,038</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Derivatives			
Call options	\$ 19,773	132,472	104,412
Futures margin - proprietary fund	334,938	611,870	616,331
IRS asset swaps	16,289	16,479	8,607
Asset swap options - long position	6,024	2,572	2,566
Currency derivatives	40,650	22,446	34,275
Structured notes	2,462	1,343	719
Equity derivatives	25	-	-
Currency swaps	25,027	4,072	15,681
Interest rate swaps	<u>3,125</u>	<u>1,920</u>	<u>656</u>
Subtotal	<u>448,313</u>	<u>793,174</u>	<u>783,247</u>
Total	<u>\$ 34,105,350</u>	<u>34,737,268</u>	<u>33,212,916</u>

As of June 30, 2018, December 31, 2017 and June 30, 2017, trading securities, financial assets at fair value through other comprehensive income and financial assets available for sale undertaken for repurchase agreements of the Group were \$39,737,148, \$49,006,659 and \$45,712,004, respectively, please refer to note 6(m) and note 8 for details.

(ii) Financial assets at fair value through other comprehensive income — current

	<u>June 30, 2018</u>
Debt instruments at fair value through other comprehensive income	
International bonds	\$ 1,416,913
Overseas bonds	<u>18,658,114</u>
	20,075,027
Valuation adjustment	<u>(257,424)</u>
Subtotal	<u>19,817,603</u>
Equity instrument at fair value through other comprehensive income	
Listed stocks	\$ 295,293
OTC stocks	111,864
Emerging market stocks	24,130
Foreign stocks	<u>189,232</u>
	620,519
Valuation adjustment	<u>(49,267)</u>
Subtotal	<u>571,252</u>
Total	<u>\$ 20,388,855</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

1) Debt instrument investments at fair value through other comprehensive income

The Group has assessed the debentures shown above are held within a business model whose objective is achieved by both collecting the contractual cash flows and selling securities; therefore, they have been classified as financial asset at fair value through other comprehensive income on January 1, 2018.

2) Equity instrument investments at fair value through other comprehensive income

For the three months ended June 30, 2018 and the six months ended June 30, 2018, the dividends were recognized from the Group designated and disposed the aforementioned equity instrument investments at fair value through other comprehensive income – current amounted to \$3,464 and \$3,464, respectively.

Due to the consideration of asset allocation and managing and adjusting the investment portfolio, the Group sold shares of stocks for a fair value \$200,345 and cumulative dispose gains \$20,037 were transferred from other equity items to retained earnings for the six months ended June 30, 2018.

- 3) For credit risk (including the impairment of debt instrument investments) and market risk; please refer to note 6(w).
- 4) For the six months ended June 30, 2018, impairment test have been applied by the Group, the variation of loss allowance in the financial assets at fair value through other comprehensive income of the Group please refer to note 6(w).

(iii) Financial assets available for sale - current:

	December 31, 2017	June 30, 2017
Listed stocks	\$ 101,209	202,441
OTC stocks	77,668	88,565
Emerging market stocks	24,907	29,327
International bonds	1,532,767	1,152,592
Foreign stocks	104,055	101,109
Overseas bonds	<u>30,797,054</u>	<u>26,036,718</u>
Subtotal	32,637,660	27,610,752
Valuation adjustment	<u>170,119</u>	<u>213,263</u>
Total	<u>\$ 32,807,779</u>	<u>27,824,015</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Mandatorily measured at fair value through profit or loss:			
Government bonds	\$ 185,952	-	-
Valuation adjustment	<u>(497)</u>	<u>-</u>	<u>-</u>
Subtotal	<u>185,455</u>	<u>-</u>	<u>-</u>
Financial assets held for trading:			
Government bonds	-	185,953	185,799
Valuation adjustment	<u>-</u>	<u>62</u>	<u>418</u>
Subtotal	<u>-</u>	<u>186,015</u>	<u>186,217</u>
Total	<u>\$ 185,455</u>	<u>186,015</u>	<u>186,217</u>

As of June 30, 2018, December 31, 2017 and June 30, 2017, the Group took advantage of government bonds as margins of bills, interest rate swaps and structured notes transaction, settlement fund guarantee deposits, and compensation reserve of trust business (please refer to note 8 for details).

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

<u>Name of investee</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
CME Group Inc.	\$ -	826
Valuation adjustment	<u>-</u>	<u>1,079</u>
Total	<u>\$ -</u>	<u>1,905</u>

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 six months ended June 30, 2017, due to changes in fair value, the Group had recognized \$(41,494) in other comprehensive income and reclassified \$(41,494) from equity to profit or loss.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

<u>Non-listed (or non-over-the-counter)</u>	<u>December 31, 2017</u>	
	<u>Ownership ratio</u>	<u>Amount</u>
Taiwan Depository & Clearing Corp.	1.29 %	\$ 18,661
Taiwan Futures Exchange Corp.	2.86 %	58,117
Taiwan Stock Exchange Corporation	0.06 %	12,242
Global Securities Finance Corporation	6.05 %	202,681
Chou Chin Industrial Co., Ltd.	0.05 %	-
Jong-Yih Industrial Development Co., Ltd.	0.68 %	1,369
Reliance Securities Investment Trust Co., Ltd	3.02 %	9,767
Top Taiwan III Venture Capital Co., Ltd.	7.00 %	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		<u>\$ 754,545</u>

<u>Non-listed (or non-over-the-counter)</u>	<u>June 30, 2017</u>	
	<u>Ownership ratio</u>	<u>Amount</u>
Taiwan Depository & Clearing Corp.	1.29 %	\$ 18,661
Taiwan Futures Exchange Corp.	2.86 %	58,117
Taiwan Stock Exchange Corporation	0.06 %	12,242
Global Securities Finance Corporation	6.05 %	202,681
Chou Chin Industrial Co., Ltd.	0.05 %	-
Jong-Yih Industrial Development Co., Ltd.	0.68 %	1,369
Reliance Securities Investment Trust Co., Ltd	3.02 %	9,767
Top Taiwan III Venture Capital Co., Ltd.	7.00 %	32,858
Prudence Venture Investment Corp.	1.50 %	35,365
Chanyee Hotelday Co., Ltd.	7.41 %	30,000
Miho International Co., Ltd.	1.83 %	46,000
LIPS Corp.	23.95 %	149,625
Xianlife Limited	3.26 %	46,140
FlexUP Technologies Corp.	15.31 %	30,000
Han Biomedical Inc.	9.20 %	23,000
Total		<u>\$ 695,825</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years 2017, Top Taiwan III Venture Capital Co., Ltd. refunded the proceeds of capital reduction amounted to \$1,400 and Prudence Venture Investment Corp. refunded the proceeds of capital reductions which amounted to \$7,968.

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

(vii) Financial assets at fair value through other comprehensive income — non-current

	June 30, 2018
Equity instruments at fair value through other comprehensive income	
Non-listed or non-over-the-counter stocks	\$ 779,787
Valuation adjustment	1,050,920
Total	\$ 1,830,707

1) Equity instrument investments at fair value through other comprehensive income

For the three months ended June 30, 2018 and the six months ended June 30, 2018, the dividends were recognized from the Group designated and disposed the aforementioned equity instrument investments at fair value through other comprehensive income – non-current amounted to \$3,537 and \$3,537, respectively.

For the six months ended June 30, 2018, under the consideration of asset allocation and managing and adjusting the investment portfolio, the Group sold equities recognized in FVOCI -non-current for a fair value \$9,774 and generated cumulative dispose gains \$7, and the gains were transferred from other equity items to retained earnings.

(viii) 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 six months ended June 30, 2018 and 2017 VaR (99%, per 10-day) of equity stocks are as follows:

Type of market risk	June 30, 2018	June 30, 2017	For the six months ended June 30,					
			2018			2017		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	1,311,236	865,916	1,459,105	1,615,221	1,311,236	772,766	865,916	666,504

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Bonds purchased under resale agreements

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Bonds purchased under resell agreements	\$ <u>49,782</u>	<u>-</u>	<u>100,015</u>
Resell price under the agreements	\$ <u>49,782</u>	<u>-</u>	<u>100,016</u>
Interest rate	<u>0.05%</u>		<u>0.28%</u>

As of June 30, 2018 and 2017, the Group's appropriated bonds purchased under resale agreements were \$0 (Par value \$0) and \$100,015 (Par value \$100,000) for repurchase agreement transactions purpose and for resale agreement - short sales transactions purpose (please refers to note 8 for details).

(d) Accounts Receivable

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Receivable on securities purchased by customers	\$ 22,360	27,055	28,537
Settlement	661,955	1,000,019	947,927
Interests receivable	637,280	627,789	579,737
Receivables on securities sold	7,142,288	5,015,345	5,735,155
Others	<u>332,442</u>	<u>57,560</u>	<u>87,183</u>
Subtotal	8,796,325	6,727,768	7,378,539
Less: allowance for doubtful accounts	<u>(3,519)</u>	<u>(1,713)</u>	<u>(3,424)</u>
Total	<u>\$ 8,792,806</u>	<u>6,726,055</u>	<u>7,375,115</u>

- (i) For credit risk (including the impairment of debt instrument investments) and market risk; please refer to note 6(w).
- (ii) For the six months ended June 30, 2018, impairment test have been applied by the Group, the variation of loss allowance in receivables, please refer to note 6(w).

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

As of June 30, 2018, December 31, 2017 and June 30, 2017, a reconciliation of the customers' margin account and the futures traders' equity was as follows:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Customers' margin account			
Cash in banks	\$ 19,532,599	20,131,841	20,369,662
Customers' margin account - futures clearing house	3,020,359	3,485,434	2,664,523
Customers' margin account - other futures commission merchants	5,944,890	3,683,324	4,375,581
Marketable securities	<u>1,859</u>	<u>2,113</u>	<u>2,014</u>
Total customers' margin account	<u>28,499,707</u>	<u>27,302,712</u>	<u>27,411,780</u>
Add:			
Commission expense	7,412	1,651	-
Temporary debits	-	-	288
Other	22	33	12
Less:			
Commission revenue	(24,359)	(11,431)	(29,324)
Futures transaction tax	(1,866)	(1,356)	(1,244)
Interest revenues	(1,681)	(2,326)	(1,212)
Temporary receipts	(1,605)	(590)	(629)
Remittance amount of the customers after the market closed	(3,521)	(2,424)	(5,966)
Other receivables	<u>(48,511)</u>	<u>(18,043)</u>	<u>(6,680)</u>
Futures traders' equity	<u>\$ 28,425,598</u>	<u>27,268,226</u>	<u>27,367,025</u>

(f) Investments under equity method

As of June 30, 2018, December 31, 2017 and June 30, 2017, investments under equity method consisted of the following:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Subsidiaries			
Capital Insurance Advisory Corp.	\$ 59,837	90,506	65,784
Capital Insurance Agency Corp.	<u>41,285</u>	<u>41,547</u>	<u>41,411</u>
Subtotal	<u>101,122</u>	<u>132,053</u>	<u>107,195</u>
Associates			
True Partner Advisor Hong Kong Ltd.	43,435	41,535	41,456
Capital Investment Trust Corp.	<u>1,214,888</u>	<u>-</u>	<u>-</u>
Subtotal	<u>1,258,323</u>	<u>41,535</u>	<u>41,456</u>
Total	<u>\$ 1,359,445</u>	<u>173,588</u>	<u>148,651</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Subsidiaries:

For the six months ended June 30, 2018 and 2017, the Group's share of gains or losses of the subsidiaries were as follows:

	For the six months ended June 30,		
	2018	2017	
Based on the self-prepared financial statements	\$ 35,865	41,958	
	June 30, 2018	December 31, 2017	June 30, 2017
Total assets	\$ 196,857	151,103	224,730
Total liabilities	\$ 95,735	19,050	117,535
	For the six months ended June 30,		
	2018	2017	
Revenue	\$ 139,337	157,197	
Net income	\$ 35,865	41,958	

(ii) Associates

The subsidiary Capital Futures Corporation acquired 49% shares of True Partner Advisor Hong Kong Ltd. with USD 1,123 thousands on October 2, 2015. The Company acquired 20% shares of Capital Investment Trust Corporation with \$1,272,505 thousand on February 9, 2018. The relevant information is as following:

Name of associate	Nature between the Company	Primary business area and registered country	% of Ownership and Voting Rights		
			June 30, 2018	December 31, 2017	June 30, 2017
True Partner Advisor Hong Kong Ltd.	Engaged in asset management. The Subsidiary's strategic alliance in expansion of asset management.	Hong Kong	49.00 %	49.00 %	49.00 %
Capital Investment Trust Corp.	Engaged in security investment and discretionary investment services.	Taiwan	20.00 %	- %	- %

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

	June 30, 2018	December 31, 2017	June 30, 2017
	Total carrying amount of the associates that were not individually material	\$ 1,258,323	41,535

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Based on the financial statements Attributable to the Group:				
Net gains from continuing operations	\$ 27,299	348	41,204	678
Other comprehensive income (losses)	2,584	(34)	2,282	(738)
Total comprehensive income (losses)	<u>\$ 29,883</u>	<u>314</u>	<u>43,486</u>	<u>(60)</u>

(iii) Collateral

As of June 30, 2018, December 31, 2017 and June 30, 2017, none of the investment accounted for under equity method of the Group were pledged for collateral.

(g) Property and equipment

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
Carrying amount:					
June 30, 2018	<u>\$ 3,691,478</u>	<u>1,048,933</u>	<u>181,814</u>	<u>62,705</u>	<u>4,984,930</u>
January 1, 2018	<u>\$ 3,652,474</u>	<u>1,048,517</u>	<u>195,694</u>	<u>70,067</u>	<u>4,966,752</u>
June 30, 2017	<u>\$ 3,707,653</u>	<u>1,095,757</u>	<u>212,505</u>	<u>70,227</u>	<u>5,086,142</u>

As of June 30, 2018, December 31, 2017 and June 30, 2017, the property and equipment which are provided as collateral or pledge, please refer to note 8 for details.

There was no significant acquisition, disposal and impairment loss or reversal of impairment losses of property and equipment of the Group in the periods for the six months ended June 30, 2018 and 2017. For the six months ended June 30, 2018 and 2017, \$0 and \$331 of land and buildings were transferred to investment property, and \$54,397 and \$0 of land and buildings were transferred from investment property. Please refer to note 6(v) for details of the depreciation expense occurring in this period and note 6(f) of the consolidated financial statements as of and for the year ended December 31, 2017 for other relevant information.

(h) Investment property

	<u>Land and improvements</u>	<u>Buildings</u>	<u>Total</u>
<u>Carrying Amount:</u>			
June 30, 2018	<u>\$ 1,273,664</u>	<u>460,447</u>	<u>1,734,111</u>
January 1, 2018	<u>\$ 1,312,668</u>	<u>483,873</u>	<u>1,796,541</u>
June 30, 2017	<u>\$ 1,257,488</u>	<u>462,565</u>	<u>1,720,053</u>
<u>Fair Value:</u>			
June 30, 2018			<u>2,680,530</u>
January 1, 2018			<u>2,809,179</u>
June 30, 2017			<u>2,744,595</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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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 June 30, 2018, December 31, 2017 and June 30, 2017, the investment properties were provided as collateral or pledged, please refer to note 8 for details.

There was no significant acquisition, disposal and impairment loss or reversal of impairment losses of investment properties of the Group in the periods for the six months ended June 30, 2018 and 2017. For the six months ended June 30, 2018 and 2017, \$0 and \$331 of land and buildings were transferred to property and equipment, and \$54,397 and \$0 of investment property were reclassified as property and equipment. Please refer to note 6(v) for details of the depreciation expense occurring in this period and note 6(g) of the consolidated financial statements as of and for the year ended December 31, 2017 for other relevant information.

(i) Intangible assets

(i) Goodwill

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized as goodwill. As of June 30, 2018, December 31, 2017 and June 30, 2017, the book value of goodwill was all \$3,126,698.

The Capital International Technology Corp., the second level subsidiary, acquired 51% shares of the Capital True Partner Technology Co., Ltd in order to expand operations. The Group recognized the differences between investment costs and identifiable assets as goodwill. As of June 30, 2018, December 31, 2017 and June 30, 2017, the book value of goodwill was all \$22,088.

(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" endorsed by the FSC, the franchise is regarded as intangible assets with an indefinite useful life. As of June 30, 2018, December 31, 2017 and June 30, 2017, the book value of the operation franchise was all \$389,999.

(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 June 30, 2018, December 31, 2017 and June 30, 2017, the book values of intangible assets were \$46,250, \$48,102 and \$48,192 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 June 30, 2018, December 31, 2017 and June 30, 2017, the amortized book value was \$30,956, \$41,287 and \$36,163 respectively.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(j) Short-term borrowings

<u>Nature of borrowings</u>	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Secured loan	\$ 380,000	380,000	447,118
Credit loans	2,624,408	6,701,698	4,551,404
Total	<u>\$ 3,004,408</u>	<u>7,081,698</u>	<u>4,998,522</u>
Interest rate range	<u>0.60%~2.70%</u>	<u>0.60%~2.56%</u>	<u>0.60%~2.90%</u>

As of June 30, 2018, December 31, 2017 and June 30, 2017, the Group had provided the land, buildings, and certificates of time deposits as collateral; please refer to note 8 for details.

(k) Commercial paper payable

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Commercial paper payable	\$ 5,450,000	4,100,000	5,900,000
Less: Unamortized discount	(966)	(816)	(919)
Net amount	<u>\$ 5,449,034</u>	<u>4,099,184</u>	<u>5,899,081</u>
Interest rate range	<u>0.52%~0.79%</u>	<u>0.53%~0.56%</u>	<u>0.52%~0.59%</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Bond purchased under resale agreements - short sales	\$ -	-	100,138
Valuation adjustment	-	-	(115)
Subtotal	<u>-</u>	<u>-</u>	<u>100,023</u>
Liabilities on sale of borrowed securities	624,924	1,130,377	544,185
Redeem liabilities on sale of borrowed securities	(46,190)	(6,714)	(16,762)
Valuation adjustment	<u>(76,862)</u>	<u>(94,120)</u>	<u>(6,221)</u>
Subtotal	<u>501,872</u>	<u>1,029,543</u>	<u>521,202</u>
Settlement coverage bonds payable of short sale	-	49,983	100,182
Valuation adjustment	-	(29)	(113)
Subtotal	<u>-</u>	<u>49,954</u>	<u>100,069</u>
Stock warrants issued	12,251,209	14,405,116	12,070,250
Stock warrants repurchased	<u>(11,230,669)</u>	<u>(13,098,267)</u>	<u>(11,406,753)</u>
Subtotal	<u>1,020,540</u>	<u>1,306,849</u>	<u>663,497</u>
Put options	31,318	131,636	111,125
Equity derivatives	-	61	-
IRS asset swaps	1,107	239	431
Asset swap options - short position	350,164	364,910	194,727
Structured notes	10,444	9,234	7,320
Currency derivatives	3,401	2,847	5,157
Currency swaps	<u>29,091</u>	<u>7,920</u>	<u>2,006</u>
Subtotal	<u>425,525</u>	<u>516,847</u>	<u>320,766</u>
Total	<u>\$ 1,947,937</u>	<u>2,903,193</u>	<u>1,705,557</u>

(m) Bonds sold under repurchase agreements

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Bonds sold under repurchase agreements	\$ 37,933,089	47,056,312	44,492,765
Agreed-upon repurchase amounts	<u>38,264,115</u>	<u>47,174,205</u>	<u>44,570,935</u>
Interest rates	<u>0.00%~4.40%</u>	<u>0.20%~4.30%</u>	<u>0.31%~4.60%</u>
Date of repurchase	<u>2018.7.2~2019.6.21</u>	<u>2018.1.2~2018.12.27</u>	<u>2017.7.3~2017.10.11</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Customer equity of separate account ledger in settlement	\$ <u>4,157</u>	<u>13,479</u>	<u>12,924</u>

(o) Accounts payable

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Payable of securities sold by customers	\$ 15,319	44,575	29,022
Payable on securities purchased	6,970,216	5,440,461	6,100,751
Others	<u>433,012</u>	<u>293,722</u>	<u>603,012</u>
Total	\$ <u>7,418,547</u>	<u>5,778,758</u>	<u>6,732,785</u>

(p) Long-term borrowings

The details of the long-term borrowings of the Group were as follows:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Secured bank loans - Due in November, 2019	\$ 1,966,222	-	-
Less: current portion	-	-	-
Total	\$ <u>1,966,222</u>	<u>-</u>	<u>-</u>
Unused shore-term credit lines	\$ <u>133,778</u>	<u>-</u>	<u>-</u>
Range of interest rates	<u>2.36%~2.42%</u>	<u>-</u>	<u>-</u>

As of June 30, 2018, the Group had provided the land, buildings, and certificates of time deposits as collateral; please refer to note 8 for details. °

(q) Operating leases

The Group has no material incremental operating leases contracts for the six months ended June 30, 2018 and 2017. Please refer to note 6(o) of the consolidated financial statements as of and for the year ended December 31, 2017 for other relevant information.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(r) Employee benefit

(i) Defined benefit plans

In the prior fiscal year, there is apparently no evidence of any material market volatility, material curtailment, reimbursement and settlement or other material one-time events. Therefore, pension cost in the interim consolidated financial statements is measured and disclosed according to the respective actuarial report as of December 31, 2017 and 2016.

For the three months ended June 30, 2018 and 2017 and the six months ended June 30, 2018 and 2017, the Group's pension expenses recognized in profit or loss were \$3,474, \$3,701, \$6,938 and \$7,392, respectively.

(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 \$21,713, \$19,718, \$43,632 and \$39,960 under defined contribution plan to the Bureau of the Labor Insurance for the three months ended June 30, 2018 and 2017 and the six months ended June 30, 2018 and 2017, respectively.

(iii) For the three months ended June 30, 2018 and 2017 and the six months ended June 30, 2018 and 2017, the pension costs contributed by overseas subsidiaries in compliance with local ordinance were \$1,163, \$1,056, \$2,166 and \$2,173, respectively.

(iv) Provision for employee benefits liabilities

	June 30, 2018	December 31, 2017	June 30, 2017
Compensated absences	<u>\$ 59,354</u>	<u>49,066</u>	<u>62,865</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(s) Income tax

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

(i) The detail of income tax expense for the three months ended June 30, 2018 and 2017 and the six months ended June 30, 2018 and 2017 were as follows:

	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current tax expense	\$ 164,623	117,755	241,202	181,517
Adjustment to the prior years' income tax	(30,384)	-	(8,077)	-
	<u>134,239</u>	<u>117,755</u>	<u>233,125</u>	<u>181,517</u>
Deferred tax expense				
Unrealized gains (losses) on derivative financial instruments	(2,717)	(28,935)	(38,116)	(35,457)
Unrealized gains (losses) on foreign investments under Equity Method	117	(1,779)	2,514	(4,448)
Decrease in tax loss carried forward	(6,110)	-	92,455	-
Adjustments of deferred income tax assets	7,112	-	(12,803)	-
Changes in tax rate	(1)	-	55,473	-
Deferred income tax expense (benefit)	(1,599)	(30,714)	99,523	(39,905)
	<u>\$ 132,640</u>	<u>87,041</u>	<u>332,648</u>	<u>141,612</u>

(ii) The amount of income tax expense or benefit recognized in other comprehensive income for the three months ended June 30, 2018 and 2017 and the six months ended June 30, 2018 and 2017 were as follows:

	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Foreign exchange difference from translating financial statement of foreign operations	\$ <u>14,688</u>	<u>95</u>	<u>16,303</u>	<u>(27,837)</u>

(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 2016 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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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- 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 2016 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) 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.

(t) Capital and other equity

(i) Capital stock

As of June 30, 2018, December 31, 2017 and June 30, 2017, the Company had authorized capital of \$30,000,000 and issued common stock of 2,169,073 thousand shares with \$10 dollars face value per share. The disclosure of treasury shares retired and reduction of capital for the fiscal year 2017, please refer to (iv) "Treasury stocks" for more details.

On June 27, 2018, the Company's stockholders resolved to transfer un-appropriated earnings of \$1,518,351 and issued 151,835 thousand shares of common stock. The capital increase was approved by the Financial Supervisory Commission on July 12, 2018 and the record date was September 1, 2018.

(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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The followings are the capital surplus of the Company:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Premium from stock issuance	\$ 1,776,413	1,776,413	1,776,413
Treasury stock transactions	437,096	437,096	437,096
Paid-in capital from merger	602,665	602,665	602,665
Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,338	1,338	1,338
Changes in ownership interests in subsidiaries	<u>34,787</u>	<u>34,787</u>	<u>34,787</u>
	<u>\$ 2,852,299</u>	<u>2,852,299</u>	<u>2,852,299</u>

(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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

The Company's 2017 earnings distribution for cash dividends \$433,815 and stock dividends \$1,518,351 had been resolved by the shareholders' meeting on June 27, 2018.

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 as treasury shares to maintain the Company's credit standing and shareholders' equity from November 2016 to December 31, 2017. As of February 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.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(u) Earnings per share

The basic earnings per share and dilutive earnings per share for the three months ended June 30, 2018 and 2017 and the six months ended June 30, 2018 and 2017 were calculated as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Net income attributable to ordinary shareholders of the Company	\$ <u>587,205</u>	<u>552,280</u>	<u>1,381,201</u>	<u>1,065,565</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	<u>2,169,073</u>	<u>2,169,073</u>	<u>2,169,073</u>	<u>2,169,316</u>
Basic earnings per share (dollar)	\$ <u>0.27</u>	<u>0.25</u>	<u>0.64</u>	<u>0.49</u>
Effect of potentially dilutive common stock				
- Employee remuneration (thousands of shares) (Note)	<u>792</u>	<u>1,146</u>	<u>1,678</u>	<u>2,153</u>
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	<u>2,169,865</u>	<u>2,170,219</u>	<u>2,170,751</u>	<u>2,171,469</u>
Dilutive earnings per share (dollar)	\$ <u>0.27</u>	<u>0.25</u>	<u>0.64</u>	<u>0.49</u>

Note: The number of shares issued was calculated based on the closing price at the reporting date.

On June 27, 2018, the Company's stockholders resolved to transfer un-appropriated earnings of \$350,109 and issued 35,011 thousand shares of common stock. The ex-rights record date was September 1, 2018. If the record date is before the reporting date, the pro forma retroactively adjusted earnings per share were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Basic earnings per share	\$ <u>0.25</u>	<u>0.24</u>	<u>0.60</u>	<u>0.46</u>
Dilutive earnings per share	\$ <u>0.25</u>	<u>0.24</u>	<u>0.59</u>	<u>0.46</u>

(v) Items of the statements of comprehensive income

(i) Brokerage commissions

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Brokerage commission from TSE market	\$ 529,694	343,421	979,791	665,922
Brokerage commission from OTC market	199,181	133,611	370,275	264,276
Handling fee from security financing	8,212	7,161	15,594	13,297
Futures commission income - brokerage	449,961	361,773	937,760	686,635
Overseas subsidiaries	12,178	13,325	29,675	27,549
Others	<u>13,721</u>	<u>15,841</u>	<u>40,122</u>	<u>32,525</u>
	\$ <u>1,212,947</u>	<u>875,132</u>	<u>2,373,217</u>	<u>1,690,204</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Underwriting commissions

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Revenue from underwriting securities on a firm commitment basis	\$ 17,708	18,823	36,651	32,029
Handling fee revenues from underwriting securities on best efforts basis	537	178	662	1,039
Processing fee revenues from underwriting operations	1,200	1,911	2,804	21,007
Revenue from underwriting consultation	2,338	1,070	6,383	2,460
Others	6,400	2,094	8,859	16,064
	<u>\$ 28,183</u>	<u>24,076</u>	<u>55,359</u>	<u>72,599</u>

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

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Gains (losses) on securities sold - proprietary trading	\$ 174,692	260,851	277,104	522,231
Gains (losses) on securities sold - underwriting	(3,014)	(188)	5,031	8,954
Gains (losses) on securities sold - hedging	(220,092)	98,187	(320,985)	201,163
Total	<u>\$ (48,414)</u>	<u>358,850</u>	<u>(38,850)</u>	<u>732,348</u>

(iv) Interest revenue

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Interest revenue - margin loans	\$ 215,235	184,332	418,854	361,983
Interest revenue - bonds	297,437	283,395	627,154	528,390
Overseas subsidiaries	15,503	8,420	28,589	16,923
Others	14,519	12,657	30,126	22,769
	<u>\$ 542,694</u>	<u>488,804</u>	<u>1,104,723</u>	<u>930,065</u>

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

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Trading securities - proprietary	\$ (128,602)	45,346	(141,207)	69,976
Trading securities - underwriting	14,728	6,140	6,477	874
Trading securities - hedging	(170,977)	184,658	(52,727)	300,856
Settlement coverage bonds payable of short sale	769	114	(29)	114
	<u>\$ (284,082)</u>	<u>236,258</u>	<u>(187,486)</u>	<u>371,820</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(vi) Net gains (losses) on stock warrants issued

	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Gains on changes in fair value of stock warrants	\$ 5,331,620	3,305,223	11,637,218	6,710,574
Gains on exercise of stock warrants before maturity	8,674,158	7,832,918	15,415,812	12,215,943
Losses on changes in fair value of stock warrants repurchased	(13,445,036)	(11,122,602)	(26,089,383)	(18,832,728)
Gains on expiration of stock warrants	21,949	3,774	41,748	6,198
Stock warrants issuance expenses	(38,973)	(58,716)	(82,907)	(98,588)
	<u>\$ 543,718</u>	<u>(39,403)</u>	<u>922,488</u>	<u>1,399</u>

(vii) Futures commission revenues

	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Futures commission revenues - CSC Futures(HK) Ltd.	\$ <u>119,938</u>	<u>189,304</u>	<u>297,126</u>	<u>301,197</u>

Future commission revenues 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 revenues” in the consolidated financial statements.

(viii) Commission expenses - future

	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Future trading - reconignment	\$ 70,679	62,910	144,858	115,391
Future trading - introducing brokers	(1,077)	2,415	1,444	1,923
Commission expenses - CSC Futures (HK) Ltd.	52,872	107,833	128,887	163,267
	<u>\$ 122,474</u>	<u>173,158</u>	<u>275,189</u>	<u>280,581</u>

(ix) Employee benefits, depreciation, and amortization expenses

	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Employee benefit expenses				
Salary expense	\$ 617,392	570,664	1,251,085	1,121,994
Health and labor insurance expense	39,952	37,924	86,517	80,870
Pension expense	26,350	24,475	52,736	49,525
Others	15,158	14,606	30,504	29,121
Depreciation expense	43,360	45,916	86,006	91,973
Amortization expense	8,442	8,730	17,299	16,937
	<u>\$ 750,654</u>	<u>702,315</u>	<u>1,524,147</u>	<u>1,390,420</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(x) Other operating expenses

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Rental expense	\$ 40,457	39,466	80,582	78,626
Taxes	103,263	84,329	219,064	158,438
Information technology expense	59,202	49,789	109,132	97,140
Postage expense	39,652	33,003	74,274	65,964
Professional service fee	87,187	22,943	194,232	39,050
Other expenses	122,525	193,814	284,852	319,955
	<u>\$ 452,286</u>	<u>423,344</u>	<u>962,136</u>	<u>759,173</u>

(xi) Other gains and losses

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Financial revenue	\$ 89,487	59,526	164,880	116,496
Currency exchange gains (losses)	22,067	6,335	17,864	(7,841)
Net gains (losses) on disposal of investment	38,909	44,953	38,888	45,061
Net gains (losses) on measurement of non-operating financial instruments at fair value through profit or loss	(16,640)	6,917	5,323	19,749
Revenue from bank's allocation fee	32,150	34,096	66,337	68,660
Dividend revenue	498	11,427	498	13,144
Gains on reversal of prior year's liabilities	14,065	5,759	25,302	15,566
Others	86,185	31,946	119,588	70,283
	<u>\$ 266,721</u>	<u>200,959</u>	<u>438,680</u>	<u>341,118</u>

(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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the six months ended June 30, 2018 and 2017, the estimated amounts of remuneration to employee were \$18,963 and \$21,506, and to directors by the Company were \$31,604 and \$39,941, respectively, which were calculated based on the Company's net profit before income tax and remuneration to employees and director multiple the earnings allocation percentage as stated under the Company's Articles of Incorporation and were recognized as operating expense. If the actual amounts were subsequently decided after the approval and the issuance date of the financial statements in the following year differ from the estimated amounts, the differences are accounted for as changes in accounting estimates and recognized in profit or loss in the following year. If the Board of Directors resolved to distribute the employees' remuneration in the form of shares, the number of shares of the distribution is based on the closing price of the day before the Board of Directors' meeting date.

For the 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 were \$61,971 and \$20,149 by the Company, respectively. The difference between actual employee remuneration of \$50,859 and \$9,120 and actual remuneration to directors and supervisors of \$30,515 and \$17,410 were \$13,966 and \$5,709 in total. The difference was accounted for as changes in accounting estimates and would be recognized as profit or loss in 2018 and 2017. The information about the appropriations is available at the Market Observation Post System website.

For the six months ended June 30, 2018 and 2017, the estimated amounts of remuneration to employee were \$8,643 and \$4,730 and to directors and supervisors were \$8,595 and \$4,839 by the domestic subsidiaries of the Group, respectively.

(w) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of June 30, 2018, December 31, 2017 and June 30, 2017, the maximum credit exposure amounted to \$104,117,203, \$111,905,084 and \$105,493,564, 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 (67.97%); secondly, is in Asia (16.39%, exclusion of Taiwan); then, is in America (9.81%). 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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>Region</u>	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Taiwan	\$ 70,325,983	68,514,346	67,629,253
Asia (Taiwan is excluded)	16,957,613	20,531,390	16,312,134
Europe	5,759,744	8,375,096	7,375,647
America	10,154,528	12,370,332	10,322,799
Other	265,825	1,317,645	3,063,238
Total	<u>\$ 103,463,693</u>	<u>111,108,809</u>	<u>104,703,071</u>

2) Impairment loss

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

	<u>June 30, 2018</u>		<u>December 31, 2017</u>		<u>June 30, 2017</u>	
	<u>Total amount</u>	<u>Impairment</u>	<u>Total amount</u>	<u>Impairment</u>	<u>Total amount</u>	<u>Impairment</u>
Not past due	\$ 26,294,632	21,728	23,216,757	1,551	22,025,236	60,304
Past due 0~30 days	1,030	1,030	2,115	2,115	286	286
Past due 31~120 days	4,204	4,204	31	31	3,129	3,129
Past due 121~360 days	109,887	109,887	85,694	85,694	700	700
Past due more than 360 days	182,173	182,173	135,899	128,771	140,892	114,603
	<u>\$ 26,591,926</u>	<u>319,022</u>	<u>23,440,496</u>	<u>218,162</u>	<u>22,170,243</u>	<u>179,022</u>

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 June 30, 2018, December 31, 2017 and June 30, 2017, the impairment losses of accrued receivables were recognized \$319,022, \$218,162 and \$179,022, respectively.

3) Credit risk of accrued receivables and debt securities

Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(f). Debt securities held by the Group including government bonds, listed and unlisted debt securities (previously classified as financial assets available for sale on December 31 and June 30, 2017) are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses.

The Group regards a financial asset as a default when the client of brokerage business is unable to fulfill the margin call or settlement obligation or accrued receivables past due, which the counterparty is unable to pay the Group. Thus, the Group will recognize the impairment losses.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The loss allowance provision for the six months ended June 30, 2018 was as follows:

	12-month ECL		Lifetime ECL -not credit impaired		Lifetime ECL -credit impaired		Total
	Accrued receivables	Debt securities at FVOCI	Accrued receivables	Debt securities at FVOCI	Accrued receivables	Debt securities at FVOCI	
Balance on January 1 per IAS39	\$ -	-	-	-	260,851	-	260,851
Adjustment on initial application of IFRS 9	-	15,153	-	-	-	-	15,153
Balance on January 1 per IFRS 9	-	15,153	-	-	260,851	-	276,004
Provision or reversal of Impairment loss	-	(4,892)	-	-	57,331	-	52,439
Effect of exchange rate	-	-	-	-	840	-	840
Balance on June 30	\$ -	10,261	-	-	319,022	-	329,283

(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
June 30, 2018							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 501,872	501,872	501,872	-	-	-	-
Stock warrants issued	1,020,540	1,020,540	989,099	31,441	-	-	-
Put options - futures	31,318	31,318	31,318	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	30,198	30,198	12,638	16,499	1,061	-	-
Put options	350,164	350,164	31,753	34,542	95,554	188,315	-
Currency derivatives	3,401	3,401	3,401	-	-	-	-
Short-term borrowings	3,004,408	3,004,408	3,004,408	-	-	-	-
Commercial paper payable	5,449,034	5,450,000	5,450,000	-	-	-	-
Bonds sold under repurchase agreements	37,933,089	38,264,115	38,264,115	-	-	-	-
Guarantee deposited for short sales	1,140,215	1,140,215	1,140,215	-	-	-	-
Proceeds payable from short sales	1,291,796	1,291,796	1,291,796	-	-	-	-
Securities lending refundable deposits	763,774	763,774	763,774	-	-	-	-
Futures traders' equity	28,425,598	28,425,598	28,425,598	-	-	-	-
Notes payable and accounts payable	1,962,280	1,962,280	1,962,280	-	-	-	-
Other payables	1,571,704	1,571,704	1,569,929	1,775	-	-	-
Receipts under custody	213,073	213,073	213,073	-	-	-	-
Long-term borrowings	1,966,222	1,966,222	-	-	1,966,222	-	-
Structured notes	5,653,911	5,653,911	5,041,496	336,058	202,975	73,382	-
	\$ 91,312,597	91,644,589	88,696,765	420,315	2,265,812	261,697	-

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2017	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
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	-
Currency derivatives	2,847	2,847	2,847	-	-	-	-
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	-	-	-	-
Receipts under custody	346,023	346,023	346,023	-	-	-	-
Other payables	995,443	995,443	994,660	783	-	-	-
Structured notes	4,785,254	4,785,254	4,380,929	138,288	151,580	114,457	-
	<u>\$ 100,740,460</u>	<u>100,859,169</u>	<u>100,091,919</u>	<u>231,585</u>	<u>258,173</u>	<u>277,492</u>	<u>-</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

June 30, 2017	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
Financial liabilities at fair value through profit or loss - current							
Bond purchased under resale agreements - short sales	\$ 100,023	100,023	100,023	-	-	-	-
Liabilities on sale of borrowed securities	521,202	521,202	521,202	-	-	-	-
Settlement coverage bonds payable of short sale	100,069	100,069	100,069	-	-	-	-
Stock warrants issued	663,497	663,497	600,719	62,770	8	-	-
Put options - futures	111,125	111,125	111,125	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	2,437	2,437	1,876	37	261	263	-
Put options	194,727	194,727	12,092	63,265	63,064	56,306	-
Currency derivatives	5,157	5,157	5,157	-	-	-	-
Short-term borrowings	4,998,522	4,998,522	4,998,522	-	-	-	-
Commercial paper payable	5,899,081	5,900,000	5,900,000	-	-	-	-
Bonds sold under repurchase agreements	44,492,765	44,570,935	44,570,935	-	-	-	-
Guarantee deposited for short sales	1,130,021	1,130,021	1,130,021	-	-	-	-
Proceeds payable from short sales	1,369,550	1,369,550	1,369,550	-	-	-	-
Securities lending refundable deposits	488,132	488,132	488,132	-	-	-	-
Leverage contract trading - customers' equity	147,847	147,847	147,847	-	-	-	-
Futures traders' equity	27,367,025	27,367,025	27,367,025	-	-	-	-
Notes payable and accounts payable	674,675	674,675	674,675	-	-	-	-
Receipts under custody	121,564	121,564	121,564	-	-	-	-
Other payables	1,674,373	1,674,373	1,671,930	2,443	-	-	-
Structured notes	2,811,401	2,811,401	2,181,739	295,236	151,382	183,044	-
	<u>\$ 92,873,193</u>	<u>92,952,282</u>	<u>92,074,203</u>	<u>423,751</u>	<u>214,715</u>	<u>239,613</u>	<u>-</u>

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CAPITAL SECURITIES CORPORATION AND 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:

	June 30, 2018		
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial assets</u>			
<u>Monetary Item</u>			
USD	\$ 497,659	30.4600	15,158,693
AUD	4,950	22.4950	111,350
CAD	332	23.0400	7,649
CHF	31	30.5950	948
EUR	7,414	35.4000	262,456
GBP	3,822	39.9600	152,727
HKD	88,369	3.8810	342,960
JPY	949,317	0.2754	261,442
SGD	143	22.3400	3,195
CNY	129,942	4.5930	596,824
ZAR	711	2.2100	1,571
KRW	304,974	0.0275	8,387
NZD	27	20.6100	556
THB	2,588	0.9237	2,391
MYR	38	7.2660	276
<u>Non-Monetary Item</u>			
USD	545,208	30.4600	16,607,036
AUD	251,115	22.4950	5,648,832
EUR	82	35.4000	2,903
GBP	1	39.9600	40
HKD	42,256	3.8810	163,996
JPY	1,035	0.2754	285
CNY	400,135	4.5930	1,837,820
<u>Investments under equity method</u>			
HKD	11,192	3.8810	43,435

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	June 30, 2018		
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial liabilities</u>			
<u>Monetary Item</u>			
USD	\$ 1,009,123	30.4600	30,737,887
AUD	251,459	22.4950	5,656,570
CHF	31	30.5950	948
EUR	6,643	35.4000	235,162
GBP	3,721	39.9600	148,691
HKD	203,950	3.8810	791,530
JPY	898,058	0.2754	247,325
SGD	139	22.3400	3,105
CNY	254,341	4.5930	1,168,188
ZAR	680	2.2100	1,503
KRW	104,923	0.0275	2,885
NZD	14	20.6100	289
THB	2,262	0.9237	2,089
<u>Non-Monetary Item</u>			
USD	68	30.4600	2,071
CAD	45	23.0400	1,037
JPY	911	0.2754	251
CNY	1	4.5930	5
NZD	2	20.6100	41

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

				December 31, 2017		
Financial liabilities		Foreign Currency (thousands)	Exchange Rate	Amount		
Monetary Item						
USD		1,381,491	29.7600	41,113,172		
AUD		349,769	23.1850	8,109,394		
CAD		20	23.7100	474		
CHF		18	30.4550	548		
EUR		6,981	35.5700	248,314		
GBP		1,686	40.1100	67,625		
HKD		163,657	3.8070	623,042		
JPY		959,895	0.2642	253,604		
SGD		744	22.2600	16,561		
CNY		148,453	4.5650	677,688		
KRW		28,139	0.0281	791		
Non-Monetary Item						
USD		49	29.7600	1,458		
CAD		18	23.7100	427		
JPY		3,635	0.2642	960		
				June 30, 2017		
Financial assets		Foreign Currency (thousands)	Exchange Rate	Amount		
Monetary Item						
USD	\$	484,263	30.4200	14,731,280		
AUD		6,632	23.3450	154,824		
CAD		136	23.4200	3,185		
CHF		3	31.7350	95		
EUR		6,276	34.7200	217,903		
GBP		559	39.6000	22,136		
HKD		79,910	3.8970	311,409		
JPY		1,383,259	0.2716	375,693		
SGD		190	22.1000	4,199		
CNY		69,265	4.4860	310,723		
ZAR		3	2.3200	7		
KRW		4,065,233	0.0268	108,948		
NZD		3	22.2900	67		
THB		289	0.9002	260		
IDR		10,073	0.0023	23		

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	June 30, 2017		
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial assets</u>			
<u>Non-Monetary Item</u>			
USD	756,301	30.4200	23,006,676
AUD	276,157	23.3450	6,446,885
EUR	46	34.7200	1,597
HKD	95,585	3.8970	372,495
JPY	385	0.2716	105
CNY	156,155	4.4860	700,511
<u>Investments under equity method</u>			
HKD	10,638	3.8970	41,456
<u>Financial liabilities</u>			
<u>Monetary Item</u>			
USD	1,174,326	30.4200	35,722,997
AUD	277,809	23.3450	6,485,451
CAD	1	23.4200	23
CHF	3	31.7350	95
EUR	6,036	34.7200	209,570
GBP	513	39.6000	20,315
HKD	165,638	3.8970	645,491
JPY	1,403,466	0.2716	381,181
SGD	203	22.1000	4,486
CNY	111,890	4.4860	501,939
KRW	3,880,148	0.0268	103,988
THB	(765)	0.9002	(689)

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 \$(5,865) and \$37,498 for the six months ended June 30, 2018 and 2017, respectively.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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, financial assets measured at fair value through other comprehensive income, 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 six months ended June 30, 2018 and 2017, given other factors remain the same, if the relevant foreign currencies, when compared with the NTD, had appreciated or depreciated by 5%, the net income and other comprehensive income will change as follows:

	June 30, 2018		June 30, 2017	
	Appreciated	Depreciated	Appreciated	Depreciated
	5%	5%	5%	5%
Net income	(712,714)	712,714	(1,029,643)	1,029,643
Other comprehensive income	801,360	(801,360)	1,143,169	(1,143,169)

(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.

Market risk type	For the six months ended June 30,							
	June 30, 2018	June 30, 2017	2018			2017		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Interest risk	1,683,218	1,885,801	1,930,325	2,076,354	1,683,218	1,860,276	1,922,102	1,746,721

(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.

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CAPITAL SECURITIES CORPORATION AND 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 belong to 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 belong to 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 June 30, 2018, December 31, 2017 and June 30, 2017, the fair value information of the financial assets and financial liabilities of the Group was as follows:

a) Fair value information

	June 30, 2018		December 31, 2017		June 30, 2017	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets :						
Cash and cash equivalents	\$ 7,348,000	7,348,000	7,104,077	7,104,077	6,356,358	6,356,358
Bonds purchased under resale agreements	49,782	49,782	-	-	100,015	100,015
Accrued receivable	27,092,914	27,092,914	25,194,975	25,194,975	23,102,094	23,102,094
Customers' margin account	28,499,707	28,499,707	27,302,712	27,302,712	27,411,780	27,411,780
Leverage contract trading - customers' margin account	211,002	211,002	151,540	151,540	158,651	158,651
Restricted assets - current	626,344	626,344	554,215	554,215	511,084	511,084
Financial assets measured at cost - non-current	-	-	754,545	754,545	695,825	695,825
Other non-current assets	1,509,364	1,509,364	1,565,354	1,565,354	1,658,819	1,658,819

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>June 30, 2018</u>		<u>December 31, 2017</u>		<u>June 30, 2017</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
Financial liabilities :						
Short-term borrowings	\$ 3,004,408	3,004,408	7,081,698	7,081,698	4,998,522	4,998,522
Commercial paper payable	5,449,034	5,449,034	4,099,184	4,099,184	5,899,081	5,899,081
Bonds sold under repurchase agreements	37,933,089	37,933,089	47,056,312	47,056,312	44,492,765	44,492,765
Accrued payable	12,714,890	12,714,890	13,280,377	13,280,377	11,822,831	11,822,831
Futures traders' equity	28,425,598	28,425,598	27,268,226	27,268,226	27,367,025	27,367,025
Leverage contract trading - customers' equity	217,460	217,460	152,840	152,840	147,847	147,847
Other financial liabilities - current	5,367,110	5,367,110	4,509,983	4,509,983	2,469,655	2,469,655
Long-term borrowings	1,966,222	1,966,222	-	-	-	-
Other financial liabilities - non-current	276,357	276,357	266,037	266,037	334,426	334,426
Other non-current liabilities	248,846	248,846	249,277	249,277	248,782	248,782

b) Hierarchy information of fair value

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment property				
June 30, 2018	\$ -	-	<u>2,680,530</u>	<u>2,680,530</u>
December 31, 2017	\$ -	-	<u>2,809,179</u>	<u>2,809,179</u>
June 30, 2017	\$ -	-	<u>2,744,595</u>	<u>2,744,595</u>

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, long 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 in unlisted stocks before year 2017 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.

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CAPITAL SECURITIES CORPORATION AND 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 were as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
June 30, 2018				
Financial assets at fair value through profit or loss	\$ 16,054,956	17,787,536	-	33,842,492
Financial assets at fair value through other comprehensive income	571,252	19,817,603	1,830,707	22,219,562
Derivative financial assets	<u>354,711</u>	<u>93,602</u>	<u>-</u>	<u>448,313</u>
	<u>\$ 16,980,919</u>	<u>37,698,741</u>	<u>1,830,707</u>	<u>56,510,367</u>
Financial liabilities at fair value through profit or loss	\$ 1,522,412	-	-	1,522,412
Derivative financial liabilities	<u>31,318</u>	<u>394,207</u>	<u>-</u>	<u>425,525</u>
	<u>\$ 1,553,730</u>	<u>394,207</u>	<u>-</u>	<u>1,947,937</u>
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	<u>744,342</u>	<u>48,832</u>	<u>-</u>	<u>793,174</u>
	<u>\$ 48,993,514</u>	<u>18,737,548</u>	<u>-</u>	<u>67,731,062</u>
Financial liabilities at fair value through profit or loss	\$ 2,386,346	-	-	2,386,346
Derivative financial liabilities	<u>131,636</u>	<u>385,211</u>	<u>-</u>	<u>516,847</u>
	<u>\$ 2,517,982</u>	<u>385,211</u>	<u>-</u>	<u>2,903,193</u>
June 30, 2017				
Financial assets at fair value through profit or loss	\$ 14,786,336	17,829,550	-	32,615,886
Financial assets available for sale	428,928	27,396,992	-	27,825,920
Derivative financial assets	<u>720,743</u>	<u>62,504</u>	<u>-</u>	<u>783,247</u>
	<u>\$ 15,936,007</u>	<u>45,289,046</u>	<u>-</u>	<u>61,225,053</u>
Financial liabilities at fair value through profit or loss	\$ 1,384,791	-	-	1,384,791
Derivative financial liabilities	<u>111,125</u>	<u>209,641</u>	<u>-</u>	<u>320,766</u>
	<u>\$ 1,495,916</u>	<u>209,641</u>	<u>-</u>	<u>1,705,557</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

b) Valuation techniques

i) Non-derivative financial instruments

The quoted market price is used as the fair value when the financial instruments have an active market. Publicly listed and over-the-counter traded equity instruments of primary stock exchanges along with central government bonds that are popular securities all regard active market quotes as the basis of fair value.

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

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

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 six months ended June 30, 2018 and 2017.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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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.

6) Movements of financial assets at fair value classified into Level 3

(In Thousands Dollars)

Item	For the six months ended June 30, 2018							Ending Balance
	Beginning Balance	Gains and losses on valuation		Addition		Reduction		
		Amount recognized in profit or loss	Amount recognized in comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	
Financial assets at fair value through other comprehensive income	\$ 1,787,809	-	51,615	2,135	-	10,852	-	1,830,707

7) Quantified information of fair value measurement for significant unobservable inputs (Level 3)

The Group's Level 3 fair value measurements are financial assets at fair value through other comprehensive income – equity instruments investment.

The Group's equity instruments investment without active market include multiple significant unobservable inputs. Those unobservable inputs of equity instrument without active market are independent from each other, thus, they are not correlative. Since the correlation between significant unobservable inputs and fair value cannot be fully measured in practical, the quantified information is not disclosed.

Item	Valuation technique	Significant unobservable inputs	Correlation between inputs and fair value
Financial assets at fair value through other comprehensive income - equity instruments without an active market	Market approach	<ul style="list-style-type: none"> · Price-to-Book Ratio · Discount for lack of marketability 	<ul style="list-style-type: none"> · The higher price-to-book ratio is, the higher fair value is. · The higher discount for lack of marketability is, the lower the fair value is.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Correlation between inputs and fair value</u>
Financial assets at fair value through other comprehensive income - equity instruments without an active market - venture capital corporation	Net Asset Value Method	Net Asset Value	Not applicable

- 8) Fair value measurement to Level 3, and the sensitivity analysis of the substitutable appropriate assumption made on fair value

The fair value measurement that the Group made for the financial instruments is deemed reasonable; however, different valuation models or inputs could result in different valuation results. Specifically, if the valuation input of financial instruments classified in the Level 3 changes by 1%, the effects on other comprehensive income are as follows:

	Change in fair value recognized in other comprehensive income	
	<u>Favorable</u>	<u>Unfavorable</u>
June 30, 2018		
Financial assets fair value through other comprehensive income	\$ <u><u>18,307</u></u>	<u><u>(18,307)</u></u>

Favorable and unfavorable movements of the Group refer to the fluctuation of fair value, and the fair value is calculated through the valuation technique according to the unobservable inputs to different extent. If the fair value of a financial instrument is affected by more than one input, the above table only illustrates the effect as a result of one single input, and the correlation and variance among multiple inputs are not listed here.

- (vi) Transfer of financial assets

The transferred financial assets of the Group which 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:

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June 30, 2018					
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	\$ <u>38,238,288</u>	<u>37,933,089</u>	<u>-</u>	<u>-</u>	<u>-</u>
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	\$ <u>47,104,528</u>	<u>47,056,312</u>	<u>-</u>	<u>-</u>	<u>-</u>
June 30, 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	\$ <u>44,966,273</u>	<u>44,492,765</u>	<u>-</u>	<u>-</u>	<u>-</u>

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:

June 30, 2018						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offsetting in the balance sheet	Net amount of financial assets presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
	(a)	(b)	(c)=(a)-(b)	Financial instruments (Note)	Cash received as collaterals	
Derivative financial assets	\$ <u>93,602</u>	<u>-</u>	<u>93,602</u>	<u>-</u>	<u>-</u>	<u>93,602</u>

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Notes to the Consolidated Financial Statements

June 30, 2018						
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)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals	
Derivative financial liabilities	\$ 394,207	-	394,207	-	-	394,207
Under repurchase agreements	37,933,089	-	37,933,089	37,933,089	-	-
Total	\$ 38,327,296	-	38,327,296	37,933,089	-	394,207

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

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)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals	
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

June 30, 2017						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
	Gross amount of recognized financial assets (a)	Gross amount of recognized financial liabilities offsetting in the balance sheet (b)	Net amount of financial assets presented in the balance sheets (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals	
Derivative financial assets	\$ 62,504	-	62,504	-	-	62,504

June 30, 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)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash received as collaterals	
Derivative financial liabilities	\$ 209,641	-	209,641	-	-	209,641
Under repurchase agreements	44,492,765	-	44,492,765	44,492,765	-	-
Total	\$ 44,702,406	-	44,702,406	44,492,765	-	209,641

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(x) Financial risk management

Except the following mentioned, there were no material changes in the Group's financial risk management and policies as disclosed in note(v) of the consolidated financial statements as of and for the year ended December 31, 2017.

(i) Determining whether credit risk has increased significantly since initial recognition

- 1) The Group measures each financial instrument that applies under IFRS9 if the credit risk of financial asset at the reporting date has increased significantly since initial recognition. The Group considers reasonable and supportable information that is relevant and available, including forward-looking information, since initial recognition for assessment. Main factors taking into consideration include credit risk rating and information of past due condition.
- 2) Low Credit Risk: A financial instrument has low credit risk at the reporting date, assumed to have no significant increase in credit risk since initial recognition. The determination criteria are the financial instrument's external credit rating is 'investment grade' or above.

(ii) Measurement of Expected Credit Losses (ECL)

1) Methods adopted and assumptions

The Group applies 12-month ECLs to measure the impairment loss of financial instruments, which have not increased significantly since initial recognition. For those financial instruments have increased significantly after initial recognition or with credit loss, the Group adopts lifetime ECLs to measure.

In order to measure ECLs, the Group takes into the future 12 months and lifetime probability of default (PD) on the financial assets, issuer, and counterparty to the possibility of Loss given default (LGD), then multiplies the amount of exposure at default (EAD) with the consideration of time value on currency, to calculate the 12 month and lifetime ECLs respectively.

Probability of PD is the probability of defaults occurring of an issuer or the counterparty. Probability of LGD is the percentage of the amount of loss incurred when issuers or the counterparty default. The probability of PD and LGD used by the Group was referring to the information periodically release from international credit rating institutions such as S&P, Moody's and Fitch. The Group measures EAD by the amortized cost plus interest receivables of financial instruments.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Financial risk information of derivative financial statements

As of June 30, 2018, December 31, 2017 and June 30, 2017, 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

Financial Instruments	June 30, 2018		December 31, 2017		June 30, 2017	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Stock warrants issued	\$ 46,219,793	-	73,019,951	-	14,208,029	-

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.

(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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 three months ended June 30, 2018 and the six months ended June 30, 2018:

a) Gains (losses) on valuation

	<u>For the three months ended June 30, 2018</u>	<u>For the six months ended June 30, 2018</u>	<u>Account</u>
Stock warrants issued	\$ 4,787,153	13,144,715	Gains (losses) on stock warrants issued
Stock warrants repurchased	(4,685,200)	(12,658,212)	Gains (losses) on stock warrants issued

b) Gains (losses) on sale

	<u>For the three months ended June 30, 2018</u>	<u>For the six months ended June 30, 2018</u>	<u>Account</u>
Security borrowing	\$ 123,805	181,717	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	(285,073)	(458,608)	Gains (losses) on sale of trading securities
Futures transaction	(50,960)	(194,240)	Gains (losses) on derivative financial instruments - futures

c) Gains (losses) on maturity

	<u>For the three months ended June 30, 2018</u>	<u>For the six months ended June 30, 2018</u>	<u>Account</u>
Stock warrants issued	\$ 9,240,574	13,950,063	Gains (losses) on stock warrants issued
Stock warrants repurchased	(8,759,836)	(13,431,171)	Gains (losses) on stock warrants issued

2) For the three months ended June 30, 2017 and the six months ended June 30, 2017:

a) Gains (losses) on valuation

	<u>For the three months ended June 30, 2017</u>	<u>For the six months ended June 30, 2017</u>	<u>Account</u>
Stock warrants issued	\$ 4,733,094	9,134,254	Gains (losses) on stock warrants issued
Stock warrants repurchased	(4,816,898)	(9,161,598)	Gains (losses) on stock warrants issued

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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b) Gains (losses) on sale

	<u>For the three months ended June 30, 2017</u>	<u>For the six months ended June 30, 2017</u>	<u>Account</u>
Security borrowing	\$ 2,213	11,541	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	61,801	112,700	Gains (losses) on sale of trading securities
Futures transaction	(100,539)	(142,587)	Gains (losses) on derivative financial instruments - futures

c) Gains (losses) on maturity

	<u>For the three months ended June 30, 2017</u>	<u>For the six months ended June 30, 2017</u>	<u>Account</u>
Stock warrants issued	\$ 6,408,821	9,798,461	Gains (losses) on stock warrants issued
Stock warrants repurchased	(6,305,704)	(9,671,130)	Gains (losses) on stock warrants issued

Futures

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

Please refer to note 12(a) for the notional principal and nominal amount as of June 30, 2018, December 31, 2017 and June 30, 2017.

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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Presentation of financial derivatives:

For the six months ended June 30, 2018 and 2017, gains (losses) on futures and options transactions amounted to \$290,270 and \$(225,815), respectively, and were reflected as gains (losses) on derivatives - futures. As of June 30, 2018, December 31, 2017 and June 30, 2017, futures margin - proprietary fund amounted to \$334,938, \$611,870 and \$616,331, 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 \$2,013,876, \$1,098,046 and \$961,519, respectively.

As of June 30, 2018, December 31, 2017 and June 30, 2017, the balance of call options which recognized as financial assets at fair value through profit or loss - current amounted to \$19,773, \$132,472 and \$104,412, respectively, put options which recognized as financial liabilities at fair value through profit or loss - current amounted to \$31,318, \$131,636 and \$111,125, respectively.

Derivative financial instruments - OTC

(i) Interest rate financial derivatives

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

	June 30, 2018		December 31, 2017		June 30, 2017	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
NT dollar interest swaps	\$ 33,800,000	-	43,100,000	-	43,200,000	-

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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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- 3) Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand:

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

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

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

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

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

(ii) Structured notes

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

Financial Instruments	June 30, 2018		December 31, 2017		June 30, 2017	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Equity-linked notes	\$ 67,934	-	40,461	-	30,802	-
Principal guaranteed notes	4,752,278	-	3,949,038	-	2,230,548	-
Credit-linked notes	475,300	-	490,600	-	489,500	-
Principle guaranteed notes	USD11,496 thousands	-	USD9,962 thousands	-	USD1,812 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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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- 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	June 30, 2018		December 31, 2017		June 30, 2017	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Convertible bond asset-backed swaps	\$ 840,200	-	943,700	-	766,600	-
Convertible bond options	2,801,600	-	2,437,300	-	2,097,400	-

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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Options

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

<u>Financial Instruments</u>	<u>June 30, 2018</u>		<u>December 31, 2017</u>		<u>June 30, 2017</u>	
	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk
For trading purpose:						
Equity options	\$ 30,000	-	1,000	-	-	-

The counterparties that the Group entered into derivative transactions with are all well-known financial institutions with good credit ratings. The Group does not expect the counter-party will default, therefore, the credit risks is minimal.

2) Market risk:

Market risk of trading equity options results from the purchase and sale of options. Since the fair values of 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.

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

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

(v) Presentation of derivative financial instruments - OTC

As of June 30, 2018, December 31, 2017 and June 30, 2017, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options and convertible bond asset-backed swaps and currency swaps were presented on the balance sheets as follows:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Financial assets at fair value through profit or loss - current			
IRS asset swaps	\$ 16,289	16,479	8,607
Interest rate swaps	3,125	1,920	656
Currency swaps	25,027	4,072	15,681
Equity derivatives	25	-	-
Asset swap options - long position	6,024	2,572	2,566
Structured notes	2,462	1,343	719
Currency derivatives	40,650	22,446	34,275
Total	<u>\$ 93,602</u>	<u>48,832</u>	<u>62,504</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Financial liabilities at fair value through profit or loss - current			
IRS asset swaps	\$ 1,107	239	431
Currency swaps	29,091	7,920	2,006
Asset swap options - short position	350,164	364,910	194,727
Equity derivatives	-	61	-
Structured notes	10,444	9,234	7,320
Currency derivatives	<u>3,401</u>	<u>2,847</u>	<u>5,157</u>
Total	<u>\$ 394,207</u>	<u>385,211</u>	<u>209,641</u>
Other financial liabilities - current			
Structured notes principal value	<u>\$ 5,367,110</u>	<u>4,509,983</u>	<u>2,469,655</u>
Other financial liabilities - non-current			
Structured notes principal value	<u>\$ 276,357</u>	<u>266,037</u>	<u>334,426</u>

For the three months ended June 30, 2018 and 2017 and the six months ended June 30, 2018 and 2017, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options, convertible bond asset-backed swaps and currency swaps are presented on statements of income as follows:

	<u>For the three months ended June 30, 2018</u>		<u>For the six months ended June 30, 2018</u>	
	<u>Gains (losses) on derivative financial instruments - OTC</u>	<u>Unrealized Gains (losses)</u>	<u>Gains (losses) on derivative financial instruments - OTC</u>	<u>Unrealized Gains (losses)</u>
Interest rate swaps	\$ 331	1,106	(815)	3,125
Equity derivatives	853	(310)	898	(266)
Structured notes	(12,574)	(2,999)	(21,825)	(6,275)
IRS asset swaps	58	(2,921)	136	15,182
Asset swap options	(28,411)	33,354	(64,670)	(35,392)
Currency swaps	18,472	2,029	1,938	(4,064)
Currency derivatives	<u>12,315</u>	<u>(11,857)</u>	<u>32,022</u>	<u>1,765</u>
Total	<u>\$ (8,956)</u>	<u>18,402</u>	<u>(52,316)</u>	<u>(25,925)</u>
	<u>For the three months ended June 30, 2017</u>		<u>For the six months ended June 30, 2017</u>	
	<u>Gains (losses) on derivative financial instruments - OTC</u>	<u>Unrealized Gains (losses)</u>	<u>Gains (losses) on derivative financial instruments - OTC</u>	<u>Unrealized Gains (losses)</u>
Interest rate swaps	\$ (1,588)	(381)	(6,740)	656
Equity derivatives	(20)	-	(20)	-
Structured notes	(8,511)	(1,684)	(16,448)	(5,007)
IRS asset swaps	65	(2,763)	168	8,176
Asset swap options	(23,960)	(18,375)	(93,235)	19,514
Currency swaps	(16,442)	(2,633)	(81,454)	13,675
Currency derivatives	<u>30,606</u>	<u>14,697</u>	<u>37,262</u>	<u>29,117</u>
Total	<u>\$ (19,850)</u>	<u>(11,139)</u>	<u>(160,467)</u>	<u>66,131</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(y) 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 June 30, 2018, the Company maintains no change of its capital management. The Company's capital adequacy ratio on June 30, 2018 was 352%.

(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.

<u>Names of related parties</u>	<u>Relationships</u>
Capital Insurance Advisory Corp.	Subsidiary
Capital Insurance Agency Corp	Subsidiary
Capital Investment Trust Corp. (Note)	Associate
Funds issued by Capital Investment Trust Corp. (Note)	Funds issued by associate
San Ho Enterprise Co., Ltd.	Juristic-person director
Kwang Hsing Industrial Co., Ltd.	Juristic-person director
Others	Key management personnel

Note: The corporation has become an associate of the Company from February 9, 2018.

(c) Key management personnel transactions

(i) Key management personnel compensation:

	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$ 42,423	45,865	160,994	129,134
Post-employment benefits	654	568	1,222	1,145
Share-based payment	-	5,960	-	5,960
Total	<u>\$ 43,077</u>	<u>52,393</u>	<u>162,216</u>	<u>136,239</u>

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(ii) Bond transactions - bonds sold under repurchase agreements

Bonds sold under repurchase agreements with key management personnel as of June 30, 2018, December 31, 2017 and June 30, 2017 were as follows:

	June 30, 2018		December 31, 2017		June 30, 2017	
	Par value	Purchase price	Par value	Purchase price	Par value	Purchase price
Key management personnel	\$ 22,600	22,684	43,600	43,941	43,600	43,847
	For the three months ended June 30,		For the six months ended June 30,		For the six months ended June 30,	
Total financial expenses	2018	2017	2018	2017	2018	2017
Key management personnel	\$ 38	51	86	106	86	106

(iii) Structured notes transactions

As of June 30, 2018, December 31, 2017 and June 30, 2017, the balances of structured notes transactions with key management personnel were \$51,034, \$45,971 and \$32,680, 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 June 30, 2018, December 31, 2017 and June 30, 2017 were as follows:

	June 30, 2018		December 31, 2017		June 30, 2017	
	Par value	Purchase price	Par value	Purchase price	Par value	Purchase price
Capital Money Market Fund	\$ 50,000	50,267	-	-	-	-
Subsidiaries	-	-	-	-	10,000	10,603
Juristic-person directors	14,300	14,300	10,700	10,700	14,300	14,300
Total	\$ 64,300	64,567	10,700	10,700	24,300	24,903
	For the three months ended June 30,		For the six months ended June 30,		For the six months ended June 30,	
Total financial expenses	2018	2017	2018	2017	2018	2017
Capital Money Market Fund	\$ 36	-	89	-	89	-
Subsidiaries	-	12	-	22	-	22
Juristic-person directors	18	23	32	43	32	43
Total	\$ 54	35	121	65	121	65

Transaction terms are the same as those with general clients.

(ii) Structured notes transaction

As of June 30, 2018, December 31, 2017 and June 30, 2017 the balances of structured notes transactions with juristic-person directors of the Group were \$4,950, \$4,995 and \$4,995, respectively.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(iii) Lease agreements

1) Lease revenue

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Subsidiaries	\$ 259	259	519	519
Associates	2,874	-	7,186	-
Total	<u>\$ 3,133</u>	<u>259</u>	<u>7,705</u>	<u>519</u>

2) Guarantee deposits received

	June 30, 2018	December 31, 2017	June 30, 2017
	Subsidiaries	\$ 200	200
Associates	3,811	-	-
Total	<u>\$ 4,011</u>	<u>200</u>	<u>200</u>

(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 three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Subsidiaries	\$ 3,296	2,447	6,502	9,347

2) Accounts receivable

	June 30, 2018	December 31, 2017	June 30, 2017
	Subsidiaries	\$ 2,209	1,169

(v) Commissions

The brokerage commission received from the Juristic-person directors, other related parties and funds issued by associates of the Group engaging in securities and futures trading for the three months ended June 30, 2018 and 2017 and the six months ended June 30, 2018 and 2017, were as follows:

Brokerage commissions	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Juristic-person directors	\$ 102	-	102	162
Other related parties	1,423	2,772	4,394	4,957
Funds issued by associates	1,637	-	3,939	-
Total	<u>\$ 3,162</u>	<u>2,772</u>	<u>8,435</u>	<u>5,119</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Re-consigned handling fee revenues				
Other related parties	\$ 37	-	79	-
Funds issued by associates	144	62	2,094	71
Total	\$ 181	62	2,173	71
	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Other commissions				
Funds issued by associates	\$ 366	-	366	-

(vi) Human resources and legal service income:

The Group provided human resources and legal service for associates, and the human resources and legal service income amounted to \$32, \$0, \$32 and \$0 for the three months ended June 30, 2018 and 2017 and the six months ended June 30, 2018 and 2017, respectively.

(vii) Accrued receivables

The accrued receivables between the associates and the Group include stock service receivable, printing service receivable and advance stock service receivable. As of June 30, 2018, the accrued receivables amounted to \$99,213.

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

(8) Pledged assets:

The following assets were pledged as collateral or restricted in use as of June 30, 2018, December 31, 2017 and June 30, 2017:

	June 30, 2018	December 31, 2017	June 30, 2017	The collateral use
Restricted assets - current	\$ 626,344	554,215	511,084	Bank borrowings, commercial paper, accounts settled, repurchase agreement, guaranty deposited for business operations (Annotation 1) and the amount of provisional seizure
Restricted assets - non-current	-	94,875	130,586	Trust to an impartial third party (Note 12(d))
Trading securities and bonds purchased under resale agreements (par value)	39,737,148	49,006,659	45,812,004	Repurchase agreement
Property and equipment	3,979,859	3,938,041	4,034,557	Bank borrowings
Financial assets at fair value through profit or loss - non-current	185,455	186,015	186,217	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business
Investment property	900,739	955,695	876,538	Bank borrowings
Total	\$ 45,429,545	54,735,500	51,550,986	

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Annotation 1 : 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:

	June 30, 2018		December 31, 2017		June 30, 2017	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities procured through margin purchase	672,688	\$ 6,726,880	715,087	7,150,870	664,100	6,641,000
Collateral for margin purchase	6,295	62,950	4,429	44,290	9,179	91,790
Collateral for short sales	6,054	60,540	5,063	50,630	8,873	88,730
Lending securities to customers through short sales	26,926	269,260	48,278	482,780	25,143	251,430

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

	June 30, 2018		December 31, 2017		June 30, 2017	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities borrowed from securities finance companies	189	\$ 1,890	1,005	10,050	166	1,660
Collateral for refinancing margin	36	360	15	150	8	80

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

	June 30, 2018	December 31, 2017	June 30, 2017
Promissory notes	<u>\$ 24,290,000</u>	<u>24,890,000</u>	<u>24,160,000</u>
Promissory notes	<u>USD60,000thousand</u>	<u>80,000thousand</u>	<u>70,000thousand</u>

(d) As of June 30, 2018, December 31, 2017 and June 30, 2017, the market values of collaterals which received from customers on conducting borrowing and lending business with unrestricted purposes were \$2,377,271, \$3,146,425 and \$1,990,743 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 Da-Sing branch conducted transactions for 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 High 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.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (g) 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.). The damages claimed for amounted to US\$6,355,536 dollars, which was in favor of the Company, or the investors reached compromises to waive off the appeal rights. As of June 30, 2018, 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 and the balance was \$48,034 as of June 30, 2018.
- (h) The Company provided the Letter of Comfort to the banks which loaned to its subsidiary CSC International Holdings Ltd. and CSC Securities (HK) Ltd.
- (i) 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. 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 June 30, 2018, TIFC has paid \$275,898 for compensation and recognized the loss reserves \$141,204 in other non-current liabilities - other.
- 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.
- (j) 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 June 30, 2018, the remaining payable balance was \$2,072.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(i) Balance sheet of trust accounts

Balance Sheet of Trust Accounts

June 30, 2018, December 31, 2017 and June 30, 2017

Trust Assets	June 30, 2018	December 31, 2017	June 30, 2017	Trust Liabilities	June 30, 2018	December 31, 2017	June 30, 2017
Bank deposits	\$ 1,066,378	951,429	1,014,135	Accounts payable	\$ 684	328	293
Short-term investment				Trust capital	12,748,996	12,050,890	10,122,324
Funds	10,508,938	10,576,044	8,386,429	Accumulated earnings or deficit	(250,771)	42,146	10,706
Stocks	175,007	283,224	476,301				
Securities lent	507,737	181,899	182,024				
Bonds	11,894	10,143	3,812				
Structured notes	13,098	10,027	10,000				
Accounts receivable	<u>215,857</u>	<u>80,598</u>	<u>60,622</u>				
Total Assets	<u>\$ 12,498,909</u>	<u>12,093,364</u>	<u>10,133,323</u>	Total Liabilities	<u>\$ 12,498,909</u>	<u>12,093,364</u>	<u>10,133,323</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Income statement of trust accounts

Income Statement of Trust Accounts

For the six months ended June 30, 2018 and 2017

	For the six months ended June 30,	
	2018	2017
Revenue		
Interest revenue	\$ 2,794	2,419
Cash dividends revenue	225,363	116,012
Rental revenue	4,683	4,699
Realized investment gains	193,068	143,619
Unrealized investment gains	120,101	285,212
Unrealized currency exchange gains	135,932	25,777
Currency exchange gains	1,923,210	4,486
Subtotal	2,605,151	582,224
Expense		
Administrative fee	552	625
Commission expenses	44,611	36,639
Realized investment losses	103,702	49,259
Unrealized investment losses	951,886	301,486
Unrealized currency exchange losses	2,420,294	190,847
Supplementary insurance premium	5	-
Currency exchange losses	142,897	53,019
Subtotal	3,663,947	631,875
Net losses before tax	(1,058,796)	(49,651)
Income tax expense	(163)	(128)
Net losses after income tax	\$ (1,058,959)	(49,779)

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) List of trust properties

List of Trust Properties

June 30, 2018, December 31, 2017 and June 30, 2017

<u>Investment items</u>	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Bank deposits	\$ 1,066,378	951,429	1,014,135
Short-term investment			
Stocks	175,007	283,224	476,301
Securities lent	507,737	181,899	182,024
Structured Notes	13,098	10,027	10,000
Bonds	11,894	10,143	3,812
Funds	10,508,938	10,576,044	8,386,429
Account receivables	<u>215,857</u>	<u>80,598</u>	<u>60,622</u>
Total	<u>\$ 12,498,909</u>	<u>12,093,364</u>	<u>10,133,323</u>

(10) Significant Catastrophic Loss: None

(11) Significant Subsequent Events: None

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(12) Other:

(a) As of June 30, 2018, December 31, 2017 and June 30, 2017, the open positions of futures and option contracts were as follows:

(i) June 30, 2018

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	Taiex Futures	Long	46	\$ 95,919	97,343	
	Taiex Futures	Short	958	(2,040,052)	(2,045,255)	
	Mini Taiex Futures	Long	12	6,371	6,406	
	Mini Taiex Futures	Short	5	(2,620)	(2,660)	
	Electronic Sector Index Futures	Short	35	(60,297)	(60,949)	
	Finance Sector Index Futures	Long	25	30,882	31,080	
	Non-Finance Non-Electronics Sub-Index Futures	Long	2	2,522	2,523	
	Non-Finance Non-Electronics Sub-Index Futures	Short	1	(1,241)	(1,241)	
	Stock Futures	Long	1,823	195,052	190,480	
	Stock Futures	Short	6,904	(924,528)	(900,952)	
	HSI Futures	Long	9	48,881	49,781	
	HSI Futures	Short	6	(35,016)	(33,446)	
	SGX Nifty 50 Index Futures	Long	53	34,341	34,522	
	Dow Futures	Long	156	75,399	75,847	
	Dow Futures	Short	93	(44,998)	(45,244)	
	Mini-Dow Futures	Long	12	44,307	44,363	
	Mini-Dow Futures	Short	23	(85,319)	(84,998)	
	Soybean Futures	Short	12	(17,579)	(16,083)	
	Gold Futures	Short	12	(48,502)	(45,855)	
	Micro Gold Futures	Long	11	4,263	4,203	
	MSCI Taiwan Index Futures	Short	82	(96,429)	(96,812)	
	FTSE China A50 Index Futures	Long	282	97,631	99,040	
	FTSE China A50 Index Futures	Short	786	(279,348)	(275,984)	
	Real Estate Index Futures	Short	2	(1,903)	(1,948)	
	VIX Futures	Long	18	8,648	8,718	
	S&P 500 Futures	Long	4	2,188	2,181	
	S&P 500 Futures	Short	89	(48,456)	(48,532)	
	Mini-S&P 500 Futures	Long	43	178,411	177,234	
	Mini-S&P 500 Futures	Short	2	(8,475)	(8,290)	
	U.S. 10-Year T-Note Futures	Short	639	(2,329,646)	(2,339,322)	
	Ultra 10-Year U.S. Treasury Note Futures	Short	28	(109,336)	(109,369)	
	Euro-Bund Futures	Short	36	(206,704)	(207,154)	
	Crude Oil Futures	Long	5	11,274	11,293	
	Nifty 50 Index Futures	Long	1	534	535	
	Nifty 50 Index Futures	Short	66	(35,088)	(35,287)	
	USD/JPY FX Futures	Long	41	24,818	24,873	
	USD/JPY FX Futures	Short	36	(21,635)	(21,697)	
	EUR/USD FX Futures	Long	14	10,032	10,044	
	EUR/USD FX Futures	Short	134	(95,156)	(95,388)	
	USD Index Futures	Short	34	(96,481)	(97,712)	
	JPY dollar Futures	Long	4	13,899	13,810	
	JPY dollar Futures	Short	3	(10,436)	(10,357)	
	CAD dollar Futures	Long	8	18,376	18,559	
	Euro dollar Futures	Long	19	84,208	84,905	
	Subtotal			(5,611,289)		

(Continued)

CAPITAL SECURITIES CORPORATION AND 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 :						
	Taixex Options (Call)	Long	427	\$ 2,134	1,319	
	Taixex Options (Put)	Long	2,167	11,417	5,935	
	Taixex Options (Call)	Short	1,915	(9,298)	(9,391)	
	Taixex Options (Put)	Short	2,928	(26,415)	(14,328)	
	Stock Options (Call)	Long	551	2,524	1,384	
	Stock Options (Put)	Long	221	1,010	1,305	
	Stock Options (Call)	Short	119	(744)	(634)	
	Stock Options (Put)	Short	87	(541)	(604)	
	Taixex Weekly Options (Call)	Long	1,614	1,866	2,865	
	Taixex Weekly Options (Put)	Long	3,607	2,423	1,447	
	Taixex Weekly Options (Call)	Short	558	(1,636)	(2,958)	
	Taixex Weekly Options (Put)	Short	854	(2,807)	(1,076)	
	Electronic Sector Index Options (Call)	Long	146	425	369	
	Electronic Sector Index Options (Put)	Long	110	353	372	
	Electronic Sector Index Options (Call)	Short	70	(337)	(266)	
	Electronic Sector Index Options (Put)	Short	42	(155)	(127)	
	Finance Sector Index Options (Call)	Long	221	660	485	
	Finance Sector Index Options (Put)	Long	56	86	50	
	Finance Sector Index Options (Call)	Short	23	(20)	(16)	
	Finance Sector Index Options (Put)	Short	92	(258)	(220)	
	S&P 500 Options (Call)	Long	190	2,552	404	
	S&P 500 Options (Put)	Long	65	2,021	3,808	
	S&P 500 Options (Call)	Short	45	(536)	(240)	
	S&P 500 Options (Put)	Short	85	(2,201)	(1,401)	
	JPY dollar Options (Put)	Short	2	(5)	(2)	
	Gold Option (Call)	Long	4	7	6	
	Gold Option (Put)	Long	11	22	24	
	Gold Option (Call)	Short	4	(7)	(7)	
	Gold Option (Put)	Short	4	(56)	(48)	
	Subtotal			(17,516)		
Total				\$ (5,628,805)		

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) December 31, 2017

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	Taixex Futures	Long	166	\$ 341,696	351,721	
	Taixex 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	
	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 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 :						
	Taixex Options (Call)	Long	22,356	\$ 40,998	61,369	
	Taixex Options (Put)	Long	26,265	59,047	33,040	
	Taixex Options (Call)	Short	4,712	(30,079)	(40,087)	
	Taixex 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)	
	Taixex Weekly Options (Call)	Long	3,328	2,811	3,250	
	Taixex Weekly Options (Put)	Long	22,035	2,720	1,137	
	Taixex Weekly Options (Call)	Short	3,236	(10,161)	(24,567)	
	Taixex 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 SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) June 30, 2017

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	Taiex Futures	Long	16	\$ 32,546	32,448	
	Taiex Futures	Short	1,135	(2,308,211)	(2,324,853)	
	Mini Taiex Futures	Long	272	139,719	139,361	
	Mini Taiex Futures	Short	21	(10,428)	(10,630)	
	Electronic Sector Index Futures	Short	21	(36,073)	(36,208)	
	Non-Finance Non-Electronics Sub-Index Futures	Long	6	7,041	7,008	
	Stock Futures	Long	1,944	148,875	149,308	
	Stock Futures	Short	12,953	(1,592,145)	(1,635,339)	
	Finance Sector Index Futures	Long	17	19,064	19,133	
	SGX Nifty 50 Index Futures	Long	6	3,471	3,475	
	HSI Futures	Long	25	124,466	123,671	
	HSI Futures	Short	3	(15,050)	(14,956)	
	MSCI Taiwan Index Futures	Short	322	(377,644)	(377,410)	
	VIX Futures	Short	4	(1,407)	(1,488)	
	GBP dollar Futures	Long	25	61,699	62,005	
	EUR dollar Futures	Long	62	267,824	270,341	
	JPY dollar Futures	Short	9	(30,709)	(30,492)	
	Dow Futures	Long	53	22,532	22,545	
	Dow Futures	Short	46	(19,630)	(19,528)	
	Mini-Dow Futures	Short	17	(55,091)	(55,069)	
	NT Dollar Gold Futures	Short	2	(922)	(919)	
	USD/CNY FX Futures	Long	21	65,952	64,504	
	USD/CNY FX Futures	Short	26	(81,792)	(80,376)	
	Nifty 50 Index Futures	Long	2	951	952	
	Nifty 50 Index Futures	Short	9	(4,273)	(4,286)	
	Mini-USD/CNY FX Futures	Long	86	54,836	53,493	
	Mini-USD/CNY FX Futures	Short	25	(15,665)	(15,340)	
	USD/JPY FX Futures	Short	52	(31,443)	(31,530)	
	EUR/USD FX Futures	Short	242	(168,071)	(169,286)	
	Euro-Bond Futures	Short	20	(114,290)	(112,403)	
	Crude Oil Futures	Long	36	49,335	50,696	
	Crude Oil Futures	Short	128	(170,325)	(179,269)	
	S&P 500 Futures	Long	75	36,499	36,296	
	Mini-S&P 500 Futures	Short	143	(527,664)	(524,166)	
	FTSE China A50 Index Futures	Long	17	744	747	
	FTSE China A50 Index Futures	Short	484	(167,196)	(167,294)	
	SGX Nikkei 225 Index Futures	Short	1	(2,692)	(2,716)	
	U.S. 5-Year T-Note Futures	Short	88	(316,710)	(315,442)	
	U.S. 10-Year T-Note Futures	Short	185	(707,959)	(706,452)	
	Sugar Futures	Long	6	1,703	1,715	
	Soybean Meal Futures	Long	51	6,180	5,828	
	Soybean Meal Futures	Short	40	(4,729)	(4,520)	
	Subtotal			(5,716,682)		

(Continued)

CAPITAL SECURITIES CORPORATION AND 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 :						
	Taixex Options (Call)	Long	12,784	\$ 32,487	56,683	
	Taixex Options (Put)	Long	28,252	32,851	29,891	
	Taixex Options (Call)	Short	12,956	(54,060)	(49,271)	
	Taixex Options (Put)	Short	11,052	(27,593)	(24,156)	
	Stock Options (Call)	Long	672	1,981	2,205	
	Stock Options (Put)	Long	1,133	3,069	2,257	
	Stock Options (Call)	Short	585	(1,364)	(1,689)	
	Stock Options (Put)	Short	463	(1,312)	(1,115)	
	Taixex Weekly Options (Call)	Long	15,681	1,263	843	
	Taixex Weekly Options (Put)	Long	25,431	3,736	3,802	
	Taixex Weekly Options (Call)	Short	1,648	(4,655)	(5,153)	
	Taixex Weekly Options (Put)	Short	5,065	(14,955)	(15,897)	
	Electronic Sector Index Options (Call)	Long	126	241	284	
	Electronic Sector Index Options (Put)	Long	198	324	150	
	Electronic Sector Index Options (Call)	Short	377	(1,807)	(2,423)	
	Electronic Sector Index Options (Put)	Short	505	(1,872)	(2,439)	
	Finance Sector Index Options (Call)	Long	141	337	1,057	
	Finance Sector Index Options (Put)	Long	958	204	118	
	Finance Sector Index Options (Call)	Short	150	(827)	(1,109)	
	Finance Sector Index Options (Put)	Short	42	(104)	(99)	
	S&P 500 Options (Call)	Long	1,088	7,845	1,323	
	S&P 500 Options (Put)	Long	12	427	431	
	S&P 500 Options (Call)	Short	22	(975)	(515)	
	S&P 500 Options (Put)	Short	307	(7,070)	(4,580)	
	Mini-S&P 500 Options (Call)	Short	50	(673)	(169)	
	Gold Option (Put)	Long	83	153	76	
	Gold Option (Put)	Short	3	(12)	(12)	
	Sugar Options (Call)	Long	11	26	4	
	Sugar Options (Put)	Long	10	33	61	
	Soybean Meal Options (Call)	Long	11	39	38	
	Soybean Meal Options (Put)	Long	20	12	28	
	Soybean Meal Options (Call)	Short	300	(437)	(308)	
	Soybean Meal Options (Put)	Short	87	(257)	(317)	
	Mini USD/CNY FX Options (Call)	Long	38	1,375	328	
	Mini USD/CNY FX Options (Put)	Long	29	1,307	1,521	
	Mini USD/CNY FX Options (Call)	Short	21	(411)	(65)	
	Mini USD/CNY FX Options (Put)	Short	41	(680)	(1,590)	
	USD/CNY FX Options (Call)	Long	2	12	5	
	USD/CNY FX Options (Put)	Long	128	1,512	1,729	
	USD/CNY FX Options (Call)	Short	130	(916)	(218)	
	NVDA Options (Call)	Long	4	48	43	
	10 Year Bond Options (Call)	Long	170	2,101	1,535	
	Subtotal			(28,597)		
Total				\$ (5,745,279)		

(Continued)

CAPITAL SECURITIES CORPORATION AND 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		Last Period		Standard	Enforcement
		Calculation	Ratio	Calculation	Ratio		
17	Stockholders' equity	4,777,019	4.68	4,233,306	4.74	≥ 1	Satisfactory to requirement
	(Total liabilities - futures traders' equity)	1,021,286		893,034			
17	Current Assets	33,181,534	1.11	30,343,707	1.10	≥ 1	"
	Current Liabilities	29,881,639		27,495,784			
22	Stockholders' equity	4,777,019	428.43 %	4,233,306	379.67 %	≥ 60%	"
	Minimum paid-in capital	1,115,000		1,115,000		≥ 40%	
22	Post-adjustment net capital	3,288,588	49.31 %	2,802,611	55.19 %	≥ 20%	"
	Total customers' margin deposits required for open positions of customers	6,668,582		5,077,688		≥ 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 June 30, 2018, the accumulated compensation expense and the total accumulated amount of compensation of TIFC were \$87,126 and \$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.

(Continued)

CAPITAL SECURITIES CORPORATION AND 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 29,322 thousand	US 29,322 thousand	US 29,322 thousand	- %	2	-	Operations	-		-	US 53,933 thousand	US 53,933 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	3,022	84,623	-	4 %	2	-	Tradings	-		-	102,989	411,954
5	CSC Futures (HK) Ltd.	Klaw Trading Limited	Account receivables - Customer	No	18,097	42,312	15,102	5 %	2	-	Tradings	-		-	102,989	411,954
6	CSC Futures (HK) Ltd.	Three Arrows Capital Ltd.	Account receivables - Customer	No	-	84,623	-	5 %	2	-	Tradings	-		-	102,989	411,954
7	CSC Futures (HK) Ltd.	Future Leading Investment Pte. Ltd.	Account receivables - Customer	No	84,623	84,623	84,623	3.5 %	2	-	Tradings	-		-	102,989	411,954
8	CSC Futures (HK) Ltd.	Tetrion Capital Limited	Account receivables - Customer	No	-	6,852	-	- %	2	-	Tradings	-		-	102,989	411,954

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 SUBSIDIARIES
Notes to the Consolidated Financial Statements

(vii) Business relationships and significant intercompany transactions for the six months ended June 30, 2018:

(In Thousands Dollars)

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Intercompany transaction details			Percentage of total consolidated revenue or total assets
				General ledger account	Amount	Trading terms	
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts payable	526		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts receivable	16,366		0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other receivables	9,307		0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Bonds sold under repurchase agreements	201,502		0.15 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other payables	19,957		0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Guarantee deposits received	3,819		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Futures commission revenue	86,373	General transaction	1.72 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Lease revenue	7,968	General transaction	0.16 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Revenue from securities management, distribution, and management fees	192	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Financial costs	75	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other operating revenue	15	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Securities commission expense	2,852	General transaction	0.06 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Interest revenue	167	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Miscellaneous expenses	13,847	General transaction	0.28 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Non-operating revenues	13,796	General transaction	0.27 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Brokerage commissions revenue	228	General transaction	- %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Other receivables	122		- %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Professional service fees	41,000	General transaction	0.82 %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Lease revenue	600	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	60	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Non-operating revenues	60	General transaction	- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Lease revenue	249	General transaction	- %
0	Capital Securities Corp.	Taiwan International Futures Corp.	1	Revenue from securities management, distribution, and management fees	60	General transaction	- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other receivables	25		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other operating expenditure	3,622	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	55		- %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Lease revenue	481	General transaction	0.01 %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Financial costs	1	General transaction	- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Other non-operating revenue	103	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	1,360,361		1.02 %
1	Capital Futures Corp.	Capital Securities Corp.	2	Futures traders' equity	1,360,361		1.02 %

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Intercompany transaction details			Percentage of total consolidated revenue or total assets
				General ledger account	Amount	Trading terms	
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Customers' margin account	350,650		0.26 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures traders' equity	2,485,372		1.86 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Other payables	1,659		- %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures commission expense	5,237	General transaction	0.10 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Brokerage commissions revenue	32,690	General transaction	0.65 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Financial costs	378	General transaction	0.01 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Customers' margin account	2,465,078		1.84 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Futures traders' equity	330,356		0.25 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Information technology expense	114	General transaction	- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Accumulated depreciation	1,166		- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Depreciation expense	200	General transaction	- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Prepayments	544	General transaction	- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Professional service fees	7,407	General transaction	0.15 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Membership fee	113	General transaction	- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other receivables	HK 5		- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other operating revenue	HK 2,160	General transaction	0.17 %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Brokerage handling fee expense	HK 363	General transaction	0.03 %
3	CSC Securities (HK) Ltd.	CSC International Holdings Ltd.	3	Other payables	HK 228,480		0.66 %
4	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK)Limited	3	Other receivables	HK 26,241		0.08 %

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

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

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

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

(Continued)

CAPITAL SECURITIES CORPORATION AND 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		Equity Ownership by company (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 during the period	Note
						Balance on June 30, 2018	Balance on December 31, 2017	Shares	Ratio	Book value					
0	Capital Investment Management Corp.	Taipei, Taiwan, R.O.C.	February 16, 1990		Engaged in providing research, analysis and recommendations pertaining to securities investment, organize seminars and publish materials on securities investments.	72,515	72,515	7,000,000	100.00 %	100,900	41,000	4,732	4,732	10,990	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.	1,212,539	1,212,539	90,166,223	56.21 %	2,685,162	1,443,835	589,240	331,231	258,776	"
0	CSC International Holdings Ltd.	British Virgin Island	March 4, 1996	No. FSC-65350 dated January 12, 1996	Long-term equity investment business.	1,339,555	1,339,555	45,000,000	100.00 %	1,640,116	18,623	11,580	11,580	-	"
0	Capital Insurance Advisory Corp.	Taipei, Taiwan, R.O.C.	November 9, 2000		Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business.	3,890	3,890	500,000	100.00 %	59,837	100,844	33,981	33,981	64,650	Subsidiary
0	Capital Insurance Agency Corp.	Taipei, Taiwan, R.O.C.	November 8, 2000		Manages personal insurance agent business.	7,400	7,400	740,000	100.00 %	41,285	38,493	1,884	1,884	2,146	"
0	Taiwan International Futures Corp. (Note 4)	Taipei, Taiwan, R.O.C.	November 25, 1993		Liquidation in progress.	429,990	429,990	11,999,721	99.99 %	-	-	-	-	-	The transaction has been 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	300	100.00 %	629	(681)	(685)	(685)	-	"
0	Taiwan International Securities Investment Consulting Corp. (Note 5)	Taipei, Taiwan, R.O.C.	March 3, 1994		Liquidation in progress.	9,992	9,992	999,200	99.92 %	12,915	-	(116)	(116)	-	"
0	CSC Venture Capital Corp.	Taipei, Taiwan, R.O.C.	January 12, 2016	No. FSC-1040034071 dated September 8, 2015	Venture Capital and consulting business	1,000,000	1,000,000	100,000,000	100.00 %	1,032,898	3,446	621	621	-	"
0	Capital Investment Trust Corp.	Taipei, Taiwan, R.O.C.	October 10, 1995		Engaged in security investment and discretionary investment services.	1,272,505	-	33,067,507	20.00 %	1,214,888	652,427	253,585	39,527	99,203	Associates
1	CSC Securities (HK) Ltd.	Hong Kong	May 3, 1994	No. FSC-90931 dated January 5, 1998	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong.	HK 128,000 thousand	HK 128,000 thousand	128,000,000	100.00 %	HK 162,896 thousand	HK 16,020 thousand	HK 4,664 thousand	-	-	The transaction has been written off in the consolidated financial statements
2	TIS Securities (HK) Limited. (Note 6)	Hong Kong	August 17, 1993	No. FSC-40912 dated November 4, 1993	Liquidation in progress.	HK 265,000 thousand	HK 265,000 thousand	265,000,000	100.00 %	HK (26,532) thousand	HK -	HK (177) thousand	-	-	"
3	Taiwan International Capital (HK) Ltd. (Note 6)	Hong Kong	July 16, 1997	No. FSC-110159	Liquidation in progress.	HK 2	HK 2	2	100.00 %	HK (66,176) thousand	-	HK (76) thousand	-	-	"
4	CSC Futures (HK) Ltd.	Hong Kong	December 9, 1998	No. FSC-1010027412 dated August 24, 2012	Future brokerage and other businesses permitted by local law of Hong Kong.	862,631	862,631	214,000,000	97.27 %	1,001,770	365,646	61,725	-	-	"

(Continued)

CAPITAL SECURITIES CORPORATION AND 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		Equity Ownership by company (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 during the period	Note
						Balance on June 30, 2018	Balance on December 31, 2017	Shares	Ratio	Book value					
4	Capital International Technology Co., Ltd.	Taipei, Taiwan, R.O.C.	December 29, 2014	No. FSC-1030038387 dated November 18, 2014	Management and consulting business. Information technology software	50,000	50,000	5,000,000	100.00 %	48,121	-	1,819	-	-	The transaction has been written off in the consolidated financial statements
4	True Partner Advisor Hong Kong Ltd	Hong Kong	May 31, 2010	No. FSC-1040027513 dated July 16, 2015	Asset Management	36,701	36,701	245,000	49.00 %	43,435	48,527	3,421	-	-	Associates
5	Capital Securities Nominee Ltd.	Hong Kong	April 7, 1995		Agency services.	HK 2	HK 2	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) Taiwan International Securities (B.V.I) Corp. (3) TIS Securities (HK) Limited. (4) Capital Futures Corp. (5) CSC Securities (HK) Ltd.

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

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

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

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

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

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

(In Thousands of New Taiwan Dollars)

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

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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, 2018	Remittance of recoverable investment this period		Accumulated remittance as of June 30, 2018	Net gains (losses) of the investee	Direct or indirect Share holdings (%) by the company	Investment gains (losses) recognized during this period (Note 2)	Ending Balance of Investment	Investment income remitted back as of June 30, 2018
					Remittance amount	Recoverable amount						
Capital True Partner Technology Co., Ltd.	Management, consulting and information service business	5,013	(C)	24,372	-	-	24,372	941	28.67%	327 B(2)	12,492	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	18,863	(C)	18,863	-	-	18,863	4,830	56.21%	2,715 B(2)	14,407	-

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.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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- (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 six months ended June 30, 2018 are as follows:

- (i) Balance sheet and income statement:

- 1) Balance sheet

Unit: US \$ thousands

Company	CSC International Holdings Ltd. June 30, 2018	Taiwan International Securities (B.V.I) Corp. June 30, 2018
Nature		
Current assets	11,787	58
Long-term investments	20,757	-
Property and premises	2,122	-
Other assets	19,395	3,380
Total assets	54,061	3,438
Current liabilities	38	36
Other liabilities	90	3,381
Total liabilities	128	3,417
Common stock	45,000	9,516
Retained earnings (Accumulated deficit)	9,212	(9,453)
Cumulative translation adjustments	(279)	(42)
Total stockholders' equity	53,933	21
Total liabilities and stockholders' equity	54,061	3,438

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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2) Income statement

Unit: US \$ thousands

Company	CSC International Holdings Ltd. For the six months ended June 30, 2018	Taiwan International Securities (B.V.I) Corp. For the six months ended June 30, 2018
Nature		
Operating revenue	618	(23)
Operating expense	(453)	-
Non-operating revenue	230	-
Non-operating expense	(11)	-
Income (loss) before tax	384	(23)
Net income (loss)	384	(23)

(ii) Marketable securities held as of June 30, 2018

Unit: shares / US\$ thousands

Name of holding company	Securities types and name	Account classification	June 30, 2018	
			Shares	Book value
CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Long-term investments	128,000,000	\$ <u>20,757</u>
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Other liabilities	265,000,000	\$ <u>(3,381)</u>

(iii) Transactions of financial derivatives: None.

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 three months ended June 30, 2018								
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$ 1,093,455	81,841	270,674	106,539	56,642	669,612	(74,406)	2,204,357
Income	\$ 561,068	38,644	24,325	42,293	35,566	195,961	(100,267)	797,590

For the three months ended June 30, 2017								
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$ 782,826	74,448	499,117	103,700	52,252	681,693	(68,615)	2,125,421
Income	\$ 216,414	32,378	320,627	62,492	(34,235)	246,038	(110,925)	732,789

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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For the six months ended June 30, 2018								
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$ 2,065,378	145,061	698,046	387,865	120,758	1,771,570	(158,054)	5,030,624
Income	\$ 1,001,186	64,474	240,541	262,353	85,204	664,365	(344,002)	1,974,121

For the six months ended June 30, 2017								
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$ 1,527,227	160,954	937,119	181,684	104,460	1,186,478	(134,143)	3,963,779
Income	\$ 477,219	73,302	620,704	108,731	(145,273)	357,972	(150,631)	1,342,024

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.

(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.