

CAPITAL SECURITIES CORPORATION**Financial Statements****With Independent Auditors' Report
For The Years Ended December 31, 2019 and 2018**

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

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Independent Auditors' Report

To the Board of Directors of Capital Securities Corporation:

Opinion

We have audited the financial statements of Capital Securities Corporation (“the Company”), which comprise the statements of financial position as of December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and cash flows for the years ended December 31, 2019 and 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of another auditor (please refer to Other Matter paragraph), the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years ended December 31, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Key audit matters of the Company's financial statements are stated as follows:

1. Valuation of financial instruments

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

Risk and descriptions of the key audit matter:

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

Procedures performed:

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

2. Goodwill impairment

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

Risk and descriptions of the key audit matter:

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

Procedures performed:

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

Other Matter

We did not audit the financial statements of Capital Investment Trust Corporation, an associate of Capital Securities Corporation. Those financial statements were audited by another auditor, whose report has been furnished to us, and our conclusion, insofar as it relates to the amounts included for Capital Investment Trust Corporation, is based solely on the report of another auditor. The recognized investment amount of Capital Investment Trust Corporation under equity method constituted 1.36% and 1.55% of total assets as of December 31, 2019 and 2018, respectively, and the recognized share of profits under using equity method constituted 4.72% and 4.74% of net income before income tax for the years ended December 31, 2019 and 2018, respectively.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

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

KPMG

Taipei, Taiwan (Republic of China)
March 26, 2020

Notes to Readers

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

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

Balance Sheets

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2019		December 31, 2018		
	Amount	%	Amount	%	
Assets					
110000	Current assets:				
111100	Cash and cash equivalents (note 6(a))	\$ 2,656,201	3	2,554,322	3
112000	Financial assets at fair value through profit or loss - current (notes 6(b) and 8)	30,255,818	32	30,265,614	37
113200	Financial assets at fair value through other comprehensive income- current (note 6(b))	15,976,583	17	10,850,674	13
114030	Receivable for securities provided as collateral	11,934,900	13	9,756,590	12
114040	Refinancing margin	91,153	-	39,614	-
114050	Refinancing collateral receivable	137,339	-	34,419	-
114060	Receivable of securities business money lending	1,996,204	2	1,949,105	2
114090	Collateral for securities borrowed	344,523	-	454,200	1
114100	Security borrowing margin	312,084	-	412,148	1
114110	Notes receivable	22,401	-	17,181	-
114130	Accounts receivable (note 6(c))	6,395,116	7	4,251,551	5
114150	Prepayments	22,060	-	18,084	-
114170	Other receivables	93,395	-	22,368	-
114600	Current income tax assets	26,358	-	26,358	-
119000	Other current assets	695,209	1	790,564	1
119095	Amounts held for each customer in the account (note 6(l))	3,025,153	3	26,969	-
		<u>73,984,497</u>	<u>78</u>	<u>61,469,761</u>	<u>75</u>
120000	Non-current assets:				
122000	Financial assets at fair value through profit or loss - non-current (notes 6(b) and 8)	180,467	-	185,109	-
123200	Financial assets at fair value through other comprehensive income- non-current (note 6(b))	2,174,104	2	1,627,616	2
124100	Investments accounted for under equity method (note 6(d))	6,715,151	7	6,827,001	9
125000	Property and equipment (notes 6(e) and 8)	2,339,571	2	4,577,214	6
125800	Right-of-use assets (note 6(f))	852,107	1	-	-
126000	Investment property (notes 6(g) and 8)	4,346,760	5	2,021,203	3
127000	Intangible assets (note 6(h))	3,527,506	4	3,543,038	4
128000	Deferred income tax assets (note 6(q))	107,610	-	115,600	-
129000	Other non-current assets	1,190,857	1	1,061,874	1
		<u>21,434,133</u>	<u>22</u>	<u>19,958,655</u>	<u>25</u>
	Total assets	<u>\$ 95,418,630</u>	<u>100</u>	<u>81,428,416</u>	<u>100</u>

See accompanying notes to financial statements.

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

Balance Sheets

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2019		December 31, 2018		
	Amount	%	Amount	%	
Liabilities and Equity					
210000	Current liabilities:				
211100	Short-term borrowings (note 6(i))	\$ 6,631,002	7	3,873,506	5
212000	Financial liabilities at fair value through profit or loss - current (note 6(j))	1,436,258	2	1,177,315	1
214010	Bonds sold under repurchase agreements (note 6(k))	31,893,531	33	28,230,524	35
214040	Guarantee deposited for short sales	2,390,464	3	2,316,744	3
214050	Proceeds payable from short sales	2,755,405	3	2,603,315	3
214070	Securities lending refundable deposits	336,713	-	644,843	1
214090	Equity for each customer in the account (note 6(l))	3,025,153	3	26,969	-
214110	Notes payable	-	-	481	-
214130	Accounts payable (note 6(m))	6,123,154	6	3,583,940	4
214150	Advance receipts	58,143	-	26,386	-
214160	Receipts under custody	109,866	-	115,918	-
214170	Other payables	512,459	1	623,162	1
214200	Other financial liabilities - current (note 6(v))	3,579,951	4	3,357,887	4
214600	Current income tax liabilities	183,169	-	398,160	-
215100	Provisions - current (note 6(p))	44,610	-	43,530	-
216000	Current lease liabilities (note 6(o))	156,150	-	-	-
219000	Other current liabilities	3,047	-	3,164	-
		<u>59,239,075</u>	<u>62</u>	<u>47,025,844</u>	<u>57</u>
220000	Non-Current liabilities:				
224200	Other financial liabilities - non-current (note 6(v))	349,518	-	310,032	-
226000	Non-current lease liabilities (note 6(o))	751,240	1	-	-
228000	Deferred income tax liabilities (note 6(q))	455,196	-	468,479	1
229000	Other non-current liabilities (note 6(p))	630,961	1	652,069	1
		<u>2,186,915</u>	<u>2</u>	<u>1,430,580</u>	<u>2</u>
	Total liabilities	<u>61,425,990</u>	<u>64</u>	<u>48,456,424</u>	<u>59</u>
	Equity:				
301010	Common stock (note 6(r))	23,209,081	24	23,209,081	28
302000	Capital surplus (note 6(r))	2,852,299	3	2,852,299	4
304000	Retained earnings:				
304010	Legal reserve	1,658,360	2	1,519,635	2
304020	Special reserve	3,587,197	4	3,302,811	4
304040	Unappropriated earnings (note 6(r))	2,681,569	3	1,387,250	2
305120	Exchange differences on translation of foreign operations	(118,543)	-	(41,068)	-
305140	Unrealized gains (losses) on financial assets at fair value through other comprehensive income	1,696,677	2	741,984	1
305500	Treasury shares (note 6(r))	(1,574,000)	(2)	-	-
	Total equity	<u>33,992,640</u>	<u>36</u>	<u>32,971,992</u>	<u>41</u>
	Total liabilities and equity	<u>\$ 95,418,630</u>	<u>100</u>	<u>81,428,416</u>	<u>100</u>

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

CAPITAL SECURITIES CORPORATION

Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

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

	2019		2018	
	Amount	%	Amount	%
Income:				
401000 Brokerage commissions (note 6(t))	\$ 2,205,367	38	2,573,772	52
402000 Revenues from securities business money lending	96	-	264	-
403000 Revenue from securities lending	195,605	3	137,401	3
404000 Underwriting commissions (note 6(t))	82,881	1	92,602	2
406000 Commissions on wealth management business	104,054	2	107,619	2
410000 Net gains (losses) on sale of trading securities (note 6(t))	952,684	16	(1,406,516)	(29)
421100 Securities management, distribution, and management fees	143,721	3	140,914	3
421200 Interest revenue (note 6(t))	1,506,978	26	1,929,231	39
421300 Dividend revenue	235,167	4	238,150	5
421500 Net gains (losses) on measurement of trading securities at fair value through profit or loss (note 6(t))	949,088	16	(595,797)	(12)
421600 Net gains (losses) on covering of borrowed securities and bonds with resale agreements	77,635	1	177,866	4
421610 Net gains (losses) on measurement of borrowed securities and bonds with resale agreements	(88,422)	(2)	45,706	1
421750 Realized gains (losses) from investments in debt instruments at fair value through other comprehensive income	259,754	4	(386,551)	(8)
422000 Net gains (losses) from exchange traded notes (note 6(v))	(67)	-	-	-
422200 Net gains (losses) on stock warrants issued (notes 6(t) and (v))	37,086	1	1,683,041	34
424100 Futures commission revenues	130,341	2	166,348	3
424400 Net gains (losses) on derivative instruments - futures (note 6(v))	(645,521)	(11)	10,268	-
424500 Net gains (losses) on derivative instruments - OTC (note 6(v))	(342,369)	(6)	40,109	1
425300 Impairment losses and reversal gains (note 6(u))	(1,817)	-	(10,514)	-
428000 Other operating revenues	83,701	2	(21,253)	-
	<u>5,885,962</u>	<u>100</u>	<u>4,922,660</u>	<u>100</u>
Expenses:				
501000 Brokerage fees	161,450	3	190,239	4
502000 Brokerage and clearing fees - proprietary trading	13,674	-	14,697	-
503000 Clearing and exchange fees - refinancing	2,275	-	2,127	-
504000 Clearing and exchange fees - underwriting	1,049	-	1,093	-
521200 Financial costs	602,497	10	699,996	14
524200 Securities commission expense	3,492	-	4,721	-
528000 Other operating expenditure	6,926	-	6,649	-
531000 Employee benefits expenses (note 6(t))	1,879,473	32	1,974,377	40
532000 Depreciation and amortization expense (note 6(t))	353,271	6	171,347	4
533000 Other operating expenses (note 6(t))	1,081,663	19	1,238,245	25
	<u>4,105,770</u>	<u>70</u>	<u>4,303,491</u>	<u>87</u>
Other income (expenses):				
601000 Share of profits of associates and joint ventures accounted for using equity method (note 6(d))	524,510	9	790,995	16
602000 Other gains and losses (note 6(t))	514,046	9	428,281	9
	<u>1,038,556</u>	<u>18</u>	<u>1,219,276</u>	<u>25</u>
902001 Net income before income tax	2,818,748	48	1,838,445	38
701000 Less: Income tax expenses (note 6(q))	251,925	4	429,580	9
Net income	<u>2,566,823</u>	<u>44</u>	<u>1,408,865</u>	<u>29</u>
805000 Other comprehensive income:				
805500 Components that may not be reclassified to profit or loss in subsequent periods:				
805510 Gains (losses) on remeasurements of defined benefit plans	54,421	1	(43,049)	(1)
805540 Unrealized gains (losses) from investments in equity instruments at fair value through other comprehensive income	632,045	11	(28,936)	(1)
805560 Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method	(83,371)	(2)	(219,278)	(4)
805599 Less: Income tax related to components of other comprehensive income	-	-	-	-
Subtotal of components that may not be subsequently reclassified into profit or loss	<u>603,095</u>	<u>10</u>	<u>(291,263)</u>	<u>(6)</u>
805600 Components that may be reclassified to profit or loss in subsequent periods:				
805610 Exchange differences on translation of foreign operations	(74,122)	(1)	61,868	1
805615 Unrealized gains (losses) from investments in debt instruments at fair value through other comprehensive income	430,568	7	(222,349)	(4)
805660 Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method	(10,609)	-	10,642	-
805699 Less: Income tax related to components of other comprehensive income (note 6(q))	(7,256)	-	10,012	-
Subtotal of items that may be subsequently reclassified into profit or loss	<u>353,093</u>	<u>6</u>	<u>(159,851)</u>	<u>(3)</u>
805000 Other comprehensive income, net	956,188	16	(451,114)	(9)
902006 Total comprehensive income	<u>\$ 3,523,011</u>	<u>60</u>	<u>957,751</u>	<u>20</u>
975000 Basic earnings per share (note 6(s))		<u>1.11</u>		<u>0.61</u>
985000 Diluted earnings per share (note 6(s))		<u>1.11</u>		<u>0.61</u>

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

CAPITAL SECURITIES CORPORATION

Statements of Changes in Equity

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	Stock		Retained earnings			Total other equity interest				Treasury shares	Total Equity
	Common stocks	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences on translation of foreign operations	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on financial assets available for sale			
Balance at January 1, 2018	\$ 21,690,730	2,852,299	1,230,275	2,709,623	2,850,553	(103,566)	-	191,716	-	-	31,421,630
Effects of retrospective application	-	-	-	-	12,367	-	1,205,775	(191,716)	-	-	1,026,426
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
Net income for the year ended December 31, 2018	-	-	-	-	1,408,865	-	-	-	-	-	1,408,865
Other comprehensive income	-	-	-	-	(43,183)	62,498	(470,429)	-	-	-	(451,114)
Total comprehensive income	-	-	-	-	1,365,682	62,498	(470,429)	-	-	-	957,751
Appropriations of prior year's earnings: (note 6(r))											
Legal reserve	-	-	289,360	-	(289,360)	-	-	-	-	-	-
Special reserve	-	-	-	593,188	(593,188)	-	-	-	-	-	-
Cash dividends of ordinary shares	-	-	-	-	(433,815)	-	-	-	-	-	(433,815)
Stock dividends of ordinary shares	1,518,351	-	-	-	(1,518,351)	-	-	-	-	-	-
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	(6,638)	-	6,638	-	-	-	-
Balance at December 31, 2018	23,209,081	2,852,299	1,519,635	3,302,811	1,387,250	(41,068)	741,984	-	-	-	32,971,992
Net income for the year ended December 31, 2019	-	-	-	-	2,566,823	-	-	-	-	-	2,566,823
Other comprehensive income	-	-	-	-	54,190	(77,475)	979,473	-	-	-	956,188
Total comprehensive income	-	-	-	-	2,621,013	(77,475)	979,473	-	-	-	3,523,011
Appropriations of prior year's earnings: (note 6(r))											
Legal reserve	-	-	138,725	-	(138,725)	-	-	-	-	-	-
Special reserve	-	-	-	284,386	(284,386)	-	-	-	-	-	-
Cash dividends of ordinary shares	-	-	-	-	(928,363)	-	-	-	-	-	(928,363)
Purchase of treasury shares	-	-	-	-	-	-	-	-	(1,574,000)	-	(1,574,000)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	24,780	-	(24,780)	-	-	-	-
Balance at December 31, 2019	\$ 23,209,081	2,852,299	1,658,360	3,587,197	2,681,569	(118,543)	1,696,677	-	(1,574,000)	-	33,992,640

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION

Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	2019	2018
Cash flows from operating activities:		
Net income before tax	\$ 2,818,748	1,838,445
Adjustments:		
Income and expenses items		
Depreciation expense	327,215	145,380
Amortization expense	26,056	25,967
Impairment loss	1,817	10,514
Net losses (gains) on financial assets or liabilities at fair value through profit or loss	(860,666)	550,091
Interest expense	602,497	699,996
Interest revenue (including financial revenue)	(1,509,291)	(1,932,206)
Dividend revenue	(300,259)	(287,653)
Cash dividend received from investments under equity method	506,103	435,766
Share of profits of associates and joint ventures accounted for using equity method	(524,510)	(790,995)
Losses (gains) on disposal and retirement of property and equipment	(13,801)	122
Gains on disposal of investments accounted for using equity method	-	(69,631)
Net losses (gains) on non-operating financial instruments at fair value through profit or loss	(20,826)	24,859
Gains on lease modification	(2)	-
Subtotal of income of non-cash activities	<u>(1,765,667)</u>	<u>(1,187,790)</u>
Changes in operating assets and liabilities:		
Decrease in financial assets at fair value through profit or loss	895,930	2,814,346
Decrease (increase) in financial assets at fair value through other comprehensive income	(4,583,290)	21,631,372
Decrease (increase) in receivable for securities provided as collateral	(2,178,310)	4,638,803
Decrease (increase) in refinancing margin	(51,539)	6,481
Decrease (increase) in receivable on refinancing collateral	(102,920)	4,469
Increase in receivable of securities business money lending	(47,099)	(416,874)
Decrease in collateral for securities borrowed	109,677	460,143
Decrease in security borrowing margin	100,064	519,720
Decrease (increase) in notes receivable	(5,220)	4,630
Decrease (increase) in accounts receivable	(2,160,843)	2,005,340
Decrease (increase) in prepayments	(4,021)	220
Increase in other receivables	(68,953)	(30,649)
Decrease (increase) in guarantee deposited for business operations	(67,900)	51,100
Increase in other current assets	(2,902,829)	(40,977)
Decrease in settlement fund	12,122	4,695
Decrease (increase) in other non-current assets	(73,200)	101,755
Increase (decrease) in financial liabilities at fair value through profit or loss	258,943	(1,594,426)
Increase (decrease) in bonds sold under repurchase agreements	3,663,007	(18,837,289)
Increase in guarantee deposited for short sales	73,720	90,480
Increase in proceeds payable from short sales	152,090	102,462
Decrease in securities lending refundable deposits	(308,130)	(545,434)
Increase in equity for each customer in the account	2,998,184	13,490
Decrease in notes payable	(481)	(398)
Increase (decrease) in accounts payable	2,521,034	(1,922,273)
Increase (decrease) in advance receipts	31,757	(3,395)
Decrease in receipts under custody	(6,052)	(225,256)
Decrease in other payable	(112,340)	(166,836)
Increase (decrease) in other current liabilities	(117)	142
Increase (decrease) in other financial liabilities - current	222,064	(1,152,096)
Increase in provision - current	1,080	1,325
Increase in other financial liabilities - non-current	39,486	43,995
Increase (decrease) in other non-current liabilities	33,313	(3,710)
Total changes in assets and liabilities from operating activities	<u>(1,560,773)</u>	<u>7,555,355</u>
Total cash generated from operations	<u>(3,326,440)</u>	<u>6,367,565</u>

(English Translation of Financial Statements Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION

Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	<u>2019</u>	<u>2018</u>
Cash generated from operating activities	\$ (507,692)	8,206,010
Interest received	1,526,748	2,012,400
Dividends received	297,895	287,656
Interest paid	(585,243)	(719,783)
Income tax paid	(464,953)	(172,364)
Net Cash flows provided by operating activities	<u>266,755</u>	<u>9,613,919</u>
Cash flows from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(35,000)	(270,470)
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	6,800	1,085
Increase in deferred debits	(800)	(798)
Acquisition of investments accounted for under equity method	-	(1,272,505)
Proceeds from capital reduction of investments accounted for using equity method	-	212,179
Acquisition of property and equipment	(243,565)	(99,771)
Proceeds from disposal of property and equipment	14,608	-
Acquisition of intangible assets	(7,166)	(22,861)
Net cash flows used in investing activities	<u>(265,123)</u>	<u>(1,443,374)</u>
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	2,757,496	(3,208,192)
Decrease in commercial papers payable	-	(4,099,184)
Payment of lease liabilities	(117,041)	-
Cash dividends paid	(928,363)	(433,815)
Purchase of treasury shares	(1,574,000)	-
Net cash flows provided by (used in) financing activities	<u>138,092</u>	<u>(7,741,191)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(37,845)</u>	<u>11,807</u>
Increase in cash and cash equivalents	101,879	441,161
Cash and cash equivalents at beginning of period	2,554,322	2,113,161
Cash and cash equivalents at end of period	<u>\$ 2,656,201</u>	<u>2,554,322</u>

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)
CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(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 11/F, No. 156, Section 3, Minsheng East Road, Songshan District, Taipei, Taiwan, R.O.C. As of December 31, 2019, except for the Head Office, the Company has established an Offshore Securities Unit branch and 51 branches nationwide.

The Company is authorized to conduct the following businesses:

- (a) Underwriting of marketable securities;
- (b) Trading of marketable securities on a proprietary basis on stock exchange;
- (c) Brokerage of marketable securities on stock exchange;
- (d) Trading of marketable securities at the Company’s branches;
- (e) Brokerage of marketable securities at the Company’s branches;
- (f) Margin loan, short sale and refinancing;
- (g) Securities registration agency services;
- (h) Dealership of foreign marketable securities;
- (i) Short-term bills service;
- (j) Accessory services of futures trading;
- (k) Futures trading on a proprietary basis;
- (l) Securities business money lending;
- (m) Managing the unexpended balance of clients’ securities accounts within their authorization;
- (n) Trust business;
- (o) Offshore securities business;
- (p) Other relevant services as approved by the authority in charge.

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

The financial statements were authorized for issue by the board of directors on March 26, 2020.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the 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, 2019.

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

- (i) IFRS 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.

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in opening balance on January 1, 2019. The details of the changes in accounting policies are disclosed below,

- 1) Definition of a lease

Previously, the Company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4(n)

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

- 2) As a lessee

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities on balance sheet.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

The Company decided to apply recognition exemptions to short-term leases of office equipment and leases of transportation equipment.

- Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Company applied this approach to its largest property leases; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Company applied this approach to all other lease.

In addition, the Company used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) As a lessor

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. The Company accounted for its leases in accordance with IFRS 16 from the date of initial application.

4) Impacts on financial statements

On transition to IFRS 16, the Company recognised additional \$939,218 of both right-of-use assets and lease liabilities. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.35%.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of financial position at the date of initial application disclosed as follows:

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Company's financial statements	\$ 979,873
Recognition exemption for:	
short-term leases	(2,706)
leases of low -value assets	(144)
Extension and termination options reasonably certain to be exercised	4,680
	981,703
Discounted using the incremental borrowing rate at January 1, 2019	939,218
Lease liabilities recognized at January 1, 2019	\$ 939,218

- (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, 2020 in accordance with Rule No. 1080323028 issued by the FSC on July 29, 2019:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform"	January 1, 2020
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

The Company assesses that the adoption of the abovementioned standards would not have any material impact on its financial statements.

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

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2022

The Company assessed that the above IFRSs may not be relevant to the Company.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(4) Summary of significant accounting policies:

The significant accounting policies presented in the financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the financial statements.

(a) Statement of compliance

The financial statements has been prepared in accordance with the “ Regulations Governing the Preparation of Financial Reports by Securities Firms”.

(b) Basis of preparation

(i) Basis of measurement

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

- 1) Financial assets at fair value through profit or loss are measured at fair value (including derivative instruments);
- 2) Financial assets at fair value through other comprehensive income are measured at fair value;
- 3) The defined benefit liabilities (assets) are measured at fair value of plan assets less the present value of the defined benefit obligation, limited as explained in Note 4(p).

(ii) Functional and presentation currency

The functional currency of each Company entity is determined based on the primary economic environment in which the entity operates. The 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) Foreign currencies

(i) Foreign currency transaction

Transactions in foreign currencies are translated into the respective functional currencies at exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date.

Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of transaction.

Exchange differences are generally recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

- 1) An investment in equity securities designated as at fair value through other comprehensive income;

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

- 2) A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- 3) Qualifying cash flow hedges to the extent that the hedges are effective.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated into the presentation currency at the average rate. Foreign currency differences are recognized in other comprehensive income.

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

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

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

- (i) Assets arising from operating activities that are expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- (ii) Assets held for the trading purposes;
- (iii) Assets that are expected to be realized within twelve months from the balance sheet date;
- (iv) Cash and cash equivalent, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

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

- (i) Liabilities arising from operating activities that are expected to be settled in the normal operating cycle;
- (ii) Liabilities incurred for the trading purposes;
- (iii) Liabilities that are to be settled within twelve months from the balance sheet date;
- (iv) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(e) Cash and cash equivalents

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

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

(f) Financial instruments

Account receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a account receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A account receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

On initial recognition, a financial asset is classified as measured at: amortized cost; Fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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.

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the 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 Company 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.

Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

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 Company 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.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

4) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses (ECL) 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
Notes to the Financial Statements

The Company measures loss allowances at an amount equal to lifetime 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 receivables 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 portion of ECLs that result from default events are possible 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 Company 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 Company 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 Company's historical experience and informed credit assessment as well as forward-looking information.

The Company 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 Company 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 Company 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 Company 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 Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company 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
Notes to the Financial Statements

Evidence that a financial assets 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 into 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 charge to profit or loss and is recognized in other comprehensive income instead of reducing the carrying amount of the asset.

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. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 2 years past due based on historical experience of recoveries of similar assets. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company' s procedures for recovery of amounts due.

5) Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt and equity instruments issued by the Company are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2) Equity instrument

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

3) Treasury shares

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is recognized in capital surplus or retained earnings (if the capital surplus is not sufficient to be written down).

4) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

5) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

6) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(iii) Derivative financial instruments

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

1) Interest rate swaps

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

2) Convertible bond asset- backed swaps

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

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

3) Structured instruments

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

On the settlement date with physical delivery, the fair value of the acquired securities are stated at cost. The difference between fair value and the cost of the delivered securities are recognized as gains (losses) on sale of securities.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

4) Interest options

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

5) Bond options

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

6) Equity options

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

On the settlement date with physical delivery, the fair value of the acquired securities are stated at cost. The difference between 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 balance sheet date is also included in current earnings.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

9) Stock warrants

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

(g) Margin loan, short sale and refinancing

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

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

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

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

(h) Bonds with resell and repurchase agreements

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

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(i) Securities borrowing transactions

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

(j) Investments in subsidiaries

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

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

(k) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognized in profit or loss.

(ii) Reclassification to investment property

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

(iii) Subsequent cost

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

(iv) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight line basis over the estimated useful lives of each component of an item of property and equipment.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

Land is not depreciated.

The estimated useful lives of property and equipment are as follows:

- | | | |
|----|--|------------|
| 1) | Buildings | 3~55 years |
| 2) | Transportation equipment | 5 years |
| 3) | Office equipment and computer facilities | 3~5 years |
| 4) | Miscellaneous equipment | 5~10 years |
| 5) | Leasehold improvements are depreciated evenly by the shorter of the estimated useful life or the lease period. | |

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

(l) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition, and subsequently at cost, less accumulated depreciation and accumulated impairment losses. Depreciation expense is calculated based on the depreciation method, useful life, and residual value which are the same as those adopted for property and equipment.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount) is recognized in profit or loss.

Rental income from investment property is recognized as other revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

(m) Intangible assets

(i) Recognition and measurement

Goodwill arising on the acquisition of subsidiaries is measured at cost, less accumulated impairment losses.

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

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(iii) Amortization

The amortizable amount is the cost of an asset less its residual value, other than goodwill, operation franchise and the seats of foreign futures exchanges with all indefinite useful lives, from the date that they are available for use.

The estimated useful lives for the current and comparative periods are as follows:

- 1) Customer relationships: 5 years
- 2) Computer software cost and dial-up service charges: 3 years

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(n) Leases

Applicable from January 1, 2019

(i) Identifying a lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the customer has the right to direct the use of the asset throughout the period of use only if either:
 - 1) the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
 - 2) the relevant decisions about how and for what purpose the asset is used are predetermined and:
 - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
 - the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

(ii) Lessee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change in the lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset, or
- there is a change of its assessment on whether it will exercise a extension or termination option; or
- there is any lease modifications

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Company accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of office equipment and transportation equipment etc. that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii) Lessor

When the Company acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

Applicable before January 1, 2019

(i) Lessor

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

(ii) Lessee

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

(o) Non-financial assets impairment

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than deferred tax assets and assets arising from employee benefits) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(p) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

(ii) Defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

(iv) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(q) Revenue recognition

(i) Brokerage commissions

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

(ii) Underwriting commissions

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

(iii) Interest revenue

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

(r) Provisions

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(s) Income tax

Income taxes comprise current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

- (i) Temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
- (ii) Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) Taxable temporary differences arising on the Initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) The Company has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (ii) The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - 1) The same taxable entity; or
 - 2) Different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(t) Business combinations

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

(u) Earnings per share (EPS)

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

(v) Segment information

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

(w) Treasury stocks

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

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

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

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

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

(a) The fair value of financial instrument:

The fair value of non-active market or non-quoted financial instruments is determined by evaluation method. In this case, fair value is assessed from observable data or patterns of similar financial instruments. If there are no market observables, the fair value of financial instruments is assessed using appropriate assumptions. When using the evaluation model to determine fair value, all models must be calibrated to ensure that the output reflects actual data and market prices. The model uses only observable data as much as possible; however, for the part of credit risk (risk of itself and the counterparty), the Company must estimate the fluctuation and correlation for the fair value of financial assets. For sensitivity analysis of financial instruments, please refer to note 6(u).

(b) The impairment evaluation of goodwill:

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

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash	\$ <u>2,590</u>	<u>2,590</u>
Bank deposits		
Checking accounts	25,545	31,152
Demand deposits	197,121	61,122
Foreign currency deposits	<u>111,874</u>	<u>412,303</u>
Subtotal	<u>334,540</u>	<u>504,577</u>
Cash equivalents		
Time deposits	1,729,750	566,510
Futures margin - excess margin	<u>589,321</u>	<u>1,480,645</u>
Subtotal	<u>2,319,071</u>	<u>2,047,155</u>
Total	<u>\$ <u>2,656,201</u></u>	<u><u>2,554,322</u></u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(b) Financial assets

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Open-ended funds and money-market instruments		
Open-ended funds and money-market instruments	\$ 138,052	118,052
Valuation adjustment	<u>13,861</u>	<u>(6,965)</u>
Subtotal	<u>151,913</u>	<u>111,087</u>
Trading securities - proprietary trading		
Listed stocks	1,756,341	1,309,582
Listed funds	791,648	847,254
OTC stocks	337,626	303,916
OTC funds	200,580	83,480
Emerging market stocks	532,189	498,304
Emerging market funds	-	12,414
Convertible corporate bonds	889,088	496,130
Government bonds	3,317,485	6,511,541
Corporate bonds	7,641,557	9,652,271
International bonds	4,536,910	4,079,947
Financial debentures	200,000	300,000
Foreign stocks	474,829	126,052
Other	<u>300</u>	<u>257</u>
	20,678,553	24,221,148
Valuation adjustment	<u>158,200</u>	<u>(244,685)</u>
Subtotal	<u>20,836,753</u>	<u>23,976,463</u>
Trading securities - underwriting:		
Listed stocks	37,424	107,320
OTC stocks	38,716	55,690
Convertible corporate bonds	<u>85,097</u>	<u>141,011</u>
	161,237	304,021
Valuation adjustment	<u>26,053</u>	<u>(8,312)</u>
Subtotal	<u>187,290</u>	<u>295,709</u>
Trading securities - hedging		
Listed stocks	2,816,447	1,746,810
OTC stocks	773,913	397,140
Convertible corporate bonds	<u>4,948,227</u>	<u>3,799,450</u>
	8,538,587	5,943,400
Valuation adjustment	<u>279,305</u>	<u>(231,510)</u>
Subtotal	<u>8,817,892</u>	<u>5,711,890</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Derivatives		
Futures margin - proprietary fund	\$ 182,308	147,773
IRS asset swaps	16,053	13,855
Asset swap options - long position	37,684	4,072
Structured notes	25,925	3,075
Currency swaps	<u>-</u>	<u>1,690</u>
Subtotal	<u>261,970</u>	<u>170,465</u>
Total	<u>\$ 30,255,818</u>	<u>30,265,614</u>

As of December 31, 2019 and 2018, trading securities, financial assets at fair value through other comprehensive income and financial assets available for sale undertaken for repurchase agreements of the Company please refer to note 6(k) and note 8.

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Debt instruments at fair value through other comprehensive income		
Government bonds	\$ 2,225,249	-
International bonds	1,198,147	1,226,189
Overseas bonds	<u>12,054,824</u>	<u>9,205,561</u>
	15,478,220	10,431,750
Valuation adjustment	<u>366,972</u>	<u>(50,161)</u>
Subtotal	<u>15,845,192</u>	<u>10,381,589</u>
Equity instrument at fair value through other comprehensive income		
Listed stocks	118,428	237,755
OTC stocks	10,756	40,353
Foreign stocks	<u>-</u>	<u>279,832</u>
	129,184	557,940
Valuation adjustment	<u>2,207</u>	<u>(88,855)</u>
Subtotal	<u>131,391</u>	<u>469,085</u>
Total	<u>\$ 15,976,583</u>	<u>10,850,674</u>

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

The Company 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.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

For the years ended December 31, 2019 and 2018, the dividends were recognized from the Company designated and disposed the aforementioned equity instrument investments measured at fair value through other comprehensive income – current amounted to \$11,651 and \$25,717, respectively.

Due to the consideration of asset allocation and managing and adjusting the investment portfolio, the Company sold shares of stocks for a fair value \$691,488 and \$489,535, respectively, cumulative dispose losses for the years ended December 31, 2019 and 2018, amounted to \$22,648 and \$(6,818), respectively, were transferred from other equity items to retained earnings.

- 3) For credit risk (including the impairment of debt instrument investments) and market risk; please refer to note 6(u).
- 4) For the years ended December 31, 2019 and 2018, impairment test have been applied by the Company, the variation of loss allowance in the debt instrument measured at fair value through other comprehensive income of the Company please refer to note 6(u).

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Mandatorily measured at fair value through profit or loss:		
Government bonds	\$ 180,329	185,952
Valuation adjustment	<u>138</u>	<u>(843)</u>
Total	<u>\$ 180,467</u>	<u>185,109</u>

As of December 31, 2019 and 2018, the Company 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 (for details please refer to note 8).

- (iv) Financial assets at fair value through other comprehensive income – non-current

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Equity instruments at fair value through other comprehensive income		
Non-listed or non-over-the-counter stocks	\$ 683,734	655,534
Valuation adjustment	<u>1,490,370</u>	<u>972,082</u>
Total	<u>\$ 2,174,104</u>	<u>1,627,616</u>

For the years ended December 31, 2019 and 2018, the dividends were recognized from the Company designated and disposed the aforementioned equity instrument investments at fair value through other comprehensive income – non-current amounted to \$65,092 and \$49,442.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

For the years ended December 31, 2019 and 2018, under the consideration of asset allocation and managing and adjusting the investment portfolio, the Company sold equities recognized in FVOCI -non-current for a fair value \$0 and \$9,774, generated cumulative dispose gains \$0 and \$7, and the gains were transferred from other equity items to retained earnings.

- (v) The Company uses Value at risk (VaR) to monitor and measure the market risk of its investment in equity stocks. VaR refers to the unexpected loss of financial instruments derived from the changes in market risk factors within certain time periods and confidence level. The table below discloses the VaR, which is the estimation of potential loss in ten days and is covered by 99% of the adverse changes in market prices. In the table below by using this assumption, 2.5 out of 250 days VaR will exceed the disclosed amounts due to the changes in market price. For the years ended December 31, 2019 and 2018 VaR (99%, per 10-day) of equity stocks are as follows:

Type of market risk	December 31, 2019	December 31, 2018	For the years ended December 31,					
			2019			2018		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	1,364,147	997,970	1,122,594	1,364,147	932,006	1,263,629	1,615,221	947,949

(c) Accounts Receivable

	December 31, 2019	December 31, 2018
Receivable on securities purchased by customers	\$ 21,368	8,642
Settlement	-	712,274
Interests receivable	527,952	547,595
Receivables on securities sold	5,760,596	2,899,035
Others	<u>86,906</u>	<u>85,718</u>
Subtotal	6,396,822	4,253,264
Less: allowance for doubtful accounts	<u>(1,706)</u>	<u>(1,713)</u>
Total	<u>\$ 6,395,116</u>	<u>4,251,551</u>

- (i) For credit risk (including the impairment of debt instrument investments) and market risk; please refer to note 6(u).
- (ii) For the years ended December 31, 2019 and 2018, impairment test have been applied by the Company, the variation of loss allowance in receivables, please refer to note 6(u).

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(d) Investments under equity method

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Subsidiaries		
Capital Investment Management Corp.	\$ 92,445	106,690
CSC International Holdings Ltd	1,605,349	1,636,902
Capital Futures Corp.	2,817,870	2,828,539
Capital Insurance Advisory Corp.	78,906	84,732
Capital Insurance Agency Corp.	43,447	40,757
CSC Venture Capital Corp.	763,112	854,906
Taiwan International Securities (B.V.I) Corp.	18	347
Taiwan International Securities Investment Consulting Corp.	<u>12,644</u>	<u>12,799</u>
Subtotal	<u>5,413,791</u>	<u>5,565,672</u>
Associates		
Capital Investment Trust Corp.	<u>1,301,360</u>	<u>1,261,329</u>
Total	<u>\$ 6,715,151</u>	<u>6,827,001</u>

(i) Subsidiaries:

Please refer to the consolidated financial statements as of and for the year ended December 31, 2019 for further information.

For the years ended December 31, 2019 and 2018, the Company's share of gains or losses of the subsidiaries were as follows:

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Based on the audited financial statements	<u>\$ 391,441</u>	<u>703,840</u>

(ii) Associates

The Company acquired 20% shares of Capital Investment Trust Corporation with \$1,272,505 on February 9, 2018. The relevant information is as following:

<u>Name of associate</u>	<u>Nature between the Company</u>	<u>Primary business area and registered country</u>	<u>Proportion of Ownership and Voting Rights</u>	
			<u>December 31, 2019</u>	<u>December 31, 2018</u>
Capital Investment Trust Corp.	Engaged in security investment and discretionary investment services.	Taiwan	20.00 %	20.00 %

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

The financial information of associates accounted for under equity method was as follows, and these information were included in the Company's standalone financial report:

	December 31, 2019	December 31, 2018
Total carrying amount of the associates	\$ 1,301,360	1,261,329
For the years ended December 31,		
	2019	2018
Based on the financial statements attributable to the Company:		
Net gains from continuing operations	\$ 133,069	87,155
Other comprehensive income (losses)	6,164	872
Total comprehensive income (losses)	\$ 139,233	88,027

(e) Property and equipment

As of December 31, 2019 and 2018, movement in property and equipment of the Company are as follows:

	Land	Buildings	Equipment	Leasehold improvements	Total
Cost or deemed cost					
Balance at January 1, 2019	\$ 3,464,223	1,461,191	402,490	125,891	5,453,795
Additions	-	-	134,296	109,269	243,565
Transferred from investment property	126,013	32,417	-	-	158,430
Reclassified to investment property	(2,089,373)	(621,026)	-	-	(2,710,399)
Disposals and retirements	-	-	(68,761)	(9,200)	(77,961)
Balance at December 31, 2019	\$ 1,500,863	872,582	468,025	225,960	3,067,430
Balance at January 1, 2018	\$ 3,211,518	1,311,002	442,687	112,241	5,077,448
Additions	-	1,034	71,603	27,134	99,771
Transferred from investment property	278,253	163,463	-	-	441,716
Reclassified to investment property	(25,548)	(13,983)	-	-	(39,531)
Disposals and retirements	-	(325)	(111,800)	(13,484)	(125,609)
Balance at December 31, 2018	\$ 3,464,223	1,461,191	402,490	125,891	5,453,795
Depreciation and impairment loss					
Balance at January 1, 2019	\$ -	557,098	255,431	64,052	876,581
Depreciation	-	21,590	69,642	38,414	129,646
Transferred from investment property	-	13,099	-	-	13,099
Reclassified to investment property	-	(213,848)	-	-	(213,848)
Disposals and retirements	-	-	(68,761)	(8,858)	(77,619)
Balance at December 31, 2019	\$ -	377,939	256,312	93,608	727,859
Balance at January 1, 2018	\$ -	499,429	292,047	54,000	845,476
Depreciation	-	27,682	75,184	23,414	126,280
Transferred from investment property	-	32,231	-	-	32,231
Reclassified to investment property	-	(1,919)	-	-	(1,919)
Disposals and retirements	-	(325)	(111,800)	(13,362)	(125,487)
Balance at December 31, 2018	\$ -	557,098	255,431	64,052	876,581

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
Carrying amount:					
December 31, 2019	\$ <u>1,500,863</u>	<u>494,643</u>	<u>211,713</u>	<u>132,352</u>	<u>2,339,571</u>
December 31, 2018	\$ <u>3,464,223</u>	<u>904,093</u>	<u>147,059</u>	<u>61,839</u>	<u>4,577,214</u>

As of December 31, 2019 and 2018, the property and equipment which are provided as collateral or pledge, please refer to note 8 for details.

(f) Right-of-use assets

The Company leases many assets including buildings, machinery, and vehicles. Information about leases for which the Company as a lessee is presented below:

	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
Cost:			
Balance at January 1, 2019	\$ -	-	-
Effects of retrospective application	934,538	4,680	939,218
Additions	75,643	10,031	85,674
Reductions	<u>(16,271)</u>	<u>-</u>	<u>(16,271)</u>
Balance at December 31, 2019	<u>\$ 993,910</u>	<u>14,711</u>	<u>1,008,621</u>
Accumulated depreciation and impairment losses:			
Balance at January 1, 2019	\$ -	-	-
Depreciation	167,262	5,109	172,371
Reduction in accumulated depreciation	<u>(15,857)</u>	<u>-</u>	<u>(15,857)</u>
Balance at December 31, 2019	<u>\$ 151,405</u>	<u>5,109</u>	<u>156,514</u>
Carrying amount:			
December 31, 2019	<u>\$ 842,505</u>	<u>9,602</u>	<u>852,107</u>

(g) Investment property

As of December 31, 2019 and 2018, movement in investment property of the Company are as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost or deemed cost			
Balance at January 1, 2019	\$ 1,500,919	854,906	2,355,825
Transferred from property and equipment	2,089,373	621,026	2,710,399
Reclassified to property and equipment	(126,013)	(32,417)	(158,430)
Disposals and retirements	<u>(465)</u>	<u>-</u>	<u>(465)</u>
Balance at December 31, 2019	<u>\$ 3,463,814</u>	<u>1,443,515</u>	<u>4,907,329</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Balance at January 1, 2018	\$ 1,753,624	1,004,386	2,758,010
Transferred from property and equipment	25,548	13,983	39,531
Reclassified to property and equipment	<u>(278,253)</u>	<u>(163,463)</u>	<u>(441,716)</u>
Balance at December 31, 2018	<u>\$ 1,500,919</u>	<u>854,906</u>	<u>2,355,825</u>
Depreciation and impairment loss			
Balance at January 1, 2019	\$ -	334,622	334,622
Depreciation	-	25,198	25,198
Transferred from property and equipment	-	213,848	213,848
Reclassified to property and equipment	<u>-</u>	<u>(13,099)</u>	<u>(13,099)</u>
Balance at December 31, 2019	<u>\$ -</u>	<u>560,569</u>	<u>560,569</u>
Balance at January 1, 2018	\$ -	345,834	345,834
Depreciation	-	19,100	19,100
Transferred from property and equipment	-	1,919	1,919
Reclassified to property and equipment	<u>-</u>	<u>(32,231)</u>	<u>(32,231)</u>
Balance at December 31, 2018	<u>\$ -</u>	<u>334,622</u>	<u>334,622</u>
<u>Carrying Amount:</u>			
December 31, 2019	<u>\$ 3,463,814</u>	<u>882,946</u>	<u>4,346,760</u>
December 31, 2018	<u>\$ 1,500,919</u>	<u>520,284</u>	<u>2,021,203</u>
<u>Fair Value:</u>			
December 31, 2019			<u>8,269,352</u>
December 31, 2018			<u>3,164,414</u>

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

Investment property include several commercial buildings for lease. Each lease contract contains original non-cancellable lease period of 1 to 12 years, which the subsequent lease period is consulted with lessee, and no contingent rent payment. Related information (including rental revenue and direct operation expense), please refer to note 6(t). Further, the Company decide to lease properties, which are out of use land and buildings, and therefore transferred them from property and equipment into investment property, please refer to note 6(e).

As of December 31, 2019 and 2018, the investment properties were provided as collateral or pledged, for details please refer to note 8.

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(h) Intangible assets

(i) Goodwill

The Company merged with Taiwan International Securities Corp. on May 2, 2011 and recognized as goodwill. As of December 31, 2019 and 2018, the book value was both \$3,126,698.

Goodwill is allocated to the operating segments as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Brokerage segment	\$ 1,304,458	1,304,458
Underwriting segment	265,144	265,144
Proprietary trading segment	<u>1,557,096</u>	<u>1,557,096</u>
Total	<u>\$ 3,126,698</u>	<u>3,126,698</u>

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

The past experience, the actual operating results and the pre-tax cash flows of the next year's financial budget approved by the board of directors are the basis to estimate the future cash flows. The growth rate was both 1.00% and the discount rate was 5.24% and 4.06% in year 2019 and 2018 respectively. But the cash flow projections for periods after five years will be estimated with no growth conservatively.

After impairment test, the recoverable amounts of both year 2019 and 2018 exceeded the carrying amount, no impairment occurred for both years.

(ii) Other intangible assets - Operation franchise

The Company acquired the operation of securities corporation operation franchise during 1994 to 2005 and expected the franchise will generate continuing cash inflows. In accordance with IAS No.38 "Intangible Assets" endorsed by the FSC, the franchise is regarded as intangible assets with an indefinite useful life. As of December 31, 2019 and 2018, the book value of the operation franchise was both \$389,999.

(iii) Other intangible assets - Computer software

Computer software was booked at cost and amortized by using the straight-line method over the estimated useful lives. As of December 31, 2019 and 2018, the amortized book value were \$10,809 and \$26,341, respectively.

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(i) Short-term borrowings

<u>Nature of borrowings</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Collateralized loan	\$ 709,780	1,635,394
Credit loans	5,921,222	2,238,112
Total	<u>\$ 6,631,002</u>	<u>3,873,506</u>
Interest rate range	<u>0.95%~3.37%</u>	<u>0.65%~4.40%</u>

As of December 31, 2019 and 2018, the Company had provided the land, buildings, and certificates of time deposits as collateral, for details please refer to note 8.

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Liabilities on sale of borrowed securities	\$ 384,561	668,469
Redeem liabilities on sale of borrowed securities	-	(62,095)
Valuation adjustment	(51,404)	(139,826)
Subtotal	<u>333,157</u>	<u>466,548</u>
Exchange Traded Notes	699	-
Valuation adjustment	30	-
Subtotal	<u>729</u>	<u>-</u>
Stock warrants issued	14,997,622	13,077,314
Stock warrants repurchased	(14,444,316)	(12,617,507)
Subtotal	<u>553,306</u>	<u>459,807</u>
Put options	5	237
IRS asset swaps	2,436	763
Asset swap options - short position	529,328	208,927
Structured notes	11,583	8,914
Currency swaps	4,745	31,575
Interest rate swaps	969	544
Subtotal	<u>549,066</u>	<u>250,960</u>
Total	<u>\$ 1,436,258</u>	<u>1,177,315</u>

(k) Bonds sold under repurchase agreements

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Bonds sold under repurchase agreements	<u>\$ 31,893,531</u>	<u>28,230,524</u>
Agreed-upon repurchase amounts	<u>32,068,191</u>	<u>28,411,414</u>
Interest rates	<u>0.20%~3.20%</u>	<u>0.35%~4.40%</u>
Date of repurchase	<u>2020.1.2~2020.12.30</u>	<u>2019.1.2~2019.12.20</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(l) Equity for each customer in the account

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

	December 31, 2019	December 31, 2018
Equity for each customer in the account	<u>\$ 3,025,153</u>	<u>26,969</u>

(m) Accounts payable

	December 31, 2019	December 31, 2018
Payable of securities sold by customers	\$ 11,136	10,731
Settlement	248,937	-
Payable of settlements	5,066,861	3,476,398
Others	<u>796,220</u>	<u>96,811</u>
Total	<u>\$ 6,123,154</u>	<u>3,583,940</u>

(n) Operating leases

(i) Lessee

Non-cancellable operating lease payables are as follows:

	December 31, 2018
Within 1 year	\$ 108,877
1-5 years	442,201
Over 5 years	<u>428,795</u>
	<u>\$ 979,873</u>

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

For the year ended December 31, 2018, the operating lease expenses recognized in profit or loss were \$123,124.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Lessor

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Within 1 year	\$ 168,174	127,527
1-5 years	467,096	481,386
Over 5 years	<u>402,354</u>	<u>534,251</u>
	<u>\$ 1,037,624</u>	<u>1,143,164</u>

The rental revenue from investment property for the years ended December 31, 2019 and 2018 amounted to \$139,173 and \$72,048, respectively.

(o) Lease liabilities

The Company's lease liabilities are as follows:

	<u>December 31, 2019</u>
Current	\$ <u>156,150</u>
Non-current	\$ <u>751,240</u>

The maturity analysis please refer to note 6(u) financial instruments.

The amounts recognized in profit or loss were as follows:

	<u>For the year ended December 31, 2019</u>
Interest on lease liabilities	\$ <u>12,596</u>
Expenses relating to short-term leases	\$ <u>4,288</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	\$ <u>23,462</u>

The amounts recognized in the statement of cash flows for the Company was as follows:

	<u>For the year ended December 31, 2019</u>
Total cash outflow for leases	\$ <u>157,387</u>

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(p) Employee benefit

(i) Defined benefit plans

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Present value of defined benefit obligations	\$ (852,588)	(946,285)
Fair value of plan assets	<u>325,737</u>	<u>364,814</u>
Recognized liabilities for defined benefit obligations	<u>\$ (526,851)</u>	<u>(581,471)</u>

The Company's employee benefits liabilities are as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Compensated absences	<u>\$ 44,610</u>	<u>43,530</u>

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

1) Composition of plan assets

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

The balance of the Company's labor pension preparatory special account in Bank of Taiwan amounted to \$276,889 and \$230,395 as of December 31, 2019 and 2018, respectively. The utilization of the labor pension fund includes the assets allocation and yield of the fund, please refers to the information published on the website under Bureau of Labor Funds, Ministry of Labor.

The balance of pension fund under employee retirement fund management committee was \$48,848 and \$134,419 as of December 31, 2019 and 2018, respectively.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

2) Movements in present value of the defined benefit obligations

The movements in present value of the defined benefit obligations of the Company in 2019 and 2018 were as follows:

	For the years ended December 31,	
	2019	2018
Defined benefit obligation on January 1	\$ 946,285	979,722
Current service costs and interest	14,311	17,958
Remeasurement of net defined liabilities		
-Actuarial loss (gain) arising from changes in financial assumptions	13,358	9,496
-Experience adjustments	(59,125)	41,871
Benefits paid by the plan	(62,241)	(102,762)
Defined benefit obligation on December 31	\$ 852,588	946,285

3) Movements in fair value of defined benefit plan assets

The movements in fair value of defined benefit plan assets of the Company in 2019 and 2018 were as follows:

	For the years ended December 31,	
	2019	2018
Fair value of plan assets on January 1	\$ 364,814	441,227
Interest revenue	3,390	4,652
Remeasurement of net defined liabilities		
-Return on plan assets (excluding interest)	8,654	8,318
Contributions from the employer	11,120	13,379
Benefits paid from plan assets	(62,241)	(102,762)
Fair value of plan assets on December 31	\$ 325,737	364,814

4) Expense recognized in profit or loss

The expenses recognized by the Company in 2019 and 2018 were as follows:

	For the years ended December 31,	
	2019	2018
Current service cost	\$ 5,575	7,734
Net interest of net defined benefit liabilities (assets)	5,346	5,572
Current pension cost	\$ 10,921	13,306

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

For the years ended December 31, 2019 and 2018, the re-measurement of net defined benefit plan recognized accumulatively in other comprehensive income was as follows:

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Balance at January 1	\$ (157,059)	(114,010)
Recognized amount during the period	54,421	(43,049)
Balance at December 31	<u>\$ (102,638)</u>	<u>(157,059)</u>

- 6) Actuarial assumptions

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

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Discount rate	0.67%	0.93%
Future salary growth rate	2.00%	2.00%

The expected contribution to the defined benefit plan for the next year is \$11,574. The weighted average duration of the defined benefit obligation is 1 years.

- 7) Sensitivity Analysis

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

As of December 31, 2019 and 2018, the effects of adopting significant actuarial assumptions to defined benefit obligations were as follows:

	<u>Effects to Defined Benefit Obligations</u>	
	<u>Increase 0.5%</u>	<u>Decrease 0.5%</u>
December 31, 2019		
Discount rate	(21,732)	22,652
Future salary growth rate	18,013	(17,505)
December 31, 2018		
Discount rate	(24,875)	25,956
Future salary growth rate	20,843	(20,233)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. The method that the sensitivity analysis adopted is in accordance with the method of calculating net pension liability.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

(ii) Defined contribution plan

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

The Company contributed \$66,717 and \$72,349 under defined contribution plan to the Bureau of the Labor Insurance for the years ended December 31, 2019 and 2018, respectively.

(q) Income tax

(i) Income tax expense (benefit)

The amount of income tax expense (benefit) for the years ended December 31, 2019 and 2018 were as follows:

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Current tax expense		
Current year	\$ 176,414	353,459
Adjustment to the prior years' income tax	<u>65,131</u>	<u>43,244</u>
	<u>241,545</u>	<u>396,703</u>
Deferred tax expense		
Unrealized gains (losses) on derivative financial instruments	(63,038)	(100,056)
Unrealized gains (losses) on foreign investments under Equity Method	879	(1,422)
Decrease in tax loss carried forward	108,204	92,455
Adjustments of deferred income tax assets and liabilities	(35,665)	(12,803)
Adjustment in tax rate	<u>-</u>	<u>54,703</u>
	<u>10,380</u>	<u>32,877</u>
Income tax expense from continuing operations	<u>\$ 251,925</u>	<u>429,580</u>

The amount of income tax expense or benefit recognized in other comprehensive income in year 2019 and 2018 were as follows:

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Foreign exchange difference from translating financial statements of foreign operations	<u>\$ (7,256)</u>	<u>10,012</u>

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

Reconciliation of income tax expense (benefit) and income before tax in year 2019 and 2018 were as follows:

	For the years ended December 31,	
	2019	2018
Net income before tax	\$ 2,818,748	1,838,445
Income tax using the Company's domestic tax rate	\$ 563,750	367,689
Adjustment in tax rate	-	54,703
Tax exempt income	(345,249)	(25,590)
Alternative minimum tax	3,585	-
Additional surtax on undistributed retained earnings	378	2,897
Amounts use in investment tax credit	-	(527)
Income tax difference of bonds purchased under resale agreements and income tax separately levied	(5)	(33)
Adjustments to prior years' income tax	65,131	43,244
Unrecognized temporary differences for prior years	(35,665)	(12,803)
Total	<u>\$ 251,925</u>	<u>429,580</u>

(ii) Deferred income tax assets and liabilities

1) Recognized deferred income tax assets

	December 31, 2019	December 31, 2018
Tax loss carried forward	\$ 31,476	104,015
Unrealized losses on foreign investments under Equity Method	5,663	6,542
Foreign exchange difference from translating financial statements of foreign operations	2,390	-
Unrecognized loss in derivative financial instruments	68,081	5,043
Total	<u>\$ 107,610</u>	<u>115,600</u>

2) Recognized deferred income tax liabilities

	December 31, 2019	December 31, 2018
Foreign exchange difference from translating financial statements of foreign operations	\$ -	4,866
Losses on intercompany transactions	1,928	1,928
Amortization of operation franchise	42,881	42,881
Amortization of goodwill	362,697	362,697
Land value incremental tax	47,690	56,107
Total	<u>\$ 455,196</u>	<u>468,479</u>

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(iii) Income tax assessment status

The Company's income tax returns through 2017, except for 2015, were assessed by the Tax Authority.

(iv) Income tax administrative relief

Since amortization of intangible assets withheld from year 2011 to 2014 and tax loss carried forward from year 2017 were assessed differently from those reported by the Company, and the Company has filed for administrative relief. The additional tax was accrued based on conservative concept.

(r) Capital and other equity

(i) Capital stock

As of December 31, 2019 and 2018, the Company had authorized capital of \$30,000,000 and issued common stock of 2,320,908 thousand shares with a par value of \$10 per share.

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:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Premium from stock issuance	\$ 1,776,413	1,776,413
Treasury stock transactions	437,096	437,096
Paid-in capital from merger	602,665	602,665
Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,338	1,338
Changes in ownership interests in subsidiaries	<u>34,787</u>	<u>34,787</u>
	<u>\$ 2,852,299</u>	<u>2,852,299</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(iii) Retained earnings

1) Legal reserve

If the company incurs no loss for the year, the distribution of the legal reserve, either by issuing new shares or by cash, shall be decided at the shareholders' meeting, and only the portion of legal reserve which exceeds 25 percent of the paid-in capital may be distributed.

2) Special reserve

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

Originally 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 ; However, in accordance with Ruling No. 1080321644 issued by the Financial Supervisory Commission on July 10, 2019, from year 2019, a special reserve can not be set aside. From year 2019, the special reserve can be reversed within an amount equal to special reserve for prior year when the aforementioned fees being expended.

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.

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

The Company's 2018 and 2017 earnings distributions resolved by the shareholders' meetings on June 24, 2019 and June 27, 2018, respectively, were as follows:

	2018		2017	
	Amount	Dividends per share	Amount	Dividends per share
Cash dividends	\$ 928,363	0.4	433,815	0.2
Stock dividends	-	-	1,518,351	0.7
	\$ 928,363		1,952,166	

(iv) Treasury stocks

Pursuant to Article 28-2 of the "Securities and Exchange Act", the Company repurchased 147,191 thousand shares as treasury shares to maintain the Company's credit standing and shareholders' equity for the year ended December 31, 2019. As of December 31, 2019, unretired shares amounted to 147,191 thousand shares.

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, 2019, the Company's board meeting resolved a share buyback plan, which was based on the latest reviewed financial report on September 30, 2019. The cap of the repurchase was 232,090 thousand shares which were amounted to \$9,861,897. As of December 31, 2019, the Company repurchased 147,191 thousand shares which were amounted to \$1,574,000.

(s) Earnings per share

The basic earnings per share and dilutive earnings per share for the years ended December 31, 2019 and 2018 were calculated as follows:

	For the years ended December 31,	
	2019	2018
Net income attributable to common shareholders of the Company	\$ 2,566,823	1,408,865
Weighted-average number of common stock shares outstanding (thousands of shares)	2,314,284	2,320,908
Basic earnings per share (dollar)	\$ 1.11	0.61
Effect of potentially dilutive common stock		
- Employee remuneration (thousands of shares) (Note)	2,912	2,343
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	2,317,196	2,323,251
Dilutive earnings per share (dollar)	\$ 1.11	0.61

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

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(t) Items of the statements of comprehensive income

(i) Brokerage commissions

	For the years ended December 31,	
	2019	2018
Brokerage commission from TSE market	\$ 1,539,188	1,828,059
Brokerage commission from OTC market	567,295	637,115
Handling fee from security financing	23,878	35,585
Others	<u>75,006</u>	<u>73,013</u>
	<u>\$ 2,205,367</u>	<u>2,573,772</u>

(ii) Underwriting commissions

	For the years ended December 31,	
	2019	2018
Revenue from underwriting securities on a firm commitment basis	\$ 52,495	61,900
Handling fee revenues from underwriting securities on best efforts basis	4,942	1,350
Processing fee revenues from underwriting operations	18,444	7,954
Revenue from underwriting consultation	5,260	9,953
Others	<u>1,740</u>	<u>11,445</u>
	<u>\$ 82,881</u>	<u>92,602</u>

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

	For the years ended December 31,	
	2019	2018
Gains (losses) on securities sold - proprietary trading	\$ 387,111	(281,328)
Gains (losses) on securities sold - underwriting	60,428	30,003
Gains (losses) on securities sold - hedging	<u>505,145</u>	<u>(1,155,191)</u>
Total	<u>\$ 952,684</u>	<u>(1,406,516)</u>

(iv) Interest revenue

	For the years ended December 31,	
	2019	2018
Interest revenue - margin loans	\$ 592,790	767,184
Interest revenue - bonds	836,503	1,100,550
Others	<u>77,685</u>	<u>61,497</u>
	<u>\$ 1,506,978</u>	<u>1,929,231</u>

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

	For the years ended December 31,	
	2019	2018
Trading securities - proprietary	\$ 403,909	(410,512)
Trading securities - underwriting	34,364	(19,711)
Trading securities - hedging	510,815	(165,545)
Settlement coverage bonds payable of short sale	-	(29)
	<u>\$ 949,088</u>	<u>(595,797)</u>

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

	For the years ended December 31,	
	2019	2018
Gains on changes in fair value of stock warrants	\$ 21,714,001	30,322,653
Gains on exercise of stock warrants before maturity	21,160,960	24,075,007
Losses on changes in fair value of stock warrants repurchased	(42,699,393)	(52,645,565)
Gains on expiration of stock warrants	15,602	112,965
Stock warrants issuance expenses	(154,084)	(182,019)
	<u>\$ 37,086</u>	<u>1,683,041</u>

- (vii) Employee benefits, depreciation, and amortization expenses

	For the years ended December 31,	
	2019	2018
Employee benefit expenses		
Salary expense	\$ 1,628,480	1,704,360
Health and labor insurance expense	129,502	137,448
Pension expense	77,638	85,655
Others	43,853	46,914
Depreciation expense	327,215	145,380
Amortization expense	26,056	25,967
	<u>\$ 2,232,744</u>	<u>2,145,724</u>

- (viii) Other operating expenses

	For the years ended December 31,	
	2019	2018
Rental expense	\$ 27,750	123,124
Taxes	292,479	342,447
Information technology expense	106,205	102,604
Postage expense	121,481	107,026
Professional service fee	85,214	108,120
Other expenses	448,534	454,924
	<u>\$ 1,081,663</u>	<u>1,238,245</u>

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ix) Other gains and losses

	For the years ended December 31,	
	2019	2018
Financial revenue	\$ 2,313	2,975
Net gains (losses) on disposal of investment	477	68,505
Net gains (losses) on measurement of non-operating financial instruments at fair value through profit or loss	20,826	(24,859)
Revenue from bank's allocation fee	139,968	133,107
Revenue from information technology service	46,667	44,108
Net gains (losses) on disposal of property and equipment	13,801	(122)
Dividend revenue	65,092	49,503
Gains on reversal of prior year's liabilities	52,211	25,700
Rental income	139,173	72,048
Others	33,518	57,316
	\$ 514,046	428,281

(x) Remuneration to employees and directors

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 appropriate no more than 3% of the aforementioned amount of earnings as remuneration to the Directors. The proposal for the remuneration to employees and directors shall be reported to the shareholders' meeting.

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

For the years ended December 31, 2019 and 2018, the estimated amounts of remuneration to employee were \$32,756 and \$20,971, and to directors were \$54,594 and \$34,951, 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
Notes to the Financial Statements

For the years ended December 31, 2018 and 2017, the estimated amounts of remuneration to employee were \$20,971 and \$33,369, and to directors were \$34,951 and \$61,971 by the Company. The difference between actual employee remuneration of \$14,587 and \$30,515 and actual remuneration to directors of \$24,248 and \$50,859 were \$17,087 and \$13,966 in total. The difference was accounted for as changes in accounting estimates and would be recognized as profit or loss in 2019 and 2018. The information about the appropriations is available at the website of the Market Observation Post System.

(u) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of December 31, 2019 and 2018, the maximum credit exposure amounted to \$58,834,957 and \$52,518,387, respectively.

The regional distribution of financial assets' credit risk exposure amount which owned by the Company is as the list below. The region of exposure is mostly in Taiwan (69.58%); secondly, is in America (12.65%); then, is in Asia (11.29%, exclusion of Taiwan). Compare to the same period of last year, there is no significant change in proportion of region of investments.

<u>Region</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Taiwan	\$ 40,940,023	38,199,540
Asia (Taiwan is excluded)	6,645,342	4,466,342
Europe	3,807,126	4,367,262
America	7,442,466	5,485,243
Total	<u>\$ 58,834,957</u>	<u>52,518,387</u>

2) Impairment loss

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

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Total amount</u>	<u>Allowance</u>	<u>Total amount</u>	<u>Allowance</u>
Not past due	\$ 20,427,312	836	16,001,621	15,146
Past due 0~30 days	275	275	272	272
Past due 31~120 days	127	127	914	914
Past due 121~360 days	8	8	377	377
Past due more than 360 days	216,334	216,334	221,259	221,259
	<u>\$ 20,644,056</u>	<u>217,580</u>	<u>16,224,443</u>	<u>237,968</u>

Allowance for doubtful debts under receivables and overdue receivables are recorded for the impairment loss. Where a claim becomes definitely uncollectible, the allowance for doubtful debts should be written off to financial assets account. As of December 31, 2019 and 2018, the impairment losses of accrued receivables were recognized \$217,580 and \$237,968, respectively.

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Notes to the Financial Statements

3) Credit risk of accrued receivables and debt securities

Debt securities held by the Company including government bonds, listed and unlisted debt securities are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(f).

The Company regards a financial asset as a default when the client of brokerage business is unable to fulfill the settlement obligation, which the counterparty is unable to pay the Company. Thus, the Company will recognize the impairment losses.

The loss allowance provision for the years ended December 31, 2019 and 2018 were 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, 2019	\$ -	5,861	-	-	237,968	
Provision or reversal of Impairment loss	-	1,706	-	-	111	-	1,817
Amounts written off	-	-	-	-	(20,499)	-	(20,499)
Balance on December 31, 2019	<u>\$ -</u>	<u>7,567</u>	<u>-</u>	<u>-</u>	<u>217,580</u>	<u>-</u>	<u>225,147</u>

	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	\$ -	-	-	-	218,162	
Adjustment on initial application of IFRS 9	-	15,153	-	-	-	-	15,153
Balance on January 1, 2018	-	15,153	-	-	218,162	-	233,315
Provision or reversal of Impairment loss	-	(9,292)	-	-	19,806	-	10,514
Balance on December 31, 2018	<u>\$ -</u>	<u>5,861</u>	<u>-</u>	<u>-</u>	<u>237,968</u>	<u>-</u>	<u>243,829</u>

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Liquidity risk

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

December 31, 2019	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Less than 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	\$ 333,157	333,157	333,157	-	-	-	-
Stock warrants issued	553,306	553,306	465,459	87,847	-	-	-
Put options - futures	5	5	5	-	-	-	-
Exchange traded notes	729	729	-	-	-	729	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	8,150	8,150	4,592	822	(711)	3,447	-
Put options	529,328	529,328	41,762	67,521	208,340	211,705	-
Short-term borrowings	6,631,002	6,631,002	6,631,002	-	-	-	-
Bonds sold under repurchase agreements	31,893,531	32,068,191	24,577,057	7,491,134	-	-	-
Guarantee deposited for short sales	2,390,464	2,390,464	2,390,464	-	-	-	-
Proceeds payable from short sales	2,755,405	2,755,405	2,755,405	-	-	-	-
Securities lending refundable deposits	336,713	336,713	336,713	-	-	-	-
Notes payable and accounts payable	3,865,851	3,865,851	3,865,851	-	-	-	-
Receipts under custody	109,866	109,866	109,866	-	-	-	-
Other payables	512,459	512,459	512,459	-	-	-	-
Structured notes	3,941,052	3,941,052	3,296,957	294,709	241,782	107,604	-
Lease liabilities	<u>907,390</u>	<u>954,367</u>	<u>89,740</u>	<u>77,553</u>	<u>139,137</u>	<u>312,884</u>	<u>335,053</u>
	<u>\$ 54,768,408</u>	<u>54,990,045</u>	<u>45,410,489</u>	<u>8,019,586</u>	<u>588,548</u>	<u>636,369</u>	<u>335,053</u>

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Notes to the Financial Statements

December 31, 2018	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Less than 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	\$ 466,548	466,548	466,548	-	-	-	-
Stock warrants issued	459,807	459,807	442,191	17,616	-	-	-
Put options - futures	237	237	237	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	32,882	32,882	33,869	(2,727)	814	926	-
Put options	208,927	208,927	8,925	19,064	125,073	55,865	-
Short-term borrowings	3,873,506	3,873,506	3,714,303	159,203	-	-	-
Bonds sold under repurchase agreements	28,230,524	28,411,414	28,411,414	-	-	-	-
Guarantee deposited for short sales	2,316,744	2,316,744	2,316,744	-	-	-	-
Proceeds payable from short sales	2,603,315	2,603,315	2,603,315	-	-	-	-
Securities lending refundable deposits	644,843	644,843	644,843	-	-	-	-
Notes payable and accounts payable	107,201	107,201	107,201	-	-	-	-
Receipts under custody	115,918	115,918	115,918	-	-	-	-
Other payables	623,162	623,162	623,162	-	-	-	-
Structured notes	3,676,833	3,676,833	3,175,382	191,419	237,377	72,655	-
	<u>\$ 43,360,447</u>	<u>43,541,337</u>	<u>42,664,052</u>	<u>384,575</u>	<u>363,264</u>	<u>129,446</u>	<u>-</u>

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(iii) Currency risk

1) Currency risk exposure

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

	December 31, 2019		
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial assets</u>			
<u>Monetary Item</u>			
USD	\$ 54,944	29.9800	1,647,221
AUD	2,200	21.0050	46,211
CAD	4	22.9900	92
EUR	1,420	33.5900	47,698
GBP	635	39.3600	24,994
HKD	8,997	3.8490	34,629
JPY	7,769	0.2760	2,144
SGD	8	22.2800	178
CNY	40,454	4.3050	174,154
ZAR	6	2.1200	13
KRW	18	0.0262	-
<u>Non-Monetary Item</u>			
USD	476,215	29.9800	14,276,926
AUD	143,300	21.0050	3,010,017
EUR	1,185	33.5900	39,804
HKD	338	3.8490	1,301
JPY	2,475	0.2760	683
CNY	251,594	4.3050	1,083,112
<u>Investments under equity method</u>			
USD	53,638	29.9300	1,605,367
<u>Financial liabilities</u>			
<u>Monetary Item</u>			
USD	529,342	29.9800	15,869,673
AUD	132,660	21.0050	2,786,523
EUR	2,297	33.5900	77,156
GBP	635	39.3600	24,994
HKD	66,162	3.8490	254,658
JPY	57	0.2760	16
SGD	1	22.2800	22
CNY	168,381	4.3050	724,880

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Notes to the Financial Statements

				December 31, 2018		
				Foreign Currency		
				(thousands)	Exchange Rate	Amount
<u>Financial assets</u>						
<u>Monetary Item</u>						
USD	\$	20,628		30.7150		633,589
AUD		3,679		21.6650		79,706
EUR		16		35.2000		563
HKD		29,322		3.9210		114,972
JPY		653,961		0.2782		181,932
SGD		692		22.4800		15,556
CNY		26,225		4.4720		117,278
ZAR		5		2.1200		11
KRW		55		0.0278		2
SEK		4		3.4200		14
<u>Non-Monetary Item</u>						
USD		300,713		30.7150		9,236,400
AUD		167,642		21.6650		3,631,964
EUR		44		35.2000		1,549
HKD		26,297		3.9210		103,111
JPY		2,200		0.2782		612
CNY		416,174		4.4720		1,861,130
<u>Investments under equity method</u>						
USD		53,392		30.6650		1,637,249
<u>Financial liabilities</u>						
<u>Monetary Item</u>						
USD		322,270		30.7150		9,898,523
AUD		166,591		21.6650		3,609,194
EUR		9		35.2000		317
HKD		115,571		3.9210		453,154
JPY		621,026		0.2782		172,769
SGD		680		22.4800		15,286
CNY		287,318		4.4720		1,284,886
SEK		4		3.4200		14

Because there are a variety of functional currencies, the Company discloses a summary of currency exchange variation on the monetary items. For the years ended December 31, 2019 and 2018, the realized and unrealized currency exchange gains (losses) amounted to \$9,561 and \$(75,010), respectively.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

2) Sensitivity analysis

The currency risk of the Company 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, short-term borrowings 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 years ended December 31, 2019 and 2018, 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 year ended December 31, 2019		For the year ended December 31, 2018	
	Appreciated 5%	Depreciated 5%	Appreciated 5%	Depreciated 5%
	Net income	(518,752)	518,752	(402,922)
Other comprehensive income	609,017	(609,017)	490,182	(490,182)

(iv) Sensitivity analysis of interest rate risk

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

Market risk type	December 31, 2019	December 31, 2018	For the years ended December 31,					
			2019			2018		
			Average	Maximum	Minimum	Average	Maximum	Minimum
Interest risk	1,409,781	1,384,626	1,497,257	1,572,243	1,409,781	1,722,466	2,076,354	1,384,626

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(v) Fair value information and hierarchy

1) Fair value information

a) General description

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

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

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 satisfies all the following conditions: 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. The Company's investments in Taiwan central government bonds, equity instruments, debt instruments and derivative instruments with public quote in an active market 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 Company 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
Notes to the Financial Statements

2) Not measured at fair value

As of December 31, 2019 and 2018, the fair value information of the financial assets and financial liabilities of the Company was as follows:

a) Fair value information

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
Financial assets :				
Cash and cash equivalents	\$ 2,656,201	2,656,201	2,554,322	2,554,322
Accrued receivable	24,378,626	24,378,626	16,963,534	16,963,534
Restricted assets - current	615,927	615,927	671,822	671,822
Other non-current assets	1,114,091	1,114,091	1,043,086	1,043,086
Financial liabilities :				
Short-term borrowings	6,631,002	6,631,002	3,873,506	3,873,506
Bonds sold under repurchase agreements	31,893,531	31,893,531	28,230,524	28,230,524
Accrued payable	15,436,383	15,436,383	10,313,532	10,313,532
Other financial liabilities - current	3,579,951	3,579,951	3,357,887	3,357,887
Other financial liabilities - non-current	349,518	349,518	310,032	310,032
Other non-current liabilities	104,110	104,110	70,598	70,598

b) Hierarchy information of non-financial instruments not measured at fair value

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment property				
December 31, 2019	<u>\$ -</u>	<u>-</u>	<u>8,269,352</u>	<u>8,269,352</u>
December 31, 2018	<u>\$ -</u>	<u>-</u>	<u>3,164,414</u>	<u>3,164,414</u>

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

- i) For short term financial instruments, the fair values are determined based on their book value because of their short maturities. The method is applied to cash and cash equivalents, accrued receivable, other current assets, other non-current assets, short term borrowings, bonds sold under repurchase agreements, accrued payable, other financial liabilities - current, other financial liabilities - non-current, and other non-current liabilities.
- ii) The investment properties were evaluated and estimated using Market Method based on the market evidence of transaction price of similar properties.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

3) Measured at fair value

a) Hierarchy information of fair value

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2019				
Financial assets at fair value through profit or loss	\$ 11,709,290	18,465,025	-	30,174,315
Financial assets at fair value through other comprehensive income	2,356,682	13,619,901	2,174,104	18,150,687
Derivative financial assets	<u>182,308</u>	<u>79,662</u>	<u>-</u>	<u>261,970</u>
	<u>\$ 14,248,280</u>	<u>32,164,588</u>	<u>2,174,104</u>	<u>48,586,972</u>
Financial liabilities at fair value through profit or loss	\$ 887,192	-	-	887,192
Derivative financial liabilities	<u>5</u>	<u>549,061</u>	<u>-</u>	<u>549,066</u>
	<u>\$ 887,197</u>	<u>549,061</u>	<u>-</u>	<u>1,436,258</u>
December 31, 2018				
Financial assets at fair value through profit or loss	\$ 11,905,284	18,374,974	-	30,280,258
Financial assets at fair value through other comprehensive income	469,085	10,381,589	1,627,616	12,478,290
Derivative financial assets	<u>147,773</u>	<u>22,692</u>	<u>-</u>	<u>170,465</u>
	<u>\$ 12,522,142</u>	<u>28,779,255</u>	<u>1,627,616</u>	<u>42,929,013</u>
Financial liabilities at fair value through profit or loss	\$ 926,355	-	-	926,355
Derivative financial liabilities	<u>237</u>	<u>250,723</u>	<u>-</u>	<u>250,960</u>
	<u>\$ 926,592</u>	<u>250,723</u>	<u>-</u>	<u>1,177,315</u>

b) Valuation techniques of financial instruments measured at fair value

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.

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

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

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

ii) Derivative financial instruments

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

4) Transfer between Level 1 and Level 2

For the years ended December 31, 2019 and 2018, there is no transfer of financial instruments between Level 1 and Level 2.

5) Fair value adjustments

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

(In Thousands Dollars)

Item	For the year ended December 31, 2019							
	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	\$ 1,627,616	-	518,288	35,000	-	6,800	-	2,174,104

Item	For the year ended December 31, 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	\$ 948,242	-	52,744	638,503	-	11,873	-	1,627,616

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

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

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

Item	Valuation technique	Significant unobservable inputs	Correlation between inputs and fair value
Financial assets at fair value through other comprehensive income - equity instruments without an active market	Market approach	· Price-to-Book Ratio · Discount for lack of marketability	· The higher the multiple, the higher fair value. · The higher the discount for lack of marketability, the lower the fair value.
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

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

	Change in fair value recognized in other comprehensive income	
	Favorable change	Unfavorable change
December 31, 2019		
Financial assets fair value through other comprehensive income	\$ <u>21,741</u>	<u>(21,741)</u>
December 31, 2018		
Financial assets fair value through other comprehensive income	\$ <u>16,276</u>	<u>(16,276)</u>

Favorable and unfavorable movements of the Company 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 Company 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 Company cannot use, sell or pledge these transferred financial assets during the valid transaction period. However, since the Company still bears the interest rate risk and credit risk, so transferred financial assets are not fully derecognized. Financial assets that do not meet criteria for de-recognition and related financial liabilities are as below:

Types of financial assets	December 31, 2019				
	Book value of the transferred financial assets	Book value of relevant financial liabilities	Fair value of the transferred financial assets (Note)	Fair value of relevant financial liabilities (Note)	Fair value net position (Note)
Under repurchase agreements	\$ 33,493,218	31,893,531	-	-	-

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

December 31, 2018					
Types of financial assets	Book value of the transferred financial assets	Book value of relevant financial liabilities	Fair value of the transferred financial assets (Note)	Fair value of relevant financial liabilities (Note)	Fair value net position (Note)
Under repurchase agreements	\$ 28,557,226	28,230,524	-	-	-

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

(vii) Offsetting financial assets and financial liabilities

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

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

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

December 31, 2019						
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	\$ 79,662	-	79,662	-	-	79,662
December 31, 2019						
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	\$ 549,061	-	549,061	-	-	549,061
Under repurchase agreements	31,893,531	-	31,893,531	31,893,531	-	-
Total	\$ 32,442,592	-	32,442,592	31,893,531	-	549,061
December 31, 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	\$ 22,692	-	22,692	-	-	22,692

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

December 31, 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	\$ 250,723	-	250,723	-	-	250,723
Under repurchase agreements	28,230,524	-	28,230,524	28,230,524	-	-
Total	\$ 28,481,247	-	28,481,247	28,230,524	-	250,723

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

(v) Financial risk management

(i) Brief

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

- 1) credit risk
- 2) liquidity risk
- 3) market risk

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

(ii) Risk management framework

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

(iii) Credit risk

- 1) Determining whether credit risk has increased significantly since initial recognition
 - a) The Company 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 Company 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.

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

- b) 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.
- 2) Measurement of Expected Credit Losses (ECL)
- a) Methods adopted and assumptions

The Company 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 Company adopts lifetime ECLs to measure.

In order to measure ECLs, the Company 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 Company was referring to the information periodically release from international credit rating institutions such as S&P, Moody's and Fitch. The Company measures EAD by the amortized cost plus interest receivables of financial instruments.

(iv) Liquidity risk

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

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

(v) Market risk

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

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

- 1) Equity securities: calculate by variance-covariance method and to conduct back testing to estimate the VaR of one day at 99% of confidence interval.
- 2) Bond: use the base point (0.01%) value as the controlling base, and estimate the VaR of one day at 99% of confidence interval.
- 3) Financial derivatives: use the Delta and Gamma value as the controlling base, and estimate the VaR of one day at 99% of confidence interval.
- 4) Margin trading: use the maintenance ratio ruled by the competent authority as the standard for disposal.

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

(vi) Hedging strategies (financial hedging)

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

1) Equity securities:

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

2) Fixed income instruments:

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

3) Stock warrants:

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

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

4) Structured notes:

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

5) Asset swap:

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

(vii) Financial risk information of financial derivatives and other financial instruments as approved by the authority

As of December 31, 2019 and 2018, the related financial risk and the presentation of the Company's derivatives and other financial instruments as approved by the authority were as follows:

Stock warrants

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

Financial Instruments	December 31, 2019		December 31, 2018	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Stock warrants issued	\$ 18,302,776	-	17,901,620	-

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

(ii) Market risk:

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

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

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

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

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

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

(v) Presentation of financial derivatives

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

1) For the years ended December 31, 2019 and 2018:

a) Gains (losses) on valuation

	<u>For the years ended December 31,</u>		<u>Account</u>
	<u>2019</u>	<u>2018</u>	
Stock warrants issued	\$ 11,359,166	15,625,056	Gains (losses) on stock warrants issued
Stock warrants repurchased	(11,382,768)	(15,308,436)	Gains (losses) on stock warrants issued

b) Gains (losses) on sale

	<u>For the years ended December 31,</u>		<u>Account</u>
	<u>2019</u>	<u>2018</u>	
Security borrowing	\$ 55,194	171,070	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	340,093	(1,331,899)	Gains (losses) on sale of trading securities
Futures transaction	(319,856)	(180,945)	Gains (losses) on derivative financial instruments - futures

c) Gains (losses) on maturity

	<u>For the years ended December 31,</u>		<u>Account</u>
	<u>2019</u>	<u>2018</u>	
Stock warrants issued	\$ 31,531,397	38,885,569	Gains (losses) on stock warrants issued
Stock warrants repurchased	(31,316,625)	(37,337,129)	Gains (losses) on stock warrants issued

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

Exchange traded notes

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

Financial Instruments	December 31, 2019		December 31, 2018	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Exchange traded notes issued	\$ 729	-	-	-

Index-related products trading (futures or other derivative products) will take certain credit risk from counterparties. The Company determines those with international credit rating BBB (inclusive) or above, and therefore, no default is expected and credit risk is accordingly remote.

(ii) Market risk:

There is no tracking error on exchange traded notes (ETN). Issuers hedge and manage the position via stocks or other products (futures or other derivative products) which are related to the index.

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

Stocks with small market cap or transaction volume will be replaced by other stocks in case the liquidity risk affects the index performance.

The duration of exchange traded notes issued is three years from the issue date. Except for cash flows from hedging transactions, there is no additional cash demand.

(iv) Type, purpose, and strategy of other financial instruments approved by the authority held:

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

(v) Presentation of other financial instruments approved by the authority:

For the year ended December 31, 2019, gains (losses) on exchange traded notes amounted to \$67, and were reflected as net gains (losses) from exchange traded notes. As of December 31, 2019, margin exchange traded notes amounted to \$25, and were reflected as other non-current assets; outstanding liabilities exchange traded notes which recognized as financial liabilities at fair value through profit or loss current amounted to \$729.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

Futures

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

Financial Instruments	December 31, 2019		December 31, 2018	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Taiex Futures	\$ 117,741	-	1,029,517	-
Finance Sector Index Futures	135,817	-	-	-
Long-term Euro-BTP Futures	33,538	-	-	-
Euro-Bond Futures	17,265	-	-	-
10 year U.S.-Note Futures	-	-	372,827	-
Euro-Bond Futures	-	-	132,141	-
Taiex Weekly Options	-	-	173	-
For non-trading purpose:				
Taiex Futures	132,665	-	87,429	-
Mini-Taiex Futures	4,198	-	-	-
Single Stock Futures	1,038,306	-	743,429	-
HSI Futures	5,379	-	25,340	-
Soybean Futures	-	-	16,964	-
Mini-HSI Futures	11,921	-	-	-
Crude Oil Futures	30,513	-	-	-
FTSE China A50 Index Futures	238,645	-	136,494	-
VIX Futures	23,342	-	-	-
SGX Nikkei 225 Index Futures	16,488	-	12,002	-
Japanese yen Futures	10,326	-	10,249	-
Taiex Options	-	-	41	-
Stock Options	-	-	1	-
Crude Oil Options	4	-	-	-
JPY dollar Options	-	-	6	-

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

(ii) Market risk:

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

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

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

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

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

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

(iv) Presentation of financial derivatives:

For the years ended December 31, 2019 and 2018, gains (losses) on futures and options transactions amounted to \$(645,521) and \$10,268, respectively, and were recognized in gains (losses) on derivatives - futures. As of December 31, 2019 and 2018, futures margin - proprietary fund amounted to \$182,308 and \$147,773, respectively, and were recognized in financial assets at fair value through profit or loss - current; excess future margin which recognized in cash and cash equivalent amounted to \$589,321 and \$1,480,645, respectively.

As of December 31, 2019 and 2018, the balance of put options which recognized in financial liabilities at fair value through profit or loss - current amounted to \$5 and \$237, respectively.

Derivative instruments - OTC

(i) Interest rate financial derivatives

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

<u>Financial Instruments</u>	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>
For trading purpose:				
NT dollar interest swaps	\$ 21,300,000	-	29,800,000	-

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

2) Market risk:

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

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

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

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

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

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

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

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

- (ii) Structured notes

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

Financial Instruments	December 31, 2019		December 31, 2018	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Equity-linked notes	\$ 215,789	-	49,225	-
Principal guaranteed notes	2,935,907	-	2,730,772	-
Credit-linked notes	669,900	-	562,300	-
Principle guaranteed notes (in USD thousands)	USD 3,690	-	USD 10,597	-

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

- 2) Market risk

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

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

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

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(iii) Convertible bond asset-backed swaps

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

Financial Instruments	December 31, 2019		December 31, 2018	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:				
Convertible bond asset-backed swaps	\$ 886,900	-	694,900	-
Convertible bond options	4,452,000	-	3,012,400	-

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

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

2) Market risk:

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

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

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

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

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(iv) Options

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

Financial Instruments	December 31, 2019		December 31, 2018	
	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk
For trading purpose:				
Equity options	\$ 200,000	-	-	-

The counterparties that the Company entered into derivative transactions with are all well-known financial institutions with good credit ratings. The Company 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 Company 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 Company has sufficient operating funds to meet the liquidity requirement. As a result, there is no liquidity risk, no cash flow risk, and no significant cash demand.

(v) Presentation of derivative instruments in financial statement

As of December 31, 2019 and 2018, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options, convertible bond asset-backed swaps and currency swaps were presented on the balance sheets as follows:

	December 31, 2019	December 31, 2018
Financial assets at fair value through profit or loss - current		
IRS asset swaps	\$ 16,053	13,855
Asset swap options-long position	37,684	4,072
Structured notes	25,925	3,075
Currency swaps	-	1,690
Total	<u>\$ 79,662</u>	<u>22,692</u>

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Financial liabilities at fair value through profit or loss - current		
IRS asset swaps	\$ 2,436	763
Asset swap options-short position	529,328	208,927
Structured notes	11,583	8,914
Currency swaps	4,745	31,575
Interest rate swaps	<u>969</u>	<u>544</u>
Total	<u>\$ 549,061</u>	<u>250,723</u>
Other financial liabilities - current		
Structured notes principal value	<u>\$ 3,579,951</u>	<u>3,357,887</u>
Other financial liabilities - non-current		
Structured notes principal value	<u>\$ 349,518</u>	<u>310,032</u>

For the years ended December 31, 2019 and 2018, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, bond options, convertible bond asset-backed swaps and currency swaps are presented on statements of income as follows:

	<u>For the year ended December 31, 2019</u>		<u>For the year ended December 31, 2018</u>	
	<u>Gains (losses) on derivative instruments - OTC</u>	<u>Unrealized Gains (losses)</u>	<u>Gains (losses) on derivative instruments - OTC</u>	<u>Unrealized Gains (losses)</u>
Interest rate swaps	\$ (517)	(969)	(4,016)	(544)
Equity derivatives	(232)	51	873	-
Structured notes	(67,731)	(16,490)	(36,093)	(6,466)
IRS asset swaps	218	13,617	259	13,092
Asset swap options	(264,473)	11,817	64,786	130,058
Currency swaps	<u>(9,634)</u>	<u>(4,745)</u>	<u>14,300</u>	<u>(29,885)</u>
Total	<u>\$ (342,369)</u>	<u>3,281</u>	<u>40,109</u>	<u>106,255</u>

(w) Capital management

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

The Company maintains no change of its capital management. The Company's capital adequacy ratio is as below:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Capital adequacy ratio	390 %	435 %

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(x) Financing activities not affecting current cash flow

The Company's financing activities which did not affect the current cash flow in the years ended December 31, 2019 and 2018, were as follows:

(i) For Short-term borrowings, please refer to note 6(i).

(ii) For Right-of-use assets, please refer to note 6(f).

	January 1, 2019	Cash flows	Non-cash changes			December 31, 2019
			Other	Foreign exchange movement	Fair value changes	
Short-term borrowings	\$ 3,873,506	2,757,496	-	-	-	6,631,002
Lease liabilities	939,218	(129,637)	97,809	-	-	907,390
Total liabilities from financing activities	<u>\$ 4,812,724</u>	<u>2,627,859</u>	<u>97,809</u>	<u>-</u>	<u>-</u>	<u>7,538,392</u>

	January 1, 2018	Cash flows	Non-cash changes			December 31, 2018
			Other	Foreign exchange movement	Fair value changes	
Short-term borrowings	\$ 7,081,698	(3,208,192)	-	-	-	3,873,506
Commercial papers payable	4,099,184	(4,099,184)	-	-	-	-
Total liabilities from financing activities	<u>\$ 11,180,882</u>	<u>(7,307,376)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,873,506</u>

(7) Related party transactions:

(a) Relationships between parents and subsidiaries

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

(b) Parent company and ultimate controlling party

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

(c) Names of related parties and relationships

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

Names of related parties	Relationships
Capital Insurance Advisory Corp.	Subsidiary
Capital Insurance Agency Corp.	Subsidiary
Capital Futures Corp.	Subsidiary
Capital Investment Management Corp.	Subsidiary
CSC Venture Capital Corp.	Subsidiary
Taiwan International Securities Investment Consulting Corp.	Subsidiary
Taiwan International Futures Corp. (Note 1)	Subsidiary
CSC Securities (HK) Ltd.	Second-level subsidiary

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

<u>Names of related parties</u>	<u>Relationships</u>
Capital International Technology Corp.	Second-level subsidiary
Capital Investment Trust Corp. (Note 2)	Associate
Funds issued by Capital Investment Trust Corp. (Note 2)	Funds issued by associate
San Ho Enterprise Co., Ltd. (Note 3)	Juristic-person director
Kwang Hsing Industrial Co., Ltd.	Juristic-person director
Tai Chun Enterprise Co., Ltd (Note 3)	Juristic-person director
Others	Key management personnel and others

Note 1: The corporation was liquidated on February 12, 2019.

Note 2: Since February 9, 2018, the corporation has become an associate of the Company.

Note 3: The corporation was discharged on June 24, 2019.

(d) Key management personnel transactions

(i) Key management personnel compensation:

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Short-term employee benefits	\$ 136,567	150,210
Post-employment benefits	1,348	1,121
Total	<u>\$ 137,915</u>	<u>151,331</u>

(ii) Bond transactions - bonds sold under repurchase agreements

Bonds sold under repurchase agreements with key management personnel as of December 31, 2019 and 2018 were as follows:

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Par value</u>	<u>Purchase price</u>	<u>Par value</u>	<u>Purchase price</u>
Key management personnel	<u>\$ 22,500</u>	<u>22,670</u>	<u>43,000</u>	<u>43,060</u>

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Total financial expenses		
Key management personnel	<u>\$ 182</u>	<u>152</u>

(iii) Structured notes transactions

As of December 31, 2019 and 2018, the balances of structured notes transactions with key management personnel were \$71,393 and \$55,612, respectively.

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(e) Significant transactions with related parties

(i) Bond transactions - bonds sold under repurchase agreements

The balances of bonds sold under repurchase agreements with related parties as of December 31, 2019 and 2018 were as follows:

	December 31, 2019		December 31, 2018	
	Par value	Purchase price	Par value	Purchase price
Funds issued by associate	\$ -	-	50,000	50,044
Subsidiaries	46,000	46,000	198,000	198,000
Juristic-person directors	-	-	20,300	20,315
Total	<u>\$ 46,000</u>	<u>46,000</u>	<u>268,300</u>	<u>268,359</u>

	For the years ended December 31,	
	2019	2018
Total financial expenses		
Funds issued by associate	\$ 472	161
Subsidiaries	461	321
Juristic-person directors	56	81
Total	<u>\$ 989</u>	<u>563</u>

Transaction terms are the same as those with general clients.

(ii) Structured notes transaction

As of December 31, 2019 and 2018, the balances of structured notes transactions with juristic-person directors of the Company were \$0 and \$17,082, respectively.

(iii) Futures commission revenue

The Company provided futures trading assistance for subsidiary.

	December 31, 2019	December 31, 2018
	Commission receivable	<u>\$ 10,914</u>
Other Receivable (Default loss)	<u>\$ 3,892</u>	<u>19,806</u>

	For the years ended December 31,	
	2019	2018
Futures commission revenue	<u>\$ 130,341</u>	<u>166,348</u>

(iv) Futures trading

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

	December 31, 2019	December 31, 2018
Futures margin - proprietary fund	<u>\$ 688,447</u>	<u>1,628,418</u>

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

		<u>For the years ended December 31,</u>	
		<u>2019</u>	<u>2018</u>
	Interest revenue of futures margin	\$ <u>428</u>	<u>424</u>
	Handling fees charge	\$ <u>9,455</u>	<u>21,567</u>
	Management fees expense	\$ <u>-</u>	<u>1,056</u>
(v)	Lease agreements		
		<u>For the years ended December 31,</u>	
		<u>2019</u>	<u>2018</u>
	<u>Lease revenue</u>		
	Subsidiaries	\$ 18,326	20,171
	Associates	<u>17,247</u>	<u>15,810</u>
	Total	\$ <u>35,573</u>	<u>35,981</u>
		<u>December 31,</u>	<u>December 31,</u>
		<u>2019</u>	<u>2018</u>
	<u>Guarantee deposits received</u>		
	Subsidiaries	\$ 4,018	4,246
	Associates	<u>3,811</u>	<u>3,811</u>
	Total	\$ <u>7,829</u>	<u>8,057</u>
(vi)	Information technology service		
	The Company provided information technology service to subsidiaries, and the revenue of information technology service for the years ended December 31, 2019 and 2018 amounted to \$46,667 and \$44,108, respectively.		
(vii)	Securities management fees		
	The Company provided securities management service to subsidiaries and associates. The revenue from subsidiaries for the years ended December 31, 2019 and 2018 amounted to \$545 and \$520 and from associates amounted to \$124 and \$122, respectively.		
(viii)	Securities commission expense - introducing brokers		
	The Company delegated subsidiaries for introducing brokers. As of December 31, 2019 and 2018, securities commission expense payable amounted to \$373 and \$228, respectively. For the years ended December 31, 2019 and 2018, securities commission expenses amounted to \$3,492 and \$4,721, respectively.		
(ix)	Consulting fee		
	Subsidiaries agreed to provide investment information, training courses, and services of publishing non-periodicals. For the years ended December 31, 2019 and 2018, consulting fee expense amounted to \$75,600 and \$86,100, respectively.		

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(x) Re-consigned handling fee

The Company delegated the second level subsidiaries for introducing brokers on foreign securities transactions. For the years ended December 31, 2019 and 2018, re-consigned handling fee amounted to \$4,618 and \$5,887, respectively.

(xi) Insurance commission revenues

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

	For the years ended December 31,	
<u>Commission revenues</u>	2019	2018
Subsidiaries	\$ 12,931	11,905
<u>Accounts receivable</u>	December 31,	December 31,
Subsidiaries	\$ 1,877	2,020

(xii) Commissions

The commission received from the related parties of the Company engaging in securities and futures trading for the years ended December 31, 2019 and 2018 were as follows:

	For the years ended December 31,	
<u>Brokerage commissions</u>	2019	2018
Juristic-person directors	\$ -	288
Subsidiaries	-	53
Funds issued by associate	23,738	15,969
Other related parties	1,044	10,270
Total	\$ 24,782	26,580
<u>Re-consigned handling commissions</u>	2019	2018
Funds issued by associate	8,696	4,879
Other related parties	193	235
Total	8,889	5,114
<u>Other commissions</u>	2019	2018
Funds issued by associate	\$ 4,406	639

(xiii) Human resources, legal service income and management service income:

The Company provided human resources , legal service, management service etc. for subsidiaries and associates. Service income amounted to \$999 and \$636 in years 2019 and 2018, respectively.

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CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(xiv) Accrued receivables

The accrued receivables between the subsidiaries, associates and the Company primarily were securities management service receivable, computer printing service receivable, service prepayment receivable etc. As of December 31, 2019 and 2018, the accrued receivables amounted to \$1,163 and \$10, respectively.

(xv) Disposal of financial assets

On January 16, 2018, the Company disposed all its shares (941 thousand shares) of 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.

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

(8) Pledged assets:

The following assets were pledged as collateral or restricted in use as of December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018	The collateral use
Restricted assets - current	\$ 615,927	671,822	Bank borrowings, accounts settled, repurchase agreement.
Trading securities and bonds purchased under resale agreements (par value)	32,552,236	29,343,321	Repurchase agreement
Property and equipment	1,484,200	3,506,196	Bank borrowings
Financial assets at fair value through profit or loss - non - current	180,467	185,109	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business
Investment property	3,323,085	1,358,103	Bank borrowings
Total	<u>\$ 38,155,915</u>	<u>35,064,551</u>	

(9) Significant contingent liability and unrecognized contract commitment:

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

	December 31, 2019		December 31, 2018	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities procured through margin purchase	520,214	\$ 5,202,140	528,296	5,282,960
Collateral for margin purchase	8,868	88,680	34,550	345,500
Collateral for short sales	6,900	69,000	6,150	61,500
Lending securities to customers through short sales	57,750	577,500	50,957	509,570

(Continued)

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

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Shares (in thousands)</u>	<u>Par value</u>	<u>Shares (in thousands)</u>	<u>Par value</u>
Securities borrowed from securities finance companies	3,594	\$ 35,940	1,074	10,740
Collateral for refinancing margin	969	9,690	53	530

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Promissory notes	<u>\$ 25,510,000</u>	<u>26,440,000</u>
Promissory notes (in USD thousands)	<u>USD 60,000</u>	<u>USD 60,000</u>

- (d) As of December 31, 2019 and 2018, the market values of collaterals which received from customers on conducting borrowing and lending business with unrestricted purposes were \$5,687,926 and \$3,848,765, 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. In December 2019, Taiwan Shilin District Court decide the case in favor of the Company, the case had no impact to the Company.
- (f) A resigned employee of Wan-Hua branch was accused of privately soliciting investment to scam. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation for damages of \$2,798. The case is under the trial of Taiwan Taipei District Court. According to the opinion from the attorney of the Company, the case had no impact to the Company.
- (g) According to the documentation No. 0990030563 verdict of Financial Supervisory Commission (dated June 14, 2010), Taiwan International Securities Corporation (hereinafter known as "TISC") is suspected to violate the "Regulations Governing Securities Firms" due to some employees selling private placed products of Genesis Growth Income Preferred Shares B1 issued by GVEC (Genesis Voyager Equity Corporation, Danny Pang as related party) privately. According to the understanding and inspection of TISC, some employees may have been selling the aforementioned product and the suspected sales amount is US\$15 million. Some investors instituted proceedings towards TISC and claimed damages amounting to US\$7,956,873 dollars (including claim amount US\$130,000 dollars towards Taiwan International Securities Investment Consulting Corp.). The damages claimed for amounted to US\$6,355,536 dollars, which was in favor of the Company, or the investors reached compromises to waive off the appeal rights. There was one case that mutual reach the settlement and withdraw appeals on May 7, 2019. 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 December 31, 2019.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

Balance Sheet of Trust Accounts

December 31, 2019 and 2018

Trust Assets	December 31, 2019	December 31, 2018	Trust Liabilities	December 31, 2019	December 31, 2018
Bank deposits	\$ 1,123,650	863,717	Accounts payable	\$ 44	230
Short-term investment			Trust capital	13,751,705	12,864,910
Funds	12,115,260	10,355,060	Accumulated earnings or deficit	(103,139)	(1,066,242)
Stocks	124,245	351,841			
Securities lent	53,383	90,222			
Bonds	31,715	12,003			
Structured notes	10,013	12,224			
Accounts receivable	<u>190,344</u>	<u>113,831</u>			
Total Assets	<u>\$ 13,648,610</u>	<u>11,798,898</u>	Total Liabilities	<u>\$ 13,648,610</u>	<u>11,798,898</u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Income statement of trust accounts

Income Statement of Trust Accounts

For the years ended December 31, 2019 and 2018

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Trust revenue		
Interest revenue	\$ 5,626	5,686
Cash dividends revenue	522,595	480,749
Rental revenue	6,674	10,547
Investment gains - unrealized	938,923	-
Currency exchange gains	94,949	12,587,351
Other revenue	-	709
Subtotal	<u>1,568,767</u>	<u>13,085,042</u>
Trust expense		
Management fee	679	1,115
Service fee	60,976	75,544
Realized investment losses	46,561	3,935
Investment losses - unrealized	-	1,781,114
Currency exchange losses - unrealized	1,702,347	1,311,566
Supplementary insurance premium	92	76
Currency exchange losses	-	11,760,193
Subtotal	<u>1,810,655</u>	<u>14,933,543</u>
Net losses before income tax	(241,888)	(1,848,501)
Income tax expense	(319)	(327)
Net losses after income tax	<u><u>\$ (242,207)</u></u>	<u><u>(1,848,828)</u></u>

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(iii) Property list of trust accounts

Property list of trust accounts

December 31, 2019 and 2018

Investment items	December 31, 2019	December 31, 2018
Bank deposits	\$ 1,123,650	863,717
Short-term investment		
Funds	12,115,260	10,355,060
Stocks	124,245	351,841
Structured Notes	53,383	90,222
Bonds	31,715	12,003
Structured Notes	10,013	12,224
Account receivables	<u>190,344</u>	<u>113,831</u>
Total	<u>\$ 13,648,610</u>	<u>11,798,898</u>

(10) Significant Catastrophic Loss:None

(11) Significant Subsequent Events:

The Company had repurchased 150,000 thousand shares after the reporting date. All the repurchased shares were retired and the registration of capital reduction was completed on February 21, 2020.

The Board of Directors resolved to subscribe the cash capital increase of Capital Futures Corp. on January 21, 2020, and the investment amounted to \$683,981.

(12) Other:None

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:

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

(i) Loans to others:

(In Thousands Dollars)

Number	Name of the company providing Loans to Others	Party to Transactions	Account Classification	Related party	Maximum Balance of the Period	Ending balance	Capital Employed	Range of interest rate	Type of Loans (Note)	Amount of Transactions	Purposes of the Borrowers	Allowance of Doubtful Accounts	Collateral		Limit on Loans to a Single Business	Limit on the Amount of Loans
													Name	Value		
1	CSC International Holdings Ltd.	CSC Securities (HK) Ltd	Account receivables - Related party	Yes	US 29,322	US 29,322	US 29,322	- %	2	-	Operations	-		-	US 53,637	US 53,637
2	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited.	Other receivables - Related party	Yes	US 3,380	US 3,380	US 3,380	- %	2	-	Operations & repayment of financing	-		-	US 3,380	US 3,380
3	TIS Securities (HK) Limited.	Taiwan International Capital (HK) Ltd.	Other receivables	Yes	HK 1,463	HK 1,463	HK 1,463	- %	2	-	Repayment of financing	-		-	HK 1,463	HK 1,463
4	CSC Futures (HK) Ltd.	Klaw Trading Limited	Account receivables - Customer	No	41,639	41,639	17,845	5 %	2	-	Tradings	-		-	193,301	966,505
5	CSC Futures (HK) Ltd.	AAA Fintech Limited	Account receivables - Customer	No	83,278	83,278	37,177	5.09 %	2	-	Tradings	-		-	193,301	966,505
6	CSC Futures (HK) Ltd.	Future Leading Investment Pte. Ltd.	Account receivables - Customer	No	83,278	83,278	-	5.0 %	2	-	Tradings	-		-	193,301	966,505
7	CSC Futures (HK) Ltd.	Alpha Rnd Singapore Pte Ltd.	Account receivables - Customer	No	83,278	83,278	-	5.09 %	2	-	Tradings	-		-	193,301	966,505
8	CSC Futures (HK) Ltd.	Derivatives China Alpha Fund	Account receivables - Customer	No	83,278	83,278	-	5.09 %	2	-	Tradings	-		-	193,301	966,505

Note: Type of Loans

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

- (ii) Providing endorsements and guarantees for other parties:None
- (iii) Acquisition of real estate exceeding NT\$300 million or 20% of paid-in capital:None
- (iv) Disposal of real estate exceeding NT\$300 million or 20% of paid-in capital:None
- (v) Handling fee discounts on transactions with related parties exceeding NT\$5 million:None
- (vi) Accounts receivables from related parties exceeding NT\$100 million or 20% of paid-in capital:None

(b) Related information of investee companies:

(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 December 31, 2019	Balance on December 31, 2018	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 %	92,445	74,119	(4,795)	(4,795)	9,450	Subsidiary
0	Capital Futures Corp.	Taipei, Taiwan, R.O.C.	February 26, 1997	No. FSC-1050044467 dated November 15, 2016	Engaged in domestic and foreign futures business.	1,212,539	1,212,539	99,182,845	56.21 %	2,817,870	1,735,635	600,009	337,355	337,222	

(Continued)

CAPITAL SECURITIES CORPORATION

Notes to the Financial Statements

Ref. No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and number of FSC	Primary business operation	Original investment amount		Equity Ownership by company (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 December 31, 2019	Balance on December 31, 2018	Shares	Ratio	Book value					
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 %	1,605,349	24,552	4,135	4,135	-	Subsidiary
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 %	78,906	182,510	53,049	53,049	58,875	"
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 %	43,447	89,443	4,044	4,044	1,354	"
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 %	18	304	260	260	-	"
0	Taiwan International Securities Investment Consulting Corp. (Note 4)	Taipei, Taiwan, R.O.C.	March 3, 1994		Liquidation in progress.	9,992	9,992	999,200	99.92 %	12,644	-	(155)	(155)	-	"
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 %	763,112	4,290	(2,452)	(2,452)	-	"
0	Capital Investment Trust Corp.	Taipei, Taiwan, R.O.C.	October 10, 1995		Engaged in security investment and discretionary investment services.	1,272,505	1,272,505	33,067,507	20.00 %	1,301,360	1,670,556	665,343	133,069	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 thousands	HK 128,000 thousands	128,000,000	100.00 %	HK 166,703 thousands	HK 39,519 thousands	HK 6,318 thousands	-	-	Second-level Subsidiary
2	TIS Securities (HK) Limited. (Note 5)	Hong Kong	August 17, 1993	No. FSC-40912 dated November 4, 1993	Liquidation in progress.	HK 265,000 thousands	HK 265,000 thousands	265,000,000	100.00 %	HK (26,170) thousands	HK -	HK 78 thousands	-	-	"
3	Taiwan International Capital (HK) Ltd. (Note 5)	Hong Kong	July 16, 1997	No. FSC-110159	Liquidation in progress.	HK 2	HK 2	2	100.00 %	HK (66,086) thousands	HK -	HK 71 thousands	-	-	Third-level Subsidiary
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 %	940,119	249,672	(50,944)	-	-	Second-level Subsidiary
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 %	42,249	-	(3,224)	-	-	"
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 %	47,860	129,089	5,038	-	-	Associates
5	Capital Securities Nominee Ltd.	Hong Kong	April 7, 1995		Agency services.	HK 2	HK 2	2	100.00 %	HK -	HK -	HK -	-	-	Third-level Subsidiary

Note 1: (0) Capital Securities Corp. (1) CSC International Holdings Ltd. (2) 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 resolved to dissolve on June 27, 2012, and the company is being liquidated now.

Note 5: 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.

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(c) Information on overseas branches or representative offices:

(In Thousands of New Taiwan Dollars)

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

(d) Information on investments in the Mainland China:

(i) Investment in the 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, 2019	Remittance of recoverable investment this period		Accumulated remittance as of December 31, 2019	Net gains (losses) of the investee	Direct or indirect Share holdings (%) by the company	Investment gains (losses) recognized during this period (Note 2)	Ending Balance of Investment	Investment income remitted back as of December 31, 2019
					Remittance amount	Recoverable amount						
Capital True Partner Technology Co., Ltd.	Management, consulting and information service business	5,013	(C)	24,372	-	-	24,372	2,159	28.67%	619 B(2)	13,529	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	18,863	(C)	18,863	-	-	18,863	(4,057)	56.21%	(2,280) B(2)	10,001	-

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 the Mainland China:

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

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

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

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

According to article 4, no. 5 of the letter no. 10400414001 issued by Financial Supervisory Commission on November 19, 2015, the required supplementary disclosures of the Company's information on reinvestment in overseas businesses for the year ended December 31, 2019 are as follows:

- (i) Balance sheet and income statement:

- 1) Balance sheet

Unit: US \$ thousands

Company	CSC International Holdings Ltd. December 31, 2019	Taiwan International Securities (B.V.I) Corp. December 31, 2019
Nature		
Current assets	10,891	1
Long-term investments	21,407	-
Property and premises	2,000	-
Other assets	19,395	3,380
Total assets	53,693	3,381
Current liabilities	56	19
Other liabilities	-	3,361
Total liabilities	56	3,380
Common stock	45,000	9,516
Retained earnings (Accumulated deficit)	8,754	(9,447)
Cumulative translation adjustments	(117)	(68)
Total stockholders' equity	53,637	1
Total liabilities and stockholders' equity	53,693	3,381

- 2) Income statement

Unit: US \$ thousands

Company	CSC International Holdings Ltd. For the year ended December 31, 2019	Taiwan International Securities (B.V.I) Corp. For the year ended December 31, 2019
Nature		
Operating revenue	809	10
Operating expense	(811)	(2)
Non-operating revenue	141	-
Non-operating expense	(2)	-
Income (loss) before tax	137	8
Net income (loss)	137	8

(Continued)

CAPITAL SECURITIES CORPORATION
Notes to the Financial Statements

(ii) Securities held as of December 31, 2019

Unit: shares / US\$ thousands

Name of holding company	Securities types and name	Account classification	December 31, 2019	
			Shares	Book value
CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Long-term investments	128,000,000	\$ <u>21,407</u>
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Other liabilities	265,000,000	\$ <u>(3,361)</u>

(iii) Derivatives financial instrument transactions and the source of capital: None.

(iv) Revenue from engagement in consultation on assets management business, service contents and litigation: None.

(14) Segment information:

Please refer to the consolidated financial statements of the Company as of and for the year ended December 31, 2019.

Capital Securities Corporation
Statement of cash and cash equivalents
December 31, 2019
(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Cash	Petty cash	\$ 2,590	
Bank deposits	Checking accounts	25,545	
	Demand deposits	197,121	
	Foreign currency deposits	111,874	USD2,204 Thousands @ 29.98 HKD1,170 Thousands @ 3.849 EUR230 Thousands @ 33.59 JPY1,272 Thousands @ 0.276 SGD7 Thousands @ 22.28 CNY3,047 Thousands @ 4.305 ZAR6 Thousands @ 2.12 AUD949 Thousands @ 21.01
Cash equivalents	Time deposits	641,240	Maturity dates are 2020.1.4 to 2020.12.5 and the interest rates are 1.02%~1.07%
	Foreign currency time deposits	1,088,510	CNY30,000 Thousands @ 4.305 Maturity date is 2020.2.7 and the interest rate is 2.85% USD32,000 Thousands @ 29.98 Maturity dates are 2020.2.3 to 2020.5.4 and the interest rates are 2.3%~2.5%.
	Futures margin - excess margin (NTD)	435,834	
	Futures margin - excess margin (Foreign currency)	153,487	HKD2,020 Thousands @ 3.849 EUR46 Thousands @ 33.59 JPY5,874 Thousands @ 0.276 USD4,754 Thousands @ 29.98
Total		<u>\$ 2,656,201</u>	

Capital Securities Corporation

**Statement of financial assets at fair value through profit or loss - current—open-ended funds and
money-market instruments**

December 31, 2019

(Expressed in Thousands of New Taiwan Dollars)

Name of financial instrument	Description	Shares or units	Par value (Dollars)	Total amount	Interest rate	Acquisition cost	Fair value		Fair value changes is attributable to the changes in credit risk	Note
							Unit price (Dollars)	Total amount		
FSITC Money Market Fund		28,433	-	-	-	\$ 5,049	179.10	5,092	-	
Fuh Hwa Money Market Fund		2,086,315	-	-	-	30,000	14.49	30,233	-	
Prudential Financial India Opportunity Bond Fund		272,786	-	-	-	3,000	10.53	2,872	-	
JPMorgan(Taiwan) TEMIS Fund		1,500,000	-	-	-	15,000	10.76	16,147	-	
Prudential Financial China Brands Fund		464,252	-	-	-	5,000	12.48	5,794	-	
PineBridge Asia High Dividend Fund		857,553	-	-	-	9,990	14.07	12,066	-	
Cathay China Emerging Industries Fund		1,868,459	-	-	-	30,013	20.62	38,528	-	
Franklin Templeton SinoAm China Consumption Fund		1,024,590	-	-	-	10,000	9.30	9,529	-	
Franklin Templeton SinoAm Preferred Securities Income Fund A		488,758	-	-	-	5,000	11.04	5,396	-	
JPMorgan(Taiwan) China A Share Fund		655,308	-	-	-	10,000	16.36	10,721	-	
JPMorgan (Taiwan) Global Dividend Fund		1,244,813	-	-	-	15,000	12.48	15,535	-	
Total						138,052		<u>151,913</u>		
Valuation adjustment						13,861				
Net amount						<u>\$ 151,913</u>				

Capital Securities Corporation
Statement of financial assets at fair value through profit or loss - current—trading securities
(Proprietary trading)
December 31, 2019
(Expressed in Thousands of New Taiwan Dollars; Foreign currencies)

Name of financial instrument	Description	Shares or units	Par value (Dollars)	Total amount	Interest rate	Acquisition cost	Fair value		Fair value changes is attributable to the changes in credit risk	Note
							Unit price (Dollars)	Total amount		
Listed stocks										
Taiwan Semiconductor Manufacturing Co., Ltd.		302,000	\$ 10	3,020		96,764	331.00	99,962	-	
Realtek Semiconductor Corp.		397,000	10	3,970		92,438	235.00	93,295	-	
Hung Sheng Construction Ltd.		3,963,200	10	39,632		96,467	25.85	102,449	-	
ASE Technology Holding Co., Ltd		1,762,000	10	17,620		147,031	83.20	146,598	-	
Powertech Technology Inc.		1,207,000	10	12,070		117,362	99.80	120,459	-	
Century Iron & Steel Industrial Co., Ltd.		1,286,000	10	12,860		90,458	72.20	92,849	-	
Others		31,490,674	10	314,907		1,115,821		1,088,631	-	Note
Subtotal						1,756,341		1,744,243		
Listed funds										
Fubon SSE 180 Index ETF		3,385,000	10	33,850		104,569	31.59	106,932	-	
Fuh Hwa CSI 300 A Shares ETF		1,898,000	10	18,980		43,198	24.24	46,008	-	
Yuanta Daily Taiwan 50 Bear -1X ETF		9,450,000	10	94,500		108,869	9.99	94,405	-	
Cathay FTSE China A50 ETF		9,211,000	10	92,110		195,040	22.03	202,918	-	
Yuanta S&P GSCI Crude Oil 1x Inverse ER Futures ETF		3,950,000	10	39,500		52,984	13.16	51,982	-	
Yuanta MSCI China A ETF		4,642,000	10	46,420		94,405	21.53	99,942	-	
Others		9,939,000	10	99,390		192,583		219,060	-	Note
Subtotal						791,648		821,247		
OTC stocks										
WIN Semiconductors Corp.		60,000	10	600		18,228	294.00	17,640	-	
Macroblock Inc.		159,000	10	1,590		18,048	113.50	18,046	-	
TTY Biopharm Company Limited		251,000	10	2,510		20,347	82.40	20,682	-	
FineTek Co.,Ltd.		396,950	10	3,970		37,039	87.90	34,892	-	
Intelligent Epitaxy Technology Inc.		615,000	10	6,150		39,505	64.10	39,422	-	
PharmaEssentia Corp.		351,000	10	3,510		44,583	110.00	38,610	-	
Phison Electronics Corp.		303,000	10	3,030		90,409	340.50	103,172	-	
Ginko International Co., Ltd.		201,000	10	2,010		44,757	212.00	42,612	-	
Samebest Co. Ltd.		175,000	10	1,750		20,555	108.00	18,900	-	
Others		17,000	10	170		4,155		4,635	-	Note
Subtotal						337,626		338,611		
OTC funds										
Fubon China Policy Bank Bond ETF.		1,087,000	10	10,870		21,740	19.72	21,436	-	
Fubon China Policy Bank Bond 0-1 ETF		1,295,000	10	12,950		51,800	39.56	51,230	-	
Fubon FTSE Asian Broad Bond Index- China Investment-Grade ETF		1,464,000	10	14,640		58,560	40.21	58,867	-	
Fubon FTSE World Broad Investment- Grade Bank Bond Index ETF		712,000	10	7,120		28,480	45.15	32,147	-	
Fubon Emerging Market Investment Grade Bond ETF		500,000	10	5,000		20,000	39.75	19,875	-	
Fubon Europe Banking ETF		500,000	10	5,000		20,000	39.60	19,800	-	
Subtotal						200,580		203,355		

Capital Securities Corporation
Statement of financial assets at fair value through profit or loss - current—trading securities
(Proprietary trading)
December 31, 2019
(Expressed in Thousands of New Taiwan Dollars; Foreign currencies)

Name of financial instrument	Description	Shares or units	Par value (Dollars)	Total amount	Interest rate	Acquisition cost	Fair value		Fair value changes is attributable to the changes in credit risk	Note
							Unit price (Dollars)	Total amount		
<u>Emerging market stocks</u>										
Pan German Universal Motors Ltd.		1,055,334	\$ 10	10,553		228,041	268.96	283,843	-	
AMIDA Technology, Inc.		586,057	10	5,861		31,556	75	43,778	-	
Others		7,689,259	10	76,893		272,592		257,604	-	註
Subtotal						532,189		585,225		
<u>Convertible corporate bonds</u>										
Highwealth Construction Corp. (25425)		420	100,000	42,000		45,538	111.00	46,620	-	
Shin Kong Financial Holding Co., Ltd.		503	100,000	50,300		51,610	107.00	53,821	-	
Arcadyan Technology Corporation (35961)		513	100,000	51,300		58,281	112.90	57,918	-	
Global Pmx Co., Ltd. (45511)		923	100,000	92,300		99,122	117.00	107,991	-	
Ennoconn Corporation (64143)		625	100,000	62,500		66,947	107.30	67,062	-	
Others		5,272	100,000	527,200		567,590		561,238	-	註
Subtotal						889,088		894,650		
<u>Government bonds</u>										
A01105	2012/03/07~2022/03/07			200,000	1.25%	204,229	101.59	203,192	-	Interest payment every year
A07107	2018/07/20~2023/07/20			199,400	0.63%	198,569	100.28	199,975	-	"
A07111	2018/11/23~2023/11/23			250,000	0.75%	249,487	100.65	251,634	-	"
A08101	2019/01/14~2024/01/14			250,000	0.63%	249,049	100.20	250,521	-	"
A08109	2019/10/14~2029/10/14			1,000,000	0.63%	994,979	99.55	995,563	-	"
A08111	2019/11/22~2021/11/22			1,000,000	0.50%	999,365	100.03	1,000,373	-	"
Others				420,000		421,807		423,282	-	Note
Subtotal						3,317,485		3,324,540		
<u>Corporate bonds</u>										
Winbond Electronics Co. (B61424)	2018/07/17~2025/07/17			500,000	1.00%	500,037	100.52	502,633	-	Interest payment every year
Hon Hai Precision Industry Co., Ltd. (B644AK)	2016/11/07~2021/11/07			400,000	0.83%	398,453	100.21	400,861	-	"
Pegatron Corporation (B69103)	2017/07/13~2024/07/13			400,000	1.20%	400,000	101.57	406,297	-	"
Shanyuan Co., Ltd (B87001)	2017/05/31~2022/05/31			500,000	1.14%	500,000	100.93	504,699	-	"
EVA Air (B93866)	2016/12/29~2021/12/29			500,000	1.07%	500,000	100.54	502,748	-	"
Zkteco Inc. (B95451)	2015/08/03~2020/08/03			400,000	1.35%	400,915	100.42	401,713	-	"
Others				4,930,000		4,942,152		4,946,376	-	Note
Subtotal						7,641,557		7,665,327		

Capital Securities Corporation
Statement of financial assets at fair value through profit or loss - current—trading securities
(Proprietary trading)
December 31, 2019
(Expressed in Thousands of New Taiwan Dollars; Foreign currencies)

Name of financial instrument	Description	Shares or units	Par value (Dollars)	Total amount	Interest rate	Acquisition cost	Fair value		Fair value changes is attributable to the changes in credit risk	Note
							Unit price (Dollars)	Total amount		
International bonds										
Korea Development Bank	2018/07/03~2021/07/03			CNY 50,000	4.60%	215,250	CNY 102.21	220,011	-	Interest payment every year
QNB Finance Ltd.	2018/06/21~2021/06/21			CNY 100,000	5.25%	430,500	CNY 102.52	441,331	-	"
Societe Generale	2016/04/19~2022/04/19			CNY 10,000	2.30%	299,800	CNY 99.06	296,989	-	Interest payment every season
KEB Hana Bank	2018/07/26~2023/07/26			USD 15,000	2.74%	449,700	USD 100.58	452,317	-	"
QNB Finance Ltd.	2018/05/31~2021/05/31			USD 20,000	3.26%	599,600	USD 100.81	604,451	-	"
Arab Petroleum Investments Corporation	2017/10/26~2022/10/26			USD 11,000	3.04%	329,780	USD 101.06	333,263	-	"
First Abu Dhabi Bank	2019/04/16~2022/04/16			USD 8,000	2.95%	239,840	USD 100.70	241,524	-	"
First Abu Dhabi Bank	2019/07/08~2024/07/08			USD 20,000	2.93%	599,600	USD 100.13	600,397	-	"
Orsted Wind Power TW Holding A/S	2019/09/25~2022/09/25			TWD 300,000	0.92%	300,000	TWD 99.69	299,999	-	Interest payment every year
Others						1,072,840		1,084,750	-	Note
Subtotal						4,536,910		4,575,032		
Financial debentures										
G10162	2019/09/25~2022/09/25			200,000	0.65%	200,000	99.69	199,389	-	Interest payment every year
Subtotal						200,000		199,389		
Foreign stocks										
SPDR Dow Jones Industrial Average ETF		28,000				234,144	USD 285.10	239,324	-	American Stock Exchange
SPDR S&P 500 ETF		25,300				236,229	USD 321.86	244,129	-	"
Others		4,200				4,456		1,681	-	Note
Subtotal						474,829		485,134		
Other										
Pihsiang Machinery Manufacturing Co.,		14,880	10	149		257	-	-	-	
Chainlong Inc.		4,612	10	46		28	-	-	-	
Others		1,214				15		-	-	
Subtotal						300		-	-	
Total						20,678,553		\$ 20,836,753		
Valuation adjustment						158,200				
Net amount						\$ 20,836,753				

Note: The amount of single security is under 5% of the subject.

Capital Securities Corporation

Statement of financial assets at fair value through profit or loss - current—trading securities

(Underwriting business)

December 31, 2019

(Expressed in Thousands of New Taiwan Dollars)

Name of financial instrument	Description	Shares or units	Par value (Dollars)	Total amount	Interest rate	Acquisition cost	Fair value		Fair value changes is attributable to the changes in credit risk	Note
							Unit price (Dollars)	Total amount		
Listed stocks										
De Licacy Industrial Co., Ltd.		506,000	\$ 10	5,060		11,132	26.05	13,181	-	
Laster Tech Co., Ltd.		100,000	10	1,000		2,900	30.35	3,035	-	
Ching Feng Home Fashions Co., Ltd		1,376,000	10	13,760		23,392	40.00	55,040	-	
Subtotal						37,424		71,256		
OTC stocks										
OFCO Industrial Corporation		130,000	10	1,300		2,600	15.50	2,015	-	
Ate Energy International Co., Ltd.		682,569	10	6,826		30,716	31.50	21,501	-	
Syngen Biotech Co., Ltd.		45,000	10	450		5,400	117.50	5,288	-	
Subtotal						38,716		28,804		
Convertible corporate bonds										
China Airlines (26106)		361	100,000	36,100		36,172	99.45	35,902	-	
Laster Tech Co., Ltd. (33462)		239	100,000	23,900		23,900	100.80	24,091	-	
VHQ Media Holdings Ltd (48032)		63	100,000	6,300		6,300	95.00	5,985	-	
Century Iron And Steel Industrial Co.,Ltd. (99582)		166	100,000	16,600		16,725	115.30	19,140	-	
Others		20	100,000	2,000		2,000	105.60	2,112	-	Note
Subtotal						85,097		87,230		
Total						161,237		187,290		
Valuation adjustment						26,053				
Net amount						\$ 187,290				

Note: The amount of single security is under 5% of the subject.

Capital Securities Corporation

Statement of financial assets at fair value through profit or loss - current—trading securities

(Hedging business)

December 31, 2019

(Expressed in Thousands of New Taiwan Dollars)

Name of financial instrument	Description	Shares or units	Par value(Dollars)	Total amount	Interest rate	Acquisition cost	Fair value		Fair value changes is attributable to the changes in credit risk	Note
							Unit price(Dollars)	Total amount		
Listed stocks										
Hon Hai Precision Industry Co., Ltd.		3,038,116	\$ 10	30,381		257,198	90.80	275,861	-	Warrants
Taiwan Semiconductor Manufacturing Co Ltd		1,422,520	10	14,225		447,164	331.00	470,854	-	"
Others		105,782,411	10	1,057,824		<u>2,112,085</u>		<u>2,232,116</u>	-	Warrants/Note
Subtotal						<u>2,816,447</u>		<u>2,978,831</u>		
OTC stocks										
St. Shine Optical Co., Ltd.		326,000	10	3,260		45,297	148.00	48,248	-	Warrants
PixArt Imaging Inc.		507,718	10	5,077		47,356	99.40	50,467	-	"
Globalwafers. Co., Ltd.		130,518	10	1,305		48,326	382.50	49,923	-	"
Others		12,306,354	10	123,064		<u>632,934</u>		<u>647,026</u>	-	Warrants/Note
Subtotal						<u>773,913</u>		<u>795,664</u>		
Convertible corporate bonds										
China Airlines (26106)		3,256	100,000	325,600		327,075	99.45	323,809	-	Asset swaps
EVA Airways Co. (26183)		3,398	100,000	339,800		347,757	105.30	357,809	-	"
Shin Kong Financial Holdings (28886)		2,463	100,000	246,300		253,293	107.00	263,541	-	"
Ennoconn Corp (64143)		3,264	100,000	326,400		343,044	107.30	350,227	-	"
Others		33,912	100,000	3,391,200		<u>3,677,058</u>		<u>3,748,011</u>	-	Asset swaps/Note
Subtotal						<u>4,948,227</u>		<u>5,043,397</u>		
Total						<u>8,538,587</u>		<u>8,817,892</u>		
Valuation adjustment						<u>279,305</u>				
Net amount						<u>\$ 8,817,892</u>				

Note: The amount of single security is under 5% of the subject.

Capital Securities Corporation
Statement of financial assets at fair value through other comprehensive income - current
December 31, 2019
(Expressed in Thousands of New Taiwan Dollars)

Name of financial instrument	Description	Shares or units	Par value □(Dollars)	Total amount	Interest rate	Acquisition cost	Accumulated impairment	Fair Value		Note
								Unit price (Dollars)	Total amount	
Debt instruments										
Government bonds										
A04112	2015/9/11 ~ 2025/9/11		Repayment of principal at maturity.	800,000	1.13%	\$ 823,140	-	102.89	823,133	Interest payment every year
A05111	2016/9/7 ~ 2026/9/7		"	600,000	0.63%	600,350	-	100.06	600,330	"
A07107	2018/7/20 ~ 2023/7/20		"	200,000	0.63%	200,399	-	100.29	200,577	"
A08101	2019/1/14 ~ 2024/1/14		"	600,000	0.63%	601,360	-	100.21	601,251	"
Subtotal						<u>2,225,249</u>			<u>2,225,291</u>	
International bonds										
Natixis	2017/1/23 ~ 2047/1/23		Repayment of principal at maturity.	USD 15,000	-	449,700	-	USD 100.15	450,380	Interest payment every year
Natixis	2018/3/8 ~ 2048/3/8		"	USD 10,000	-	299,800	-	USD 109.38	327,914	"
National Bank of Canada	2017/1/23 ~ 2047/1/23		"	USD 5,000	-	149,900	-	USD 100.14	150,107	"
QNB Finance Ltd.	2016/7/18 ~ 2021/7/18		"	USD 10,000	3.57%	298,747	-	USD 101.17	303,302	Interest payment every season
Subtotal						<u>1,198,147</u>			<u>1,231,703</u>	
Overseas bonds										
Others						12,054,824	-		12,388,198	Note
Subtotal						<u>12,054,824</u>			<u>12,388,198</u>	
Total						15,478,220			<u>15,845,192</u>	
Valuation adjustment						366,972				
Net amount						<u>15,845,192</u>				
Equity instrument										
Listed stocks										
Asia Cement Corporation		1,000,000	10			\$ 44,802	-	47.95	47,950	
Formosa Plastics Corporation		160,000	10			15,446	-	99.80	15,968	
Micro-Star International Co.,		160,000	10			13,482	-	86.70	13,872	
Transcend Information, Inc.		533,000	10			44,698	-	77.90	41,520	
Subtotal						<u>118,428</u>			<u>119,310</u>	
OTC stocks										
FineTek Co., Ltd.		137,439	10			10,756	-	87.90	12,081	
Subtotal						<u>10,756</u>			<u>12,081</u>	
Total						129,184			<u>131,391</u>	
Valuation adjustment						2,207				
Net amount						<u>131,391</u>				
Grand Total						<u>\$ 15,976,583</u>				

Note: The amount of single security is under 5% of the subject.

Capital Securities Corporation
Statement of receivable for securities provided as
collateral
December 31, 2019
(Expressed in Thousands of New Taiwan Dollars)

<u>Name of security</u>	<u>Shares or units</u>	<u>Amount</u>	<u>Note</u>
Others	520,214,000	\$ 11,937,726	Note: The amount of single security is under 5% of the subject.
Less: allowance for doubtful accounts		(2,826)	
Total		\$ <u>11,934,900</u>	

Statement of derivative instruments and others
approved by the authority

<u>Name of derivative instrument</u>	<u>Description</u>	<u>Fair Value</u>	<u>Note</u>
Derivative financial asset	Futures margin - proprietary fund	\$ 182,308	
	IRS asset swaps	16,053	
	Asset swap options - long position	37,684	
	Structured notes	<u>25,925</u>	
	Total	\$ <u>261,970</u>	
Other liabilities approved by the authority	Exchange Traded Notes	\$ 699	
	Valuation Adjustment	30	
Derivative financial liability	Stock warrants issued	14,997,622	
	Stock warrants repurchased	(14,444,316)	
	Structured notes	11,583	
	Asset swap options - short position	529,328	
	Put options	5	
	IRS asset swaps	2,436	
	Interest rate swaps	969	
	Currency swaps	<u>4,745</u>	
Total	\$ <u>1,103,101</u>		

Capital Securities Corporation
Statement of accounts receivable
December 31, 2019
(Expressed in Thousands of New Taiwan Dollars)

<u>Client name</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
TWSE&TPEX, etc.	Receivables on securities sold	\$ 5,760,596	
Subsidiaries	Commission receivable	12,791	
Customers of the Brokerage	Receivable on securities purchased by customers	21,368	Note: The amount of single client is under 5% of the subject.
"	Interests receivable - financing	197,746	"
Others	Interests receivable - others	330,206	"
"	Others	<u>74,115</u>	"
	Subtotal	6,396,822	
	Less: allowance for doubtful accounts	<u>(1,706)</u>	
	Total	<u>\$ 6,395,116</u>	

Statement of prepayments

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Taishin Commercial Bank	Securities lending guarantee fees	\$ 937	
Others	Prepaid repairs and maintenance	2,827	Note: The amount of single item is under 5% of the subject.
"	Prepaid informaiton fees	2,185	"
"	Prepaid other insurance	2,959	"
"	Others	<u>13,152</u>	"
Total		<u>\$ 22,060</u>	

Capital Securities Corporation
Statement of other receivables
December 31, 2019
(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Other receivable	Default receivable	\$ 15,951	Note: The amount of single item is under 5% of the subject.
	Rental receivable	67,035	
	Others	14,413	
	<u>97,399</u>		
	Subtotal	97,399	
Less: allowance for doubtful accounts		(4,004)	
	Total	<u><u>\$ 93,395</u></u>	

Statement of other current assets

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Restricted assets - current		\$ 615,927	Note: The amount of single item is under 5% of the subject.
Amounts held for settlement		79,052	
Others		230	
		<u>695,209</u>	
Total		<u><u>\$ 695,209</u></u>	

Capital Securities Corporation

**Statement of changes in financial assets at fair value through profit or loss –
non-current**

For the year ended December 31, 2019

(Expressed in Thousands of New Taiwan Dollars)

Name of financial instrument	Beginning Balance		Addition		Decrease		Ending Balance		Collateral	Note
	Par value	Fair value	Par value	Amount	Par value	Amount	Par value	Fair value		
A03104	\$ 135,000	135,102	-	-	135,000	135,102	-	-		
A05113	50,000	50,007	80,000	80,236	-	-	130,000	130,243	Yes	Interest payment every year
A06102	-	-	50,000	50,224	-	-	50,000	50,224	"	"
Total		<u>\$ 185,109</u>		<u>130,460</u>		<u>135,102</u>		<u>180,467</u>		

Capital Securities Corporation
Statement of financial assets measured at amortized cost - non-current
For the year ended December 31, 2019
(Expressed in Thousands of New Taiwan Dollars)

Name	Beginning Balance		Addition		Decrease		Ending Balance		Accumulated impairment	Collateral	Note
	Shares or units	Fair value	Shares or units	Amount	Shares or units	Amount	Shares or units	Fair value			
Taiwan Depository & Clearing Corporation	4,786,232	\$ 317,136	119,655	146,520	-	-	4,905,887	463,656	Not applicable	No	
Taiwan Futures Exchange Corporation	9,523,261	715,578	571,395	217,168	-	-	10,094,656	932,746	"	"	
Taiwan Stock Exchange Corporation	3,990,102	380,656	199,505	105,422	-	-	4,189,607	486,078	"	"	
Huan Hua Co., Ltd.	24,186,568	197,362	-	57,081	-	-	24,186,568	254,443	"	"	
Others	2,742,688	16,884	3,503,725	35,000	681,897	14,703	5,564,516	37,181	"	"	Note
Total		<u>\$ 1,627,616</u>		<u>561,191</u>		<u>14,703</u>		<u>2,174,104</u>			

Note: The amount of single item is under 5% of the subject.

Capital Securities Corporation

Statement of changes in investments accounted for using the equity method

For the year ended December 31, 2019

(Expressed in Thousands of New Taiwan Dollars)

Name of investee	Beginning Balance		Addition		Decrease		Ending Balance			Market Value or Net Assets Value		Collateral
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Percentage of ownership	Amount	Unit price	Total amount	
Capital Investment Management Corp.	7,000,000	\$ 106,690	-	-	-	14,245	7,000,000	100.00 %	92,445	13.21	92,445	No
CSC International Holdings Ltd.	45,000,000	1,636,902	-	4,135	-	35,688	45,000,000	100.00 %	1,605,349	35.67	1,605,349	"
Capital Futures Corp.	99,182,845	2,828,539	-	337,535	-	348,204	99,182,845	56.21 %	2,817,870	43.20	4,284,699	"
Capital Insurance Advisory Corp.	500,000	84,732	-	53,049	-	58,875	500,000	100.00 %	78,906	157.81	78,906	"
Capital Insurance Agency Corp.	740,000	40,757	-	4,044	-	1,354	740,000	100.00 %	43,447	58.71	43,447	"
CSC Venture Capital Corp.	100,000,000	854,906	-	-	-	91,794	100,000,000	100.00 %	763,112	7.63	763,112	"
Taiwan International Securities (B.V.I) Corp.	300	347	-	260	-	589	300	100.00 %	18	60.00	18	"
Taiwan International Securities Investment Consulting Corp.	999,200	12,799	-	-	-	155	999,200	99.92 %	12,644	12.65	12,644	"
Capital Investment Trust Corp.	33,067,507	1,261,329	-	139,233	-	99,202	33,067,507	20.00 %	1,301,360	23.71	784,107	"
Total		\$ 6,827,001		538,256		650,106			6,715,151		7,664,727	

Note 1: The decrease of Capital Investment Management Corp. is due to losses on investment amounted to \$4,795 and the declared for cash dividends distribution by the investee amounted to \$9,450.

Note 2: The addition of CSC International Holdings Ltd. is due to gains on investment amounted to \$4,135; the decrease is due to allocation of exchange differences on translation of foreign operations amounted to \$35,688.

Note 3: The addition of Capital Futures Corp. is due to investment profits amounted to \$337,535, and unrealised gains from investments in equity instruments measured at fair value through other comprehensive income amounted to \$180 ; the decrease is due to allocation of exchange differences on translation of foreign operations amounted to \$10,609, the declared for cash dividends distribution by the investee amounted to \$337,222, and the actuarial losses on defined benefit plans amounted to \$373.

Note 4: The addition of Capital Insurance Advisory Corp. is due to investment profits amounted to \$53,049; the decrease is due to the declared for cash dividends distribution by the investee amounted to \$58,875.

Note 5: The addition of Capital Insurance Agency Corp. is due to investment profits amounted to \$4,044; the decrease is due to the declared for cash dividends distribution by the investee amounted to \$1,354.

Note 6: The decrease of CSC Venture Capital Corp. is due to investment losses amounted to \$2,452, and unrealised losses from investments in equity instruments measured at fair value through other comprehensive income amounted to \$89,342.

Note 7: The addition of Taiwan International Securities (B.V. I) Corp. is due to investment gains amounted to \$260; the decrease is due to exchange differences on translation of foreign operations amounted to \$589.

Note 8: The decrease of Taiwan International Securities Investment Consulting Corp. is due to investment losses amounted \$155.

Note 9: The addition of Capital Investment Trust Corp. is due to investment profits amounted to \$133,069, unrealised gains from investments in equity instruments measured at fair value through other comprehensive income amounted to \$6,022, and actuarial gains on defined benefit plans amounted to \$142; the decrease is due to the declared for cash dividends distribution by the investee amounted to \$99,202.

Capital Securities Corporation
Statement of changes in property and equipment
For the year ended December 31, 2019
(Expressed in Thousands of New Taiwan Dollars)

Item	Beginning Balance	Addition	Decrease	Ending Balance	Note
Land	\$ 3,464,223	126,013	(2,089,373)	1,500,863	Land provides as collateral amounted to \$1,109,316.
Buildings	1,461,191	32,417	(621,026)	872,582	Undepreciated Buildings provides as collateral amounted to \$374,884.
Equipment					
Office	10,424	16,464	(492)	26,396	
Computer facilities	280,281	96,742	(60,708)	316,315	
Miscellaneous	111,785	21,090	(7,561)	125,314	
Leasehold improvements	125,891	109,269	(9,200)	225,960	
Total	\$ <u>5,453,795</u>	<u>401,995</u>	<u>(2,788,360)</u>	<u>3,067,430</u>	

Note: The addition includes purchases and transferred-in, and the decrease includes disposals and transferred-out.

Capital Securities Corporation

**Statement of changes in accumulated depreciation of
property and equipment**

For the year ended December 31, 2019

(Expressed in Thousands of New Taiwan Dollars)

Item	Beginning Balance	Addition	Decrease	Ending Balance	Note
Buildings	\$ 557,098	34,689	(213,848)	377,939	
Equipment					
Office	3,967	3,235	(492)	6,710	
Computer facilities	209,430	46,857	(60,708)	195,579	
Miscellaneous	42,034	19,550	(7,561)	54,023	
Leasehold improvements	64,052	38,414	(8,858)	93,608	
Total	\$ <u>876,581</u>	<u>142,745</u>	<u>(291,467)</u>	<u>727,859</u>	

Note 1: The addition includes purchases and transferred-in, and the decrease includes disposals and transferred-out.

Note 2: The estimated useful lives for the current and comparative years of significant items of property and equipment are as follows:

(1) Buildings : 3~55 years

(2) Transportation equipment : 5 years

(3) Office equipment and computer facilities : 3~5 years

(4) Miscellaneous equipment : 5~10 years

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

Capital Securities Corporation
Statement of changes in right-of-use assets
For the year ended December 31, 2019
(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Beginning Balance</u>	<u>Addition</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Note</u>
Buildings	\$ -	1,010,181	(16,271)	993,910	
Equipment	-	14,711	-	14,711	
Total	\$ -	1,024,892	(16,271)	1,008,621	

**Statement of changes in accumulated depreciation of
right-of-use assets**

<u>Item</u>	<u>Beginning Balance</u>	<u>Addition</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Note</u>
Buildings	\$ -	167,262	(15,857)	151,405	
Equipment	-	5,109	-	5,109	
Total	\$ -	172,371	(15,857)	156,514	

Capital Securities Corporation
Statement of changes in investment property
For the year ended December 31, 2019
(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Beginning Balance</u>	<u>Addition</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Note</u>
Land	\$ 1,500,919	2,089,373	(126,478)	3,463,814	The property is subsequently measured at cost method, the depreciation is recognized on a straight-line basis, and the useful life is estimated 3~50 years.
Buildings	854,906	621,026	(32,417)	1,443,515	
Total	<u>\$ 2,355,825</u>	<u>2,710,399</u>	<u>(158,895)</u>	<u>4,907,329</u>	

Note 1: The addition includes transferred-in, and the decrease includes transferred-out.

Note 2: Land provides as collateral amounted to \$2,740,490, and undepreciated buildings provides as collateral amounted to \$582,595.

Statement of changes in accumulated depreciation of investment property

<u>Item</u>	<u>Beginning Balance</u>	<u>Addition</u>	<u>Decrease</u>	<u>Ending Balance</u>
Buildings	\$ <u>334,622</u>	<u>239,046</u>	<u>(13,099)</u>	<u>560,569</u>

Note: The addition includes depreciation and transferred-in, and the decrease includes transferred-out.

Capital Securities Corporation
Statement of deferred income tax assets
December 31, 2019
(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Tax loss carried forward		\$ 31,476	
Unrealized losses on financial derivative instruments		68,081	
Others		8,053	Note: The amount of single item is under 5% of the subject.
		<u>\$ 107,610</u>	

Statement of other non-current assets

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Guarantee deposited for business operations	Time deposits within one year and government bonds	\$ 870,000	
Settlement fund	Deposited at Taiwan Stock Exchange, Taipei Exchange and Taiwan Futures Exchange	143,004	
Refundable deposits		94,201	
Deferred fee		10,789	
Prepayments for business facilities		65,977	
Overdue receivables		215,905	
Others		<u>25</u>	
Subtotal		1,399,901	
Less: allowance for doubtful accounts		(209,044)	
Total		<u>\$ 1,190,857</u>	

Capital Securities Corporation
Statement of short-term borrowings
December 31, 2019
(Expressed in Thousands of New Taiwan Dollars)

<u>Type</u>	<u>Description</u>	<u>Ending balance</u>	<u>Contract term</u>	<u>Range of interest rate</u>	<u>Loan Commitment</u>	<u>Collateral</u>	<u>Note</u>
Collateralized loan	loans from financial institutions	\$ 709,780	due within one year	0.95%~2.40%	2,480,000	Property/Certificate of deposits	
Credit loan	"	<u>5,921,222</u>	"	0.95%~3.37%	8,750,000		
		<u><u>\$ 6,631,002</u></u>					

Capital Securities Corporation
Statement of financial liabilities at fair value through profit or loss(excluding derivatives) - current
(Liabilities on sale of borrowed securities)
December 31, 2019
(Expressed in Thousands of New Taiwan Dollars)

Name of financial instrument	Description	Shares or units	Par value □(Dollars)	Total amount	Interest rate	Fair Value		Fair value changes is attributable to the changes in credit risk	Note
						Unit price (Dollars)	Total amount		
Hedged									
Fubon VIX		50,251,000		\$ 240,591		2.97	149,245	-	Warrants-hedged
Others		798,000		115,520			149,592	-	"/Note
Subtotal				<u>356,111</u>			<u>298,837</u>		
Non-hedged									
Fubon SSE 180 Leveraged 2X Index ETF.		500,000		20,750		49.56	24,780	-	
Yuanta Daily CSI300 Bull 2X ETF.		500,000		7,700		19.08	9,540	-	
Subtotal				<u>28,450</u>			<u>34,320</u>		
Total				<u>384,561</u>			<u>\$ 333,157</u>		
Valuation adjustment				(51,404)					
Net amount				<u>\$ 333,157</u>					

Note : The amount of single security is under 5% of the subject.

Capital Securities Corporation
Statement of bonds sold under repurchase
agreements
December 31, 2019
(Expressed in Thousands of New Taiwan Dollars)

Name of security	Contract terms			Type	Amount		Note
	Start Date	Maturity date	Range of interest rate		Par value (Dollars)	Turnover	
Others	2019/03/21 ~ 2019/12/31	2020/01/02 ~ 2020/12/30	0.20%~3.20%		<u>\$ 32,552,100</u>	<u>31,893,531</u>	Note

Note: The amount of single security is under 5% of the subject.

Statement of guarantee deposited for short sales

Name of security	Shares	Amount	Note
Others	57,750,000	\$ 2,390,464	Note: The amount of single security is under 5% of the subject.
	<u>57,750,000</u>	<u>\$ 2,390,464</u>	

Statement of proceeds payable from short sales

Name of security	Shares	Amount	Note
Others	57,750,000	\$ 2,755,405	Note: The amount of single security is under 5% of the subject.
	<u>57,750,000</u>	<u>\$ 2,755,405</u>	

Capital Securities Corporation

Statement of accounts payable

December 31, 2019

(Expressed in Thousands of New Taiwan Dollars)

<u>Client name</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Taipei Exchange	Payable on securities purchased	\$ 154,986	
Customers of the brokerage	"	4,867,397	Note: The amount of single client is under 5% of the subject.
"	Payable of securities sold by customers	11,136	"
"	Settlement	248,937	"
Subsidiaries	Commission payable	373	
Others	Payable on securities purchased	44,478	Note: The amount of single client is under 5% of the subject.
"	Others	<u>795,847</u>	"
	Total	<u>\$ <u>6,123,154</u></u>	

Statement of other payables

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Salary and bonus payable		\$ 212,387	
Service charge discounts payable		86,365	
Employees and directors' remuneration		87,350	
Others		126,357	Note: The amount of single item is under 5% of the subject.
Total		<u>\$ <u>512,459</u></u>	

Capital Securities Corporation

Statement of lease liabilities

December 31, 2019

(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Description</u>	<u>Lease Term</u>	<u>Discount Rate</u>	<u>Ending Balance</u>	<u>Note</u>
Buildings		2019.1.1~2028.8.31	1.35%	\$ 897,741	Note
Equipment		2019.1.1~2024.12.23	1.35%	9,649	"
				<u>\$ 907,390</u>	

Note: Lease liabilities due within one year have been transferred to current liabilities.

Statement of provisions - current

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Employee benefits liabilities provisions	Compensated absences	<u>\$ 44,610</u>	

Statement of deferred income tax liabilities

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Amortization of operation franchise		\$ 42,881	
Amortization of goodwill		362,697	
Land value incremental tax		47,690	
Others		1,928	Note: The amount of single item is under 5% of the subject.
		<u>\$ 455,196</u>	

Capital Securities Corporation
Statement of other non-current liabilities
December 31, 2019
(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Guarantee deposits received		\$ 56,076	
Pension liability payable		526,851	
Others	Contingent liability	<u>48,034</u>	
Total		<u>\$ 630,961</u>	

Statement of brokerage commissions
For the year ended December 31, 2019

<u>Month</u>	<u>Brokerage commission</u>		<u>Securities</u>	<u>Other brokerage</u>	<u>Total</u>
	<u>TSE market</u>	<u>OTC market</u>	<u>Lending Fees</u>	<u>commission</u>	
January	\$ 97,877	41,942	2,165	6,399	148,383
February	87,832	37,039	1,120	5,145	131,136
March	125,083	50,234	1,580	7,305	184,202
April	146,164	53,941	2,131	7,506	209,742
May	128,915	46,629	3,155	5,176	183,875
June	100,449	32,997	1,712	5,051	140,209
July	150,358	52,412	2,101	6,523	211,394
August	138,866	50,015	2,244	5,268	196,393
September	118,894	43,735	1,742	5,366	169,737
October	149,254	53,288	1,852	7,380	211,774
November	146,031	49,294	2,073	7,426	204,824
December	<u>149,465</u>	<u>55,769</u>	<u>2,003</u>	<u>6,461</u>	<u>213,698</u>
Total	<u>\$ 1,539,188</u>	<u>567,295</u>	<u>23,878</u>	<u>75,006</u>	<u>2,205,367</u>

Capital Securities Corporation
Statement of underwriting commissions
For the year ended December 31, 2019
(Expressed in Thousands of New Taiwan Dollars)

Month	Remuneration	Revenues from underwriting securities on a best efforts basis	Revenues from underwriting processing fee	Revenue from underwriting advisory fees	Other	Total	Note
January	\$ 3,298	38	8,823	1,560	166	13,885	
February	3,141	37	244	260	916	4,598	
March	1,345	378	1,363	320	-	3,406	
April	4,909	393	496	320	-	6,118	
May	8,975	247	414	560	309	10,505	
June	1,075	47	187	240	-	1,549	
July	6,281	42	115	560	100	7,098	
August	8,546	2,845	1,043	220	65	12,719	
September	3,997	47	1,323	120	150	5,637	
October	2,297	48	1,254	580	14	4,193	
November	8,323	756	947	250	10	10,286	
December	308	64	2,235	270	10	2,887	
Total	\$ 52,495	4,942	18,444	5,260	1,740	82,881	

Capital Securities Corporation
Statement of gains (losses) on sale of trading
securities
For the year ended December 31, 2019
(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Revenue from sale of securities</u>	<u>Cost from sale of securities</u>	<u>Net gains (losses) from sale of securities</u>	<u>Note</u>
<u>Dealing</u>				
TSE market:				
Stocks	\$ 6,627,632	6,429,358	198,274	
OTC market:				
Stocks	4,983,329	4,896,385	86,944	
Bonds	71,421,448	71,386,088	35,360	
Convertible bonds	867,763	841,052	26,711	
foreign market:				
Stocks	584,894	545,194	39,700	
Bonds	196,393	196,271	122	
Total	<u>\$ 84,681,459</u>	<u>84,294,348</u>	<u>387,111</u>	
<u>Underwriting</u>				
TSE market:				
Stocks	\$ 193,491	144,036	49,455	
OTC market:				
Stocks	19,059	22,735	(3,676)	
Convertible bonds	180,401	165,752	14,649	
Total	<u>\$ 392,951</u>	<u>332,523</u>	<u>60,428</u>	
<u>Hedging</u>				
TSE market:				
Stocks	\$ 28,260,049	27,969,977	290,072	
OTC market:				
Stocks	9,304,719	9,256,641	48,078	
Convertible bonds	5,224,512	5,057,519	166,993	
foreign market:				
Stocks	153	151	2	
Total	<u>\$ 42,789,433</u>	<u>42,284,288</u>	<u>505,145</u>	

Capital Securities Corporation
Statement of interest revenue
For the year ended December 31, 2019
(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Interest revenue - margin purchase		\$ 592,790	
Interest revenue - bonds		836,503	
Others		<u>77,685</u>	
Total		<u>\$ 1,506,978</u>	

Statement of financial costs

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Interest expense - bonds with repurchase agreements		\$ 465,759	
Interest expense - bank borrowings		105,279	
Others		31,459	Note: The amount of single item is under 5% of the subject.
Total		<u>\$ 602,497</u>	

Capital Securities Corporation
Statement of employee benefits, depreciation,
amortization, and other operating expenses
For the year ended December 31, 2019
(Expressed in Thousands of New Taiwan Dollars)

Item	2019	2018	Note
Employee benefit expenses			
Salary expense	\$ 1,554,431	1,666,122	
Labor and national health insurance expense	129,502	137,448	
Pension expense	77,638	85,655	
Remuneration of directors	74,049	38,238	
Others	43,853	46,914	
Depreciation expense	327,215	145,380	
Amortization expense	26,056	25,967	
Others	<u>1,081,663</u>	<u>1,238,245</u>	
	<u>\$ 3,314,407</u>	<u>3,383,969</u>	

Note 1: For the years ended December 31, 2019 and 2018, total employees in the Company are 1,838 peoples and 1,845 peoples, respectively, and the number of directors which are non-employees are both 9 peoples.

Note 2: (1) For the years ended December 31, 2019 and 2018, the average employee benefit expense are \$987 and \$1,055, respectively.

(2) For the years ended December 31, 2019 and 2018, the average employee salary expense are \$850 and \$907, respectively.

(3) In comparison to 2018, the average employee salary expense of 2019 dropped by 6.28%.

CAPITAL SECURITIES CORPORATION

Other Disclosures in Financial Reports

For the Year Ended December 31, 2019

Capital Securities Corporation
Review Report of Other Disclosures in Financial Reports

To the Board of Directors
Capital Securities Corporation:

We have audited the financial statements of Capital Securities Corporation for the year ended December 31, 2019. Our audit was made in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and Republic of China generally accepted auditing standards, and we issued the audit report thereon on March 26, 2020. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The attached “Other Disclosures in Financial Reports” (Other Disclosures) is prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms. We have reviewed the information included in the Other Disclosures in accordance with article 32 paragraph 2 of Regulations Governing the Preparation of Financial Reports by Securities Firms.

Based on our review, the Other Disclosures in Financial Reports of Capital Securities Corporation for the year ended December 31, 2019 are in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms. The financial information disclosed is consistent with the basic financial statements and does not need any modification.

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)
March 26, 2020

Notes to Readers

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

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

CAPITAL SECURITIES CORPORATION
Other Disclosures in Financial Reports
For the year ended December 31, 2019

(1) Information on business conditions

(a) Significant business matters for the last 5 years

- (i) Acquisition or merger: None
- (ii) Demerger: None
- (iii) Investments in affiliated enterprises

(In Thousands of New Taiwan Dollars)

Name of investee	2019		2018		2017		2016		2015	
	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares
Capital Investment Management Corp	92,445	7,000,000	106,690	7,000,000	107,158	7,000,000	105,330	7,000,000	105,094	7,000,000
CSC International Holdings Ltd.	1,605,349	45,000,000	1,636,902	45,000,000	1,593,416	45,000,000	1,742,614	45,000,000	1,814,659	45,000,000
Capital Futures Corp.	2,817,870	99,182,845	2,828,539	99,182,845	2,606,869	90,166,223	1,869,075	72,227,136	1,741,933	72,227,136
Capital Insurance Advisory Corp.	78,906	500,000	84,732	500,000	90,506	500,000	104,489	500,000	72,720	389,000
Capital Insurance Agency Corp.	43,447	740,000	40,757	740,000	41,547	740,000	52,200	740,000	48,274	740,000
Taiwan International Futures Corp.	-	-	-	-	-	11,999,721	-	11,999,721	-	11,999,721
Taiwan International Securities (B.V. L.) Corporation	18	300	347	300	881	300	(157)	300	641	300
Taiwan International Securities Investment Consulting Corp.	12,644	999,200	12,799	999,200	13,031	999,200	13,298	999,200	13,550	999,200
CSC Venture Capital Corp.	763,112	100,000,000	854,906	100,000,000	997,913	100,000,000	1,006,512	100,000,000	-	-
Capital Investment Trust Corporation	1,301,360	33,067,507	1,261,329	33,067,507	-	-	-	-	-	-

- (iv) Reorganization: None
- (v) Acquisition or disposal of major assets: None
- (vi) Significant changes in operation method (including sales system) or business activity: None

(Continued)

- (b) Remuneration to directors, supervisors, the president, vice presidents, and Chairmen of the board and presidents rehired as consultants after retiring from the securities firms or its affiliated enterprises and related information
- (i) Remuneration to Directors (including Independent Directors) (individual disclosure of names and remuneration)

(In Thousands of New Taiwan Dollars)

Title	Name	Director's remuneration								Relevant remuneration received by Directors who are also employees								Ratio of total remuneration (A+B+C+D+E+F+G) to net income(%)		Paid to Directors from Non-consolidated affiliates		
		Compensation(A)		Severance pay and Pension(B)		Compensation to Directors (C)		Allowances (D)		Ratio of total remuneration (A+B+C+D) to net income(%)		Salaries, bonuses, special allowances etc (E)		Severance pay and Pension (F)		Profit Sharing-Employee Bounes (G)						
		The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company		All companies included in the consolidated statements			The Company	All companies included in the consolidated statements
		Cash	Stock	Cash	Stock	Cash	Stock	Cash	Stock													
Chairmen	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	11,185	11,185	-	-	12,599	12,599	1,028	1,063	0.97 %	0.97 %	-	-	-	-	-	-	-	-	0.97 %	0.97 %	None
Director	Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN	-	-	-	-	4,199	4,199	130	285	0.17 %	0.17 %	-	-	-	-	-	-	-	-	0.17 %	0.17 %	None
Director	Yin Feng Enterprise Co., Ltd. Representative: CHANG, CHIHMING (Note 2)	-	-	-	-	2,197	2,197	81	81	0.09 %	0.09 %	-	-	-	-	-	-	-	-	0.09 %	0.09 %	None

Compensation received by director for providing service to any Company included in the consolidated financial statements (e.g. consultancy service without the title of an employee) in the most recent year, except those disclosed in the above table: NTS 0.

(Continued)

(ii) Remuneration to Directors (including Independent Directors) (aggregate disclosure of names and remuneration)

(In Thousands of New Taiwan Dollars)

Title	Name	Director's remuneration								Relevant remuneration received by Directors who are also employees								Ratio of total remuneration (A+B+C+D+E+F+G) to net income(%)	Paid to Directors from Non-consolidated affiliates			
		Compensation (A)		Severance pay and Pension (B)		Compensation to Directors (C)		Allowances (D)		Salaries, bonuses, special allowances etc (E)		Severance pay and Pension (F)		Profit Sharing-Employee Bounes (G)								
		The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company		All companies in the consolidated financial statements				The Company	All companies included in the consolidated statements	
Director	Kwang Hsing Industrial Co., Ltd. Representative: TING, HSUEH-WEN																					
Director	San Ho Enterprise Co., Ltd. Representative: CHU, HAI-YING (Note 3)																					
Director	Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIHMING (Note 3)																					
Director	Tai Chun Enterprise Co., Ltd. Representative: TSAI, I-CHING (Note 3)																					
Vice Chairman	Tai Chun Enterprise Co., Ltd. Representative: CHAO, YONG-FEI (Note 3)	3,364	3,364	52	52	23,000	23,000	1,236	1,236	1.08 %	1.08 %	-	-	-	-	-	-	-	-	1.08 %	1.08 %	None
Director	Hong Long Enterprise Co., Ltd. Representative: KUO, YUH-CHYI																					
Director	Hong Long Enterprise Co., Ltd. Representative: TSAI, I-CHING (Note 2)																					
Director	Hong Long Enterprise Co., Ltd. Representative: CHIA, CHUNG-TAO (Note 2)																					
Director	Tai Ho Construction Management Co., Ltd. Representative: HUNG TSUNG-YEN (Note 2)																					
Independent Director	SHEA, JIA-DONG																					
Independent Director	HWANG, JYH-DEAN (Note 3)																					
Independent Director	LIN, HSIN-HUI (Note 3)	1,800	2,280	-	-	12,599	13,391	580	670	0.58 %	0.64 %	-	-	-	-	-	-	-	-	0.58 %	0.64 %	None
Independent Director	LEE, SHEN-YI (Note 2)																					
Independent Director	SU, PING-CHANG (Note 2)																					

1. The policy, system, standard and structure of remuneration to independent directors and the relevance between the amount of payment and responsibilities, risk, time engaged and other factors:
The remuneration to independent directors of the Company was based on the market and the salary standard of the same trade concerned, and was based on the principle of being in line with the industry's usual standards. Besides, it also considered the performance of each independent director, the degree of their participation in the Company's operation, contributions, responsibilities, degree of achievement of the Company's operating goals and the financial position of the Company. The remuneration to independent directors was reviewed by the Remuneration and Compensation Committee and resolved by the Board of Directors. The Remuneration and Compensation Committee regularly evaluated the remuneration to independent directors, and reviewed the remuneration system based on the operating condition and relevant regulations in order to pursue the balance between the Company's sustainable operation and risk management.

2. Compensation received by director for providing service to any Company included in the consolidated financial statements (e.g. consultancy service without the title of an employee) in the last year, except those disclosed in the above table: NTS\$ 0.

Note1: The compensation paid to drivers amounted to NT\$1,369 thousands for the year ended December 31, 2019.

Note2: On board on 2019/06/24.

Note3: Resigned on 2019/06/23.

(Continued)

Remuneration bracket table

Range of remuneration paid to directors	Name of directors			
	Sum of the First 4 items (A+B+C+D)		Sum of the First 7 items (A+B+C+D+E+F+G)	
	The Company	All companies included in the consolidated statements (H)	The Company	All companies included in the consolidated statements (I)
Under NT\$ 1,000,000	-	-	-	-
NT\$1,000,000(included)~ NT\$2,000,000(excluded)	-	-	-	-
NT\$2,000,000(included)~ NT\$3,500,000(excluded)	San Ho Enterprise Co., Ltd. Representative: CHU, HAI-YING Yin Feng Enterprise Co., Ltd. Representative: CHANG, CHIH-MING Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIH-MING, TSAI, I-CHING Hong Long Enterprise Co., Ltd. Representative: TSAI, I-CHING, CHIA, CHUNG-TAO Tai Ho Construction Management Co., Ltd. Representative: HUNG TSUNG- YEN HWANG, JYH-DEAN, LEE, SHEN-YI, LIN, HSIN-HUI, SU, PING-CHANG	San Ho Enterprise Co., Ltd. Representative: CHU, HAI-YING Yin Feng Enterprise Co., Ltd. Representative: CHANG, CHIH-MING Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIH-MING, TSAI, I-CHING Hong Long Enterprise Co., Ltd. Representative: TSAI, I-CHING, CHIA, CHUNG-TAO Tai Ho Construction Management Co., Ltd. Representative: HUNG TSUNG- YEN HWANG, JYH-DEAN, LEE, SHEN-YI, LIN, HSIN-HUI, SU, PING-CHANG	San Ho Enterprise Co., Ltd. Representative: CHU, HAI-YING Yin Feng Enterprise Co., Ltd. Representative: CHANG, CHIH-MING Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIH-MING, TSAI, I-CHING Hong Long Enterprise Co., Ltd. Representative: TSAI, I-CHING, CHIA, CHUNG-TAO Tai Ho Construction Management Co., Ltd. Representative: HUNG TSUNG- YEN HWANG, JYH-DEAN, LEE, SHEN-YI, LIN, HSIN-HUI, SU, PING-CHANG	San Ho Enterprise Co., Ltd. Representative: CHU, HAI-YING Yin Feng Enterprise Co., Ltd. Representative: CHANG, CHIH-MING Tai Chun Enterprise Co., Ltd. Representative: CHANG, CHIH-MING, TSAI, I-CHING Hong Long Enterprise Co., Ltd. Representative: TSAI, I-CHING, CHIA, CHUNG-TAO Tai Ho Construction Management Co., Ltd. Representative: HUNG TSUNG- YEN HWANG, JYH-DEAN, LEE, SHEN-YI, LIN, HSIN-HUI, SU, PING-CHANG
NT\$3,500,000(included)~ NT\$5,000,000(excluded)	Kwang Hsing Industrial Co., Ltd. Representative: TING, HSUEH-WEN Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN Hong Long Enterprise Co., Ltd. Representative: KUO, YUH-CHYI SHEA, JIA-DONG	Kwang Hsing Industrial Co., Ltd. Representative: TING, HSUEH-WEN Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN Hong Long Enterprise Co., Ltd. Representative: KUO, YUH-CHYI	Kwang Hsing Industrial Co., Ltd. Representative: TING, HSUEH-WEN Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN Hong Long Enterprise Co., Ltd. Representative: KUO, YUH-CHYI SHEA, JIA-DONG	Kwang Hsing Industrial Co., Ltd. Representative: TING, HSUEH-WEN Yin Feng Enterprise Co., Ltd. Representative: LIU, CHING-TSUN Hong Long Enterprise Co., Ltd. Representative: KUO, YUH-CHYI
NT\$5,000,000(included)~ NT\$10,000,000(excluded)	Tai Chun Enterprise Co., Ltd. Representative: CHAO, YONG-FEI	Tai Chun Enterprise Co., Ltd. Representative: CHAO, YONG-FEI SHEA, JIA-DONG	Tai Chun Enterprise Co., Ltd. Representative: CHAO, YONG-FEI	Tai Chun Enterprise Co., Ltd. Representative: CHAO, YONG-FEI SHEA, JIA-DONG
NT\$10,000,000(included)~ NT\$15,000,000(excluded)	-	-	-	-
NT\$15,000,000(included)~ NT\$30,000,000(excluded)	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH	Yin Feng Enterprise Co., Ltd. Representative: WANG, JIUNN-CHIH
NT\$30,000,000(included)~ NT\$50,000,000(excluded)	-	-	-	-
NT\$50,000,000(included)~ NT\$100,000,000(excluded)	-	-	-	-
Over NT\$100,000,000	-	-	-	-
Total	11	11	11	11

(Continued)

(iii) Remuneration to the President and Executive Vice Presidents (aggregate disclosure of names and remuneration)

(In Thousands of New Taiwan Dollars)

Title	Name	Salary (A)		Severance pay and Pension (B)		Bonus and special allowances (C)		Profit-sharing-Employee bonuses (D)				Ratio of total compensation (A+B+C+D) to net income (%)		Compensation received from non-consolidated affiliates	
		The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company	All companies included in the consolidated statements	The Company		All companies included in the consolidated statements		The Company	All companies included in the consolidated statements		
								Cash	Stock	Cash	Stock				
Chief Strategy Officer	WANG, JUNN-CHIH														
Chief Information Officer	CHAO, YONG-FEI (Note 2)														
President	CHIA, CHUNG-TAO														
Executive Vice President	CHEN, MIN-HSI														
Executive Vice President	HUANG, CHI-MING														
Executive Vice President	FANG, CHIH-HONG														
Executive Vice President	ZHANG, PEI-WEN														
Executive Vice President	CHIU, CHIEN-HUA (Note 3)														
Executive Vice President	TAN, DE-CHENG	32,076	32,076	1,296	1,296	26,712	26,712	3,782	-	3,782	-	2.49 %	2.49 %	None	
Senior Executive Vice President	YANG, JIE-BIN														
Executive Vice President	ZHANG, JIA-WEN														
Executive Vice President	LAI, JUN-FU														
Executive Vice President	LIN, YAN-FEN														
Executive Vice President	WANG, CHUAN-HUI (Note 4)														
Executive Vice President	MA, JIA-HUAN														
Executive Vice President	WENG, CHIN-NENG (Note 5)														

Note1: The compensation paid to drivers amounted to NT\$604 thousands for the year ended December 31, 2019.

Note2: Resigned on 2019/06/24.

Note3: On board on 2019/06/01.

Note4: On board on 2019/04/01 .

Note5: Retired on 2019/03/26.

(Continued)

Remuneration bracket table

Range of remuneration	Name of the president and vice presidents	
	The Company	All companies included in the consolidated statements (E)
Under NT\$ 1,000,000	WANG, JIUNN-CHIH, CHAO, YONG-FEI,	WANG, JIUNN-CHIH, CHAO, YONG-FEI,
NT\$1,000,000(included)~ NT\$2,000,000(excluded)	WENG, CHIN-NENG	WENG, CHIN-NENG
NT\$2,000,000(included)~ NT\$3,500,000(excluded)	CHIU, CHIEN-HUA, WANG, CHUAN-HUI	CHIU, CHIEN-HUA, WANG, CHUAN-HUI
NT\$3,500,000(included)~ NT\$5,000,000(excluded)	CHEN, MIN-HSI, HUANG, CHI-MING, FANG, CHIH-HONG, ZHANG, PEI-WEN, TAN, DE-CHENG, ZHANG, JIA-WEN, LAI, JUN-FU	CHEN, MIN-HSI, HUANG, CHI-MING, FANG, CHIH-HONG, ZHANG, PEI-WEN, TAN, DE-CHENG, ZHANG, JIA-WEN, LAI, JUN-FU
NT\$5,000,000(included)~ NT\$10,000,000(excluded)	CHIA, CHUNG-TAO, YANG, JIE-BIN, LIN, YAN-FEN, MA, JIA-HUAN	CHIA, CHUNG-TAO, YANG, JIE-BIN, LIN, YAN-FEN, MA, JIA-HUAN
NT\$10,000,000(included)~ NT\$15,000,000(excluded)	-	-
NT\$15,000,000(included)~ NT\$30,000,000(excluded)	-	-
NT\$30,000,000(included)~ NT\$50,000,000(excluded)	-	-
NT\$50,000,000(included)~ NT\$100,000,000(excluded)	-	-
Over NT\$100,000,000	-	-
Total	16	16

- (iv) Remuneration to the five highest-paid supervisors of the listed or OTC securities firms : Not applicable
- (v) Chairmen of the board and presidents rehired as consultants of securities firms after retirement: None

(Continued)

- (c) Number of employees of non supervisors positions, annual average employee benefit expenses, and differences from the previous year

	(In Thousands of New Taiwan Dollars)		
	2019	2018	Difference
Number of non-supervisor employees	1,559	1,538	21
Non-supervisor employees' annual average employee benefit expenses	882	958	(76)

- (d) Labor-management relations

- (i) Details regarding agreements made between employers and employees and the implementation

- 1) Employee welfare

In 1990, the Company registered the establishment of Employee Welfare Committee with the authority in order to provide benefits such as wedding/funeral subsidies, group trips, hospitalization condolences, and emergency loans. Overall, the Employee Welfare Committee operates with adequate budget and has been able to carry out its plans.

- 2) Employee education and training

In an attempt to build a strong talent base and improve management performance, the Company has been organizing a broad variety of training including: orientation, specialization training, management reserve training, management growth training, and seminars hosted by renowned experts and scholars on the topic of finance. The Company trained its sales force intensively using nation-wide video conferencing and broadcast to help them develop professional qualities and skills. Besides, in order to strengthen learning effect, the Company made several e-learning courses and used e-systems to let employees can learn and grow anytime, anywhere.

- 3) Pension system

The Company established its Employee Pension Fund Supervisory Committee in November 1994 for the security of employees' lifestyle after retirement, and thereby maintain a sustainable and harmonic relationship between employees and the employer; Since the enactment of Labor Standards Act in April 1998, the Company has been making pension fund contributions into a dedicated account held with Bank of Taiwan under the committee's name. All employees who meet the criteria specified in the pension policy are eligible to participate. Following the enactment of Labor Pension Act in July 2005, employees are given the choice to opt for the new pension system or stay with the old plan. For those who opted for the new system, the Company has been contributing an amount equal to 6% of employees' monthly salaries into their personal pension fund accounts.

- 4) Other major agreements: None.

- (ii) Losses arising as a result of employment disputes in the last year: None

- (iii) Violation against Labor Standards Act: None

(Continued)

(e) Internal control system

- (i) Statement of the internal control system: Please see the attachment.
- (ii) If the internal control system was reviewed by an external CPA, the result of such review must be disclosed: The Company did not engage an external CPA to review its internal control system this year.

(2) Financial Summary

(a) Summary balance sheet and comprehensive income statement

(i) Summary balance sheet

(In Thousands of New Taiwan Dollars)

Item	Year	Financial information for the last 5 years (Note1)				
		2019	2018	2017	2016	2015
Current assets		73,984,497	61,469,761	93,599,832	65,616,894	58,594,636
Property and equipment		2,339,571	4,577,214	4,231,972	4,389,956	4,535,525
Other non-current assets		19,094,562	15,381,441	13,311,599	13,000,064	12,061,158
Current liabilities	Before dividend	59,239,075	47,025,844	78,368,174	51,991,187	43,403,662
	After dividend	Note 2	47,954,207	78,801,989	52,793,745	44,515,507
Non-current liabilities		2,186,915	1,430,580	1,353,599	1,495,179	1,497,057
Capital stock		23,209,081	23,209,081	21,690,730	22,690,730	23,190,730
Retained earnings	Before dividend	7,927,126	6,209,696	6,790,451	4,763,521	4,697,083
	After dividend	Note 2	5,281,333	4,838,285	3,960,963	3,585,238
Total assets		95,418,630	81,428,416	111,143,403	83,006,914	75,191,319
Total liabilities	Before dividend	61,425,990	48,456,424	79,721,773	53,486,366	44,900,719
	After dividend	Note 2	49,384,787	80,155,588	54,288,924	46,012,564
Total equity	Before dividend	33,992,640	32,971,992	31,421,630	29,520,548	30,290,600
	After dividend	Note 2	32,043,629	30,987,815	28,717,990	29,178,755

Note 1: All financial information for the last 5 years has been audited.

Note 2: Appropriation of 2019 earnings has not yet been resolved in a shareholder meeting.

(ii) Summary comprehensive income statement

(In Thousands of New Taiwan Dollars)

Item	Year	Financial information for the last 5 years				
		2019	2018	2017	2016	2015
Income		5,885,962	4,922,660	6,621,232	4,241,538	5,003,528
Expenses		4,105,770	4,303,491	4,356,598	3,538,615	3,824,405
Share of the profit or loss of associates and joint ventures accounted for using the equity method		524,510	790,995	476,853	369,739	314,198
Other gains and losses		514,046	428,281	341,867	295,432	291,025
Income before tax		2,818,748	1,838,445	3,083,354	1,368,094	1,784,346
Net income (Loss)		2,566,823	1,408,865	2,893,600	1,196,756	1,549,327
Earnings per share (in New Taiwan dollars)		1.11	0.61	1.25	0.49	0.61

Note: All financial information in the last 5 years has been audited.

(Continued)

(iii) Name of financial statement auditors and audit opinions in the last 5 years

Year	Name of the CPAs	Auditor's opinion
2019	LEE, FENG HUI	Unqualified
	CHUNG TAN TAN	
2018	LEE, FENG HUI	Unqualified
	CHUNG, TAN TAN	
2017	LEE, FENG HUI	Unqualified
	CHUNG, TAN TAN	
2016	LEE, FENG HUI	Unqualified
	CHUNG, TAN TAN	
2015	LEE, FENG HUI	Unqualified
	CHEN, FU-WEI	

(b) Financial analysis

Item	Year	Financial ratios analysis for the most recent five years				
		2019	2018	2017	2016	2015
Capital structure analysis (%)	Debit ratio	64.38	59.51	71.73	64.44	59.72
	Long-term capital to property, plant and equipment ratio	1,546.42	751.61	774.47	706.52	700.86
Liquidity analysis (%)	Current ratio	124.89	130.71	119.44	126.21	135.00
	Quick ratio	124.85	130.68	119.41	126.16	134.96
Profitability analysis (%)	Return on total assets (%)	2.90	1.46	2.98	1.51	2.14
	Return on equity (%)	7.67	4.38	9.50	4.00	5.05
	Operating income to paid-in capital ratio	7.67	2.67	10.44	3.10	5.08
	Pre-tax income to paid-in capital ratio	12.15	7.92	14.22	6.03	7.69
	Net Margin (%)	43.61	28.62	43.70	28.22	30.96
Cash Flow (%)	Earnings per share (NT\$)	1.11	0.61	1.25	0.49	0.61
	Cash flow ratio	0.45	20.44	-	-	14.83
	Cash flow adequacy ratio	198.78	190.52	91.81	118.20	538.41
Special Purpose Ration (%)	Cash flow reinvestment ratio	-	26.02	-	-	15.28
	Debt to net worth ratio	180.70	146.96	253.72	181.18	148.23
	Fixed assets to total assets ratio	3.21	6.70	4.57	6.26	7.42
	Underwriting securities to quick assets ratio	1.09	2.10	1.71	0.83	0.62
	Margin trading to equity ratio	35.12	29.60	45.81	39.17	47.20
	Short-sale balance to equity ratio	15.14	14.92	15.04	12.43	14.09

Note: Financial summary for the most recent five years has been audited.

Variations in the last 2 years:

- (i) The increase of long-term capital to property, plant and equipment ratio and the decrease of fixed assets to total assets ratio were mainly due to the increase of transferred-in land of investment property from the land of property, plant and equipment.

(Continued)

- (ii) The increase of return on total assets, return on equity, operating income to paid-in capital ratio, pre-tax income to paid-in capital ratio, net margin and earnings per share was mainly due to the net gains on sale of trading securities, resulting in increase of operating income, pre-tax income and net income.
 - (iii) Please refer to Note (f)(i) Cash flow analysis for the last 2 years for cash flow ratio.
 - (iv) The increase of debt to net worth ratio was mainly due to increase of short-term borrowings, bonds sold under repurchase agreements, customer equity of separate account ledger in settlement account, and account payables.
 - (v) The decrease of underwriting securities to quick assets ratio was due to the decrease of underwriting securities.
- (c) Financial difficulties that the company and affiliated enterprises have encountered in the most recent fiscal year, and the impact on the company's financial condition: None
- (d) Financial position analysis

(In Thousands of New Taiwan Dollars)

Item	Year	2019	2018	Difference	
				Amount	%
Current assets		73,984,497	61,469,761	12,514,736	20.36
Property and equipment		2,339,571	4,577,214	(2,237,643)	(48.89)
Other non-current assets		19,094,562	15,381,441	3,713,121	24.14
Current liabilities		59,239,075	47,025,844	12,213,231	25.97
Non-current liabilities		2,186,915	1,430,580	756,335	52.87
Capital stock		23,209,081	23,209,081	-	-
Retained earnings		7,927,126	6,209,696	1,717,430	27.66
Total assets		95,418,630	81,428,416	13,990,214	17.18
Total liabilities		61,425,990	48,456,424	12,969,566	26.77
Total equity		33,992,640	32,971,992	1,020,648	3.10

Explanation to major variations:

- (i) Current assets: Current assets increased mainly because of higher receivable for securities provided as collateral, accounts receivables, and amounts held for each customer in the account compared to the previous year.
- (ii) Property and equipment: Property and equipment decreased mainly because of the increase of investment property transferred from property and equipment.
- (iii) Other non-current assets: Other non-current assets increased mainly because of the addition of right-of-use assets.
- (iv) Current liabilities: Current liabilities increased mainly because of higher short-term borrowings, bonds sold under repurchase agreements, customer equity of separate account ledger in settlement account, and accounts payable compared to the previous year.
- (v) Non-current liabilities: Non-current liabilities increased mainly because of the addition of lease liabilities.
- (vi) Retained earnings: Retained earnings increased mainly because of higher net income compared to the previous year.

(Continued)

(e) Financial performance analysis

(In Thousands of New Taiwan Dollars)

Item	Year	2019	2018	Difference	
				Amount	%
Income		5,885,962	4,922,660	963,302	19.57
Expenses		4,105,770	4,303,491	(197,721)	(4.59)
Share of the profit or loss of associates and joint ventures accounted for using the equity method		524,510	790,995	(266,485)	(33.69)
Other gains and losses		514,046	428,281	85,765	20.03
Income before tax		2,818,748	1,838,445	980,303	53.32
Net income (Loss)		2,566,823	1,408,865	1,157,958	82.19

Explanation to major variations:

- (i) Share of the profit or loss of associates and joint ventures accounted for using the equity method: Decreased from the previous year mainly because the Company recognized gains on liquidation of subsidiary – Taiwan International Futures Corporation previous year.
 - (ii) Other gains and losses: The increase over the previous year was mainly attributed to gains from disposal of property and equipment.
 - (iii) Pre-tax income and net income: Pre-tax profit and net income increased mainly due to increased net gains from sale of securities.
- (f) Case flow analysis
- (i) Cash flow analysis for the last 2 year

Item	Year		Change percentage
	2019	2018	
Cash flow ratio	0.45	20.44	(97.80)
Cash flow adequacy ratio	198.78	190.52	4.34
Cash reinvestment ratio	-	26.02	(100.00)

Analysis of deviation proportion:

Substantial increase in receivable for securities provided as collateral, accounts receivable, and amounts held for each customer in the account caused decreased cash inflow from operating activities. As a result, cash flow adequacy ratio and cash reinvestment ratio decreased compared to the previous year.

- (ii) Liquidity analysis for the next year

(In Thousands of New Taiwan Dollars)

Cash beginning balance	Net cash flow provided by operating activities	Projected annual Cash outflow	Expected cash surplus (deficit)	Leverage of cash deficits	
				Investment plans	Financing plans
2,656,201	2,852,558	2,878,831	2,629,928	-	-

- (g) Impacts of major capital expenditures in the last year to financial performance: None

(Continued)

(h) Review and analysis of investment

(i) Investments planned for the next year

Capital Financial Group's investment strategies are consistent with the government's financial deregulations, and have been focused toward futures, brokerage, proprietary trading, underwriting, insurance agency, and venture capital. The Company follows the government's free economy and financial globalization policies. It places great emphasis on research and strives to become an allround security and financial service provider. The Company's current plans include: expanding the scope of wealth management service, development of high value-adding financial instruments, exploring fundraising and distribution channels local and abroad, establishment of overseas offices, building strategic/marketing alliance, and offering cross-border investment services. All the above plans have been devised to maximize group profitability.

(ii) Causes of profit or loss incurred on investments in the current year

There was no special event affecting profit or loss of investments.

(iii) Investment plans for the coming year

The Company plans to invest in venture capital consulting firms and helps manage private equity funds and venture capital firms. The Company can support enterprises with potential, and help them go public after they develop well, which can facilitate the development of industry and direct finance.

(i) Risk analysis

(i) Impact of interest rate, exchange rate, and inflation on the Company's earnings, and responsive measures:

- 1) Interest rate changes affect the Company's earnings mainly in the margin trading and bond trading segments (including government bonds, corporate bonds and repurchase agreements). The Company's interest rate risk exposure, in risk-equivalent terms, in 2019 was between NT\$1,409,781 thousands and NT\$1,572,243 thousands, and averaged NT\$1,467,634 thousands; exchange rate risk exposure in equivalent terms was between NT\$61,161 thousands and NT\$121,145 thousands, and averaged NT\$90,714 thousands in risk-equivalent terms.
- 2) Future responsive measures: The Company manages interest rate risk on bond positions by following its risk management policy and operating processes. The Company also engages other financial institutions in interest rate swap agreements and utilizes futures and derivatives to hedge against risks. Following the commencement of international securities and foreign currency derivative services, exchange rate variation now has a larger impact on the Company's earnings than it used to. In order to mitigate adverse effects of interest rate and exchange rate variations, the Company will be exercising position control and applying dynamic hedge among other market practices.
- 3) Impacts of inflation on the Company's revenues and profitability are indirect and immaterial.

(Continued)

- (ii) Policies on high-risk and highly leveraged investments, loans to third parties, endorsements/guarantees, and trading of derivatives; describe the main causes of any profits or losses incurred and future responsive measures
 - 1) The Company did not lend capital or offer endorsement or guarantee to any external party in the current year.
 - 2) The Company trades derivatives only within the scope permitted by the authority and the board of directors. It uses stop-losses as a means of risk control for proprietary trading of index futures and options. The Company undertakes Delta hedge using stocks or derivatives, and hedges Gamma risk using warrants or options when issuing new warrants and structured instruments, and thereby keeping risk appetite within the safety range.
 - 3) Future responsive measures: The Company will revise its derivative trading rules at times deemed appropriate, and adopt a market-neutral strategy to hedge exposures and manage deviations arising from the trade of derivatives.
- (iii) Financial impacts and responsive measures in the event of changes in local and foreign policies regulations: None
- (iv) Financial impacts and responsive measures in the event of technological or industrial changes
 - 1) Impacts: Advancement of Internet technology has changed the ways transactions are made and how services are delivered. This development has prompted securities firms to hire specialized IT talents and upgrade IT equipment to support the growth of electronic trading, and develop software that offers more value-adding services to customers over the Internet.
 - 2) Responsive measures:
 - a) Hire additional IT personnel and focus on the development of professional knowledge.
 - b) Constantly evaluate upgrade or purchase of related IT equipment in response to change of science technology.
 - c) Constantly renew and develop new service software for customers.
- (v) Crisis management, impacts, and response measures in the event of a change in corporate image: None
- (vi) Expected benefits, risks and responsible measures in relation to mergers and acquisitions
 - 1) The Company engages in mergers and acquisitions mainly for the purpose of expanding the branch network. Doing so may bring higher market share and profitability to the Company's brokerage/margin trading service.
 - 2) Responsive measures: All mergers and acquisitions will be subjected to due diligence assessment by relevant departments. Once merger/acquisition is completed, the Company will ensure proper integration of database by the IT Department and compliance of internal control policy by relevant departments to minimize risks.
- (vii) Expected benefits, risks and response measures associated with plant expansions: None

(Continued)

(viii) Risks and response measures associated with concentrated business operations:

No specific client rose the risk associated with any concentrated of business operations of the Company.

(ix) Impacts, risks and response measures following a major transfer of shareholding by directors, supervisors, or shareholders with more than 10% ownership interest: None

(x) Impacts, risks and response measures associated with a change of management: None

(xi) Major litigation and non-contentious cases that significantly impacted shareholders' equity or security prices

Event	Brief of Facts	Litigants	Current progress	Litigation Start date	Value of Claim (Unit: Thousand Dollars)
Civil	The Plaintiff claims that the prospectus prepared by ABIT Computer Corporation for the 2002 cash issue contained false information that misled investors and caused them to suffer losses. The Company, being the underwriter of that cash issue, was being held jointly responsible under Article 32 of the Securities and Exchange Act.	Plaintiff: Securities and Futures Investors Protection Center Defendant: ABIT Computer Corporation, the Company	The case is being reviewed by Taiwan Shilin District Court. The court pronounced judgment in favor of the Company on December 26, 2019. The Company, being the underwriter of that cash issue, had no joint responsibilities. (The case has not been determined.)	2006.11.23	2,004
Civil	16 customers of Taiwan International Securities Corp. including ○ -Hua Lai accused Taiwan International Securities Corp. for illegal sale of GVEC products that caused them US\$1,930 thousands in losses (the amount claimed during appeal of the third instance has been reduced to US\$704 thousands), and held Taiwan International Securities Corp. liable for compensation. Given the fact that Taiwan International Securities Corp. was dissolved after being merged by the Company, the litigation has since been assumed by the Company.	Plaintiff: 16 customers including ○ -Hua Lai (currently only 9 remain, including ○ -Rong Huang) Defendant: the Company, Taiwan International Securities Investment Consulting Corp., Ltd.	According the judgement of the first instance and the second instance, the court enter a judgement the Company did not liable for compensation. It has been confirmed that the Company is not liable to compensate for the losses of 7 customers including ○ -Hua Lai. 9 other customers including ○ -Rong Huang raised an appeal. The Supreme Court remands the case to the High Court. The High Court enter a judgement the Company and Taiwan International Securities Investment Consulting Corp., Ltd. shall compensate 8 customers including Er-Rong Huang for a total of US\$508 thousands. Appeals were raised by the Company Taiwan International Securities Investment Consulting Corp., Ltd. and Ling-Hua Cheng. The Supreme Court remands the case to the High Court again. The case is being reviewed by the High Court.	2010.03.02	USD 704

(Continued)

Event	Brief of Facts	Litigants	Current progress	Litigation Start date	Value of Claim (Unit: Thousand Dollars)
Criminal	Following an inquisition for trade documents by ○ - Ping, Yu, a customer of Xisong Branch, the Company discovered that Xisong Branch sales representative ○ - Ping, Chiang had forged documents for a non-existent PGN in the Company's name and used them to scam a total of 15 Xisong Branch customers including ○ - Ping, Yu.	Plaintiff: the Company Defendant: ○ - Ping Chiang	The Company has filed the criminal lawsuit including forgery, fraud etc., and the case is under investigation by prosecutors now.	2018.12.18	-
Civil	Wanhua Branch sales representative ○ - Ling, Chan scammed clients by secretly recommending investments, which damaged the client ○ - Yen, Fan. Therefore, that client filed a lawsuit and requested the Company and resigned employee ○ - Ling, Chan for joint compensation of \$2,798.	Plaintiff: ○ - Yen, Fan Defendant: the Company, ○ - Ling, Chan	The case is being reviewed by Taiwan Taipei District Court.	2019.04.08	2,798
Civil	The plaintiff applied for provisional attachment of the stocks stored by the Art Glory Investment Limited under the custody account of Pamirs Capital(H.K.) Limited, the Company's custody business client. The Company replied the court that the client had no stock for seizure after receiving the order. The plaintiff thought the Company's reply was not true, and filed this declaratory lawsuit.	Plaintiff: Tatung Company Defendant: the Company	The case is being reviewed by Taiwan Taipei District Court.	2019.11.26	-

(xii) Other significant risks and response: None

(j) Crisis management mechanisms

- (i) The Company establishes relative teams to organize events and continuously operate in order to ensure that the employee can be promptly rescued and the Company can operate effectively when the Company is facing an emergency crisis.
- 1) Crisis management team: Conduct functional groupings with different positions and abilities. When the crisis occurs, the team will grasp the situation, confirm the damage of personnel and assets, and respond promptly to minimize the damage.
 - 2) Business continuity management team: The team comprises personnel from Information tech, department and representative of each department. When a massive crisis occurs and critical business is unable to function, the team will operate the remote backup system and remove to backup office.

(Continued)

- (ii) In November 2008, Capital Securities Corporation passed BS25999 Business Continuity Management System, in September 2013, transferred into International standard certification ISO22301 and been recognized by International Organization for Standardization. To ensure effectiveness of Business Continuity Management System, the Company establishes the committee of Business Continuity Management System and Information service, every half - year holds supervised management meeting which participants are general managers and managers of each department. They discuss and conclude major issues of the Company's Business Continuity Management, communicate and negotiate related topics on management system with every department, and review flaws in current management system to strengthen operation efficiency and effectiveness.
- (iii) To ensure the correctness, effectiveness, and usefulness for implementation and system of the Business Continuity Management System planning by the Company, regular drill and training are conducted as follow:
- 1) Holding employees' emergency evacuation drill every half- year: The Company simulate the scenario when emergency havoc happening and influence employees' lives, notification measures can be proceed and employees can be evacuate rapidly to ensure employees' safety.
 - 2) Conducting remote backup drill every half- year: The Company simulate the scenario when business is interrupted by emergency havoc, starting up remote backup transaction system and office, and conducting service recovery drill by each department to minimize corporation operation risk.
 - 3) Holding employees' training for emergency medical and fire extinguishment every year: To ensure employee have professional knowledge and skills for CPR and fire extinguishment operation to minimize damages when the disaster happened.

(k) Other important matters: None

(3) CPA information

(a) Information on Accountants' Fees

Accountant firm	Name of accountant		Inspection period	Note
KPMG	Lee, Feng Hui	Chung, Tan Tan	January 2016 till now	

(In Thousands of New Taiwan Dollars)

Range of amount	Fee items	Audit fee	Non-audit fee	Total
1	Below 2 million		✓	
2	2 million(inclusive) ~ 4 million			
3	4 million(inclusive) ~ 6 million	✓		✓
4	6 million(inclusive) ~8 million			
5	8 million(inclusive) ~ 10 million			
6	10 million and above			

Note: Non audit remuneration belongs to opinion on ETN issuance and review of salary checklist of non-supervisory full-time employees in 2019.

(Continued)

- (i) Non-audit remuneration to external auditors, accounting firms and related businesses that amount to one-quarter or higher of audit remuneration: None
 - (ii) Any replacement of accounting firm that resulted in the reduction of audit remuneration paid, as compared to the previous year: None
 - (iii) Any reduction in audit remuneration by more than 10% compared to the previous year: None
- (b) Alternation of CPA: None
- (c) the Company's Chairman, President, or managers responsible for financial or accounting affairs being employed by the auditor's firm or any of its affiliated company in the last year: None

Capital Securities Corporation

Chairman: Jiunn-Chih Wang

Manager: Chung-Tao Chia

Chief accountant: De-Cheng Tan