

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

**Consolidated Financial Statements**

**With Independent Auditors' Review Report  
for the Nine Months Ended September 30, 2018 and 2017**

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

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## Independent Auditors' Review Report

To the Board of Directors of  
Capital Securities Corporation:

### Introduction

We have reviewed the accompanying consolidated balance sheets of the Capital Securities Corporation and its subsidiaries as of September 30, 2018 and 2017, and the related consolidated statements of comprehensive income for the three months and the nine months ended September 30, 2018 and 2017, as well as the changes in equity and cash flows for the nine months ended September 30, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements 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. Our responsibility is to express a conclusion on the consolidated financial statements based on our review.

### Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with Statement of Auditing Standards 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of the consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Basis for Qualified Conclusion

As stated in Note 4(c), the consolidated financial statements included the financial statements of certain non-major subsidiaries, which were not reviewed by independent auditors. These financial statements reflect total assets amounting to \$3,188,593 thousands and \$3,161,315 thousands, constituting 2.50% and 2.28% of consolidated total assets as of September 30, 2018 and 2017, respectively, total liabilities amounting to \$377,533 thousands and \$295,533 thousands, constituting 0.41% and 0.28% of consolidated total liabilities as of September 30, 2018 and 2017, respectively, and total comprehensive income (loss) amounting to \$(93,528) thousands, \$24,765 thousands, \$(117,626) thousands and \$(9,213) thousands, constituting (43.15)%, 2.43%, (7.80)% and (0.42)% of consolidated total comprehensive income (loss) for the three months and the nine months ended September 30, 2018 and 2017, respectively.

Furthermore, as stated in Note 6(f), the other equity accounted investments of the Capital Securities Corporation and its subsidiaries in its investee companies of \$1,396,246 thousands and \$162,868 thousands as of September 30, 2018 and 2017, respectively, and its equity in net earnings on these investee companies of \$36,736 thousands, \$14,299 thousands, \$113,805 thousands and \$56,935 thousands for the three months and the nine months ended September 30, 2018 and 2017, respectively, and its equity in other comprehensive income (loss) on these investee companies of \$65 thousands, \$(81) thousands, \$2,347 thousands and \$(819) thousands for the three months and the nine months ended September 30, 2018 and 2017, respectively, were recognized solely on the financial statements prepared by these investee companies, but not reviewed by independent auditors.

### **Qualified Conclusion**

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and equity accounted investee companies described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Capital Securities Corporation and its subsidiaries as of September 30, 2018 and 2017, and of its consolidated financial performance for the three months and the nine months ended September 30, 2018 and 2017, and its consolidated cash flows for the nine months ended September 30, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms and IASs 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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

KPMG

Taipei, Taiwan (Republic of China)  
November 12, 2018

### **Notes to Readers**

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

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

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**Reviewed only, not audited in accordance with the generally accepted auditing standards as of September 30, 2018 and 2017**

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**September 30, 2018, December 31, 2017, and September 30, 2017**

(Expressed in Thousands of New Taiwan Dollars)

	September 30, 2018		December 31, 2017		September 30, 2017			September 30, 2018		December 31, 2017		September 30, 2017	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
<b>Assets</b>							<b>Liabilities and Equity</b>						
<b>Current assets:</b>							<b>Current liabilities:</b>						
110000 Cash and cash equivalents (note 6(a))	\$ 7,700,427	6	7,104,077	5	7,024,429	5	210000 Short-term borrowings (note 6(j))	\$ 4,596,498	4	7,081,698	5	7,544,684	5
112000 Financial assets at fair value through profit or loss - current (notes 6(b) and 8)	31,696,368	25	34,737,268	24	32,447,136	23	211200 Commercial paper payable (note 6(k))	1,749,881	1	4,099,184	3	3,649,321	3
113200 Financial assets at fair value through other comprehensive income - current (note 6(b))	17,392,056	14	-	-	-	-	212000 Financial liabilities at fair value through profit or loss - current (note 6(l))	1,183,127	1	2,903,193	2	2,191,630	2
113400 Financial assets available for sale - current (notes 6(b) and 8)	-	-	32,807,779	23	33,555,976	24	214010 Bonds sold under repurchase agreements (note 6(m))	35,203,702	28	47,056,312	33	46,089,737	33
114010 Bonds purchased under resale agreements (notes 6(c) and 8)	-	-	-	-	100,402	-	214040 Guarantee deposited for short sales	1,798,389	1	2,226,264	2	1,767,504	1
114030 Receivable for securities provided as collateral	12,725,558	10	14,886,813	11	14,387,929	10	214050 Proceeds payable from short sales	2,037,334	2	2,500,853	2	2,006,480	1
114040 Refinancing margin	80,843	-	46,095	-	21,310	-	214070 Securities lending refundable deposits	747,275	1	1,190,277	1	1,312,455	1
114050 Refinancing collateral receivable	63,754	-	38,888	-	23,944	-	214080 Futures traders' equity (note 6(e))	32,389,958	25	27,268,226	19	25,979,489	19
114060 Receivable of securities business money lending	1,793,311	1	1,532,231	1	1,168,835	1	214090 Customer equity of separate account ledger in settlement account (note 6(n))	15,711	-	13,479	-	7,707	-
114070 Customers' margin account (note 6(c))	32,424,124	26	27,302,712	19	26,043,603	19	214100 Leverage contract trading - customers' equity	226,998	-	152,840	-	146,197	-
114080 Receivable - futures margin	31	-	1	-	-	-	214110 Notes payable	-	-	879	-	1,094	-
114090 Collateral for securities borrowed	292,508	-	914,343	1	572,560	1	214130 Accounts payable (note 6(o))	4,883,341	4	5,778,758	4	7,187,527	5
114100 Security borrowing margin	293,380	-	931,868	1	552,241	-	214150 Advance receipts	31,088	-	55,544	-	231,152	-
114110 Notes receivable	11,283	-	21,811	-	20,896	-	214160 Receipts under custody	159,707	-	346,023	-	830,682	1
114130 Accounts receivable (note 6(d))	6,787,258	5	6,726,055	5	8,146,562	6	214170 Other payables	822,349	1	995,443	1	961,550	1
114150 Prepayments	35,135	-	33,940	-	38,711	-	214200 Other financial liabilities - current (note 6(w))	4,107,079	3	4,509,983	3	4,356,851	3
114170 Other receivables	156,787	-	70,107	-	148,172	-	214600 Current income tax liabilities	425,043	-	228,401	-	258,296	-
114300 Leverage contract trading - customers' margin account	228,529	-	151,540	-	146,980	-	215100 Provisions - current (note 6(q))	60,276	-	49,066	-	58,439	-
114600 Current income tax assets	26,607	-	26,763	-	44,805	-	219000 Other current liabilities	11,020	-	6,726	-	5,427	-
119000 Other current assets	541,783	1	888,582	1	1,018,048	1		<u>90,448,776</u>	<u>71</u>	<u>106,463,149</u>	<u>75</u>	<u>104,586,222</u>	<u>75</u>
	<u>112,249,742</u>	<u>88</u>	<u>128,220,873</u>	<u>91</u>	<u>125,462,539</u>	<u>90</u>	220000 <b>Non-Current liabilities:</b>						
120000 <b>Non-current assets:</b>							224200 Other financial liabilities - non-current (note 6(w))	424,077	-	266,037	-	306,869	-
122000 Financial assets at fair value through profit or loss - non-current (notes 6(b) and 8)	185,303	-	186,015	-	186,127	-	228000 Deferred income tax liabilities	470,090	-	479,193	-	433,005	-
123100 Financial assets measured at cost - non-current (note 6(b))	-	-	754,545	1	692,374	1	229000 Other non-current liabilities	795,790	1	799,939	1	771,451	1
123200 Financial assets at fair value through other comprehensive income - non-current (note 6(b))	1,738,734	2	-	-	-	-		<u>1,689,957</u>	<u>1</u>	<u>1,545,169</u>	<u>1</u>	<u>1,511,325</u>	<u>1</u>
123400 Financial assets available for sale - non-current (note 6(b))	-	-	-	-	2,053	-	<b>Total liabilities</b>	<u>92,138,733</u>	<u>72</u>	<u>108,008,318</u>	<u>76</u>	<u>106,097,547</u>	<u>76</u>
124100 Investments accounted for under equity method (note 6(f))	1,396,246	1	173,588	-	162,868	-	<b>Equity attributable to shareholders of the parent:</b>						
125000 Property and equipment (notes 6(g) and 8)	5,318,417	4	4,966,752	3	4,983,134	4	301010 Common stock (note 6(s))	23,209,081	18	21,690,730	15	21,690,730	16
126000 Investment property (notes 6(h) and 8)	1,380,100	1	1,796,541	1	1,791,577	1	302000 Capital surplus:						
127000 Intangible assets (note 6(i))	3,608,470	3	3,628,174	3	3,620,141	3	302010 Premium from stock issuance	1,776,413	1	1,776,413	1	1,776,413	1
128000 Deferred income tax assets	107,225	-	174,236	-	224,445	-	302020 Treasury stock transactions	437,096	-	437,096	-	437,096	-
129000 Other non-current assets	1,532,646	1	1,585,594	1	1,627,079	1	302070 Paid-in capital from merger	602,665	1	602,665	1	602,665	1
	<u>15,267,141</u>	<u>12</u>	<u>13,265,445</u>	<u>9</u>	<u>13,289,798</u>	<u>10</u>	302095 Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,338	-	1,338	-	1,338	-
							302096 Changes in ownership interests in subsidiaries	34,787	-	34,787	-	34,787	-
							304000 Retained earnings:						
							304010 Legal reserve	1,519,635	1	1,230,275	1	1,230,275	1
							304020 Special reserve	3,302,811	3	2,709,623	2	2,709,623	2
							304040 Unappropriated earnings (note 6(s))	1,663,046	1	2,850,553	2	1,982,831	1
							305120 Exchange differences on translation of foreign operations	(54,516)	-	(103,566)	-	(55,943)	-
							305140 Unrealized gains (losses) on financial assets at fair value through other comprehensive income	692,530	1	-	-	-	-
							305150 Unrealized gains (losses) on financial assets available for sale	-	-	191,716	-	252,863	-
							<b>Total equity attributable to the parent company</b>	<u>33,184,886</u>	<u>26</u>	<u>31,421,630</u>	<u>22</u>	<u>30,662,678</u>	<u>22</u>
							<b>Non-controlling interests</b>	<u>2,193,264</u>	<u>2</u>	<u>2,056,370</u>	<u>2</u>	<u>1,992,112</u>	<u>2</u>
							<b>Total equity</b>	<u>35,378,150</u>	<u>28</u>	<u>33,478,000</u>	<u>24</u>	<u>32,654,790</u>	<u>24</u>
<b>Total assets</b>	<b>\$ 127,516,883</b>	<b>100</b>	<b>141,486,318</b>	<b>100</b>	<b>138,752,337</b>	<b>100</b>	<b>Total liabilities and equity</b>	<b>\$ 127,516,883</b>	<b>100</b>	<b>141,486,318</b>	<b>100</b>	<b>138,752,337</b>	<b>100</b>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**Reviewed only, not audited in accordance with generally accepted auditing standards**

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income**

**For the three months and nine months ended September 30, 2018 and 2017**

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

	For the three months ended September 30,				For the nine months ended September 30,			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>Income:</b>								
401000	\$ 1,079,141	65	1,122,590	42	3,452,358	52	2,812,794	42
402000	74	-	127	-	251	-	563	-
403000	32,792	2	28,878	1	98,487	2	79,560	1
404000	28,042	2	29,205	1	83,401	1	101,804	2
406000	26,079	2	30,923	1	87,122	1	75,579	1
410000	(599,626)	(36)	577,540	22	(638,476)	(10)	1,309,888	20
421100	37,581	2	36,425	2	105,441	2	103,250	2
421200	481,230	29	532,717	20	1,585,953	24	1,462,782	22
421300	203,708	12	198,209	7	245,836	4	221,713	3
421500	(133,404)	(8)	(140,626)	(5)	(320,890)	(5)	231,194	3
421600	(5,666)	-	(3,940)	-	174,893	3	9,576	-
421610	12,718	1	(5,665)	-	(4,540)	-	(65,796)	(1)
421750	(47,190)	(3)	-	-	(168,615)	(3)	-	-
422200	434,894	26	111,821	4	1,357,382	20	113,220	2
424100	73,443	4	274,976	10	370,569	6	576,173	9
424400	(23,646)	(1)	(87,008)	(3)	266,624	4	(312,823)	(5)
424500	75,381	4	(68,190)	(3)	23,065	-	(228,657)	(3)
424800	88	-	9	-	293	-	27	-
424900	11,137	1	4,495	-	24,279	-	12,252	-
425300	(11,013)	(1)	-	-	(63,452)	(1)	-	-
428000	(23,681)	(1)	20,408	1	2,725	-	123,574	2
	<u>1,652,082</u>	<u>100</u>	<u>2,662,894</u>	<u>100</u>	<u>6,682,706</u>	<u>100</u>	<u>6,626,673</u>	<u>100</u>
<b>Expenses:</b>								
501000	131,017	8	159,301	6	436,422	7	383,859	6
502000	4,564	-	5,523	-	15,218	-	14,211	-
503000	487	-	559	-	1,589	-	1,462	-
504000	466	-	250	-	759	-	1,242	-
521200	162,562	10	176,052	7	567,970	8	445,834	7
524100	89,847	5	218,625	8	365,036	6	499,206	8
524300	44,077	3	41,183	2	127,742	2	108,347	2
528000	1,177	-	753	-	5,430	-	4,001	-
531000	600,549	36	729,311	27	2,021,391	30	2,010,821	30
532000	51,431	3	54,328	2	154,736	2	163,238	2
533000	372,771	23	398,087	15	1,334,907	20	1,157,260	17
	<u>1,458,948</u>	<u>88</u>	<u>1,783,972</u>	<u>67</u>	<u>5,031,200</u>	<u>75</u>	<u>4,789,481</u>	<u>72</u>
<b>Other income (expenses):</b>								
601000	36,736	2	14,299	-	113,805	2	56,935	1
602000	200,964	12	179,859	7	639,644	9	520,977	8
	<u>237,700</u>	<u>14</u>	<u>194,158</u>	<u>7</u>	<u>753,449</u>	<u>11</u>	<u>577,912</u>	<u>9</u>
902001	430,834	26	1,073,080	40	2,404,955	36	2,415,104	37
701000	(125,942)	(8)	(60,729)	(2)	(458,590)	(7)	(202,341)	(3)
	<u>304,892</u>	<u>18</u>	<u>1,012,351</u>	<u>38</u>	<u>1,946,365</u>	<u>29</u>	<u>2,212,763</u>	<u>34</u>
<b>Other comprehensive income:</b>								
805500	<b>Components that may not be reclassified to profit or loss in subsequent periods:</b>							
805540	(119,828)	(7)	-	-	(89,830)	(1)	-	-
805550	-	-	-	-	2,059	-	-	-
805599	-	-	-	-	-	-	-	-
	<u>(119,828)</u>	<u>(7)</u>	<u>-</u>	<u>-</u>	<u>(87,771)</u>	<u>(1)</u>	<u>-</u>	<u>-</u>
805600	<b>Components that may be reclassified to profit or loss in subsequent periods:</b>							
805610	10,857	1	(20,979)	(1)	72,983	1	(210,009)	(3)
805615	21,845	1	-	-	(405,538)	(6)	-	-
805620	-	-	23,055	1	-	-	182,886	3
805699	(1,005)	-	2,731	-	(17,308)	-	30,568	-
	<u>31,697</u>	<u>2</u>	<u>4,807</u>	<u>-</u>	<u>(349,863)</u>	<u>(5)</u>	<u>3,445</u>	<u>-</u>
	<u>(88,131)</u>	<u>(5)</u>	<u>4,807</u>	<u>-</u>	<u>(437,634)</u>	<u>(6)</u>	<u>3,445</u>	<u>-</u>
902006	<u>\$ 216,761</u>	<u>13</u>	<u>1,017,158</u>	<u>38</u>	<u>1,508,731</u>	<u>23</u>	<u>2,216,208</u>	<u>34</u>
<b>Net income attributable to:</b>								
913100	\$ 233,752	14	896,201	34	1,614,953	24	1,961,766	30
913200	71,140	4	116,150	4	331,412	5	250,997	4
	<u>\$ 304,892</u>	<u>18</u>	<u>1,012,351</u>	<u>38</u>	<u>1,946,365</u>	<u>29</u>	<u>2,212,763</u>	<u>34</u>
<b>Total comprehensive income attributable to:</b>								
914100	\$ 143,612	9	903,725	34	1,170,645	18	2,033,044	31
914200	73,149	4	113,433	4	338,086	5	183,164	3
	<u>\$ 216,761</u>	<u>13</u>	<u>1,017,158</u>	<u>38</u>	<u>1,508,731</u>	<u>23</u>	<u>2,216,208</u>	<u>34</u>
975000	\$ <u>0.10</u>		\$ <u>0.39</u>		\$ <u>0.70</u>		\$ <u>0.85</u>	
985000	\$ <u>0.10</u>		\$ <u>0.39</u>		\$ <u>0.70</u>		\$ <u>0.84</u>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
 Reviewed only, not audited in accordance with generally accepted auditing standards

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the nine months ended September 30, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to the parent company											Total Equity
	Stock					Total other equity interest					Non-controlling interests	
	Common stocks	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	Treasury stocks	Total equity attributable to the parent company		
<b>Balance at January 1, 2017</b>	\$ 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 nine months ended September 30, 2017	-	-	-	-	1,961,766	-	-	-	-	1,961,766	250,997	2,212,763
Other comprehensive income	-	-	-	-	-	(153,101)	-	224,379	-	71,278	(67,833)	3,445
Total comprehensive income	-	-	-	-	1,961,766	(153,101)	-	224,379	-	2,033,044	183,164	2,216,208
Appropriation and distribution of retained earnings:												
Legal reserve	-	-	119,675	-	(119,675)	-	-	-	-	-	-	-
Special reserve	-	-	-	245,335	(245,335)	-	-	-	-	-	-	-
Cash dividends of common stocks	-	-	-	-	(802,558)	-	-	-	-	(802,558)	(155,227)	(957,785)
Purchase of treasury stocks	-	-	-	-	-	-	-	-	(91,539)	(91,539)	-	(91,539)
Retirement of treasury stocks	(1,000,000)	73,413	-	-	-	-	-	-	926,587	-	-	-
Capital surplus changes in ownership interests in subsidiaries	-	27,914	-	-	-	-	-	(24,731)	-	3,183	640,445	643,628
<b>Balance at September 30, 2017</b>	<b>\$ 21,690,730</b>	<b>2,852,299</b>	<b>1,230,275</b>	<b>2,709,623</b>	<b>1,982,831</b>	<b>(55,943)</b>	<b>-</b>	<b>252,863</b>	<b>-</b>	<b>30,662,678</b>	<b>1,992,112</b>	<b>32,654,790</b>
<b>Balance at January 1, 2018</b>	\$ 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 nine months ended September 30, 2018	-	-	-	-	1,614,953	-	-	-	-	1,614,953	331,412	1,946,365
Other comprehensive income	-	-	-	-	(26)	49,050	(493,332)	-	-	(444,308)	6,674	(437,634)
Total comprehensive income	-	-	-	-	1,614,927	49,050	(493,332)	-	-	1,170,645	338,086	1,508,731
Appropriation and distribution of retained earnings:												
Legal reserve	-	-	289,360	-	(289,360)	-	-	-	-	-	-	-
Special reserve	-	-	-	593,188	(593,188)	-	-	-	-	-	-	-
Cash dividends of common stocks	-	-	-	-	(433,815)	-	-	-	-	(433,815)	-	(433,815)
Stock dividends of common stocks	1,518,351	-	-	-	(1,518,351)	-	-	-	-	-	-	-
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	19,913	-	(19,913)	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(201,592)	(201,592)
<b>Balance at September 30, 2018</b>	<b>\$ 23,209,081</b>	<b>2,852,299</b>	<b>1,519,635</b>	<b>3,302,811</b>	<b>1,663,046</b>	<b>(54,516)</b>	<b>692,530</b>	<b>-</b>	<b>-</b>	<b>33,184,886</b>	<b>2,193,264</b>	<b>35,378,150</b>

See accompanying notes to consolidated financial statements.

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

**Consolidated Statements of Cash Flows**

**For the nine months ended September 30, 2018 and 2017**

**(Expressed in Thousands of New Taiwan Dollars)**

	<u>For the nine months ended September 30</u>	
	<u>2018</u>	<u>2017</u>
<b>Cash flows from (used in) operating activities:</b>		
Net income before tax	\$ 2,404,955	2,415,104
<b>Adjustments:</b>		
<b>Income and expenses items with no effect on cash flows:</b>		
Depreciation expense	129,175	136,525
Amortization expense	25,561	26,713
Impairment loss / Provision for bad debt expense	63,452	99,761
Net gains (losses) on financial assets or liabilities at fair value through profit or loss	325,430	(230,731)
Interest expense	567,970	445,834
Interest revenue (including financial revenue)	(1,854,196)	(1,645,675)
Dividend revenue	(295,326)	(252,476)
Share-based payment compensation cost	-	17,530
Cash dividend received from investments under equity method	165,998	91,452
Share of profit of associates and joint ventures	(113,805)	(56,935)
Loss on disposal and retirement of property and equipment	122	1,008
Gain on disposal of investments	(30,500)	(38,920)
Net gain on non-operating financial instruments at fair value through profit or loss	(1,778)	(26,936)
<b>Net changes of income and expense items with no effect on cash flows</b>	<u>(1,017,897)</u>	<u>(1,432,850)</u>
<b>Changes in assets and liabilities from operating activities:</b>		
Decrease (increase) in financial assets at fair value through profit or loss	2,711,500	(4,459,036)
Increase in financial assets available for sale - current	-	(13,993,719)
Decrease in financial assets at fair value through other comprehensive income	14,967,238	-
Increase in bond purchased under resale agreements	-	(100,402)
Decrease (increase) in receivable for securities provided as collateral	2,146,526	(2,570,568)
Decrease (increase) in refinancing margin	(34,748)	72,043
Decrease (increase) in receivable on refinancing collateral	(24,866)	55,345
Increase in receivable of securities business money lending	(261,080)	(1,024,283)
Increase in customers' margin account	(5,121,412)	(2,873,761)
Decrease (increase) in margin receivable of futures trading	(33,506)	894
Decrease in collateral for securities borrowed	621,835	230,177
Decrease in security borrowing margin	638,488	223,010
Decrease (increase) in notes receivable	10,528	(3,965)
Increase in accounts receivable	(96,467)	(3,960,466)
Decrease (increase) in prepayments	(1,195)	11,853
Increase in other receivables	(99,118)	(48,015)
Increase in leverage contract trading - customers' margin account	(76,989)	(146,908)
Decrease (increase) in other current assets	380,533	(386,435)
Decrease (increase) in guarantee deposited for business operations	(18,550)	23,592
Decrease in settlement fund	5,110	2,580
Decrease (increase) in refundable deposits	(12,072)	52,167
Increase in current income tax assets	-	(147)
Decrease in other non-current assets	77,815	92,720
Increase (decrease) in financial liabilities at fair value through profit or loss	(1,720,066)	715,405
Increase (decrease) in bonds sold under repurchase agreements	(11,852,610)	11,133,095
Increase (decrease) in guarantee deposited for short sales	(427,875)	44,664
Increase (decrease) in proceeds payable from short sales	(463,519)	59,376
Increase (decrease) in securities lending refundable deposits	(443,002)	433,589
Increase in futures traders' equity	5,121,732	2,847,258
Increase in customers' equity of separate account ledger in settlement account	2,232	3,170
Increase in leverage contract trading - customers' equity	74,158	146,127
Increase (decrease) in notes payable	(879)	215
Increase (decrease) in accounts payable	(905,613)	3,709,403
Increase (decrease) in advance receipts	(24,456)	197,583
Increase (decrease) in receipts under custody	(186,316)	683,354
Increase (decrease) in other payable	(170,871)	323,841
Increase in other current liabilities	1,059	11,584
Increase (decrease) in other financial liabilities - current	(402,904)	1,929,390
Increase (decrease) in provision - current	10,510	(6,926)
Increase in other financial liabilities - non-current	158,040	67,235
Decrease in other non-current liabilities	(4,149)	(112,915)
<b>Total changes in assets and liabilities from operating activities</b>	<u>4,545,041</u>	<u>(6,617,876)</u>
<b>Total cash generated from adjustment items</b>	<u>3,527,144</u>	<u>(8,050,726)</u>



(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
Reviewed only, not audited in accordance with generally accepted auditing standards

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

**For the nine months ended September 30, 2018 and 2017**

**(Expressed in Thousands of New Taiwan Dollars)**

	<b>For the nine months ended September 30</b>	
	<b>2018</b>	<b>2017</b>
Cash generated from operating activities	\$ 5,932,099	(5,635,622)
Interest received	1,903,780	1,589,022
Dividends received	272,154	237,349
Interest paid	(559,786)	(472,412)
Income taxes paid	(221,182)	(199,377)
<b>Net Cash flows provided by (used in) operating activities</b>	<b>7,327,065</b>	<b>(4,481,040)</b>
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of financial assets at fair value through other comprehensive income	(2,134)	-
Proceeds from disposal of financial assets at fair value through other comprehensive income	9,767	-
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	-	(250,746)
Proceeds from capital reduction of financial assets measured at cost	-	6,832
Acquisition of investments accounted for using equity method	(1,272,505)	-
Increase in deferred debits	(892)	(154)
Acquisition of property and equipment	(62,638)	(43,014)
Acquisition of intangible assets	(6,208)	(33,121)
Proceeds from disposal of intangible assets	1,927	-
<b>Net cash flows provided by (used in) investing activities</b>	<b>(1,331,598)</b>	<b>(248,376)</b>
<b>Cash flows from (used in) financing activities:</b>		
Increase (decrease) in short-term borrowings	(2,485,200)	3,308,282
Increase (decrease) in commercial papers payable	(2,349,303)	3,649,321
Payments to acquire treasury shares	-	(91,539)
Cash dividends paid	(635,399)	(957,785)
Issuance of common stock for cash	-	626,096
<b>Net cash flows provided by (used in) financing activities</b>	<b>(5,469,902)</b>	<b>6,534,375</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>70,785</b>	<b>(203,945)</b>
<b>Increase in cash and cash equivalents</b>	<b>596,350</b>	<b>1,601,014</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>7,104,077</b>	<b>5,423,415</b>
<b>Cash and cash equivalents, end of this period</b>	<b>\$ 7,700,427</b>	<b>7,024,429</b>

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

**Notes to the Consolidated Financial Statements**

**September 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 September 30, 2018, the composition of the consolidated financial statements includes the Company and the subsidiaries (the “Group”). As of September 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 November 12, 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 year 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.

(Continued)

**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
<b>Financial Assets</b>				
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”.

(Continued)

## **CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**

### **Notes to the Consolidated Financial Statements**

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.

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.

(Continued)

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

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.

(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 3 “Definition of a Business”	January 1, 2020
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 abovementioned standards or interpretations on its consolidated financial position and consolidated financial performance. The results thereof will be disclosed when the Group completes its evaluation.

(Continued)



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

**(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 a complete set of the 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.

(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.

(Continued)

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

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
			September 30, 2018	December 31, 2017	September 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 September 30, 2018, the paid-in capitals amounted to \$70,000. (note 1)
"	CSC International Holdings Ltd.	Long-term equity investment business	100.00 %	100.00 %	100.00 %	The corporation established in March, 1996. As of September 30, 2018, the paid-in capitals amounted to US\$45,000 thousands. (note 2)
"	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 September 30, 2018, the paid-in capitals amounted to \$1,764,376.
"	Taiwan International Futures Corp.	Management consultancy	99.99 %	99.99 %	99.99 %	Liquidation in progress. (note 3)
"	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 September 30, 2018, the paid-in capitals amounted to US\$9,516 thousands. (note 4)
"	Taiwan International Securities Investment Consulting Corp.	Investment consultancy	99.92 %	99.92 %	99.92 %	Liquidation in progress. (note 5)
"	CSC Venture Capital Corp.	Venture Capital and consulting business	100.00 %	100.00 %	100.00 %	The corporation established in January, 2016. As of September 30, 2018, the paid-in capitals amounted to \$1,000,000. (note 6)
Capital Futures Corp.	CSC Futures (HK) Ltd.	Futures dealing business	97.27 %	97.27 %	97.27 %	The corporation established in December, 1998. As of September 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 September 30, 2018, the paid-in capitals amounted to \$50,000. (note 7)
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 September 30, 2018, the paid-in capitals amounted to CNY\$1,000 thousands. (note 8)
"	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 September 30, 2018, the paid-in capitals amounted to CNY\$4,000 thousands. (note 9)

(Continued)

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

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			September 30, 2018	December 31, 2017	September 30, 2017	
CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses	100.00 %	100.00 %	100.00 %	The corporation established in May, 1994. Acquired 30% of the equity from Capital Securities (Hong Kong) Ltd. in September, 2017. (note 2)
"	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. (note 2)
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. (note 2)
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. (note 4)
TIS Securities (HK) Limited	Taiwan International Capital (HK) Ltd.	Direct investment	100.00 %	100.00 %	100.00 %	"

Note 1: Capital Investment Management Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of September 30, 2018 and 2017, the total assets amounted to \$115,171 and \$119,322, and the total liabilities amounted to \$11,877 and \$13,545, respectively. The total comprehensive income for the three months and the nine months ended September 30, 2018 and 2017 were \$2,394, \$4,466, \$7,126 and \$10,876.

Note 2: CSC International Holdings Ltd. is a non-major subsidiary; its financial statements have not been reviewed. As of September 30, 2018 and 2017, the total consolidated assets amounted to \$1,804,249 and \$1,685,026, and the total consolidated liabilities amounted to \$175,317 and \$75,312, respectively. The total consolidated comprehensive income (loss) for the three months and the nine months ended September 30, 2018 and 2017 were \$(16,460), \$3,682, \$(4,880) and \$(21,453).

Note 3: Taiwan International Futures Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of September 30, 2018 and 2017, the total assets amounted to \$215,097 and \$251,096, and the total liabilities amounted to \$176,900 and \$177,305, respectively. The total comprehensive income (loss) for the three months and the nine months ended September 30, 2018 and 2017 were \$106, \$9,918, \$(3,235) and \$9,415.

Note 4: Taiwan International Securities (B.V.I) Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of September 30, 2018 and 2017, the total consolidated assets amounted to \$652 and \$2,187, and the total consolidated liabilities amounted to \$0 and \$618, respectively. The total consolidated comprehensive income (loss) for the three months and the nine months ended September 30, 2018 and 2017 were \$341, \$2,066, \$(344) and \$1,039.

Note 5: Taiwan International Securities Investment Consulting Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of September 30, 2018 and 2017, the total assets amounted to \$13,139 and \$13,377, and the total liabilities amounted to \$271 and \$272, respectively. The total comprehensive income (loss) for the three months and the nine months ended September 30, 2018 and 2017 were \$(58), \$(58), \$(174) and \$(203).

Note 6: CSC Venture Capital Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of September 30, 2018 and 2017, the total assets amounted to \$958,258 and \$1,000,289, and the total liabilities amounted to \$1,326 and \$1,332, respectively. The total comprehensive income (loss) for the three months and the nine months ended September 30, 2018 and 2017 were \$(75,967), \$3,886, \$(120,047) and \$(7,555).

(Continued)

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

Note 7: Capital International Technology Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of September 30, 2018 and 2017, the total assets amounted to \$46,518 and \$45,438, and the total liabilities amounted to \$604 and \$425, respectively. The total comprehensive income (loss) for the three months and the nine months ended September 30, 2018 and 2017 were \$(2,224), \$(292), \$(293) and \$(1,050).

Note 8: Capital True Partner Technology Co., Ltd. is a non-major subsidiary; its financial statements have not been reviewed. As of September 30, 2018 and 2017, the total assets amounted to \$4,655 and \$3,940, and the total liabilities amounted to \$3,990 and \$4,093, respectively. The total comprehensive income for the three months and the nine months ended September 30, 2018 and 2017 were \$364, \$739, \$1,299 and \$571.

Note 9: Capital Futures Technology (Shanghai) Co., Ltd. is a non-major subsidiary; its financial statements have not been reviewed. As of September 30, 2018 and 2017, the total assets amounted to \$30,854 and \$40,640, and the total liabilities amounted to \$7,248 and \$22,631, respectively. The total comprehensive income (loss) for the three months and the nine months ended September 30, 2018 and 2017 were \$(2,024), \$358, \$2,922 and \$(853).

(iii) Subsidiaries not listed in the consolidated financial statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			September 30, 2018	December 31, 2017	September 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 September 30, 2018, December 31, 2017 and September 30, 2017, the total assets constituted 0.04%, 0.03% and 0.03% of the Group's total assets. For the nine months ended September 30, 2018 and 2017, the operation revenue were merely 0.82% and 0.89% 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 September 30, 2018, December 31, 2017 and September 30, 2017, the total assets constituted 0.07%, 0.07%, and 0.07% of the Group's total assets. For the nine months ended September 30, 2018 and 2017, the operation revenue were merely 2.05% and 2.33% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.

(Continued)

**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 using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

(Continued)

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

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.

(Continued)

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

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;
- 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 financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes 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 that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

(Continued)



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

(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.

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.

(Continued)

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

5) Bond options

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

6) Equity options

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

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

(Continued)

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

**(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.

**(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 as of and for the year ended December 31, 2017. Please refer to Note 6 of the 2017 annual consolidated financial statements.

(a) Cash and cash equivalents

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Cash	\$ 2,820	2,767	2,833
Bank deposits			
Checking accounts	31,020	53,094	43,127
Demand deposits	749,318	956,250	895,683
Foreign currency deposits	<u>1,408,588</u>	<u>1,875,088</u>	<u>1,955,748</u>
Subtotal	<u>2,188,926</u>	<u>2,884,432</u>	<u>2,894,558</u>
Cash equivalents			
Time deposits	3,350,906	2,971,870	2,785,510
Futures margin - excess margin	2,132,784	1,098,046	1,341,528
Commercial papers	<u>24,991</u>	<u>146,962</u>	<u>-</u>
Subtotal	<u>5,508,681</u>	<u>4,216,878</u>	<u>4,127,038</u>
Total	<u>\$ 7,700,427</u>	<u>7,104,077</u>	<u>7,024,429</u>

(Continued)

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

## (b) Financial assets

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

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
<b>Open-ended funds and money-market instruments</b>			
Open-ended funds and money-market instruments	\$ 324,826	323,962	383,615
Valuation adjustment	<u>1,261</u>	<u>(1,886)</u>	<u>6,027</u>
Subtotal	<u>326,087</u>	<u>322,076</u>	<u>389,642</u>
<b>Investment in securities</b>			
Investment in securities	204,435	-	30,745
Valuation adjustment	<u>(1,773)</u>	<u>-</u>	<u>(262)</u>
Subtotal	<u>202,662</u>	<u>-</u>	<u>30,483</u>
<b>Trading securities - proprietary trading</b>			
Listed stocks	2,181,075	1,495,906	1,388,447
Listed funds	822,447	1,122,398	646,204
OTC stocks	596,818	742,663	647,616
OTC funds	84,500	40,000	-
Emerging market stocks	553,446	455,025	206,692
Emerging market funds	10,957	9,848	9,826
Convertible corporate bonds	840,800	767,352	603,165
Government bonds	5,225,753	6,695,553	5,838,575
Corporate bonds	8,852,270	9,403,722	10,373,578
International bonds	4,405,890	2,838,568	2,043,988
Financial debentures	300,000	300,000	700,000
Foreign stocks	342,526	646,649	678,553
Overseas bonds	300,574	59,353	60,351
Other	<u>257</u>	<u>34,858</u>	<u>305,507</u>
	24,517,313	24,611,895	23,502,502
Valuation adjustment	<u>(150,571)</u>	<u>132,192</u>	<u>138,813</u>
Subtotal	<u>24,366,742</u>	<u>24,744,087</u>	<u>23,641,315</u>

(Continued)

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

	<u>September 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>	<u>September 30,</u> <u>2017</u>
<b>Trading securities - underwriting:</b>			
Listed stocks	\$ 105,595	81,823	19,598
OTC stocks	65,035	48,763	55,999
Convertible corporate bonds	<u>345,171</u>	<u>129,277</u>	<u>135,055</u>
	515,801	259,863	210,652
Valuation adjustment	<u>28,223</u>	<u>11,400</u>	<u>1,504</u>
Subtotal	<u>544,024</u>	<u>271,263</u>	<u>212,156</u>
<b>Trading securities - hedging</b>			
Listed stocks	1,939,476	4,022,877	3,288,811
OTC stocks	306,774	1,191,800	837,610
Convertible corporate bonds	3,729,322	3,456,957	3,053,210
Foreign stocks	<u>-</u>	<u>999</u>	<u>1,017</u>
	5,975,572	8,672,633	7,180,648
Valuation adjustment	<u>(93,328)</u>	<u>(65,965)</u>	<u>95,636</u>
Subtotal	<u>5,882,244</u>	<u>8,606,668</u>	<u>7,276,284</u>
<b>Derivatives</b>			
Call options	9,253	132,472	96,295
Futures margin - proprietary fund	295,561	611,870	741,645
IRS asset swaps	16,895	16,479	9,969
Asset swap options - long position	10,597	2,572	1,926
Currency derivatives	30,499	22,446	26,578
Structured notes	3,532	1,343	704
Equity derivatives	-	-	7,876
Currency swaps	5,324	4,072	11,136
Interest rate swaps	<u>2,948</u>	<u>1,920</u>	<u>1,127</u>
Subtotal	<u>374,609</u>	<u>793,174</u>	<u>897,256</u>
Total	<u>\$ 31,696,368</u>	<u>34,737,268</u>	<u>32,447,136</u>

As of September 30, 2018, December 31, 2017 and September 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 \$36,817,660, \$49,006,659 and \$47,623,227, respectively, please refer to note 6(m) and note 8 for details.

(Continued)

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

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

	<u>September 30, 2018</u>
Debt instruments at fair value through other comprehensive income	
International bonds	\$ 1,420,136
Overseas bonds	<u>15,619,336</u>
	17,039,472
Valuation adjustment	<u>(233,862)</u>
Subtotal	<u>16,805,610</u>
Equity instrument at fair value through other comprehensive income	
Listed stocks	296,699
OTC stocks	116,553
Emerging market stocks	24,130
Foreign stocks	<u>226,056</u>
	663,438
Valuation adjustment	<u>(76,992)</u>
Subtotal	<u>586,446</u>
Total	<u><u>\$ 17,392,056</u></u>

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 and the nine months ended September 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 \$21,948 and \$25,412, 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 \$298,159 and cumulative dispose gains \$19,906 were transferred from other equity items to retained earnings for the nine months ended September 30, 2018.

3) For credit risk (including the impairment of debt instrument investments) and market risk; please refer to note 6(v).

4) For the nine months ended September 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(v).

(Continued)

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

(iii) Financial assets available for sale - current:

	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Listed stocks	\$ 101,209	99,274
OTC stocks	77,668	77,668
Emerging market stocks	24,907	28,945
International bonds	1,532,767	1,600,717
Foreign stocks	104,055	180,961
Overseas bonds	<u>30,797,054</u>	<u>31,333,837</u>
Subtotal	32,637,660	33,321,402
Valuation adjustment	<u>170,119</u>	<u>234,574</u>
Total	<u><u>\$ 32,807,779</u></u>	<u><u>33,555,976</u></u>

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

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
<b>Mandatorily measured at fair value through profit or loss:</b>			
Government bonds	\$ 185,952	-	-
Valuation adjustment	<u>(649)</u>	<u>-</u>	<u>-</u>
Subtotal	<u>185,303</u>	<u>-</u>	<u>-</u>
<b>Financial assets held for trading:</b>			
Government bonds	-	185,953	185,799
Valuation adjustment	<u>-</u>	<u>62</u>	<u>328</u>
Subtotal	<u>-</u>	<u>186,015</u>	<u>186,127</u>
Total	<u><u>\$ 185,303</u></u>	<u><u>186,015</u></u>	<u><u>186,127</u></u>

As of September 30, 2018, December 31, 2017 and September 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:

<b>Name of investee</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
CME Group Inc.	\$ -	826
Valuation adjustment	<u>-</u>	<u>1,227</u>
Total	<u><u>\$ -</u></u>	<u><u>2,053</u></u>

(Continued)

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

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 nine months ended September 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.

(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>

(Continued)



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

<u>Non-listed (or non-over-the-counter)</u>	<u>September 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 %	29,933
Chanyee Hotelday Co., Ltd.	7.41 %	30,000
Miho International Co., Ltd.	1.77 %	47,981
LIPS Corp.	18.77 %	149,625
Xianlife Limited	3.30 %	46,140
FlexUP Technologies Corp.	15.31 %	30,000
Han Biomedical Inc.	9.20 %	23,000
Total		<u>\$ 692,374</u>

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

	<u>September 30, 2018</u>
Equity instruments at fair value through other comprehensive income	
Non-listed or non-over-the-counter stocks	\$ 779,787
Valuation adjustment	<u>958,947</u>
Total	<u>\$ 1,738,734</u>

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

For the three months and the nine months ended September 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 \$48,992 and \$52,529, respectively.

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

For the nine months ended September 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 nine months ended September 30, 2018 and 2017 VaR (99%, per 10-day) of equity stocks are as follows:

Type of market risk	September 30, 2018	September 30, 2017	For the nine months ended September 30,					
			2018			2017		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	1,136,932	1,266,254	1,356,594	1,615,221	1,136,932	865,147	1,266,254	666,504

- (c) Bonds purchased under resale agreements

	September 30, 2018	December 31, 2017	September 30, 2017
Bonds purchased under resell agreements	\$ -	-	<b>100,402</b>
Resell price under the agreements	\$ -	-	<b>100,402</b>
Interest rate	-	-	<b>0.15%</b>

As of September 30, 2018, December 31, 2017 and September 30, 2017, the Group's appropriated bonds purchased under resale agreements were \$0 (Par value \$0), \$0 (Par value \$0) and \$100,402 (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

	September 30, 2018	December 31, 2017	September 30, 2017
Receivable on securities purchased by customers	\$ 21,812	27,055	27,961
Settlement	539,058	1,000,019	3,661,315
Interests receivable	571,159	627,789	551,513
Receivables on securities sold	5,546,582	5,015,345	3,833,267
Others	<u>112,166</u>	<u>57,560</u>	<u>75,931</u>
Subtotal	6,790,777	6,727,768	8,149,987
Less: allowance for doubtful accounts	<u>(3,519)</u>	<u>(1,713)</u>	<u>(3,425)</u>
Total	<b><u>\$ 6,787,258</u></b>	<b><u>6,726,055</u></b>	<b><u>8,146,562</u></b>

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

- (i) For credit risk (including the impairment of debt instrument investments) and market risk; please refer to note 6(v).
- (ii) For the nine months ended September 30, 2018, impairment test have been applied by the Group, the variation of loss allowance in receivables, please refer to note 6(v).
- (e) Customers' margin account / Futures traders' equity

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

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Customers' margin account			
Cash in banks	\$ 24,085,008	20,131,841	19,569,279
Customers' margin account - futures clearing house	2,580,477	3,485,434	2,871,259
Customers' margin account - other futures commission merchants	5,757,493	3,683,324	3,601,441
Marketable securities	<u>1,146</u>	<u>2,113</u>	<u>1,624</u>
Total customers' margin account	<u>32,424,124</u>	<u>27,302,712</u>	<u>26,043,603</u>
Add:			
Commission expense	7,594	1,651	5,993
Other	113	33	14
Less:			
Commission revenue	(21,029)	(11,431)	(49,984)
Futures transaction tax	(2,056)	(1,356)	(595)
Interest revenues	(5,817)	(2,326)	(2,244)
Temporary receipts	(278)	(590)	(420)
Remittance amount of the customers after the market closed	(5,616)	(2,424)	(689)
Other receivables	<u>(7,077)</u>	<u>(18,043)</u>	<u>(16,189)</u>
Futures traders' equity	<u><u>\$ 32,389,958</u></u>	<u><u>27,268,226</u></u>	<u><u>25,979,489</u></u>

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

(f) Investments under equity method

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

	<u>September 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>	<u>September 30,</u> <u>2017</u>
Subsidiaries			
Capital Insurance Advisory Corp.	\$ 70,981	90,506	79,607
Capital Insurance Agency Corp.	<u>41,030</u>	<u>41,547</u>	<u>41,561</u>
Subtotal	<u>112,011</u>	<u>132,053</u>	<u>121,168</u>
Associates			
True Partner Advisor Hong Kong Ltd.	43,960	41,535	41,700
Capital Investment Trust Corp.	<u>1,240,275</u>	<u>-</u>	<u>-</u>
Subtotal	<u>1,284,235</u>	<u>41,535</u>	<u>41,700</u>
Total	<u><u>\$ 1,396,246</u></u>	<u><u>173,588</u></u>	<u><u>162,868</u></u>

(i) Subsidiaries:

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

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
The Group's share of gains based on the subsidiaries' financial statements	<u>\$ 10,890</u>	<u>13,974</u>	<u>46,755</u>	<u>55,932</u>
		<u>September 30,</u>	<u>December 31,</u>	<u>September 30,</u>
		<u>2018</u>	<u>2017</u>	<u>2017</u>
Total assets		<u>\$ 140,243</u>	<u>151,103</u>	<u>147,921</u>
Total liabilities		<u>\$ 28,232</u>	<u>19,050</u>	<u>26,753</u>
		<u>For the three months ended September 30,</u>	<u>For the nine months ended September 30,</u>	
		<u>2018</u>	<u>2018</u>	<u>2017</u>
Revenue	<u>\$ 52,528</u>	<u>56,151</u>	<u>191,865</u>	<u>213,348</u>
Net income	<u>\$ 10,890</u>	<u>13,974</u>	<u>46,755</u>	<u>55,932</u>

(Continued)

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

(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 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		
			September 30, 2018	December 31, 2017	September 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:

	September 30, 2018	December 31, 2017	September 30, 2017	
Total carrying amount of the associates that were not individually material	<u>\$ 1,284,235</u>	<u>41,535</u>	<u>41,700</u>	
	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
The Group's share of gains based on the associates' financial statements:				
Net gains from continuing operations	\$ 25,846	325	67,050	1,003
Other comprehensive income (losses)	65	(81)	2,347	(819)
Total comprehensive income (losses)	<u>\$ 25,911</u>	<u>244</u>	<u>69,397</u>	<u>184</u>

(iii) Collateral

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

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

(g) Property and equipment

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
Carrying amount:					
September 30, 2018	\$ <u>3,927,420</u>	<u>1,154,897</u>	<u>172,185</u>	<u>63,915</u>	<u>5,318,417</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>
September 30, 2017	\$ <u>3,657,779</u>	<u>1,061,495</u>	<u>196,652</u>	<u>67,208</u>	<u>4,983,134</u>

As of September 30, 2018, December 31, 2017 and September 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 nine months ended September 30, 2018 and 2017. For the nine months ended September 30, 2018 and 2017, \$0 and \$75,746 of property and equipment were transferred to investment property, and \$404,900 and \$0 of investment property were transferred to property and equipment. Please refer to note 6(u) 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>			
September 30, 2018	\$ <u>1,037,722</u>	<u>342,378</u>	<u>1,380,100</u>
January 1, 2018	\$ <u>1,312,668</u>	<u>483,873</u>	<u>1,796,541</u>
September 30, 2017	\$ <u>1,307,363</u>	<u>484,214</u>	<u>1,791,577</u>
<u>Fair Value:</u>			
September 30, 2018			<u>2,239,610</u>
January 1, 2018			<u>2,809,179</u>
September 30, 2017			<u>2,793,079</u>

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

As of September 30, 2018, December 31, 2017 and September 30, 2017, the investment properties were provided as collateral or pledged, please refer to note 8 for details.

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

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 nine months ended September 30, 2018 and 2017. For the nine months ended September 30, 2018 and 2017, \$0 and \$75,746 of property and equipment were transferred to investment property, and \$404,900 and \$0 of investment property were transferred to property and equipment. Please refer to note 6(u) 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 September 30, 2018, December 31, 2017 and September 30, 2017, the book value 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 September 30, 2018, December 31, 2017 and September 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 September 30, 2018, December 31, 2017 and September 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 September 30, 2018, December 31, 2017 and September 30, 2017, the book values of intangible assets were \$46,261, \$48,102 and \$48,168 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 September 30, 2018, December 31, 2017 and September 30, 2017, the amortized book value was \$23,424, \$41,287 and \$33,188 respectively.

(Continued)

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

## (j) Short-term borrowings

<u>Nature of borrowings</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Collateralized loan	\$ 1,725,192	380,000	380,000
Credit loans	<u>2,871,306</u>	<u>6,701,698</u>	<u>7,164,684</u>
Total	<u>\$ 4,596,498</u>	<u>7,081,698</u>	<u>7,544,684</u>
Interest rate range	<u>0.60%~3.99%</u>	<u>0.60%~2.56%</u>	<u>0.60%~2.50%</u>

As of September 30, 2018, December 31, 2017 and September 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>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Commercial paper payable	\$ 1,750,000	4,100,000	3,650,000
Less: Unamortized discount	<u>(119)</u>	<u>(816)</u>	<u>(679)</u>
Net amount	<u>\$ 1,749,881</u>	<u>4,099,184</u>	<u>3,649,321</u>
Interest rate range	<u>0.63%~0.70%</u>	<u>0.53%~0.56%</u>	<u>0.52%~0.53%</u>

(Continued)



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

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

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Bond purchased under resale agreements - short sales	\$ -	-	100,391
Valuation adjustment	<u>-</u>	<u>-</u>	<u>22</u>
Subtotal	<u>-</u>	<u>-</u>	<u>100,413</u>
Liabilities on sale of borrowed securities	459,038	1,130,377	661,898
Redeem liabilities on sale of borrowed securities	(61,381)	(6,714)	(16,264)
Valuation adjustment	<u>(89,580)</u>	<u>(94,120)</u>	<u>(693)</u>
Subtotal	<u>308,077</u>	<u>1,029,543</u>	<u>644,941</u>
Settlement coverage bonds payable of short sale	49,428	49,983	99,633
Valuation adjustment	<u>6</u>	<u>(29)</u>	<u>(208)</u>
Subtotal	<u>49,434</u>	<u>49,954</u>	<u>99,425</u>
Stock warrants issued	11,282,874	14,405,116	12,797,230
Stock warrants repurchased	<u>(10,789,568)</u>	<u>(13,098,267)</u>	<u>(11,881,805)</u>
Subtotal	<u>493,306</u>	<u>1,306,849</u>	<u>915,425</u>
Put options	13,011	131,636	157,276
Equity derivatives	-	61	-
IRS asset swaps	1,394	239	192
Asset swap options - short position	282,502	364,910	255,531
Structured notes	8,085	9,234	10,195
Currency derivatives	3,668	2,847	3,141
Currency swaps	<u>23,650</u>	<u>7,920</u>	<u>5,091</u>
Subtotal	<u>332,310</u>	<u>516,847</u>	<u>431,426</u>
Total	<u><u>\$ 1,183,127</u></u>	<u><u>2,903,193</u></u>	<u><u>2,191,630</u></u>

(m) Bonds sold under repurchase agreements

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Bonds sold under repurchase agreements	<u>\$ 35,203,702</u>	<u>47,056,312</u>	<u>46,089,737</u>
Agreed-upon repurchase amounts	<u>35,525,879</u>	<u>47,174,205</u>	<u>46,214,682</u>
Interest rates	<u>0.33%~4.50%</u>	<u>0.20%~4.30%</u>	<u>0.31%~4.00%</u>
Date of repurchase	<u>2018.10.1~2019.9.27</u>	<u>2018.1.2~2018.12.27</u>	<u>2017.10.2~2018.9.21</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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(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.

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Customer equity of separate account ledger in settlement	<u>\$ 15,711</u>	<u>13,479</u>	<u>7,707</u>

(o) Accounts payable

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Payable of securities sold by customers	\$ 21,836	44,575	18,687
Payable of settlements	4,470,051	5,440,461	6,992,030
Others	<u>391,454</u>	<u>293,722</u>	<u>176,810</u>
Total	<u>\$ 4,883,341</u>	<u>5,778,758</u>	<u>7,187,527</u>

(p) Operating leases

The Group has no material incremental operating leases contracts for the nine months ended September 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.

(q) 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 and the nine months ended September 30, 2018 and 2017, the Group’s pension expenses recognized in profit or loss were \$3,473, \$3,700, \$10,411 and \$11,092, 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.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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The Group contributed \$21,567, \$20,072, \$65,199 and \$60,032 under defined contribution plan to the Bureau of the Labor Insurance for the three months and the nine months ended September 30, 2018 and 2017, respectively.

- (iii) For the three months and the nine months ended September 30, 2018 and 2017, the pension costs contributed by overseas subsidiaries in compliance with local ordinance were \$1,042, \$1,077, \$3,208 and \$3,250, respectively.
- (iv) Provision for employee benefits liabilities

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Compensated absences	<u>\$ 60,276</u>	<u>49,066</u>	<u>58,439</u>

(r) 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 and the nine months ended September 30, 2018 and 2017 were as follows:

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Current tax expense	\$ 159,321	50,274	400,523	231,791
Adjustment to the prior years' income tax	<u>25,544</u>	<u>-</u>	<u>17,467</u>	<u>-</u>
	<u>184,865</u>	<u>50,274</u>	<u>417,990</u>	<u>231,791</u>
Deferred tax expense				
Unrealized gains (losses) on derivative financial instruments	(55,791)	39,761	(93,907)	4,304
Unrealized gains (losses) on foreign investments under Equity Method	(3,132)	977	(618)	(3,471)
Decrease in tax loss carried forward	-	46,060	92,455	46,060
Adjustments of deferred income tax assets	-	(76,343)	(12,803)	(76,343)
Changes in tax rate	<u>-</u>	<u>-</u>	<u>55,473</u>	<u>-</u>
Deferred income tax expense (benefit)	<u>(58,923)</u>	<u>10,455</u>	<u>40,600</u>	<u>(29,450)</u>
	<u>\$ 125,942</u>	<u>60,729</u>	<u>458,590</u>	<u>202,341</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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- (ii) The amount of income tax expense or benefit recognized in other comprehensive income for the three months and the nine months ended September 30, 2018 and 2017 were as follows:

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	2018	2017	2018	2017
Foreign exchange difference from translating financial statement of foreign operations	\$ <u>1,005</u>	<u>(2,731)</u>	<u>17,308</u>	<u>(30,568)</u>

- (iii) Income tax assessment status

- 1) The Company's income tax returns through 2016, except for 2015, 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.
- 5) Subsidiary - Taiwan International Futures Corp.'s income tax returns for the liquidation period from September 19, 2008 to February 28, 2018 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.

- (s) Capital and other equity

- (i) Capital stock

As of September 30, 2018, December 31, 2017 and September 30, 2017, the Company had authorized capital of \$30,000,000 and issued common stock of 2,320,908 thousand shares 2,169,073 thousand shares and 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.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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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. The Company has completed the registration of change in paid-in capital on September 25, 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.

The followings are the capital surplus of the Company:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
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>
	<b><u>\$ 2,852,299</u></b>	<b><u>2,852,299</u></b>	<b><u>2,852,299</u></b>

(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.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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2) Special reserve

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

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

3) Undistributed earnings

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

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

The Company’s 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 January 2017. As of February 2017, all the repurchased shares were retired.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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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.

(t) Earnings per share

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

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Net income attributable to common shareholders of the Company	\$ <u>233,752</u>	<u>896,201</u>	<u>1,614,953</u>	<u>1,961,766</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	<u>2,320,908</u>	<u>2,320,908</u>	<u>2,320,908</u>	<u>2,321,080</u>
Basic earnings per share (dollar)	\$ <u>0.10</u>	<u>0.39</u>	<u>0.70</u>	<u>0.85</u>
Effect of potentially dilutive common stock				
- Employee remuneration (thousands of shares) (Note)	<u>537</u>	<u>1,605</u>	<u>2,215</u>	<u>3,758</u>
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	<u>2,321,445</u>	<u>2,322,513</u>	<u>2,323,123</u>	<u>2,324,838</u>
Dilutive earnings per share (dollar)	\$ <u>0.10</u>	<u>0.39</u>	<u>0.70</u>	<u>0.84</u>

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

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

(u) Items of the statements of comprehensive income

(i) Brokerage commissions

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Brokerage commission from TSE market	\$ 470,425	477,205	1,450,216	1,143,127
Brokerage commission from OTC market	144,890	191,747	515,165	456,023
Handling fee from security financing	9,901	8,464	25,495	21,761
Futures commission income - brokerage	425,879	410,640	1,363,639	1,097,275
Overseas subsidiaries	11,970	14,920	41,645	42,469
Others	16,076	19,614	56,198	52,139
	<u>\$ 1,079,141</u>	<u>1,122,590</u>	<u>3,452,358</u>	<u>2,812,794</u>

(ii) Underwriting commissions

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenue from underwriting securities on a firm commitment basis	\$ 22,140	20,976	58,791	53,005
Handling fee revenues from underwriting securities on best efforts basis	243	202	905	1,241
Processing fee revenues from underwriting operations	3,669	1,767	6,473	22,774
Revenue from underwriting consultation	1,324	1,580	7,707	4,040
Others	666	4,680	9,525	20,744
	<u>\$ 28,042</u>	<u>29,205</u>	<u>83,401</u>	<u>101,804</u>

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

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Gains (losses) on securities sold - proprietary trading	\$ (129,584)	301,800	147,520	824,031
Gains (losses) on securities sold - underwriting	7,897	1,269	12,928	10,223
Gains (losses) on securities sold - hedging	(477,939)	274,471	(798,924)	475,634
Total	<u>\$ (599,626)</u>	<u>577,540</u>	<u>(638,476)</u>	<u>1,309,888</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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## (iv) Interest revenue

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Interest revenue - margin loans	\$ 201,829	197,514	620,683	559,497
Interest revenue - bonds	254,850	313,313	882,004	841,703
Overseas subsidiaries	10,379	10,944	38,968	27,867
Others	14,172	10,946	44,298	33,715
	<u>\$ 481,230</u>	<u>532,717</u>	<u>1,585,953</u>	<u>1,462,782</u>

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

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Trading securities - proprietary	\$ (169,109)	27,405	(310,316)	97,381
Trading securities - underwriting	10,347	(1,511)	16,824	(637)
Trading securities - hedging	25,364	(166,614)	(27,363)	134,242
Settlement coverage bonds payable of short sale	(6)	94	(35)	208
	<u>\$ (133,404)</u>	<u>(140,626)</u>	<u>(320,890)</u>	<u>231,194</u>

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

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Gains on changes in fair value of stock warrants	\$ 10,528,651	2,485,600	22,165,869	9,196,174
Gains on exercise of stock warrants before maturity	4,450,103	8,612,941	19,865,915	20,828,884
Losses on changes in fair value of stock warrants repurchased	(14,549,744)	(10,948,377)	(40,639,127)	(29,781,105)
Gains on expiration of stock warrants	54,319	5,856	96,067	12,054
Stock warrants issuance expenses	(48,435)	(44,199)	(131,342)	(142,787)
	<u>\$ 434,894</u>	<u>111,821</u>	<u>1,357,382</u>	<u>113,220</u>

## (vii) Futures commission revenues

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Futures commission revenues - CSC Futures(HK) Ltd.	\$ 73,443	274,976	370,569	576,173

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.

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

(viii) Commission expenses - future

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Future trading - reconignment	\$ 59,785	65,741	204,643	181,132
Future trading - introducing brokers	347	(289)	1,791	1,633
Commission expenses - CSC Futures (HK) Ltd.	29,715	153,173	158,602	316,441
	<u>\$ 89,847</u>	<u>218,625</u>	<u>365,036</u>	<u>499,206</u>

(ix) Employee benefits, depreciation, and amortization expenses

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Employee benefit expenses				
Salary expense	\$ 518,923	649,131	1,770,008	1,771,125
Health and labor insurance expense	40,295	39,032	126,812	119,902
Pension expense	26,082	24,849	78,818	74,374
Others	15,249	16,299	45,753	45,420
Depreciation expense	43,169	44,552	129,175	136,525
Amortization expense	8,262	9,776	25,561	26,713
	<u>\$ 651,980</u>	<u>783,639</u>	<u>2,176,127</u>	<u>2,174,059</u>

(x) Other operating expenses

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Rental expense	\$ 39,663	39,943	120,245	118,569
Taxes	104,751	106,239	323,815	264,677
Information technology expense	43,875	47,632	153,007	144,772
Postage expense	38,516	34,309	112,790	100,273
Professional service fee	26,287	16,763	220,519	55,813
Other expenses	119,679	153,201	404,531	473,156
	<u>\$ 372,771</u>	<u>398,087</u>	<u>1,334,907</u>	<u>1,157,260</u>

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

(xi) Other gains and losses

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Financial revenue	\$ 103,363	66,397	268,243	182,893
Currency exchange gains (losses)	(4,864)	2,248	13,000	(5,593)
Net gains (losses) on disposal of investment	(3,978)	16,252	34,910	61,313
Net gains (losses) on measurement of non-operating financial instruments at fair value through profit or loss	(3,545)	7,187	1,778	26,936
Revenue from bank's allocation fee	33,127	35,690	99,464	104,350
Net gains (losses) on disposal of property and equipment	(122)	(1,008)	(122)	(1,008)
Dividend revenue	48,992	17,619	49,490	30,763
Gains on reversal of prior year's liabilities	324	33,829	25,626	49,395
Others	<u>27,667</u>	<u>1,645</u>	<u>147,255</u>	<u>71,928</u>
	<u>\$ 200,964</u>	<u>179,859</u>	<u>639,644</u>	<u>520,977</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.

For the nine months ended September 30, 2018 and 2017, the estimated amounts of remuneration to employee were \$22,817 and \$38,331, and to directors were \$38,028 and \$71,187, 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.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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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 nine months ended September 30, 2018 and 2017, the estimated amounts of remuneration to employee were \$10,248 and \$8,622 and to directors and supervisors were \$10,175 and \$8,808 by the domestic subsidiaries of the Group, respectively.

(v) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of September 30, 2018, December 31, 2017 and September 30, 2017, the maximum credit exposure amounted to \$100,845,597, \$111,905,084 and \$109,517,340, 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 (69.57%); secondly, is in Asia (16.32%, exclusion of Taiwan); then, is in America (8.65%). Compare to the same period of last year, there is no significant change in proportion of region of investments. The subsidiary Capital Futures Corp. only reveals the regional distribution in cash and cash equivalent and customers' margin account.

<u>Region</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Taiwan	\$ 69,763,480	68,514,346	66,936,297
Asia (Taiwan is excluded)	16,364,538	20,531,390	19,031,248
Europe	5,384,039	8,375,096	9,092,814
America	8,676,387	12,370,332	11,798,313
Other	<u>86,228</u>	<u>1,317,645</u>	<u>1,852,439</u>
Total	<u>\$ 100,274,672</u>	<u>111,108,809</u>	<u>108,711,111</u>

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

2) Impairment loss

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

	September 30, 2018		December 31, 2017		September 30, 2017	
	Total amount	Impairment	Total amount	Impairment	Total amount	Impairment
Not past due	\$ 21,493,113	23,307	23,216,757	1,551	23,936,477	84,151
Past due 0-30 days	543	543	2,115	2,115	354	354
Past due 31-120 days	3,162	3,162	31	31	2,999	2,999
Past due 121-360 days	110,066	110,066	85,694	85,694	702	702
Past due more than 360 days	197,557	197,557	135,899	128,771	139,283	114,603
	<u>\$ 21,804,441</u>	<u>334,635</u>	<u>23,440,496</u>	<u>218,162</u>	<u>24,079,815</u>	<u>202,809</u>

Allowance for doubtful debts under receivables is recorded for the bad 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 September 30, 2018, December 31, 2017 and September 30, 2017, the impairment losses of accrued receivables were recognized \$334,635, \$218,162 and \$202,809, 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, 2017 and September 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.

The loss allowance provision for the nine months ended September 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	-	(6,532)	-	-	69,984	-	63,452
Effect of exchange rate	-	-	-	-	3,800	-	3,800
Balance on September 30	<u>\$ -</u>	<u>8,621</u>	<u>-</u>	<u>-</u>	<u>334,635</u>	<u>-</u>	<u>343,256</u>

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

(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.

September 30, 2018	<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	\$ 308,077	308,077	308,077	-	-	-	-
Settlement coverage bonds payable of short sale	49,434	49,434	49,434	-	-	-	-
Stock warrants issued	493,306	493,306	485,981	7,325	-	-	-
Put options - futures	13,011	13,011	13,011	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	25,044	25,044	17,659	6,071	1,314	-	-
Put options	282,502	282,502	15,146	27,422	128,874	111,060	-
Currency derivatives	3,668	3,668	3,668	-	-	-	-
Short-term borrowings	4,596,498	4,596,498	4,596,498	-	-	-	-
Commercial paper payable	1,749,881	1,750,000	1,750,000	-	-	-	-
Bonds sold under repurchase agreements	35,203,702	35,525,879	35,525,879	-	-	-	-
Guarantee deposited for short sales	1,798,389	1,798,389	1,798,389	-	-	-	-
Proceeds payable from short sales	2,037,334	2,037,334	2,037,334	-	-	-	-
Securities lending refundable deposits	747,275	747,275	747,275	-	-	-	-
Futures traders' equity	32,389,958	32,389,958	32,389,958	-	-	-	-
Leverage contract trading customers' equity	226,998	226,998	226,998	-	-	-	-
Notes payable and accounts payable	391,454	391,454	391,454	-	-	-	-
Other payables	822,349	822,349	821,083	1,266	-	-	-
Receipts under custody	159,707	159,707	159,707	-	-	-	-
Structured notes	<u>4,539,241</u>	<u>4,539,241</u>	<u>4,037,824</u>	<u>77,340</u>	<u>316,653</u>	<u>107,424</u>	<u>-</u>
	<u>\$ 85,837,828</u>	<u>86,160,124</u>	<u>85,375,375</u>	<u>119,424</u>	<u>446,841</u>	<u>218,484</u>	<u>-</u>

(Continued)

**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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	<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>
December 31, 2017							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 1,029,543	1,029,543	1,029,543	-	-	-	-
Settlement coverage bonds payable of short sale	49,954	49,954	49,954	-	-	-	-
Stock warrants issued	1,306,849	1,306,849	1,265,875	40,974	-	-	-
Put options - futures	131,636	131,636	131,636	-	-	-	-
Equity derivatives	61	61	61	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	8,159	8,159	7,770	155	234	-	-
Put options	364,910	364,910	44,131	51,385	106,359	163,035	-
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	-	-	-	-
Leverage contract trading customers' equity	152,840	152,840	152,840	-	-	-	-
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>\$ 100,893,300</u>	<u>101,012,009</u>	<u>100,244,759</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**

September 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	\$ 100,413	100,413	100,413	-	-	-	-
Liabilities on sale of borrowed securities	644,941	644,941	644,941	-	-	-	-
Settlement coverage bonds payable of short sale	99,425	99,425	99,425	-	-	-	-
Stock warrants issued	915,425	915,425	849,997	65,428	-	-	-
Put options - futures	157,276	157,276	157,276	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	5,283	5,283	4,833	209	-	241	-
Put options	255,531	255,531	31,479	57,267	79,253	87,532	-
Currency derivatives	3,141	3,141	3,141	-	-	-	-
Short-term borrowings	7,544,684	7,544,684	7,544,684	-	-	-	-
Commercial paper payable	3,649,321	3,650,000	3,650,000	-	-	-	-
Bonds sold under repurchase agreements	46,089,737	46,214,682	46,214,682	-	-	-	-
Guarantee deposited for short sales	1,767,504	1,767,504	1,767,504	-	-	-	-
Proceeds payable from short sales	2,006,480	2,006,480	2,006,480	-	-	-	-
Securities lending refundable deposits	1,312,455	1,312,455	1,312,455	-	-	-	-
Futures traders' equity	25,979,489	25,979,489	25,979,489	-	-	-	-
Leverage contract trading customers' equity	146,197	146,197	146,197	-	-	-	-
Notes payable and accounts payable	177,905	177,905	177,905	-	-	-	-
Receipts under custody	830,682	830,682	830,682	-	-	-	-
Other payables	961,550	961,550	960,932	618	-	-	-
Structured notes	<u>4,673,915</u>	<u>4,673,915</u>	<u>4,239,727</u>	<u>127,319</u>	<u>109,885</u>	<u>196,984</u>	<u>-</u>
	<u>\$ 97,321,354</u>	<u>97,446,978</u>	<u>96,722,242</u>	<u>250,841</u>	<u>189,138</u>	<u>284,757</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:

	<b>September 30, 2018</b>		
	<b>Foreign Currency (thousands)</b>	<b>Exchange Rate</b>	<b>Amount</b>
<b><u>Financial assets</u></b>			
<b><u>Monetary Item</u></b>			
USD	\$ 655,747	30.5250	20,016,677
AUD	36,453	22.0350	803,242
CAD	334	23.4600	7,836
CHF	32	31.2750	1,001
EUR	9,248	35.4800	328,119
GBP	3,713	39.9000	148,149
HKD	65,339	3.9010	254,887
JPY	1,274,685	0.2692	343,145
SEK	4	3.4500	14
SGD	246	22.3300	5,493
CNY	60,224	4.4360	267,154
ZAR	74	2.1500	159
KRW	402,621	0.0277	11,153
NZD	32	20.1800	646
THB	1,750	0.9485	1,660
<b><u>Non-Monetary Item</u></b>			
USD	477,974	30.5250	14,590,156
AUD	230,682	22.0350	5,083,078
EUR	115	35.4800	4,080
GBP	1	39.9000	40
HKD	19,206	3.9010	74,923
JPY	6,278	0.2692	1,690
CNY	501,464	4.4360	2,224,494
NZD	2	20.1800	40
<b><u>Investments under equity method</u></b>			
HKD	11,269	3.9010	43,960

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

	<b>September 30, 2018</b>		
	<b>Foreign Currency (thousands)</b>	<b>Exchange Rate</b>	<b>Amount</b>
<b><u>Financial liabilities</u></b>			
<b><u>Monetary Item</u></b>			
USD	\$ 1,094,523	30.5250	33,410,315
AUD	262,511	22.0350	5,784,430
CHF	32	31.2750	1,001
EUR	8,406	35.4800	298,245
GBP	3,610	39.9000	144,039
HKD	175,205	3.9010	683,475
JPY	1,219,744	0.2692	328,355
SEK	4	3.4500	14
SGD	241	22.3300	5,382
CNY	244,188	4.4360	1,083,218
ZAR	14	2.1500	30
KRW	186,405	0.0277	5,163
THB	1,268	0.9485	1,203
<b><u>Non-Monetary Item</u></b>			
USD	106	30.5250	3,236
CAD	5	23.4600	117
JPY	1,092	0.2692	294
CNY	8	4.4360	35

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**Notes to the Consolidated Financial Statements**

	<b>December 31, 2017</b>		
	<b>Foreign Currency (thousands)</b>	<b>Exchange Rate</b>	<b>Amount</b>
<b><u>Financial assets</u></b>			
<b><u>Monetary Item</u></b>			
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
<b><u>Non-Monetary Item</u></b>			
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
<b><u>Investments under equity method</u></b>			
HKD	10,910	3.8070	41,535

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

		<b>December 31, 2017</b>		
		<b>Foreign Currency (thousands)</b>	<b>Exchange Rate</b>	<b>Amount</b>
<b><u>Financial liabilities</u></b>				
<b><u>Monetary Item</u></b>				
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
<b><u>Non-Monetary Item</u></b>				
USD		49	29.7600	1,458
CAD		18	23.7100	427
JPY		3,635	0.2642	960
		<b>September 30, 2017</b>		
		<b>Foreign Currency (thousands)</b>	<b>Exchange Rate</b>	<b>Amount</b>
<b><u>Financial assets</u></b>				
<b><u>Monetary Item</u></b>				
USD	\$	531,188	30.2600	16,073,749
AUD		4,642	23.7050	110,039
CAD		148	24.2800	3,593
CHF		16	31.2450	500
EUR		5,979	35.7500	213,749
GBP		459	40.5600	18,617
HKD		60,477	3.8730	234,227
JPY		1,162,830	0.2691	312,918
SGD		76	22.3000	1,695
CNY		68,100	4.5510	309,923
PHP		178	0.6121	109
KRW		196,502	0.0266	5,227
NZD		7	21.8100	153
THB		157	0.9128	143
IDR		41,864	0.0022	92

(Continued)

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

				<b>September 30, 2017</b>		
		<b>Foreign Currency (thousands)</b>	<b>Exchange Rate</b>	<b>Amount</b>		
<b><u>Financial assets</u></b>						
<b><u>Non-Monetary Item</u></b>						
	USD	\$ 847,187	30.2600	25,635,879		
	AUD	421,274	23.7050	9,986,300		
	GBP	21	40.5600	852		
	EUR	236	35.7500	8,437		
	HKD	43,693	3.8730	169,223		
	JPY	7,611	0.2691	2,048		
	CNY	165,849	4.5510	754,779		
<b><u>Investments under equity</u></b>						
<b><u>method</u></b>						
	HKD	10,767	3.8730	41,700		
<b><u>Financial liabilities</u></b>						
<b><u>Monetary Item</u></b>						
	USD	1,337,792	30.2600	40,481,586		
	AUD	405,290	23.7505	9,607,399		
	CAD	1	24.2800	24		
	CHF	16	31.2450	500		
	EUR	5,397	35.7500	192,943		
	GBP	520	40.5600	21,091		
	DKK	1	4.8100	5		
	HKD	146,955	3.8730	569,517		
	JPY	1,081,474	0.2691	291,025		
	SGD	60	22.3000	1,338		
	CNY	110,500	4.5510	502,886		
	KRW	(1,712)	0.0266	(46)		
	NZD	2	21.8100	44		
<b><u>Non-Monetary Item</u></b>						
	USD	102	30.2600	3,087		
	JPY	96	0.2691	26		

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 (losses) amounted to \$(58,093) and \$31,264 for the nine months ended September 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 at fair value through profit or loss, financial assets 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 nine months ended September 30, 2018 and 2017, given other factors remain the same, if the relevant foreign currencies, when compared with the NTD, had appreciates or depreciates by 5%, the net income and other comprehensive income will changes as follows:

	For the nine months ended September 30, 2018		For the nine months ended September 30, 2017	
	Appreciated 5%	Depreciated 5%	Appreciated 5%	Depreciated 5%
	Net income	(583,601)	583,601	(1,294,219)
Other comprehensive income	682,124	(682,124)	1,386,057	(1,386,057)

(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	September 30, 2018	September 30, 2017	For the nine months ended September 30,					
			2018			2017		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Interest risk	1,538,376	2,132,149	1,825,254	2,076,354	1,538,376	1,945,001	2,134,990	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.

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

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.

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.

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

2) Not based on fair value measurement

As of September 30, 2018, December 31, 2017 and September 30, 2017, the fair value information of the financial assets and financial liabilities of the Group was as follows:

a) Fair value information

	<u>September 30, 2018</u>		<u>December 31, 2017</u>		<u>September 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 assets :						
Cash and cash equivalents	\$ 7,700,427	7,700,427	7,104,077	7,104,077	7,024,429	7,024,429
Bonds purchased under resale agreements	-	-	-	-	100,402	100,402
Accrued receivable	22,231,320	22,231,320	25,194,975	25,194,975	25,087,254	25,087,254
Customers' margin account	32,424,124	32,424,124	27,302,712	27,302,712	26,043,603	26,043,603
Leverage contract trading - customers' margin account	228,529	228,529	151,540	151,540	146,980	146,980
Restricted assets - current	476,121	476,121	554,215	554,215	536,263	536,263
Financial assets measured at cost - non-current	-	-	754,545	754,545	692,374	692,374
Other non-current assets	1,486,542	1,486,542	1,565,354	1,565,354	1,598,849	1,598,849
Financial liabilities :						
Short-term borrowings	4,596,498	4,596,498	7,081,698	7,081,698	7,544,684	7,544,684
Commercial paper payable	1,749,881	1,749,881	4,099,184	4,099,184	3,649,321	3,649,321
Bonds sold under repurchase agreements	35,203,702	35,203,702	47,056,312	47,056,312	46,089,737	46,089,737
Accrued payable	10,889,149	10,889,149	13,280,377	13,280,377	14,333,295	14,333,295
Futures traders' equity	32,389,958	32,389,958	27,268,226	27,268,226	25,979,489	25,979,489
Leverage contract trading - customers' equity	226,998	226,998	152,840	152,840	146,197	146,197
Other financial liabilities - current	4,107,079	4,107,079	4,509,983	4,509,983	4,356,851	4,356,851
Other financial liabilities - non-current	424,077	424,077	266,037	266,037	306,869	306,869
Other non-current liabilities	245,089	245,089	249,277	249,277	249,427	249,427

b) Hierarchy information of fair value

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment property				
September 30, 2018	\$ -	-	<u>2,239,610</u>	<u>2,239,610</u>
December 31, 2017	\$ -	-	<u>2,809,179</u>	<u>2,809,179</u>
September 30, 2017	\$ -	-	<u>2,793,079</u>	<u>2,793,079</u>

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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- 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.

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>
<b>September 30, 2018</b>				
Financial assets at fair value through profit or loss	\$ 12,721,725	18,785,337	-	31,507,062
Financial assets at fair value through other comprehensive income	586,446	16,805,610	1,738,734	19,130,790
Derivative financial assets	<u>304,814</u>	<u>69,795</u>	<u>-</u>	<u>374,609</u>
	<u>\$ 13,612,985</u>	<u>35,660,742</u>	<u>1,738,734</u>	<u>51,012,461</u>
Financial liabilities at fair value through profit or loss	\$ 850,817	-	-	850,817
Derivative financial liabilities	<u>13,011</u>	<u>319,299</u>	<u>-</u>	<u>332,310</u>
	<u>\$ 863,828</u>	<u>319,299</u>	<u>-</u>	<u>1,183,127</u>

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	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>December 31, 2017</b>				
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><b>\$ 48,993,514</b></u>	<u><b>18,737,548</b></u>	<u><b>-</b></u>	<u><b>67,731,062</b></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><b>\$ 2,517,982</b></u>	<u><b>385,211</b></u>	<u><b>-</b></u>	<u><b>2,903,193</b></u>
<b>September 30, 2017</b>				
Financial assets at fair value through profit or loss	\$ 14,618,239	17,117,768	-	31,736,007
Financial assets available for sale	387,643	33,170,386	-	33,558,029
Derivative financial assets	<u>837,940</u>	<u>59,316</u>	<u>-</u>	<u>897,256</u>
	<u><b>\$ 15,843,822</b></u>	<u><b>50,347,470</b></u>	<u><b>-</b></u>	<u><b>66,191,292</b></u>
Financial liabilities at fair value through profit or loss	\$ 1,760,204	-	-	1,760,204
Derivative financial liabilities	<u>157,276</u>	<u>274,150</u>	<u>-</u>	<u>431,426</u>
	<u><b>\$ 1,917,480</b></u>	<u><b>274,150</b></u>	<u><b>-</b></u>	<u><b>2,191,630</b></u>

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.

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**CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES**  
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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 nine months ended September 30, 2018 and 2017.

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 nine months ended September 30, 2018							
	Beginning Balance	Gains and losses on valuation		Addition		Reduction		Ending Balance
		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	-	(40,358)	2,135	-	10,852	-	1,738,734

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- 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.

<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	Market approach	· Price-to-Book Ratio  · Discount for lack of marketability	· 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.
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:

	<u>Change in fair value recognized in other comprehensive income</u>	
	<u>Favorable</u>	<u>Unfavorable</u>
<b>September 30, 2018</b>		
Financial assets fair value through other comprehensive income	\$ <u>17,387</u>	<u>(17,387)</u>

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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:

<b>September 30, 2018</b>					
<b>Types of financial assets</b>	<b>Book value of the transferred financial assets</b>	<b>Book value of relevant financial liabilities</b>	<b>Fair value of the transferred financial assets (Note)</b>	<b>Fair value of relevant financial liabilities (Note)</b>	<b>Fair value net position (Note)</b>
Under repurchase agreements	\$ <u>36,197,646</u>	<u>35,203,702</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>December 31, 2017</b>					
<b>Types of financial assets</b>	<b>Book value of the transferred financial assets</b>	<b>Book value of relevant financial liabilities</b>	<b>Fair value of the transferred financial assets (Note)</b>	<b>Fair value of relevant financial liabilities (Note)</b>	<b>Fair value net position (Note)</b>
Under repurchase agreements	\$ <u>47,104,528</u>	<u>47,056,312</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>September 30, 2017</b>					
<b>Types of financial assets</b>	<b>Book value of the transferred financial assets</b>	<b>Book value of relevant financial liabilities</b>	<b>Fair value of the transferred financial assets (Note)</b>	<b>Fair value of relevant financial liabilities (Note)</b>	<b>Fair value net position (Note)</b>
Under repurchase agreements	\$ <u>46,197,612</u>	<u>46,089,737</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.

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(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:

September 30, 2018						
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	\$ 69,795	-	69,795	-	-	69,795
September 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	\$ 319,299	-	319,299	-	-	319,299
Under repurchase agreements	35,203,702	-	35,203,702	35,203,702	-	-
Total	\$ 35,523,001	-	35,523,001	35,203,702	-	319,299
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

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September 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	\$ 59,316	-	59,316	-	-	59,316

  

September 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	\$ 274,150	-	274,150	-	-	274,150
Under repurchase agreements	46,089,737	-	46,089,737	46,089,737	-	-
Total	\$ 46,363,887	-	46,363,887	46,089,737	-	274,150

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

(w) 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 6(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.

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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.

(iii) Financial risk information of derivative financial statements

As of September 30, 2018, December 31, 2017 and September 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	September 30, 2018		December 31, 2017		September 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	\$ 16,839,468	-	73,019,951	-	38,872,602	-

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.

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

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

(v) Presentation of financial derivatives

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

1) For the three months and the nine months ended September 30, 2018:

a) Gains (losses) on valuation

	<u>For the three months ended September 30, 2018</u>	<u>For the nine months ended September 30, 2018</u>	<u>Account</u>
Stock warrants issued	\$ 3,679,940	16,824,655	Gains (losses) on stock warrants issued
Stock warrants repurchased	(3,624,611)	(16,282,823)	Gains (losses) on stock warrants issued

b) Gains (losses) on sale

	<u>For the three months ended September 30, 2018</u>	<u>For the nine months ended September 30, 2018</u>	<u>Account</u>
Security borrowing	\$ (13,565)	168,152	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	(529,526)	(988,134)	Gains (losses) on sale of trading securities
Futures transaction	41,629	(152,611)	Gains (losses) on derivative financial instruments - futures

c) Gains (losses) on maturity

	<u>For the three months ended September 30, 2018</u>	<u>For the nine months ended September 30, 2018</u>	<u>Account</u>
Stock warrants issued	\$ 11,353,133	25,303,196	Gains (losses) on stock warrants issued
Stock warrants repurchased	(10,925,133)	(24,356,304)	Gains (losses) on stock warrants issued

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2) For the three months and the nine months ended September 30, 2017:

a) Gains (losses) on valuation

	<u>For the three months ended September 30, 2017</u>	<u>For the nine months ended September 30, 2017</u>	<u>Account</u>
Stock warrants issued	\$ 3,416,415	12,550,669	Gains (losses) on stock warrants issued
Stock warrants repurchased	(3,233,784)	(12,395,382)	Gains (losses) on stock warrants issued

b) Gains (losses) on sale

	<u>For the three months ended September 30, 2017</u>	<u>For the nine months ended September 30, 2017</u>	<u>Account</u>
Security borrowing	\$ (5,657)	5,884	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	215,108	327,808	Gains (losses) on sale of trading securities
Futures transaction	(77,944)	(220,531)	Gains (losses) on derivative financial instruments - futures

c) Gains (losses) on maturity

	<u>For the three months ended September 30, 2017</u>	<u>For the nine months ended September 30, 2017</u>	<u>Account</u>
Stock warrants issued	\$ 7,687,982	17,486,443	Gains (losses) on stock warrants issued
Stock warrants repurchased	(7,714,593)	(17,385,723)	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 September 30, 2018, December 31, 2017 and September 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.

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

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

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

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

- (iv) Presentation of financial derivatives:

For the three months and the nine months ended September 30, 2018 and 2017, gains (losses) on futures and options transactions amounted to \$266,624 and \$(312,823), respectively, and were reflected as gains (losses) on derivatives - futures. As of September 30, 2018, December 31, 2017 and September 30, 2017, futures margin - proprietary fund amounted to \$295,561, \$611,870 and \$741,645, 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 \$2,132,784, \$1,098,046 and \$1,341,528, respectively.

As of September 30, 2018, December 31, 2017 and September 30, 2017, the balance of call options which recognized as financial assets at fair value through profit or loss - current amounted to \$9,253, \$132,472 and \$96,295, respectively, put options which recognized as financial liabilities at fair value through profit or loss - current amounted to \$13,011, \$131,636 and \$157,276, respectively.

Derivative financial instruments - OTC

- (i) Interest rate financial derivatives

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

Financial Instruments	September 30, 2018		December 31, 2017		September 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	\$ 33,400,000	-	43,100,000	-	43,800,000	-

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.

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2) Market risk:

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

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

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

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

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	September 30, 2018		December 31, 2017		September 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	\$ 135,838	-	40,461	-	23,048	-
Principal guaranteed notes	3,468,963	-	3,949,038	-	4,022,968	-
Credit-linked notes	581,300	-	490,600	-	525,400	-
Principle guaranteed notes	USD11,298 thousands	-	USD9,962 thousands	-	USD3,257 thousands	-

(Continued)

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

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

2) Market risk

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

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

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

(iii) Convertible bond asset-backed swaps

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

Financial Instruments	September 30, 2018		December 31, 2017		September 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	\$ 773,700	-	943,700	-	885,600	-
Convertible bond options	2,929,000	-	2,437,300	-	2,173,100	-

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.

(Continued)

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

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

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

(iv) Options

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

<u>Financial Instruments</u>	<u>September 30, 2018</u>		<u>December 31, 2017</u>		<u>September 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	\$ -	-	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.

(Continued)

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

(v) Presentation of derivative financial instruments - OTC

As of September 30, 2018, December 31, 2017 and September 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>September 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>	<u>September 30,</u> <u>2017</u>
Financial assets at fair value through profit or loss - current			
IRS asset swaps	\$ 16,895	16,479	9,969
Interest rate swaps	2,948	1,920	1,127
Currency swaps	5,324	4,072	11,136
Equity derivatives	-	-	7,876
Asset swap options - long position	10,597	2,572	1,926
Structured notes	3,532	1,343	704
Currency derivatives	<u>30,499</u>	<u>22,446</u>	<u>26,578</u>
Total	<u>\$ 69,795</u>	<u>48,832</u>	<u>59,316</u>
Financial liabilities at fair value through profit or loss - current			
IRS asset swaps	\$ 1,394	239	192
Currency swaps	23,650	7,920	5,091
Asset swap options - short position	282,502	364,910	255,531
Equity derivatives	-	61	-
Structured notes	8,085	9,234	10,195
Currency derivatives	<u>3,668</u>	<u>2,847</u>	<u>3,141</u>
Total	<u>\$ 319,299</u>	<u>385,211</u>	<u>274,150</u>
Other financial liabilities - current			
Structured notes principal value	<u>\$ 4,107,079</u>	<u>4,509,983</u>	<u>4,356,851</u>
Other financial liabilities - non-current			
Structured notes principal value	<u>\$ 424,077</u>	<u>266,037</u>	<u>306,869</u>

(Continued)





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

**(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 September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$ 72,225	82,049	233,219	211,183
Post-employment benefits	677	569	1,899	1,714
Share-based Payment	-	-	-	5,960
Total	<u>\$ 72,902</u>	<u>82,618</u>	<u>235,118</u>	<u>218,857</u>

(ii) Bond transactions - bonds sold under repurchase agreements

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

	<u>September 30, 2018</u>		<u>December 31, 2017</u>		<u>September 30, 2017</u>	
	<u>Par value</u>	<u>Purchase price</u>	<u>Par value</u>	<u>Purchase price</u>	<u>Par value</u>	<u>Purchase price</u>
Key management personnel	<u>\$ 23,000</u>	<u>23,036</u>	<u>43,600</u>	<u>43,941</u>	<u>43,600</u>	<u>43,898</u>
<b>Total financial expenses</b>	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>			
Key management personnel	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>		
	<u>\$ 26</u>	<u>53</u>	<u>112</u>	<u>159</u>		

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

(iii) Structured notes transactions

As of September 30, 2018, December 31, 2017 and September 30, 2017, the balances of structured notes transactions with key management personnel were \$53,335, \$45,971 and \$41,521, 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 September 30, 2018, December 31, 2017 and September 30, 2017 were as follows:

	<u>September 30, 2018</u>		<u>December 31, 2017</u>		<u>September 30, 2017</u>	
	<u>Par value</u>	<u>Purchase price</u>	<u>Par value</u>	<u>Purchase price</u>	<u>Par value</u>	<u>Purchase price</u>
Juristic-person directors	<u>\$ 19,000</u>	<u>19,600</u>	<u>10,700</u>	<u>10,700</u>	<u>9,700</u>	<u>9,701</u>
	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>			
<b>Total financial expenses</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>		
Funds issued by associate	\$ 15	-	104	-		
Subsidiaries	-	20	-	42		
Juristic-person directors	<u>22</u>	<u>20</u>	<u>54</u>	<u>63</u>		
Total	<u>\$ 37</u>	<u>40</u>	<u>158</u>	<u>105</u>		

Transaction terms are the same as those with general clients.

(ii) Structured notes transaction

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

(iii) Lease agreements

1) Lease revenue

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Subsidiaries	\$ 260	258	779	777
Associates	<u>4,312</u>	-	<u>11,498</u>	-
Total	<u>\$ 4,572</u>	<u>258</u>	<u>12,277</u>	<u>777</u>

2) Guarantee deposits received

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

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

(iv) Insurance commission revenues

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

1) Commission revenues

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	2018	2017	2018	2017
Subsidiaries	\$ <u>2,447</u>	<u>2,373</u>	<u>8,949</u>	<u>11,720</u>

2) Accounts receivable

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Subsidiaries	\$ <u>1,846</u>	<u>1,169</u>	<u>1,499</u>

(v) Commissions

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

<u>Brokerage commissions</u>	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	2018	2017	2018	2017
Juristic-person directors	\$ 186	-	288	162
Other related parties	7,079	5,178	11,473	10,135
Funds issued by associate	<u>3,345</u>	-	<u>7,284</u>	-
Total	\$ <u>10,610</u>	<u>5,178</u>	<u>19,045</u>	<u>10,297</u>

<u>Re-consigned handling fee revenues</u>	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	2018	2017	2018	2017
Other related parties	\$ 109	29	188	100
Funds issued by associate	<u>1,286</u>	-	<u>3,380</u>	-
Total	\$ <u>1,395</u>	<u>29</u>	<u>3,568</u>	<u>100</u>

<u>Other commissions</u>	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	2018	2017	2018	2017
Funds issued by associate	\$ -	-	<u>366</u>	-

(vi) Human resources, legal service income, management service income and stock service income:

The Group provided human resources and legal service, management service and stock service for associate, and the human resources and legal service income amounted to \$169, \$0, \$201 and \$0 for the three months and the nine months ended September 30, 2018 and 2017, respectively.

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

(vii) Accrued receivables

The accrued receivables between the associate and the Group include stock service receivable, printing service receivable and advance stock service receivable. As of September 30, 2018, the accrued receivables amounted to \$10.

(viii) Disposals of financial assets

On January 16, 2018, the Group disposed all its shareholdings (941 thousand shares) in Reliance Securities Investment Trust Co., Ltd (which was recognized as financial assets at fair value through other comprehensive income - non-current) to a juristic-person director. The selling price and gains on disposal amounted to \$9,774 and \$7, respectively.

(ix) 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 September 30, 2018, December 31, 2017 and September 30, 2017:

	September 30, 2018	December 31, 2017	September 30, 2017	<u>The collateral use</u>
Restricted assets - current	\$ 476,121	554,215	536,263	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)	36,817,660	49,006,659	47,723,227	Repurchase agreement
Property and equipment	3,973,662	3,938,041	3,952,855	Bank borrowings
Financial assets at fair value through profit or loss - non - current	185,303	186,015	186,127	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business
Investment property	898,276	955,695	949,561	Bank borrowings
Total	<u>\$ 42,351,022</u>	<u>54,735,500</u>	<u>53,478,619</u>	

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.

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

**(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:

	September 30, 2018		December 31, 2017		September 30, 2017	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities procured through margin purchase	601,341	\$ 6,013,410	715,087	7,150,870	681,816	6,818,160
Collateral for margin purchase	18,707	187,070	4,429	44,290	9,726	97,260
Collateral for short sales	4,546	45,460	5,063	50,630	6,568	65,680
Lending securities to customers through short sales	39,764	397,640	48,278	482,780	37,982	379,820

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

	September 30, 2018		December 31, 2017		September 30, 2017	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities borrowed from securities finance companies	1,595	\$ 15,950	1,005	10,050	567	5,670
Collateral for refinancing margin	142	1,420	15	150	78	780

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

	September 30, 2018	December 31, 2017	September 30, 2017
Promissory notes	\$ 24,040,000	24,890,000	25,020,000
Promissory notes	USD60,000 thousand	80,000 thousand	80,000 thousand

- (d) As of September 30, 2018, December 31, 2017 and September 30, 2017, the market values of collaterals which received from customers on conducting borrowing and lending business with unrestricted purposes were \$3,513,461, \$3,146,425 and \$2,305,274 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.

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**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, which was in favor of the Company, or the investors reached compromises to waive off the appeal rights. As of September 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 September 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. Seventeen lawsuits with civic claim were filed and the forgoing lawsuit all has been concluded. The total compensation TIFC has paid was \$275,898 and the balance of loss reserves as of September 30, 2018 was \$141,204 recognized 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 \$2,960 for contract price. As of September 30, 2018, the remaining payable balance was \$2,072.

**(10) Significant Catastrophic Loss:None**

**(11) Significant Subsequent Events:None**

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

**(12) Other:**

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

(i) September 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 :						
	Taix Futures	Long	39	\$ 85,438	85,449	
	Taix Futures	Short	1,051	(2,278,048)	(2,302,631)	
	Mini Taiex Futures	Long	283	154,273	154,921	
	Mini Taiex Futures	Short	8	(4,327)	(4,372)	
	Electronic Sector Index Futures	Short	12	(21,010)	(20,995)	
	Finance Sector Index Futures	Long	17	21,825	22,141	
	Finance Sector Index Futures	Short	1	(1,304)	(1,302)	
	Non-Finance Non-Electronics Sub-Index Futures	Short	29	(38,550)	(38,524)	
	Stock Futures	Long	2,563	198,454	198,366	
	Stock Futures	Short	6,403	(941,591)	(960,826)	
	HSI Futures	Short	5	(27,019)	(27,187)	
	SGX Nifty 50 Index Futures	Long	22	14,761	14,719	
	Dow Futures	Long	95	50,649	50,384	
	Dow Futures	Short	11	(5,743)	(5,829)	
	Mini-Dow Futures	Short	17	(68,919)	(68,791)	
	Soybean Futures	Short	12	(17,617)	(15,485)	
	Gold Futures	Short	11	(42,351)	(40,165)	
	Micro Gold Futures	Long	8	2,928	2,921	
	MSCI Taiwan Index Futures	Short	73	(90,746)	(90,684)	
	FTSE China A50 Index Futures	Long	455	165,116	165,451	
	FTSE China A50 Index Futures	Short	589	(204,689)	(214,177)	
	Real Estate Index Futures	Short	1	(987)	(971)	
	S&P 500 Futures	Long	43	25,097	25,125	
	Mini-S&P 500 Futures	Short	9	(39,987)	(40,096)	
	U.S. 10-Year T-Note Futures	Short	301	(1,090,530)	(1,091,365)	
	Ultra 10-Year U.S. Treasury Note Futures	Short	25	(96,058)	(96,154)	
	Ultra 30-Year U.S. Treasury Note Futures	Short	5	(21,439)	(21,444)	
	Euro-Bund Futures	Short	52	(292,252)	(292,961)	
	Crude Oil Futures	Long	4	8,880	8,944	
	Nifty 50 Index Futures	Short	27	(14,844)	(14,805)	
	USD/JPY FX Futures	Long	3	1,795	1,822	
	USD/JPY FX Futures	Short	141	(84,735)	(84,933)	
	EUR/USD FX Futures	Long	2	1,430	1,428	
	EUR/USD FX Futures	Short	102	(72,924)	(72,899)	
	Dollar Index Futures	Short	30	(86,626)	(86,755)	
	JPY dollar Futures	Long	3	10,341	10,135	
	JPY dollar Futures	Short	28	(95,088)	(94,871)	
	NT dollar Gold Futures	Short	2	(895)	(873)	
	Euro dollar Futures	Long	16	71,394	71,319	
	Subtotal			<u>(4,825,898)</u>		

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**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	842	\$ 3,263	3,205	
	Taixex Options (Put )	Long	1,767	5,390	1,383	
	Taixex Options (Call)	Short	737	(1,573)	(1,999)	
	Taixex Options (Put )	Short	1,536	(5,212)	(3,240)	
	Stock Options (Call)	Long	142	1,634	1,167	
	Stock Options (Put)	Long	118	298	177	
	Stock Options (Call)	Short	211	(1,242)	(1,729)	
	Stock Options (Put)	Short	236	(1,752)	(779)	
	Taixex Weekly Options (Call)	Long	1,899	1,467	1,231	
	Taixex Weekly Options (Put)	Long	1,749	736	614	
	Taixex Weekly Options (Call)	Short	1,035	(3,801)	(2,558)	
	Taixex Weekly Options (Put)	Short	256	(495)	(407)	
	Electronic Sector Index Options (Call)	Long	180	596	414	
	Electronic Sector Index Options (Put)	Long	107	467	431	
	Electronic Sector Index Options (Call)	Short	88	(425)	(344)	
	Electronic Sector Index Options (Put)	Short	53	(111)	(101)	
	Finance Sector Index Options (Call)	Long	125	226	361	
	Finance Sector Index Options (Put)	Long	151	344	229	
	Finance Sector Index Options (Call)	Short	59	(170)	(216)	
	Finance Sector Index Options (Put)	Short	92	(95)	(11)	
	VIX Options (Put)	Short	500	(1,740)	(1,471)	
	JPY dollar Options (Put)	Short	3	(10)	(14)	
	Gold Option (Call)	Long	22	32	11	
	Gold Option (Put)	Long	23	21	30	
	Gold Option (Call)	Short	2	(4)	(1)	
	Gold Option (Put)	Short	11	(104)	(141)	
	Subtotal			(2,260)		
Total				\$ (4,828,158)		

(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) September 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 :						
	Taixex Futures	Long	319	\$ 653,867	654,184	
	Taixex Futures	Short	2,208	(4,585,121)	(4,581,291)	
	Mini Taiex Futures	Long	1	504	515	
	Mini Taiex Futures	Short	6	(2,917)	(3,099)	
	Electronic Sector Index Futures	Short	61	(106,725)	(107,555)	
	Non-Finance Non-Electronics Sub-Index Futures	Long	13	15,291	15,330	
	Non-Finance Non-Electronics Sub-Index Futures	Short	8	(9,386)	(9,413)	
	Stock Futures	Long	1,900	267,763	268,356	
	Stock Futures	Short	12,954	(2,303,457)	(2,275,089)	
	Finance Sector Index Futures	Short	1	(1,123)	(1,123)	
	H Stocks index Futures	Short	42	(126,287)	(126,312)	
	SGX Nifty 50 Index Futures	Long	6	3,558	3,560	
	HSI Futures	Short	7	(37,644)	(37,305)	
	MSCI Taiwan Index Futures	Long	110	128,965	128,051	
	MSCI Taiwan Index Futures	Short	1	(1,159)	(1,164)	
	VIX Futures	Long	3	1,114	1,060	
	GBP dollar Futures	Long	13	33,168	33,041	
	JPY dollar Futures	Long	1	3,368	3,374	
	JPY dollar Futures	Short	1	(3,377)	(3,374)	
	Nikkei Index Futures	Short	7	(18,624)	(19,171)	
	US Dollar Index Futures	Long	3	8,455	8,432	
	CHF dollar Futures	Short	12	(47,344)	(47,106)	
	Dow Futures	Long	188	83,798	84,009	
	Mini-Dow Futures	Short	25	(84,348)	(84,482)	
	Gold Futures	Short	9	(35,776)	(34,990)	
	NT dollar Gold Futures	Long	2	949	941	
	USD/CNY FX Futures	Long	7	22,407	21,400	
	USD/CNY FX Futures	Short	25	(79,118)	(76,518)	
	Nifty 50 Index Futures	Long	6	2,949	2,942	
	Nifty 50 Index Futures	Short	13	(6,430)	(6,391)	
	Mini-USD/CNY FX Futures	Long	81	52,480	49,791	
	Mini-USD/CNY FX Futures	Short	20	(12,775)	(12,160)	
	USD/JPY FX Futures	Long	198	118,633	118,818	
	USD/JPY FX Futures	Short	194	(117,166)	(116,940)	
	EUR/USD FX Futures	Short	181	(129,627)	(130,025)	
	EUR dollar Futures	Long	34	152,326	152,584	
	Crude Oil Futures	Long	4	5,625	6,288	
	Crude Oil Futures	Short	83	(127,650)	(129,773)	
	S&P 500 Futures	Long	152	75,933	76,527	
	Mini-S&P 500 Futures	Long	3	11,332	11,421	
	Mini-S&P 500 Futures	Short	97	(365,310)	(367,136)	
	FTSE China A50 Index Futures	Long	915	330,978	330,808	
	FTSE China A50 Index Futures	Short	248	(90,420)	(90,091)	
	U.S. 5-Year T-Note Futures	Short	58	(206,334)	(206,222)	
	U.S. 10-Year T-Note Futures	Short	162	(614,770)	(614,297)	
	Sugar Futures	Long	43	11,773	11,447	
	Sugar Futures	Short	32	(8,982)	(8,849)	
	Subtotal			(7,136,634)		

(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	29,571	\$ 30,234	22,870	
	Taixex Options (Put )	Long	40,400	49,898	31,332	
	Taixex Options (Call)	Short	9,315	(36,718)	(34,387)	
	Taixex Options (Put )	Short	25,931	(109,207)	(99,702)	
	Stock Options (Call)	Long	2,666	16,837	11,818	
	Stock Options (Put)	Long	2,134	4,867	4,623	
	Stock Options (Call)	Short	238	(1,231)	(1,013)	
	Stock Options (Put)	Short	486	(2,995)	(3,305)	
	Taixex Weekly Options (Call)	Long	23,082	5,978	7,416	
	Taixex Weekly Options (Put)	Long	6,651	4,818	2,657	
	Taixex Weekly Options (Call)	Short	2,898	(9,465)	(12,442)	
	Taixex Weekly Options (Put)	Short	1,872	(737)	(334)	
	Electronic Sector Index Options (Call)	Long	701	1,622	1,457	
	Electronic Sector Index Options (Put)	Long	373	908	431	
	Electronic Sector Index Options (Put)	Short	33	(170)	(279)	
	Finance Sector Index Options (Call)	Long	1,094	1,472	881	
	Finance Sector Index Options (Put)	Long	453	752	569	
	Finance Sector Index Options (Call)	Short	1	(9)	(6)	
	S&P 500 Options (Call)	Long	189	2,670	4,136	
	S&P 500 Options (Put)	Long	35	612	191	
	S&P 500 Options (Put)	Short	192	(1,341)	(149)	
	Mini-S&P 500 Options (Call)	Short	75	(1,661)	(2,432)	
	Gold Option (Call)	Long	19	81	36	
	Gold Option (Put)	Long	22	62	125	
	Gold Option (Call)	Short	46	(89)	(8)	
	Gold Option (Put)	Short	30	(65)	(41)	
	Sugar Options (Call)	Long	87	331	236	
	Sugar Options (Put)	Long	56	364	516	
	Sugar Options (Call)	Short	89	(109)	(36)	
	Soybean Meal Options (Put)	Long	6	8	1	
	Soybean Meal Options (Call)	Short	5	(9)	-	
	Soybean Meal Options (Put)	Short	10	(13)	(4)	
	Mini-USD/CNY FX Options (Call)	Long	2	12	1	
	Mini-USD/CNY FX Options (Put)	Long	78	1,420	2,618	
	Mini-USD/CNY FX Options (Call)	Short	79	(715)	(18)	
	USD/CNY FX Options (Call)	Long	25	1,241	211	
	USD/CNY FX Options (Put)	Long	12	1,152	2,113	
	USD/CNY FX Options (Call)	Short	1	(5)	-	
	USD/CNY FX Options (Put)	Short	35	(668)	(3,118)	
	Crude Oil Options (Call)	Short	1	(2)	(1)	
	Crude Oil Options (Put)	Short	2	(3)	(1)	
	10 Year Bond Options (Call)	Long	150	2,435	2,057	
	Subtotal			(37,438)		
Total				\$ (7,174,072)		

(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	$\frac{\text{Stockholders' equity}}{\text{(Total liabilities - futures traders' equity)}}$	$\frac{4,943,587}{500,813}$	9.87	$\frac{4,489,570}{596,021}$	7.53	$\geq 1$	Satisfactory to requirement
17	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{36,775,054}{33,304,887}$	1.10	$\frac{29,479,504}{26,412,177}$	1.12	$\geq 1$	"
22	$\frac{\text{Stockholders' equity}}{\text{Minimum paid-in capital}}$	$\frac{4,943,587}{1,115,000}$	443.37 %	$\frac{4,489,570}{1,115,000}$	402.65 %	$\geq 60\%$ $\geq 40\%$	"
22	$\frac{\text{Post-adjustment net capital}}{\text{Total customers' margin deposits required for open positions of customers}}$	$\frac{3,496,190}{6,002,631}$	58.24 %	$\frac{2,997,853}{4,976,091}$	60.25 %	$\geq 20\%$ $\geq 15\%$	"

(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 September 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.

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**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 3,380 thousand	US 3,380 thousand	- %	2	-	Operations & repayment of financing	-	-	-	US 3,380 thousand	US 3,380 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	3,025	84,713	-	4 %	2	-	Tradings	-	-	-	103,040	412,161
5	CSC Futures (HK) Ltd.	Klaw Trading Limited	Account receivables - Customer	No	24,195	42,356	19,060	5 %	2	-	Tradings	-	-	-	103,040	412,161
6	CSC Futures (HK) Ltd.	AAA Fintech Limited	Account receivables - Customer	No	60,509	84,713	60,509	5.32 %	2	-	Tradings	-	-	-	103,040	412,161
7	CSC Futures (HK) Ltd.	Future Leading Investment Pte. Ltd.	Account receivables - Customer	No	84,713	84,713	-	3.5 %	2	-	Tradings	-	-	-	103,040	412,161
8	CSC Futures (HK) Ltd.	Tetron Capital Limited	Account receivables - Customer	No	-	6,617	-	- %	2	-	Tradings	-	-	-	103,040	412,161

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 nine months ended September 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	271		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts receivable	11,635		0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other receivables	177		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Bonds sold under repurchase agreements	134,000		0.11 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other payables	19,820		0.02 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Guarantee deposits received	3,819		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Futures commission revenue	125,193	General transaction	1.87 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Lease revenue	12,196	General transaction	0.18 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Revenue from securities management, distribution, and management fees	304	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Financial costs	226	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other operating revenue	18	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Securities commission expense	3,888	General transaction	0.06 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Interest revenue	216	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Miscellaneous expenses	18,343	General transaction	0.27 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Non-operating revenues	32,056	General transaction	0.48 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Brokerage commissions revenue	292	General transaction	- %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Professional service fees	61,500	General transaction	0.92 %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Lease revenue	900	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	90	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Non-operating revenues	90	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	108		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other operating expenditure	4,651	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	65		- %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Lease revenue	721	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	155	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	1,404,465		1.10 %

(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.	Capital Securities Corp.	2	Futures traders' equity	1,404,465		1.10 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Customers' margin account	386,403		0.30 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures traders' equity	2,735,456		2.15 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Other payables	2,380		- %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures commission expense	7,400	General transaction	0.11 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Brokerage commissions revenue	47,487	General transaction	0.71 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Financial costs	1,289	General transaction	0.02 %
1	Capital Futures Corp.	Capital International Technology Corp.	3	Professional service fees	700	General transaction	0.01 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Customers' margin account	2,624,108		2.05 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Futures traders' equity	275,055		0.22 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Information technology expense	1,408	General transaction	0.02 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Accumulated depreciation	1,200		- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Depreciation expense	233	General transaction	- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Prepayments	382		- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Other payables	1,576		- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Professional service fees	10,197	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 22		- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other operating revenue	HK 3,240	General transaction	0.19 %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Brokerage handling fee expense	HK 460	General transaction	0.03 %
3	CSC Securities (HK) Ltd.	CSC International Holdings Ltd.	3	Other payables	HK 228,480		0.69 %
4	Taiwan International Securities (B.V.) 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	Note
						Balance on September 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 %	103,294	61,500	7,126	7,126	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	99,182,845	56.21 %	2,778,790	1,965,836	751,541	422,460	258,777	"
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 %	1,628,932	7,126	(4,880)	(4,880)	-	"
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 %	70,981	137,247	45,125	45,125	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 %	41,030	54,618	1,630	1,630	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 %	652	781	(344)	(344)	-	"
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 %	12,857	-	(174)	(174)	-	"
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 %	956,932	3,486	(877)	(877)	-	"
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 %	1,240,275	989,702	380,519	64,914	99,202	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 159,901 thousand	HK 21,695 thousand	HK 1,849 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 (26,153) thousand	HK -	HK 203 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 (66,118) thousand	-	HK (18) thousand	-	-	"

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## 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	Note
						Balance on September 30, 2018	Balance on December 31, 2017	Shares	Ratio	Book value					
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 %	1,002,272	446,107	57,074	-	-	The transaction has been written off in the consolidated financial statements
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 %	45,914	700	371	-	-	-
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 %	43,960	69,125	4,358	-	-	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	-	-	-	-	-	-	-	-

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**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 September 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 September 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	1,307	28.67%	442 B(3)	12,607	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	18,863	(C)	18,863	-	-	18,863	3,581	56.21%	2,013 B(3)	13,269	-

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**  
**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 September 30, 2018							
		Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$	<u>961,301</u>	<u>109,638</u>	<u>(82,305)</u>	<u>143,015</u>	<u>38,971</u>	<u>552,135</u>	<u>(70,673)</u>	<u>1,652,082</u>
Income	\$	<u>434,172</u>	<u>72,814</u>	<u>(264,914)</u>	<u>76,984</u>	<u>(5,963)</u>	<u>193,797</u>	<u>(76,056)</u>	<u>430,834</u>
		For the three months ended September 30, 2017							
		Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$	<u>1,016,838</u>	<u>79,659</u>	<u>585,256</u>	<u>166,585</u>	<u>58,142</u>	<u>833,034</u>	<u>(76,620)</u>	<u>2,662,894</u>
Income	\$	<u>459,213</u>	<u>37,230</u>	<u>444,217</u>	<u>107,384</u>	<u>(99,439)</u>	<u>290,417</u>	<u>(165,942)</u>	<u>1,073,080</u>

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

		For the nine months ended September 30, 2018						
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$ 3,026,679	254,699	615,741	530,880	159,729	2,323,705	(228,727)	6,682,706
Income	\$ 1,435,358	137,288	(24,373)	339,337	79,241	858,162	(420,058)	2,404,955
		For the nine months ended September 30, 2017						
	Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$ 2,544,065	240,613	1,522,375	348,269	162,602	2,019,512	(210,763)	6,626,673
Income	\$ 936,432	110,532	1,064,921	216,115	(244,712)	648,388	(316,572)	2,415,104

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.