

**CAPITAL SECURITIES CORPORATION AND
SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Review Report
for the Three Months Ended March 31, 2019 and 2018**

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

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Independent Auditors' Review Report

To the Board of Directors of
Capital Securities Corporation:

Introduction

We have reviewed the accompanying consolidated balance sheets of Capital Securities Corporation and its subsidiaries as of March 31, 2019 and 2018, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2019 and 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

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

Basis for Qualified Conclusion

As stated in Note 4(c), the consolidated financial statements included the financial statements of certain non-significant subsidiaries, which were not reviewed by independent auditors. These financial statements reflect total assets amounting to \$2,923,737 thousands and \$3,626,051 thousands, constituting 2.27% and 2.57% of consolidated total assets as of March 31, 2019 and 2018, respectively, total liabilities amounting to \$294,202 thousands and \$315,863 thousands, constituting 0.32% and 0.30% of consolidated total liabilities as of March 31, 2019 and 2018, respectively, and total comprehensive income (loss) amounting to \$(57,240) thousands and \$79,438 thousands, constituting (4.90)% and 11.82% of consolidated total comprehensive income (loss) for the three months ended March 31, 2019 and 2018, respectively.

Furthermore, as stated in Note 6(e), the other equity accounted investments of Capital Securities Corporation and its subsidiaries in its investee companies of \$1,484,754 thousands and \$1,478,469 thousands as of March 31, 2019 and 2018, respectively, and its equity in net earnings on these investee companies of \$52,200 thousands and \$32,679 thousands for the three months ended March 31, 2019 and 2018, respectively, and its equity in other comprehensive income (loss) on these investee companies of \$16 thousands and \$(302) thousands for the three months ended March 31, 2019 and 2018, respectively, were recognized solely on the financial statements prepared by these investee companies, but not reviewed by independent auditors.

Qualified Conclusion

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and equity accounted investee companies described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of Capital Securities Corporation and its subsidiaries as of March 31, 2019 and 2018, and of its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms and International Accounting Standard 34, “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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

KPMG

Taipei, Taiwan (Republic of China)
May 13, 2019

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated 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 review such consolidated financial statements are those generally accepted and applied in the Republic of China.

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards as of March 31, 2019 and 2018

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2019, December 31, 2018, and March 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

	March 31, 2019		December 31, 2018		March 31, 2018			March 31, 2019		December 31, 2018		March 31, 2018	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
Assets							Liabilities and Equity						
Current assets:							Current liabilities:						
110000 Cash and cash equivalents (note 6(a))	\$ 7,984,738	6	7,993,419	7	7,629,820	5	210000 Short-term borrowings (note 6(j))	\$ 4,057,799	3	3,873,506	3	6,761,497	5
112000 Financial assets at fair value through profit or loss - current (notes 6(b) and 8)	32,064,287	25	31,060,874	26	32,715,055	23	211200 Commercial paper payable (note 6(k))	-	-	-	-	5,499,124	4
113200 Financial assets at fair value through other comprehensive income - current (note 6(b))	13,585,956	11	10,865,929	9	30,899,066	22	212000 Financial liabilities at fair value through profit or loss - current (note 6(l))	1,183,694	1	1,202,215	1	3,700,665	2
114030 Receivable for securities provided as collateral	10,649,020	8	9,994,568	9	14,800,477	10	214010 Bonds sold under repurchase agreements (note 6(m))	33,175,387	26	28,032,524	24	45,748,947	32
114040 Refinancing margin	19,686	-	39,614	-	5,920	-	214040 Guarantee deposited for short sales	1,252,730	1	2,316,744	2	1,050,945	1
114050 Refinancing collateral receivable	16,187	-	34,419	-	4,916	-	214050 Proceeds payable from short sales	1,408,399	1	2,603,315	2	1,179,872	1
114060 Receivable of securities business money lending	1,938,608	2	1,949,105	2	1,133,085	1	214070 Securities lending refundable deposits	582,634	1	644,843	1	995,555	1
114070 Customers' margin account (note 6(d))	34,392,217	27	33,275,630	29	26,989,365	19	214080 Futures traders' equity (note 6(d))	34,325,003	27	33,158,826	28	26,904,899	19
114080 Receivable - futures margin	-	-	1	-	-	-	214090 Customer equity of separate account ledger in settlement account (note 6(n))	269,907	-	26,969	-	12,878	-
114090 Collateral for securities borrowed	259,273	-	454,200	-	1,240,726	1	214100 Leverage contract trading - customers' equity	217,355	-	225,899	-	182,412	-
114100 Security borrowing margin	513,336	-	412,148	-	1,129,973	1	214110 Notes payable	6,518	-	481	-	485	-
114110 Notes receivable	10,433	-	17,181	-	19,573	-	214130 Accounts payable (note 6(o))	8,791,706	7	3,857,893	4	5,973,527	4
114130 Accounts receivable (note 6(c))	8,973,746	7	4,607,173	4	7,943,154	6	214150 Advance receipts	22,655	-	37,089	-	37,449	-
114150 Prepayments	23,764	-	37,751	-	26,851	-	214160 Receipts under custody	230,773	-	120,325	-	151,007	-
114170 Other receivables	78,810	-	95,994	-	71,525	-	214170 Other payables	570,740	-	765,572	1	814,411	1
114300 Leverage contract trading - customers' margin account	216,597	-	228,564	-	182,363	-	214200 Other financial liabilities - current (note 6(x))	3,087,769	2	3,357,887	3	5,131,125	4
114600 Current income tax assets	26,601	-	26,609	-	26,621	-	214600 Current income tax liabilities	594,727	1	452,432	-	318,193	-
119000 Other current assets	1,183,058	1	876,441	1	805,434	1	215100 Provisions - current (note 6(r))	48,486	-	50,666	-	54,474	-
	<u>111,936,317</u>	<u>87</u>	<u>101,969,620</u>	<u>87</u>	<u>125,623,924</u>	<u>89</u>	216000 Current lease liabilities (note 6(q))	159,558	-	-	-	-	-
120000 Non-current assets:							219000 Other current liabilities	12,235	-	11,652	-	5,342	-
122000 Financial assets at fair value through profit or loss - non-current (notes 6(b) and 8)	180,519	-	185,109	-	185,670	-		<u>89,998,075</u>	<u>70</u>	<u>80,738,838</u>	<u>69</u>	<u>104,522,807</u>	<u>74</u>
123200 Financial assets at fair value through other comprehensive income - non-current (note 6(b))	2,094,170	2	1,911,577	2	1,878,536	1	220000 Non-current liabilities:						
124100 Investments accounted for under equity method (note 6(e))	1,484,754	1	1,432,537	1	1,478,469	1	224200 Other financial liabilities - non-current (note 6(x))	350,522	-	310,032	-	268,516	-
125000 Property and equipment (notes 6(f) and 8)	4,973,892	4	5,340,960	5	4,939,022	4	226000 Non-current lease liabilities (note 6(q))	899,250	1	1	-	-	-
125800 Right-of-use assets (notes 6(g))	1,042,071	1	-	-	-	-	228000 Deferred income tax liabilities	467,397	-	478,034	-	528,120	-
126000 Investment property (notes 6(h) and 8)	1,720,136	1	1,374,014	1	1,792,124	1	229000 Other non-current liabilities	687,149	1	658,266	1	799,325	1
127000 Intangible assets (note 6(i))	3,619,091	3	3,621,070	3	3,622,768	3		<u>2,404,318</u>	<u>2</u>	<u>1,446,333</u>	<u>1</u>	<u>1,595,961</u>	<u>1</u>
128000 Deferred income tax assets	162,403	-	115,770	-	120,427	-		<u>92,402,393</u>	<u>72</u>	<u>82,185,171</u>	<u>70</u>	<u>106,118,768</u>	<u>75</u>
129000 Other non-current assets	1,561,626	1	1,439,250	1	1,654,625	1	Total liabilities						
	<u>16,838,662</u>	<u>13</u>	<u>15,420,287</u>	<u>13</u>	<u>15,671,641</u>	<u>11</u>	Equity attributable to shareholders of the parent:						
							301010 Common stock (note 6(t))	23,209,081	18	23,209,081	20	21,690,730	15
							302000 Capital surplus:						
							302010 Premium from stock issuance	1,776,413	1	1,776,413	1	1,776,413	1
							302020 Treasury stock transactions	437,096	-	437,096	-	437,096	-
							302070 Paid-in capital from merger	602,665	-	602,665	1	602,665	-
							302095 Difference between consideration and carrying amount of subsidiaries acquired and disposed	1,338	-	1,338	-	1,338	-
							302096 Changes in ownership interests in subsidiaries	34,787	-	34,787	-	34,787	-
							304000 Retained earnings:						
							304010 Legal reserve	1,519,635	1	1,519,635	1	1,230,275	1
							304020 Special reserve	3,302,811	3	3,302,811	3	2,709,623	2
							304040 Unappropriated earnings (note 6(t))	1,974,350	2	1,387,250	1	3,669,085	3
							305120 Exchange differences on translation of foreign operations	(33,993)	-	(41,068)	-	(173,192)	-
							305140 Unrealized gains (losses) on financial assets at fair value through other comprehensive income	1,243,478	1	741,984	1	974,293	1
								<u>34,067,661</u>	<u>26</u>	<u>32,971,992</u>	<u>28</u>	<u>32,953,113</u>	<u>23</u>
							306000 Non-controlling interests	<u>2,304,925</u>	<u>2</u>	<u>2,232,744</u>	<u>2</u>	<u>2,223,684</u>	<u>2</u>
							Total equity	<u>36,372,586</u>	<u>28</u>	<u>35,204,736</u>	<u>30</u>	<u>35,176,797</u>	<u>25</u>
Total assets	<u>\$ 128,774,979</u>	<u>100</u>	<u>117,389,907</u>	<u>100</u>	<u>141,295,565</u>	<u>100</u>	Total liabilities and equity	<u>\$ 128,774,979</u>	<u>100</u>	<u>117,389,907</u>	<u>100</u>	<u>141,295,565</u>	<u>100</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2019 and 2018

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

		For the three months ended March 31,			
		2019		2018	
		Amount	%	Amount	%
Income:					
401000	Brokerage commissions (note 6(v))	\$ 842,161	47	1,160,270	41
402000	Revenues from securities business money lending	65	-	36	-
403000	Revenue from securities lending	37,464	2	29,953	1
404000	Underwriting commissions (note 6(v))	21,888	1	27,176	1
406000	Commissions on wealth management business	21,847	1	32,521	1
410000	Net gains (losses) on sale of trading securities (note 6(v))	217,121	12	9,564	-
421100	Securities management, distribution, and management fees	34,237	2	33,512	1
421200	Interest revenue (note 6(v))	369,398	20	562,029	20
421300	Dividend revenue	11,187	1	2,645	-
421500	Net gains (losses) on measurement of trading securities at fair value through profit or loss (note 6(v))	669,739	37	96,596	4
421600	Net gains (losses) on covering of borrowed securities and bonds with resale agreements	27,980	2	57,661	2
421610	Net gains (losses) on measurement of borrowed securities and bonds with resale agreements	(127,131)	(7)	60,975	2
421750	Realized gains (losses) from investments in debt instruments at fair value through other comprehensive income	36,328	2	(21,029)	(1)
422200	Net gains (losses) on stock warrants issued (note 6(v))	(21,361)	(1)	378,770	14
424100	Futures commission revenues (note 6(v))	58,133	3	177,188	6
424400	Net gains (losses) on derivative instruments - futures (note 6(x))	(343,292)	(19)	258,769	9
424500	Net gains (losses) on derivative instruments - OTC (note 6(x))	(91,519)	(5)	(43,360)	(1)
424800	Management fee revenues	22	-	88	-
424900	Consultancy fee revenue	2,964	-	5,160	-
425300	Impairment gain and reversal of impairment loss (note 6(w))	(1,508)	-	(54,215)	(2)
428000	Other operating revenues	36,997	2	48,920	2
		<u>1,802,720</u>	<u>100</u>	<u>2,823,229</u>	<u>100</u>
Expenses:					
501000	Brokerage fees	98,422	6	158,163	5
502000	Brokerage and clearing fees - proprietary trading	3,818	-	5,513	-
503000	Clearing and exchange fees - refinancing	858	-	508	-
504000	Clearing and exchange fees - underwriting	482	-	177	-
521200	Financial costs	146,289	8	208,832	7
524100	Futures commission expense (note 6(v))	79,189	4	152,715	5
524300	Cleaning and settlement expenses	33,507	2	42,613	2
528000	Other operating expenditure	830	-	2,510	-
531000	Employee benefits expenses (note 6(v))	543,372	30	721,990	26
532000	Depreciation and amortization expense (note 6(v))	105,768	6	51,503	2
533000	Other operating expenses (note 6(v))	326,578	18	509,850	18
		<u>1,339,113</u>	<u>74</u>	<u>1,854,374</u>	<u>65</u>
Other income (expenses):					
601000	Share of profits of associates and joint venture (note 6(e))	52,200	3	32,679	1
602000	Other gains and losses (note 6(v))	256,612	14	174,997	6
		<u>308,812</u>	<u>17</u>	<u>207,676</u>	<u>7</u>
902001	Net income before income tax	772,419	43	1,176,531	42
701000	Less: Income tax expenses (note 6(s))	98,205	5	200,008	7
	Net income	<u>674,214</u>	<u>38</u>	<u>976,523</u>	<u>35</u>
805000	Other comprehensive income:				
805500	Components that may not be reclassified to profit or loss in subsequent periods:				
805540	Unrealized gains (losses) from investments in equity instruments at fair value through other comprehensive income	241,220	13	111,007	4
805599	Income tax related to components of other comprehensive income	-	-	-	-
	Subtotal of components that may not be subsequently reclassified into profit or loss	<u>241,220</u>	<u>13</u>	<u>111,007</u>	<u>4</u>
805600	Components that may be reclassified to profit or loss in subsequent periods:				
805610	Exchange differences on translation of foreign operations	8,859	-	(83,690)	(3)
805615	Unrealized gains (losses) from investments in debt instruments at fair value through other comprehensive income	244,439	14	(330,254)	(12)
805699	Income tax related to components of other comprehensive income (note 6(s))	882	-	1,615	-
	Subtotal of items that may be subsequently reclassified into profit or loss	<u>252,416</u>	<u>14</u>	<u>(415,559)</u>	<u>(15)</u>
805000	Other comprehensive income, net	493,636	27	(304,552)	(11)
902006	Total comprehensive income	<u>\$ 1,167,850</u>	<u>65</u>	<u>671,971</u>	<u>24</u>
Net income attributable to:					
913100	Shareholders of the parent	\$ 603,033	34	793,996	29
913200	Non-controlling interests	71,181	4	182,527	6
		<u>\$ 674,214</u>	<u>38</u>	<u>976,523</u>	<u>35</u>
Total comprehensive income attributable to:					
914100	Shareholders of the parent	\$ 1,095,669	61	505,057	18
914200	Non-controlling interests	72,181	4	166,914	6
		<u>\$ 1,167,850</u>	<u>65</u>	<u>671,971</u>	<u>24</u>
975000	Basic earnings per share (note 6(u))	<u>\$ 0.26</u>		<u>0.34</u>	
985000	Diluted earnings per share (note 6(u))	<u>\$ 0.26</u>		<u>0.34</u>	

See accompanying notes to consolidated financial statements.

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity
For the three months ended March 31, 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to the parent company											
	Stock	Retained earnings				Total other equity interest					Non-controlling interests	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	Total equity attributable to the parent company		
Balance at January 1, 2018	\$ 21,690,730	2,852,299	1,230,275	2,709,623	2,850,553	(103,566)	-	191,716	31,421,630	2,056,370	33,478,000	
Effects of retrospective application	-	-	-	-	12,367	-	1,205,775	(191,716)	1,026,426	400	1,026,826	
Balance at January 1, 2018 after adjustments	<u>21,690,730</u>	<u>2,852,299</u>	<u>1,230,275</u>	<u>2,709,623</u>	<u>2,862,920</u>	<u>(103,566)</u>	<u>1,205,775</u>	<u>-</u>	<u>32,448,056</u>	<u>2,056,770</u>	<u>34,504,826</u>	
Net income for the three months ended March 31, 2018	-	-	-	-	793,996	-	-	-	793,996	182,527	976,523	
Other comprehensive income	-	-	-	-	-	(69,626)	(219,313)	-	(288,939)	(15,613)	(304,552)	
Total comprehensive income	-	-	-	-	793,996	(69,626)	(219,313)	-	505,057	166,914	671,971	
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	12,169	-	(12,169)	-	-	-	-	
Balance at March 31, 2018	<u>\$ 21,690,730</u>	<u>2,852,299</u>	<u>1,230,275</u>	<u>2,709,623</u>	<u>3,669,085</u>	<u>(173,192)</u>	<u>974,293</u>	<u>-</u>	<u>32,953,113</u>	<u>2,223,684</u>	<u>35,176,797</u>	
Balance at January 1, 2019	\$ 23,209,081	2,852,299	1,519,635	3,302,811	1,387,250	(41,068)	741,984	-	32,971,992	2,232,744	35,204,736	
Net income for the three months ended March 31, 2019	-	-	-	-	603,033	-	-	-	603,033	71,181	674,214	
Other comprehensive income	-	-	-	-	-	7,075	485,561	-	492,636	1,000	493,636	
Total comprehensive income	-	-	-	-	603,033	7,075	485,561	-	1,095,669	72,181	1,167,850	
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	(15,933)	-	15,933	-	-	-	-	
Balance at March 31, 2019	<u>\$ 23,209,081</u>	<u>2,852,299</u>	<u>1,519,635</u>	<u>3,302,811</u>	<u>1,974,350</u>	<u>(33,993)</u>	<u>1,243,478</u>	<u>-</u>	<u>34,067,661</u>	<u>2,304,925</u>	<u>36,372,586</u>	

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

For the three months ended March 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2019	2018
Cash flows from (used in) operating activities:		
Net income before tax	\$ 772,419	1,176,531
Adjustments:		
Income and expense items with no effect on cash flows:		
Depreciation expense	97,574	42,646
Amortization expense	8,194	8,857
Expected credit loss	1,508	54,215
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	(542,608)	(157,571)
Interest expense	146,289	208,832
Interest revenue (including financial revenue)	(512,927)	(637,422)
Dividend revenue	(11,187)	(5,683)
Share of profit of associates and joint ventures	(52,200)	(32,679)
Net gain on non-operating financial instruments at fair value through profit or loss	(21,303)	(21,963)
Net changes of income and expense items with no effect on cash flows	(886,660)	(540,768)
Changes in assets and liabilities from operating activities:		
Decrease (increase) in financial assets at fair value through profit or loss	(434,917)	2,141,121
Decrease (increase) in financial assets at fair value through other comprehensive income	(2,388,449)	2,220,136
Decrease (increase) in receivable for securities provided as collateral	(654,713)	67,042
Decrease in refinancing margin	19,928	40,175
Decrease in receivable on refinancing collateral	18,232	33,972
Decrease in receivable of securities business money lending	10,497	399,146
Decrease (increase) in customers' margin account	(1,116,587)	313,347
Decrease (increase) in margin receivable of futures trading	103	(34,167)
Decrease (increase) in collateral for securities borrowed	194,927	(326,383)
Increase in security borrowing margin	(101,188)	(198,105)
Decrease in notes receivable	6,748	2,238
Increase in accounts receivable	(4,334,798)	(1,206,451)
Decrease in prepayments	13,987	7,089
Decrease (increase) in other receivables	22,153	(4,082)
Decrease (increase) in leverage contract trading - customers' margin account	11,967	(30,823)
Increase in pledged assets - current	(67)	(55,530)
Decrease (increase) in other current assets	(306,550)	141,646
Increase in guarantee deposited for business operations	(67,933)	(4,060)
Decrease in settlement fund	7,893	7,689
Decrease (increase) in refundable deposits	12,466	(75,859)
Decrease (increase) in other non-current assets	(74,238)	27,604
Increase (decrease) in financial liabilities at fair value through profit or loss	(18,521)	858,447
Increase (decrease) in bonds sold under repurchase agreements	5,142,863	(1,307,365)
Decrease in guarantee deposited for short sales	(1,064,014)	(1,175,319)
Decrease in proceeds payable from short sales	(1,194,916)	(1,320,981)
Decrease in securities lending refundable deposits	(62,209)	(194,722)
Increase (decrease) in futures traders' equity	1,166,177	(363,327)
Increase (decrease) in customers' equity of separate account ledger in settlement account	242,938	(601)
Increase (decrease) in leverage contract trading - customers' equity	(8,544)	29,572
Increase (decrease) in notes payable	6,037	(394)
Increase in accounts payable	4,937,317	194,769
Decrease in advance receipts	(14,434)	(18,095)
Increase (decrease) in receipts under custody	110,448	(195,016)
Decrease in other payable	(201,305)	(168,258)
Increase (decrease) in other current liabilities	583	(5,264)
Increase (decrease) in other financial liabilities - current	(270,118)	621,142
Increase in provision - current	3,010	5,408
Increase in other financial liabilities - non-current	40,490	2,479
Increase (decrease) in other non-current liabilities	28,198	(611)
Total changes in assets and liabilities from operating activities	(316,539)	427,609
Total cash generated from adjustment items	(1,203,199)	(113,159)

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months ended March 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2019	2018
Cash generated from operating activities	\$ (430,780)	1,063,372
Interest received	477,151	628,786
Dividends received	10,406	5,686
Interest paid	(148,694)	(220,799)
Income taxes paid	(14,049)	(8,946)
Net Cash flows provided by (used in) operating activities	(105,966)	1,468,099
Cash flows from (used in) investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(29,864)	(652,370)
Acquisition of investments accounted for using equity method	-	(1,272,505)
Increase in deferred debits	(139)	(401)
Acquisition of property and equipment	(24,743)	(12,164)
Acquisition of intangible assets	(5,911)	(2,988)
Net cash flows provided by (used in) investing activities	(60,657)	(1,940,428)
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term borrowings	184,293	(320,201)
Increase in commercial papers payable	-	1,399,940
Payment of lease liabilities	(34,630)	-
Net cash flows provided by (used in) financing activities	149,663	1,079,739
Effect of exchange rate changes on cash and cash equivalents	8,279	(81,667)
Increase in cash and cash equivalents	(8,681)	525,743
Cash and cash equivalents, beginning of the year	7,993,419	7,104,077
Cash and cash equivalents, end of this period	\$ 7,984,738	7,629,820

See accompanying notes to consolidated financial statements.

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

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 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 March 31, 2019, the composition of the consolidated financial statements includes the Company and the subsidiaries (the “Group”). As of March 31, 2019, the Company has 53 branches nationwide.

The Company is authorized to conduct the following businesses:

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

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

The consolidated financial statements were authorized for issuance by the board of directors on May 13, 2019.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(3) New standards, amendments and interpretations adopted:

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 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 Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

- (i) IFRS 16 “Leases”

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

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

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group 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.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) As a lessee

As a lessee, the Group 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 Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities on balance sheet.

The Group 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 Group'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 Group 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 Group applied this approach to all other lease.

In addition, the Group 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 Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Group accounted for its leases in accordance with IFRS 16 from the date of initial application.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

4) Impacts on financial statements

On transition to IFRS 16, the Group recognised additional \$1,070,869 of right-of-use assets and \$1,070,869 of lease liabilities. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.36%.

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 Group's consolidated financial statements	\$ 1,068,369
Recognition exemption for:	
short-term leases	(3,642)
leases of low -value assets	(2,174)
Extension and termination options reasonably certain to be exercised	57,616
	1,120,169
Discounted using the incremental borrowing rate at January 1, 2019	1,070,869
Lease liabilities recognized at January 1, 2019	\$ 1,070,869

(b) 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 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

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

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(4) Summary of significant accounting policies:

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the “ Regulations Governing the Preparation of Financial Reports by Securities Firms” , and the IAS 34 “ Interim Financial Reporting” endorsed and issued into effect by the FSC, and do not include all of the information required by the Regulations and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC for a complete set of the annual consolidated financial statements.

Except as described below, the significant accounting policies adopted in the accompanying consolidated financial statements are the same as the consolidated financial statements as of and for the year ended December 31, 2018. Please refer to Note 4 of the consolidated financial statements as of and for the year ended December 31, 2018 for the detail disclosures of significant accounting policies.

(b) Basis of preparation

(i) Basis of measurement

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

- 1) Financial instruments measured at fair value through profit or loss (including derivative instruments);
- 2) Financial assets at fair value through other comprehensive income; and
- 3) The defined benefit asset is recognized as plan assets, plus unrecognized actuarial loss, less unrecognized actuarial gain and the present value of the defined benefit obligation.

(ii) Functional and presentation currency

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

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries.

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

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

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) List of subsidiaries in the consolidated financial statements

Subsidiaries included in the consolidated financial report are as follows:

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			March 31, 2019	December 31, 2018	March 31, 2018	
The Company	Capital Investment Management Corp.	Engaged in providing advice on securities investment and securities investment consultancy	100.00 %	100.00 %	100.00 %	The corporation established in February, 1990. As of March 31, 2019, the paid-in capitals amounted to \$70,000. (note 1)
"	CSC International Holdings Ltd.	Long-term equity investment business	100.00 %	100.00 %	100.00 %	The corporation established in March, 1996. As of March 31, 2019, the paid-in capitals amounted to US\$45,000 thousands. (note 2)
"	Capital Futures Corp.	Engaged in domestic and foreign futures business	56.21 %	56.21 %	56.21 %	The corporation established in February, 1997. As of March 31, 2019, the paid-in capitals amounted to \$1,764,376.
"	Taiwan International Futures Corp.	Management consultancy	- %	- %	99.99 %	Completion of liquidation. (note 3)
"	Taiwan International Securities (B.V.I) Corp.	Holding company for offshore securities units	100.00 %	100.00 %	100.00 %	The corporation established in December, 1996. As of March 31, 2019, the paid-in capitals amounted to US\$9,516 thousands. (note 4)
"	Taiwan International Securities Investment Consulting Corp.	Investment consultancy	99.92 %	99.92 %	99.92 %	Liquidation in progress. (note 5)
"	CSC Venture Capital Corp.	Venture Capital and consulting business	100.00 %	100.00 %	100.00 %	The corporation established in January, 2016. As of March 31, 2019, the paid-in capitals amounted to \$1,000,000. (note 6)
Capital Futures Corp.	CSC Futures (HK) Ltd.	Futures dealing business	97.27 %	97.27 %	97.27 %	The corporation established in December, 1998. As of March 31, 2019, the paid-in capitals amounted to HK\$220,000 thousands.
"	Capital International Technology Corp.	Management, consulting and information service business	100.00 %	100.00 %	100.00 %	The corporation established in December, 2014. As of March 31, 2019, the paid-in capitals amounted to \$50,000. (note 7)
Capital International Technology Corp.	Capital True Partner Technology Co., Ltd.	Management, consulting and information service business.	51.00 %	51.00 %	51.00 %	The corporation established in August 20, 2008. Acquired 51% of the equity on February 9, 2015 and held controlling interest. As of March 31, 2019, the paid-in capitals amounted to CNYS\$1,000 thousands. (note 8)
"	Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	100.00 %	100.00 %	100.00 %	The corporation established in October, 2016. As of March 31, 2019, the paid-in capitals amounted to CNYS\$4,000 thousands. (note 9)
CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses	100.00 %	100.00 %	100.00 %	The corporation established in May, 1994. (note 2)
CSC Securities (HK) Ltd.	Capital Securities Nominees Ltd.	Agency service	100.00 %	100.00 %	100.00 %	The corporation established in April, 1995. (note 2)

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership			Note
			March 31, 2019	December 31, 2018	March 31, 2018	
Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited	Long-term equity investment business.	100.00 %	100.00 %	100.00 %	Not complied with the requirement of Financial Resources Rules (the "FRR") of the Hong Kong Securities and Futures Commission, the operations remain stagnant currently. (note 4)
TIS Securities (HK) Limited	Taiwan International Capital (HK) Ltd.	Direct investment	100.00 %	100.00 %	100.00 %	"

Note 1: Capital Investment Management Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2019 and 2018, the total assets amounted to \$157,839 and \$118,561, and the total liabilities amounted to \$52,326 and \$9,196, respectively. The total comprehensive income (loss) for the three months ended March 31, 2019 and 2018 were \$(1,177) and \$2,208.

Note 2: CSC International Holdings Ltd. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2019 and 2018, the total consolidated assets amounted to \$1,868,168 and \$1,684,150, and the total consolidated liabilities amounted to \$223,016 and \$116,288, respectively. The total consolidated comprehensive income (loss) for the three months ended March 31, 2019 and 2018 were \$4,092 and \$12,203.

Note 3: Taiwan International Futures Corp. is a non-major subsidiary; its financial statements have not been reviewed. The stockholders' special meeting of Taiwan International Securities Corp. acknowledged its documents for completion of liquidation on December 17, 2018. The entity was been permitted from the court approval of its completion of liquidation on February 12, 2019. As of March 31, 2018, the total assets amounted to \$636,868, and the total liabilities amounted to \$176,392. The total comprehensive income (loss) for the three months ended March 31, 2018 were \$50,096.

Note 4: Taiwan International Securities (B.V.I) Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2019 and 2018, the total consolidated assets amounted to \$170 and \$1,785, and the total consolidated liabilities amounted to \$0 and \$1,066, respectively. The total consolidated comprehensive income (loss) for the three months ended March 31, 2019 and 2018 were \$(414) and \$(558).

Note 5: Taiwan International Securities Investment Consulting Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2019 and 2018, the total assets amounted to \$13,016 and \$13,255, and the total liabilities amounted to \$272 and \$272, respectively. The total comprehensive income (loss) for the three months ended March 31, 2019 and 2018 were \$(65) and \$(58).

Note 6: CSC Venture Capital Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2019 and 2018, the total assets amounted to \$807,258 and \$1,078,055, and the total liabilities amounted to \$11,770 and \$865, respectively. The total comprehensive income (loss) for the three months ended March 31, 2019 and 2018 were \$(59,419) and \$211.

Note 7: Capital International Technology Corp. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2019 and 2018, the total assets amounted to \$46,343 and \$53,311, and the total liabilities amounted to \$305 and \$406, respectively. The total comprehensive income (loss) for the three months ended March 31, 2019 and 2018 were \$(245) and \$6,698.

Note 8: Capital True Partner Technology Co., Ltd. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2019 and 2018, the total assets amounted to \$8,173 and \$4,190, and the total liabilities amounted to \$6,007 and \$3,763, respectively. The total comprehensive income (loss) for the three months ended March 31, 2019 and 2018 were \$321 and \$1,062.

Note 9: Capital Futures Technology (Shanghai) Co., Ltd. is a non-major subsidiary; its financial statements have not been reviewed. As of March 31, 2019 and 2018, the total assets amounted to \$22,770 and \$35,876, and the total liabilities amounted to \$506 and \$7,615, respectively. The total comprehensive income (loss) for the three months ended March 31, 2019 and 2018 were \$(333) and \$7,576.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Subsidiaries not listed in the consolidated financial statements

<u>Name of the investor</u>	<u>Subsidiaries</u>	<u>Business type</u>	<u>Ratio of Equity Ownership</u>			<u>Note</u>
			<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>	
The Company	Capital Insurance Agency Corp.	Manages personal insurance agent business.	100.00 %	100.00 %	100.00 %	The corporation established in November 2000. The Company acquired 100% of the equity and gained a controlling interest. The paid-in capitals amounted to \$7,400. As of March 31, 2019, December 31, 2018 and March 31, 2018, the total assets constituted 0.04% · 0.04% and 0.03% of the Group's total assets. For the three months ended March 31, 2019 and 2018, the operation revenue were merely 1.39% and 0.58% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.
The Company	Capital Insurance Advisory Corp.	Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business.	100.00 %	100.00 %	100.00 %	The corporation established in November 2000. The Company acquired 100% of the equity and gained a controlling interest. The paid-in capitals amounted to \$5,000. As of March 31, 2019, December 31, 2018 and March 31, 2018, the total assets constituted 0.11% · 0.09% and 0.09% of the Group's total assets. For the years ended March 31, 2019 and 2018, the operation revenue were merely 2.86% and 1.81% of the consolidated revenue which were so immaterial, thus they were excluded from the financial consolidated statement.

(d) Leases (applicable from January 1, 2019)

(i) Identifying a lease

At inception of a contract, the Group 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 Group 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 Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- the Group has the right to direct the use of the asset. The Group has the right to direct the use of the asset when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of an asset if either:
 - the Group has the right to operate the asset; or
 - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group 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 Group 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 Group 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 Group's incremental borrowing rate. Generally, the Group 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.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 Group’s estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change of its assessment on whether it will exercise a purchase, extension or termination option; or
- there is any lease modifications

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 Group 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 Group 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 Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(e) Employee benefits

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

(f) Income tax

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

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

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

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

In these consolidated financial statements, judgments and key sources of estimation uncertainty used by management in the application of critical accounting policies are expected to be consistent with those of Note 5 of the consolidated financial statements as of and for the year ended December 31, 2018.

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Cash	\$ 2,911	2,796	2,838
Bank deposits			
Checking accounts	30,503	31,226	35,217
Demand deposits	677,200	735,856	658,743
Foreign currency deposits	<u>1,081,411</u>	<u>1,080,614</u>	<u>1,504,518</u>
Subtotal	<u>1,789,114</u>	<u>1,847,696</u>	<u>2,198,478</u>
Cash equivalents			
Time deposits	4,509,461	4,122,157	3,367,965
Futures margin - excess margin	1,663,258	1,998,273	1,840,638
Commercial papers	<u>19,994</u>	<u>22,497</u>	<u>219,901</u>
Subtotal	<u>6,192,713</u>	<u>6,142,927</u>	<u>5,428,504</u>
Total	<u>\$ 7,984,738</u>	<u>7,993,419</u>	<u>7,629,820</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(b) Financial assets

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Open-ended funds and money-market instruments			
Open-ended funds and money-market instruments	\$ 351,524	305,950	384,844
Valuation adjustment	<u>5,915</u>	<u>(8,129)</u>	<u>11,557</u>
Subtotal	<u>357,439</u>	<u>297,821</u>	<u>396,401</u>
Securities invested by securities broker			
Securities invested by securities broker	20,000	74,553	-
Valuation adjustment	<u>(15)</u>	<u>(7,283)</u>	<u>-</u>
Subtotal	<u>19,985</u>	<u>67,270</u>	<u>-</u>
Trading securities - proprietary trading			
Listed stocks	1,099,858	1,324,802	2,021,402
Listed funds	790,571	852,293	520,546
OTC stocks	442,214	306,931	753,354
OTC funds	163,900	83,480	-
Emerging market stocks	474,400	498,304	466,412
Emerging market funds	-	12,414	10,071
Convertible corporate bonds	697,143	496,130	921,479
Government bonds	8,086,429	6,511,541	6,286,683
Corporate bonds	8,601,659	9,652,271	9,104,917
International bonds	3,943,700	4,079,947	2,865,707
Financial debentures	500,283	300,000	300,000
Foreign stocks	192,023	219,070	740,634
Overseas bonds	15,498	302,675	58,047
Other	<u>1,462</u>	<u>257</u>	<u>257</u>
	25,009,140	24,640,115	24,049,509
Valuation adjustment	<u>106,897</u>	<u>(256,660)</u>	<u>146,333</u>
Subtotal	<u>25,116,037</u>	<u>24,383,455</u>	<u>24,195,842</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Trading securities - underwriting:			
Listed stocks	\$ 82,839	107,320	28,328
OTC stocks	49,702	55,690	43,321
Convertible corporate bonds	<u>128,535</u>	<u>141,011</u>	<u>291,314</u>
	261,076	304,021	362,963
Valuation adjustment	<u>28,705</u>	<u>(8,312)</u>	<u>3,149</u>
Subtotal	<u>289,781</u>	<u>295,709</u>	<u>366,112</u>
Trading securities - hedging			
Listed stocks	1,386,296	1,746,810	2,731,498
OTC stocks	351,265	397,140	670,173
Convertible corporate bonds	4,194,183	3,799,450	3,695,643
Foreign stocks	<u>-</u>	<u>-</u>	<u>974</u>
	5,931,744	5,943,400	7,098,288
Valuation adjustment	<u>36,661</u>	<u>(231,510)</u>	<u>52,285</u>
Subtotal	<u>5,968,405</u>	<u>5,711,890</u>	<u>7,150,573</u>
Derivatives			
Call options	5,686	11,580	111,801
Futures margin - proprietary fund	255,819	223,490	426,908
IRS asset swaps	15,435	13,855	19,111
Asset swap options - long position	7,641	4,072	4,830
Currency derivatives	26,420	46,967	35,001
Structured notes	643	3,075	2,168
Currency swaps	-	1,690	4,289
Interest rate swaps	<u>996</u>	<u>-</u>	<u>2,019</u>
Subtotal	<u>312,640</u>	<u>304,729</u>	<u>606,127</u>
Total	<u><u>\$ 32,064,287</u></u>	<u><u>31,060,874</u></u>	<u><u>32,715,055</u></u>

As of March 31, 2019, December 31, 2018 and March 31, 2018, trading securities, financial assets at fair value through other comprehensive income and financial assets available for sale undertaken for repurchase agreements of the Group were \$34,179,080, \$29,145,321 and \$47,711,314, respectively, please refer to note 6(m) and note 8 for details.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Debt instruments at fair value through other comprehensive income			
International bonds	\$ 1,230,610	1,226,189	1,644,744
Overseas bonds	<u>11,689,071</u>	<u>9,205,561</u>	<u>28,878,903</u>
	12,919,681	10,431,750	30,523,647
Valuation adjustment	<u>193,261</u>	<u>(50,161)</u>	<u>(152,355)</u>
Subtotal	<u>13,112,942</u>	<u>10,381,589</u>	<u>30,371,292</u>
Equity instrument at fair value through other comprehensive income			
Listed stocks	182,551	237,755	224,615
OTC stocks	40,353	40,353	82,346
Emerging market stocks	24,130	24,130	24,130
Foreign stocks	<u>219,240</u>	<u>279,832</u>	<u>203,498</u>
	466,274	582,070	534,589
Valuation adjustment	<u>6,740</u>	<u>(97,730)</u>	<u>(6,815)</u>
Subtotal	<u>473,014</u>	<u>484,340</u>	<u>527,774</u>
Total	<u>\$ 13,585,956</u>	<u>10,865,929</u>	<u>30,899,066</u>

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

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

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

For the three months ended March 31, 2019 and 2018, the dividends were recognized from the Group designated and disposed the aforementioned equity instrument investments measured at fair value through other comprehensive income — current amounted to \$284 and \$0.

Due to the consideration of asset allocation and managing and adjusting the investment portfolio, the Group sold shares of stocks for a fair value \$138,600 and \$42,681, cumulative dispose losses for the three months ended March 31, 2019 and 2018, amounted \$(15,933) and \$12,162 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(w).

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 4) For the three months ended March 31, 2019, impairment test have been applied by the Group, the variation of loss allowance in the debt instrument measured at fair value through other comprehensive income of the Group please refer to note 6(w).

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Mandatorily measured at fair value through profit or loss:			
Government bonds	\$ 180,329	185,952	185,953
Valuation adjustment	<u>190</u>	<u>(843)</u>	<u>(283)</u>
Total	<u><u>\$ 180,519</u></u>	<u><u>185,109</u></u>	<u><u>185,670</u></u>

As of March 31, 2019, December 31, 2018 and March 31, 2018, the Group took advantage of government bonds as margins of bills, interest rate swaps and structured notes transaction, settlement fund guarantee deposits, and compensation reserve of trust business (please refer to note 8 for details).

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Equity instruments at fair value through other comprehensive income			
Non-listed or non-over-the-counter stocks	\$ 1,094,531	1,064,667	780,872
Valuation adjustment	<u>999,639</u>	<u>846,910</u>	<u>1,097,664</u>
Total	<u><u>\$ 2,094,170</u></u>	<u><u>1,911,577</u></u>	<u><u>1,878,536</u></u>

For the three months ended March 31, 2019 and 2018, the dividends were recognized from the Group designated and disposed the aforementioned equity instrument investments at fair value through other comprehensive income – non-current amounted to \$0 for the both years.

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

Type of market risk	March 31, 2019	March 31, 2018	For the three months ended March 31,					
			2019			2018		
			Mean	Maximum	Minimum	Mean	Maximum	Minimum
Equity stocks	1,021,437	1,445,613	981,339	1,021,437	932,006	1,486,657	1,615,221	1,399,136

(c) Accounts Receivable

	March 31, 2019	December 31, 2018	March 31, 2018
Receivable on securities purchased by customers	\$ 13,968	8,642	32,190
Settlement	2,432,492	712,274	-
Interests receivable	578,587	547,595	639,040
Receivables on securities sold	5,880,614	3,261,956	7,215,077
Others	<u>69,792</u>	<u>78,419</u>	<u>59,160</u>
Subtotal	8,975,453	4,608,886	7,945,467
Less: allowance for doubtful accounts	<u>(1,707)</u>	<u>(1,713)</u>	<u>(2,313)</u>
Total	<u>\$ 8,973,746</u>	<u>4,607,173</u>	<u>7,943,154</u>

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

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

As of March 31, 2019, December 31, 2018 and March 31, 2018, a reconciliation of the customers' margin account and the futures traders' equity was as follows:

	March 31, 2019	December 31, 2018	March 31, 2018
Customers' margin account			
Cash in banks	\$ 24,073,553	24,386,388	19,233,504
Customers' margin account - futures clearing house	3,827,407	2,579,464	2,587,993
Customers' margin account - other futures commission merchants	6,491,069	6,309,528	5,165,791
Marketable securities	<u>188</u>	<u>250</u>	<u>2,077</u>
Total customers' margin account	<u>34,392,217</u>	<u>33,275,630</u>	<u>26,989,365</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Add:			
Commission expense	\$ 5,552	5,035	12,971
Other	-	52	48
Less:			
Commission revenue	(19,902)	(17,259)	(38,173)
Futures transaction tax	(1,974)	(1,426)	(417)
Interest revenues	(5,223)	(3,726)	(3,492)
Temporary receipts	(16,628)	(669)	3,271
Remittance amount of the customers after the market closed	(4,809)	(7,179)	(245)
Other receivables	(24,185)	(91,632)	(58,429)
Other	(45)	-	-
Futures traders' equity	<u>\$ 34,325,003</u>	<u>33,158,826</u>	<u>26,904,899</u>

(e) Investments under equity method

As of March 31, 2019, December 31, 2018 and March 31, 2018, investments under equity method consisted of the following:

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Subsidiaries			
Capital Insurance Advisory Corp.	\$ 100,815	84,732	108,456
Capital Insurance Agency Corp.	<u>43,123</u>	<u>40,757</u>	<u>42,370</u>
Subtotal	<u>143,938</u>	<u>125,489</u>	<u>150,826</u>
Associates			
True Partner Advisor Hong Kong Ltd.	46,251	45,719	41,572
Capital Investment Trust Corp.	<u>1,294,565</u>	<u>1,261,329</u>	<u>1,286,071</u>
Subtotal	<u>1,340,816</u>	<u>1,307,048</u>	<u>1,327,643</u>
Total	<u>\$ 1,484,754</u>	<u>1,432,537</u>	<u>1,478,469</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Subsidiaries:

For the three months ended March 31, 2019 and 2018, the Group's share of gains or losses of the subsidiaries were as follows:

	For the three months ended March 31,		
	2019	2018	
The Group's share of gains based on the subsidiaries' financial statements	\$ <u>18,450</u>	<u>18,774</u>	
	March 31, 2019	December 31, 2018	March 31, 2018
Total assets	\$ <u>193,500</u>	<u>151,345</u>	<u>173,562</u>
Total liabilities	\$ <u>49,562</u>	<u>25,856</u>	<u>22,736</u>
	For the three months ended March 31,		
	2019	2018	
Revenue	\$ <u>76,685</u>	<u>67,909</u>	
Net income	\$ <u>18,450</u>	<u>18,773</u>	

(ii) Associates

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

Name of associate	Nature between the Company	Primary business area and registered country	% of Ownership and Voting Rights		
			March 31, 2019	December 31, 2018	March 31, 2018
True Partner Advisor Hong Kong Ltd.	Engaged in asset management. The Subsidiary's strategic alliance in expansion of asset management.	Hong Kong	49.00 %	49.00 %	49.00 %
Capital Investment Trust Corp.	Engaged in security investment and discretionary investment services.	Taiwan	20.00 %	20.00 %	20.00 %

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

	March 31, 2019	December 31, 2018	March 31, 2018
Total carrying amount of the associates that were not individually material	\$ <u>1,340,816</u>	<u>1,307,048</u>	<u>1,327,643</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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	For the three months ended March 31,	
	2019	2018
The Group's share of gains based on the associates' financial statements:		
Net gains from continuing operations	\$ 33,750	13,905
Other comprehensive income (losses)	16	(302)
Total comprehensive income (losses)	\$ 33,766	13,603

(iii) Collateral

As of March 31, 2019, December 31, 2018 and March 31, 2018, none of the investment accounted for under equity method of the Group were pledged for collateral.

(iv) The unreviewed financial statements of investments accounted for using equity method

Investments were accounted for by the equity method, and the share of profit or loss and other comprehensive income of those investments were calculated based on the financial statements that have not been reviewed.

(f) Property and equipment

	Land	Buildings	Equipment	Leasehold improvements	Total
Carrying amount:					
March 31, 2019	\$ 3,692,753	1,026,651	187,117	67,371	4,973,892
January 1, 2019	\$ 3,929,272	1,148,298	188,593	74,797	5,340,960
March 31, 2018	\$ 3,652,762	1,039,059	182,744	64,457	4,939,022

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

There was no significant acquisition, disposal and impairment loss or reversal of impairment losses of property and equipment of the Group in the periods for the three months ended March 31, 2019 and 2018. For the three months ended March 31, 2019 and 2018, \$349,624 and \$0 of property and equipment were transferred to investment property, and \$18,434 and \$328 of investment property were transferred to property and equipment. Please refer to note 6(v) for details of the depreciation expense occurring in this period and note 6(f) of the consolidated financial statements as of and for the year ended December 31, 2018 for other relevant information.

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(g) Right-of-use assets

The Group leases many assets including land and buildings, vehicles, machinery and IT equipment. Information about leases for which the Group 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	1,062,820	8,049	1,070,869
Acquisitions	14,052	7,488	21,540
Effect of changes in foreign exchange rates	<u>(6)</u>	<u>-</u>	<u>(6)</u>
Balance at March 31, 2019	<u>\$ 1,076,866</u>	<u>15,537</u>	<u>1,092,403</u>
Accumulated depreciation and impairment losses:			
Balance at January 1, 2019	\$ -	-	-
Depreciation	(49,093)	(1,263)	(50,356)
Effect of changes in foreign exchange rates	<u>24</u>	<u>-</u>	<u>24</u>
Balance at March 31, 2019	<u>\$ (49,069)</u>	<u>(1,263)</u>	<u>(50,332)</u>
Carrying amount:			
March 31, 2019	<u>\$ 1,027,797</u>	<u>14,274</u>	<u>1,042,071</u>

(h) Investment property

	<u>Land and improvements</u>	<u>Buildings</u>	<u>Total</u>
<u>Carrying Amount:</u>			
March 31, 2019	<u>\$ 1,272,389</u>	<u>447,747</u>	<u>1,720,136</u>
January 1, 2019	<u>\$ 1,035,870</u>	<u>338,144</u>	<u>1,374,014</u>
March 31, 2018	<u>\$ 1,312,379</u>	<u>479,745</u>	<u>1,792,124</u>
<u>Fair Value:</u>			
March 31, 2019			<u>2,686,130</u>
January 1, 2019			<u>2,237,610</u>
March 31, 2018			<u>2,805,379</u>

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

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

There was no significant acquisition, disposal and impairment loss or reversal of impairment losses of investment properties of the Group in the periods for the three months ended March 31, 2019 and 2018. For the three months ended March 31, 2019 and 2018, \$349,624 and \$0 of property and equipment were transferred to investment property, and \$18,434 and \$328 of investment property were transferred to property and equipment. Please refer to note 6(v) for details of the depreciation expense occurring in this period and note 6(g) of the consolidated financial statements as of and for the year ended December 31, 2018 for other relevant information.

(i) Intangible assets

(i) Goodwill

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

The Capital International Technology Corp., the second level subsidiary, acquired 51% shares of the Capital True Partner Technology Co., Ltd in order to expand operations. The Group recognized the differences between investment costs and identifiable assets as goodwill. As of March 31, 2019, December 31, 2018 and March 31, 2018, the book value of goodwill was all \$22,088.

(ii) Other intangible assets - Operation franchise

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

(iii) Other intangible assets - Membership of foreign futures Exchanges

The subsidiaries obtained the membership of foreign futures Exchanges - NYMEX, COMEX, CBOT, HKEX and CME for business development. In accordance with IAS 38 "Intangible Assets" endorsed by the FSC, the memberships are regarded as intangible assets with an indefinite useful life. As of March 31, 2019, December 31, 2018 and March 31, 2018, the book values of intangible assets were \$46,273, \$46,270 and \$48,003 respectively.

(iv) Other intangible assets - Computer software

Computer software was booked at cost and amortized by using the straight-line method over the estimated useful lives. As of March 31, 2019, December 31, 2018 and March 31, 2018, the amortized book value was \$34,033, \$36,015 and \$35,980 respectively.

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(j) Short-term borrowings

<u>Nature of borrowings</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Collateralized loan	\$ 1,642,531	1,635,394	380,000
Credit loans	2,415,268	2,238,112	6,381,497
Total	<u>\$ 4,057,799</u>	<u>3,873,506</u>	<u>6,761,497</u>
Interest rate range	<u>0.65%~3.37%</u>	<u>0.65%~4.40%</u>	<u>0.60%~3.00%</u>

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

(k) Commercial paper payable

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Commercial paper payable	\$ -	-	5,500,000
Less: Unamortized discount	-	-	(876)
Net amount	<u>\$ -</u>	<u>-</u>	<u>5,499,124</u>
Interest rate range	<u>-</u>	<u>-</u>	<u>0.51%~0.56%</u>

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Liabilities on sale of borrowed securities	\$ 376,485	668,469	1,543,439
Redeem liabilities on sale of borrowed securities	(25,369)	(62,095)	(5,583)
Valuation adjustment	(12,695)	(139,826)	(155,095)
Subtotal	<u>338,421</u>	<u>466,548</u>	<u>1,382,761</u>
Settlement coverage bonds payable of short sale	50,021	-	651,355
Valuation adjustment	(27)	-	769
Subtotal	<u>49,994</u>	<u>-</u>	<u>652,124</u>
Stock warrants issued	14,982,697	13,077,314	15,122,677
Stock warrants repurchased	(14,516,970)	(12,617,507)	(13,933,027)
Subtotal	<u>465,727</u>	<u>459,807</u>	<u>1,189,650</u>
Put options	10,598	16,074	90,148
Equity derivatives	-	-	1,428
IRS asset swaps	1,631	763	1,008
Asset swap options - short position	304,708	208,927	362,231
Structured notes	7,850	8,914	9,152
Currency derivatives	4,531	9,063	1,780
Currency swaps	234	31,575	10,383
Interest rate swaps	-	544	-
Subtotal	<u>329,552</u>	<u>275,860</u>	<u>476,130</u>
Total	<u>\$ 1,183,694</u>	<u>1,202,215</u>	<u>3,700,665</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(m) Bonds sold under repurchase agreements

	March 31, 2019	December 31, 2018	March 31, 2018
Bonds sold under repurchase agreements	<u>\$ 33,175,387</u>	<u>28,032,524</u>	<u>45,748,947</u>
Agreed-upon repurchase amounts	<u>33,449,730</u>	<u>28,213,380</u>	<u>46,008,834</u>
Interest rates	<u>0.37%~4.10%</u>	<u>0.35%~4.40%</u>	<u>0.31%~4.50%</u>
Date of repurchase	<u>2019.4.1~2020.3.27</u>	<u>2019.1.2~2019.12.20</u>	<u>2018.4.2~2019.3.29</u>

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

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

	March 31, 2019	December 31, 2018	March 31, 2018
Customer equity of separate account ledger in settlement	<u>\$ 269,907</u>	<u>26,969</u>	<u>12,878</u>

(o) Accounts payable

	March 31, 2019	December 31, 2018	March 31, 2018
Payable of securities sold by customers	\$ 18,027	10,731	44,594
Settlement price	-	-	140,793
Payable of settlements	8,497,407	3,476,398	5,565,374
Others	<u>276,272</u>	<u>370,764</u>	<u>222,766</u>
Total	<u>\$ 8,791,706</u>	<u>3,857,893</u>	<u>5,973,527</u>

(p) Operating leases

The Group has no material incremental operating leases contracts for the three months ended March 31, 2019. Please refer to note 6(o) of the consolidated financial statements as of and for the year ended December 31, 2017 for other relevant information.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(q) Lease liabilities

The Group's lease liabilities are as follow:

	March 31, 2019		
	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	\$ 172,888	13,330	159,558
Between one and five years	518,067	33,923	484,144
More than five years	<u>427,272</u>	<u>12,166</u>	<u>415,106</u>
	<u>\$ 1,118,227</u>	<u>59,419</u>	<u>1,058,808</u>
Current	<u>\$ 172,888</u>	<u>13,330</u>	<u>159,558</u>
Non-current financial assets	<u>\$ 945,339</u>	<u>46,089</u>	<u>899,250</u>

The amounts recognized in profit or loss were as follows:

	For the three months ended March 31, 2019
Interest on lease liabilities	<u>\$ 3,585</u>
Expenses relating to short-term leases	<u>\$ 2,378</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	<u>\$ 6,471</u>

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

	For the three months ended March 31, 2019
Total cash outflow for leases	<u>\$ 47,669</u>

(r) Employee benefit

(i) Defined benefit plans

In the prior fiscal year, there is apparently no evidence of any material market volatility, material curtailment, reimbursement and settlement or other material one-time events. Therefore, pension cost in the interim consolidated financial statements is measured and disclosed according to the respective actuarial report as of December 31, 2018 and 2017.

For the three months ended March 31, 2019 and 2018, the Group's pension expenses recognized in profit or loss were \$2,856 and \$3,464, respectively.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Defined contribution plan

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

The Group contributed \$20,922 and \$21,919 under defined contribution plan to the Bureau of the Labor Insurance for the three months ended March 31, 2019 and 2018, respectively.

(iii) For the three months ended March 31, 2019 and 2018, the pension costs contributed by overseas subsidiaries in compliance with local ordinance were \$1,234 and \$1,003, respectively.

(iv) Provision for employee benefits liabilities

	March 31, 2019	December 31, 2018	March 31, 2018
Compensated absences	\$ 48,486	50,666	54,474

(s) Income tax

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

(i) The detail of income tax expense for the three months ended March 31, 2019 and 2018 were as follows:

	For the three months ended March 31,	
	2019	2018
Current tax expense	\$ 156,355	98,886
Deferred income tax expense (benefit)	(58,150)	101,122
	\$ 98,205	200,008

(ii) The amount of income tax expense or benefit recognized in other comprehensive income for the three months ended March 31, 2019 and 2018 were as follows:

	For the three months ended March 31,	
	2019	2018
Foreign exchange difference from translating financial statement of foreign operations	\$ 882	1,615

(iii) Income tax assessment status

- 1) The Company's income tax returns through 2016, except for 2015, were assessed by the Tax Authority.
- 2) Subsidiary - Capital Investment Management Corp.'s income tax returns through 2017 were assessed by the Tax Authority.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 3) Subsidiary - Capital Futures Corp.'s income tax returns through 2017 were assessed by the Tax Authority.
- 4) Subsidiary - Taiwan International Securities Investment Consulting Corp.'s income tax returns for the liquidation date as of June 30, 2012 were assessed by the Tax Authority.
- 5) Subsidiary - Capital International Technology Corp.'s income tax returns through 2017 were assessed by the Tax Authority.
- 6) Subsidiary - CSC Venture Capital Corp.'s income tax returns through 2017 were assessed by the Tax Authority.

(iv) Income tax administrative relief

Since income tax of securities trading and amortization of intangible assets withheld from year 2010 to 2014 and 2016 were assessed differently from those reported by the Company, and the Company has filed for administrative relief. The additional tax was accrued based on conservative concept.

(t) Capital and other equity

(i) Capital stock

As of March 31, 2019, December 31, 2018 and March 31, 2018, the Company had authorized capital of \$30,000,000 and issued common stock of 2,320,908 thousand shares, 2,320,908 thousand shares, and 2,169,073 thousand shares with \$10 dollars face value 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.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The followings are the capital surplus of the Company:

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

(iii) Retained earnings

1) Legal reserve

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

2) Special reserve

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

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Undistributed earnings

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

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

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

The Company's 2018 earnings distribution for cash dividends \$928,363 had been resolved by the board meeting on March 29, 2019. The stockholders had not resolved the distribution of earnings mentioned above.

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

(u) Earnings per share

The basic earnings per share and dilutive earnings per share for the three months ended March 31, 2019 and 2018 were calculated as follows:

	For the three months ended March 31,	
	2019	2018
Net income attributable to common shareholders of the Company	\$ <u>603,033</u>	<u>793,996</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	<u>2,320,908</u>	<u>2,320,908</u>
Basic earnings per share (dollar)	\$ <u>0.26</u>	<u>0.34</u>
Effect of potentially dilutive common stock		
- Employee remuneration (thousands of shares) (Note)	<u>799</u>	<u>886</u>
Weighted-average number of outstanding shares for calculating dilutive EPS (thousands of shares)	<u>2,321,707</u>	<u>2,321,794</u>
Dilutive earnings per share (dollar)	\$ <u>0.26</u>	<u>0.34</u>

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Items of the statements of comprehensive income

(i) Brokerage commissions

	For the three months ended March 31,	
	2019	2018
Brokerage commission from TSE market	\$ 310,781	450,097
Brokerage commission from OTC market	129,215	171,094
Handling fee from security financing	4,865	7,382
Futures commission income - brokerage	368,797	487,799
Overseas subsidiaries	9,653	17,497
Others	18,850	26,401
	\$ 842,161	1,160,270

(ii) Underwriting commissions

	For the three months ended March 31,	
	2019	2018
Revenue from underwriting securities on a firm commitment basis	\$ 7,784	18,943
Handling fee revenues from underwriting securities on best efforts basis	453	125
Processing fee revenues from underwriting operations	10,429	1,604
Revenue from underwriting consultation	2,140	4,045
Others	1,082	2,459
	\$ 21,888	27,176

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

	For the three months ended March 31,	
	2019	2018
Gains (losses) on securities sold - proprietary trading	\$ 126,627	102,412
Gains (losses) on securities sold - underwriting	3,300	8,045
Gains (losses) on securities sold - hedging	87,194	(100,893)
Total	\$ 217,121	9,564

(iv) Interest revenue

	For the three months ended March 31,	
	2019	2018
Interest revenue - margin loans	\$ 138,496	203,619
Interest revenue - bonds	204,894	329,717
Overseas subsidiaries	8,823	13,086
Others	17,185	15,607
	\$ 369,398	562,029

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	For the three months ended March 31,	
	2019	2018
Trading securities - proprietary	\$ 364,523	(12,605)
Trading securities - underwriting	37,017	(8,251)
Trading securities - hedging	268,172	118,250
Settlement coverage bonds payable of short sale	27	(798)
	\$ 669,739	96,596

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

	For the three months ended March 31,	
	2019	2018
Gains on changes in fair value of stock warrants	\$ 3,786,203	6,305,598
Gains on exercise of stock warrants before maturity	3,848,053	6,741,654
Losses on changes in fair value of stock warrants repurchased	(7,621,506)	(12,644,347)
Gains on expiration of stock warrants	3,889	19,799
Stock warrants issuance expenses	(38,000)	(43,934)
	\$ (21,361)	378,770

- (vii) Futures commission revenues

	For the three months ended March 31,	
	2019	2018
Futures commission revenues - CSC Futures (HK) Ltd.	\$ 58,133	177,188

Future commission revenues is the commission revenue from future trading by CSC Futures (HK) Ltd, the second level subsidiary, which is reflected under “Brokerage Commission Income”. The Group recognized the commission from CSC Futures (HK) Ltd as “Futures commission revenues” in the consolidated financial statements.

- (viii) Commission expenses - future

	For the three months ended March 31,	
	2019	2018
Future trading - reconignment	\$ 60,281	74,179
Future trading - introducing brokers	168	2,521
Commission expenses - CSC Futures (HK) Ltd.	18,740	76,015
	\$ 79,189	152,715

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ix) Employee benefits, depreciation, and amortization expenses

	For the three months ended March 31,	
	2019	2018
Employee benefit expenses		
Salary expense	\$ 462,201	633,693
Health and labor insurance expense	42,478	46,565
Pension expense	25,012	26,386
Others	13,681	15,346
Depreciation expense	97,574	42,646
Amortization expense	8,194	8,857
	<u>\$ 649,140</u>	<u>773,493</u>

(x) Other operating expenses

	For the three months ended March 31,	
	2019	2018
Rental expense	\$ 8,849	40,125
Taxes	89,458	115,801
Information technology expense	52,898	49,820
Postage expense	41,038	34,622
Professional service fee	5,387	129,875
Other expenses	128,948	139,607
	<u>\$ 326,578</u>	<u>509,850</u>

(xi) Other gains and losses

	For the three months ended March 31,	
	2019	2018
Financial revenue	\$ 143,529	75,393
Currency exchange gains (losses)	4,886	(4,203)
Net gains (losses) on disposal of investment	7,801	(21)
Net gains (losses) on measurement of non-operating financial instruments at fair value through profit or loss	21,303	21,963
Dividend revenue	-	3,038
Others	79,093	78,827
	<u>\$ 256,612</u>	<u>174,997</u>

(xii) Remuneration to employees, directors and supervisors

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

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

For the three months ended March 31, 2019 and 2018, the estimated amounts of remuneration to employee were \$7,671 and \$9,965, and to directors were \$12,785 and \$16,608, respectively, which were calculated based on the Company's net profit before income tax and remuneration to employees and director multiple the earnings allocation percentage as stated under the Company's Articles of Incorporation and were recognized as operating expense. If the actual amounts were subsequently decided after the approval and the issuance date of the financial statements in the following year differ from the estimated amounts, the differences are accounted for as changes in accounting estimates and recognized in profit or loss in the following year. If the Board of Directors resolved to distribute the employees' remuneration in the form of shares, the number of shares of the distribution is based on the closing price of the day before the Board of Directors' meeting date.

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

For the three months ended March 31, 2019 and 2018, the estimated amounts of remuneration to employee were \$2,450 and \$4,627 and to directors and supervisors were \$2,450 and \$4,645 by the domestic subsidiaries of the Group, respectively.

(w) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. As of March 31, 2019, December 31, 2018 and March 31, 2018, the maximum credit exposure amounted to \$100,002,402, \$92,766,076 and \$110,875,811, respectively.

The regional distribution of financial assets' credit risk exposure amount which owned by the Group is as the list below. The region of exposure is mostly in Taiwan (72.82%); secondly, is in Asia (15.76%, exclusion of Taiwan); then, is in America (6.74%). Compare to the same period of last year, there is no significant change in proportion of region of investments. The subsidiary Capital Futures Corp. only reveals the regional distribution in cash and cash equivalent and customers' margin account.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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<u>Region</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Taiwan	\$ 72,478,465	68,026,272	68,474,287
Asia (Taiwan is excluded)	15,682,308	13,929,523	19,565,913
Europe	4,637,218	4,495,750	8,305,623
America	6,711,727	5,709,464	11,932,664
Other	<u>27,704</u>	<u>82,619</u>	<u>1,974,242</u>
Total	<u>\$ 99,537,422</u>	<u>92,243,628</u>	<u>110,252,729</u>

2) Impairment loss

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

	<u>March 31, 2019</u>		<u>December 31, 2018</u>		<u>March 31, 2018</u>	
	<u>Total amount</u>	<u>Impairment</u>	<u>Total amount</u>	<u>Impairment</u>	<u>Total amount</u>	<u>Impairment</u>
Not past due	\$ 21,671,675	24,630	16,677,224	23,522	24,021,795	67,847
Past due 0~30 days	264	264	272	272	316	316
Past due 31~120 days	282	282	914	914	26,038	26,038
Past due 121~360 days	1,491	1,491	25,523	25,523	85,705	85,705
Past due more than 360 days	<u>313,541</u>	<u>313,541</u>	<u>288,286</u>	<u>288,286</u>	<u>137,225</u>	<u>136,019</u>
	<u>\$ 21,987,253</u>	<u>340,208</u>	<u>16,992,219</u>	<u>338,517</u>	<u>24,271,079</u>	<u>315,925</u>

Allowance for doubtful debts under receivables and overdue receivables are recorded for the bad debt expense or impairment loss. Where a claim becomes definitely uncollectible, the allowance for doubtful debts should be written off to financial assets account. As of March 31, 2019, December 31, 2018 and March 31, 2018, the impairment losses of accrued receivables were recognized \$340,208, \$338,517 and \$315,925, respectively.

3) Credit risk of accrued receivables and debt securities

Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(g) of the consolidated financial statements as of and for the year ended December 31, 2018. Debt securities held by the Group 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.

The Group 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 Group. Thus, the Group will recognize the impairment losses.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The loss allowance provision for the three months ended March 31, 2019 and 2018 was as follows:

	12-month ECL		Lifetime ECL -not credit impaired		Lifetime ECL -credit impaired		Total
	Accrued receivables	Debt securities at FVOCI	Accrued receivables	Debt securities at FVOCI	Accrued receivables	Debt securities at FVOCI	
	Balance on January 1, 2019	-	5,861	-	-	338,517	
Provision or reversal of Impairment loss	-	1,348	-	-	160	-	1,508
Amounts written off	-	-	-	-	(20)	-	(20)
Effect of exchange rate	-	-	-	-	1,551	-	1,551
Balance on March 31, 2019	<u>\$ -</u>	<u>7,209</u>	<u>-</u>	<u>-</u>	<u>340,208</u>	<u>-</u>	<u>347,417</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	\$ -	-	-	-	260,851	
Adjustment on initial application of IFRS 9	-	15,153	-	-	-	-	15,153
Balance on January 1, 2018	-	15,153	-	-	260,851	-	276,004
Provision or reversal of Impairment loss	-	(859)	-	-	55,074	-	54,215
Balance on March 31, 2018	<u>\$ -</u>	<u>14,294</u>	<u>-</u>	<u>-</u>	<u>315,925</u>	<u>-</u>	<u>330,219</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Liquidity risk

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

March 31, 2019	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 338,421	338,421	338,421	-	-	-	-
Settlement coverage bonds payable of short sale	49,994	49,994	49,994	-	-	-	-
Stock warrants issued	465,727	465,727	391,709	74,018	-	-	-
Put options - futures	10,598	10,598	10,598	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	1,865	1,865	241	(77)	531	1,170	-
Put options	304,708	304,708	28,017	31,282	128,747	116,662	-
Currency derivatives	4,531	4,531	4,531	-	-	-	-
Short-term borrowings	4,057,799	4,057,799	4,057,799	-	-	-	-
Bonds sold under repurchase agreements	33,175,387	33,449,730	33,449,730	-	-	-	-
Guarantee deposited for short sales	1,252,730	1,252,730	1,252,730	-	-	-	-
Proceeds payable from short sales	1,408,399	1,408,399	1,408,399	-	-	-	-
Securities lending refundable deposits	582,634	582,634	582,634	-	-	-	-
Futures traders' equity	34,325,003	34,325,003	34,325,003	-	-	-	-
Leverage contract trading customers' equity	217,355	217,355	217,355	-	-	-	-
Notes payable and accounts payable	478,678	478,678	478,678	-	-	-	-
Receipts under custody	230,773	230,773	230,773	-	-	-	-
Other payables	570,740	570,740	569,019	1,721	-	-	-
Structured notes	3,446,141	3,446,141	2,840,744	254,875	241,763	108,759	-
Lease liabilities	1,058,808	1,118,227	66,742	106,146	181,296	334,475	429,568
	<u>\$ 81,980,291</u>	<u>82,314,053</u>	<u>80,303,117</u>	<u>467,965</u>	<u>552,337</u>	<u>561,066</u>	<u>429,568</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
December 31, 2018							
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	16,074	16,074	16,074	-	-	-	-
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	-
Currency derivatives	9,063	9,063	9,063	-	-	-	-
Short-term borrowings	3,873,506	3,873,506	3,714,303	159,203	-	-	-
Bonds sold under repurchase agreements	28,032,524	28,213,380	28,213,380	-	-	-	-
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	-	-	-	-
Futures traders' equity	33,158,826	33,158,826	33,158,826	-	-	-	-
Leverage contract trading customers' equity	225,899	225,899	225,899	-	-	-	-
Notes payable and accounts payable	381,154	381,154	381,154	-	-	-	-
Receipts under custody	120,325	120,325	120,325	-	-	-	-
Other payables	765,572	765,572	763,523	2,049	-	-	-
Structured notes	3,676,833	3,676,833	3,175,382	191,419	237,377	72,655	-
	<u>\$ 76,992,842</u>	<u>77,173,698</u>	<u>76,294,364</u>	<u>386,624</u>	<u>363,264</u>	<u>129,446</u>	<u>-</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
March 31, 2018							
Financial liabilities at fair value through profit or loss - current							
Liabilities on sale of borrowed securities	\$ 1,382,761	1,382,761	1,382,761	-	-	-	-
Settlement coverage bonds payable of short sale	652,124	652,124	652,124	-	-	-	-
Stock warrants issued	1,189,650	1,189,650	1,093,146	96,504	-	-	-
Put options - futures	90,148	90,148	90,148	-	-	-	-
Equity derivatives	1,428	1,428	1,428	-	-	-	-
Interest rate swaps and Currency swaps (including IRS asset swaps)	11,391	11,391	4,770	5,613	560	448	-
Put options	362,231	362,231	36,349	42,412	104,465	179,005	-
Currency derivatives	1,780	1,780	1,780	-	-	-	-
Short-term borrowings	6,761,497	6,761,497	6,761,497	-	-	-	-
Commercial paper payable	5,499,124	5,500,000	5,500,000	-	-	-	-
Bonds sold under repurchase agreements	45,748,947	46,008,834	46,008,834	-	-	-	-
Guarantee deposited for short sales	1,050,945	1,050,945	1,050,945	-	-	-	-
Proceeds payable from short sales	1,179,872	1,179,872	1,179,872	-	-	-	-
Securities lending refundable deposits	995,555	995,555	995,555	-	-	-	-
Futures traders' equity	26,904,899	26,904,899	26,904,899	-	-	-	-
Leverage contract trading customers' equity	182,412	182,412	182,412	-	-	-	-
Notes payable and accounts payable	226,469	226,469	226,469	-	-	-	-
Receipts under custody	151,007	151,007	151,007	-	-	-	-
Other payables	814,411	814,411	813,345	1,066	-	-	-
Structured notes	5,408,793	5,408,793	4,766,962	373,315	207,880	60,636	-
	<u>\$ 98,615,444</u>	<u>98,876,207</u>	<u>97,804,303</u>	<u>518,910</u>	<u>312,905</u>	<u>240,089</u>	<u>-</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(iii) Currency risk

1) Currency risk exposure

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

	March 31, 2019		
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial assets</u>			
<u>Monetary Item</u>			
USD	\$ 653,960	30.8200	20,155,047
AUD	5,807	21.8550	126,912
CAD	305	22.9500	7,000
CHF	64	30.9350	1,980
EUR	8,890	34.6100	307,683
GBP	2,995	40.1100	120,129
HKD	71,957	3.9260	282,503
JPY	2,488,206	0.2783	692,468
SGD	293	22.7500	6,666
CNY	77,858	4.5800	356,590
ZAR	30	2.1000	63
KRW	234,999	0.0274	6,439
NZD	53	20.9500	1,110
THB	322	0.9740	314
<u>Non-Monetary Item</u>			
USD	413,521	30.8200	12,744,717
AUD	142,762	21.8550	3,120,064
EUR	11	34.6100	381
HKD	35,826	3.9260	140,653
JPY	13,661	0.2783	3,802
CNY	382,852	4.5800	1,753,462
<u>Investments under equity method</u>			
HKD	11,781	3.9260	46,251

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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	March 31, 2019		
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial liabilities</u>			
<u>Monetary Item</u>			
USD	\$ 1,045,091	30.8200	32,209,705
AUD	140,106	21.8550	3,062,017
CHF	63	30.9350	1,949
EUR	8,424	34.6100	291,555
GBP	2,880	40.1100	115,517
HKD	186,078	3.9260	730,542
JPY	2,458,801	0.2783	684,284
SGD	356	22.7500	8,099
CNY	305,512	4.5800	1,399,245
KRW	211,214	0.0274	5,787
THB	(510)	0.9740	(497)
<u>Non-Monetary Item</u>			
USD	147	30.8200	4,531

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2018		
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial assets</u>			
<u>Monetary Item</u>			
USD	\$ 555,736	30.7150	17,069,431
AUD	6,781	21.6650	146,910
CAD	232	22.5800	5,239
CHF	50	31.1850	1,559
EUR	9,261	35.2000	325,987
GBP	3,656	38.8800	142,145
HKD	123,996	3.9210	486,188
JPY	1,551,889	0.2782	431,736
SEK	4	3.4200	14
SGD	854	22.4800	19,198
CNY	68,900	4.4720	308,121
ZAR	5	2.1200	11
KRW	347,958	0.0278	9,673
NZD	51	20.6200	1,052
THB	5,447	0.9532	5,192
<u>Non-Monetary Item</u>			
USD	310,103	30.7150	9,524,814
AUD	167,642	21.6650	3,631,964
EUR	44	35.2000	1,549
GBP	2	38.8800	78
HKD	26,380	3.9210	103,436
JPY	10,593	0.2782	2,947
CNY	416,174	4.4720	1,861,130
<u>Investments under equity method</u>			
HKD	11,660	3.9210	45,719

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2018		
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial liabilities</u>			
<u>Monetary Item</u>			
USD	\$ 840,061	30.7150	25,802,474
AUD	169,752	21.6650	3,677,677
CAD	7	22.5800	158
CHF	50	31.1850	1,559
EUR	8,557	35.2000	301,206
GBP	3,553	38.8800	138,141
HKD	204,497	3.9210	801,833
JPY	1,498,089	0.2782	416,768
SEK	4	3.4200	14
SGD	852	22.4800	19,153
CNY	324,111	4.4720	1,449,424
KRW	168,066	0.0278	4,672
NZD	1	20.6200	21
THB	4,727	0.9532	4,506
<u>Non-Monetary Item</u>			
USD	179	30.7150	5,498
AUD	2	21.6650	43
CAD	14	22.5800	316
JPY	9,730	0.2782	2,707
CNY	113	4.4720	505

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	March 31, 2018		
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial assets</u>			
<u>Monetary Item</u>			
USD	\$ 496,969	29.1050	14,464,283
AUD	46,554	22.3450	1,040,249
CAD	356	22.5700	8,035
CHF	156	30.4950	4,757
EUR	12,070	35.8700	432,951
GBP	4,438	40.7900	181,026
HKD	107,382	3.7080	398,172
JPY	1,133,238	0.2739	310,394
SGD	1,293	22.2100	28,718
CNY	74,450	4.6470	345,969
ZAR	4	2.4500	10
KRW	223,460	0.0276	6,167
NZD	8	21.1000	169
THB	1,708	0.9384	1,603
<u>Non-Monetary Item</u>			
USD	842,071	29.1050	24,508,476
AUD	373,972	22.3450	8,356,404
EUR	69	35.8700	2,475
HKD	39,217	3.7080	145,417
JPY	6,205	0.2739	1,700
CNY	314,062	4.6470	1,459,446
NZD	1	21.1000	21
<u>Investments under equity method</u>			
HKD	11,211	3.7080	41,572

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	March 31, 2018		
	Foreign Currency (thousands)	Exchange Rate	Amount
<u>Financial liabilities</u>			
<u>Monetary Item</u>			
USD	\$ 1,288,527	29.1050	37,502,578
AUD	414,093	22.3450	9,252,908
CHF	156	30.4950	4,757
EUR	11,535	35.8700	413,760
GBP	4,339	40.7900	176,988
HKD	213,401	3.7080	791,291
JPY	1,097,600	0.2739	300,633
SGD	1,282	22.2100	28,473
CNY	224,575	4.6470	1,043,600
KRW	24,221	0.0276	668
THB	1,500	0.9384	1,408
<u>Non-Monetary Item</u>			
USD	51	29.1050	1,484
AUD	2	22.3450	45
JPY	567	0.2739	155
CAD	4	22.5700	90

Because there are a variety of functional currencies, the Group discloses a summary of its information on currency exchange gain or loss. The realized and unrealized currency exchange gains (losses) amounted to \$19,303 and \$23,048 for the three months ended March 31, 2019 and 2018, respectively.

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Sensitivity analysis

The currency risk of the Group arises mainly from cash and cash equivalents, other receivables, security borrowing margin, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, customers' margin account, futures traders' equity, and securities lending refundable deposits, which are denominated in foreign currencies. Currency exchange gains or losses occur when translating the foreign currency assets to NTD assets. For the three months ended March 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 three months ended		For the three months ended	
	March 31, 2019		March 31, 2018	
	Appreciated	Depreciated	Appreciated	Depreciated
	5%	5%	5%	5%
Net income	(481,866)	481,866	(1,136,148)	1,136,148
Other comprehensive income	536,325	(536,325)	1,224,916	(1,224,916)

(iv) Sensitivity analysis of interest rate risk

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

<u>Market risk type</u>	<u>March 31,</u>	<u>March 31,</u>	<u>For the three months ended March 31,</u>					
			<u>2019</u>			<u>2018</u>		
			<u>2019</u>	<u>2018</u>	<u>Mean</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Mean</u>
Interest risk	1,502,186	2,059,433	1,501,171	1,502,186	1,499,648	2,058,478	2,076,354	2,039,647

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated 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 Group determines the fair value of financial instruments in accordance with (a) the calculation of valuation techniques, (b) valuation provided by the professional electronic information company and commonly used by market participants, or (c) quoted prices of the counter party.

b) Definition of fair value hierarchy

i) Level 1

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

ii) Level 2

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

iii) Level 3

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Not based on fair value measurement

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

a) Fair value information

	March 31, 2019		December 31, 2018		March 31, 2018	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets :						
Cash and cash equivalents	\$ 7,984,738	7,984,738	7,993,419	7,993,419	7,629,820	7,629,820
Accrued receivable	22,485,700	22,485,700	17,631,012	17,631,012	26,375,970	26,375,970
Customers' margin account	34,392,217	34,392,217	33,275,630	33,275,630	26,989,365	26,989,365
Leverage contract trading - customers' margin account	216,597	216,597	228,564	228,564	182,363	182,363
Restricted assets - current	731,071	731,071	730,728	730,728	632,038	632,038
Other non-current assets	1,484,641	1,484,641	1,416,547	1,416,547	1,629,292	1,629,292
Financial liabilities :						
Short-term borrowings	4,057,799	4,057,799	3,873,506	3,873,506	6,761,497	6,761,497
Commercial paper payable	-	-	-	-	5,499,124	5,499,124
Bonds sold under repurchase agreements	33,175,387	33,175,387	28,032,524	28,032,524	45,748,947	45,748,947
Accrued payable	13,708,134	13,708,134	10,788,574	10,788,574	10,496,873	10,496,873
Futures traders' equity	34,325,003	34,325,003	33,158,826	33,158,826	26,904,899	26,904,899
Leverage contract trading - customers' equity	217,355	217,355	225,899	225,899	182,412	182,412
Other financial liabilities - current	3,087,769	3,087,769	3,357,887	3,357,887	5,131,125	5,131,125
Other financial liabilities - non- current	350,522	350,522	310,032	310,032	268,516	268,516
Other non-current liabilities	98,169	98,169	68,458	68,458	248,747	248,747

b) Hierarchy information of fair value

	Level 1	Level 2	Level 3	Total
Investment property				
March 31, 2019	\$ -	-	2,686,130	2,686,130
December 31, 2018	\$ -	-	2,237,610	2,237,610
March 31, 2018	\$ -	-	2,805,379	2,805,379

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 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, customers' margin account, leverage contract trading - customers' margin account, other current assets, other non-current assets, short term borrowings, commercial paper payable, bonds sold under repurchase agreements, accrued payable, futures traders' equity, leverage contract trading - customers' equity, other financial liabilities - current, other financial liabilities - non-current, and other non-current liabilities.
- ii) The investment properties were evaluated and estimated using Market Method based on the market evidence of transaction price of similar properties.
- 3) Based on fair value measurement
- a) Hierarchy information of fair value

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
March 31, 2019				
Financial assets at fair value through profit or loss	\$ 13,813,138	18,119,028	-	31,932,166
Financial assets at fair value through other comprehensive income	473,014	13,112,942	2,094,170	15,680,126
Derivative financial assets	<u>261,505</u>	<u>51,135</u>	<u>-</u>	<u>312,640</u>
	<u>\$ 14,547,657</u>	<u>31,283,105</u>	<u>2,094,170</u>	<u>47,924,932</u>
Financial liabilities at fair value through profit or loss	\$ 854,142	-	-	854,142
Derivative financial liabilities	<u>10,598</u>	<u>318,954</u>	<u>-</u>	<u>329,552</u>
	<u>\$ 864,740</u>	<u>318,954</u>	<u>-</u>	<u>1,183,694</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2018				
Financial assets at fair value through profit or loss	\$ 12,267,176	18,674,078	-	30,941,254
Financial assets at fair value through other comprehensive income	484,340	10,381,589	1,911,577	12,777,506
Derivative financial assets	<u>235,070</u>	<u>69,659</u>	<u>-</u>	<u>304,729</u>
	<u>\$ 12,986,586</u>	<u>29,125,326</u>	<u>1,911,577</u>	<u>44,023,489</u>
Financial liabilities at fair value through profit or loss	\$ 926,355	-	-	926,355
Derivative financial liabilities	<u>16,074</u>	<u>259,786</u>	<u>-</u>	<u>275,860</u>
	<u>\$ 942,429</u>	<u>259,786</u>	<u>-</u>	<u>1,202,215</u>
March 31, 2018				
Financial assets at fair value through profit or loss	\$ 14,903,547	17,391,051	-	32,294,598
Financial assets at fair value through other comprehensive income	527,774	30,371,292	1,878,536	32,777,602
Derivative financial assets	<u>538,709</u>	<u>67,418</u>	<u>-</u>	<u>606,127</u>
	<u>\$ 15,970,030</u>	<u>47,829,761</u>	<u>1,878,536</u>	<u>65,678,327</u>
Financial liabilities at fair value through profit or loss	\$ 3,224,535	-	-	3,224,535
Derivative financial liabilities	<u>90,148</u>	<u>385,982</u>	<u>-</u>	<u>476,130</u>
	<u>\$ 3,314,683</u>	<u>385,982</u>	<u>-</u>	<u>3,700,665</u>

b) Valuation techniques

i) Non-derivative financial instruments

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

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

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

ii) Derivative financial instruments

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

4) Transfer between Level 1 and Level 2

There is no transfer between Level 1 and Level 2 for the three months ended March 31, 2019 and 2018.

5) Fair value adjustments

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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6) Movements of financial assets at fair value classified into Level 3

(In Thousands Dollars)

Item	For the three months ended March 31, 2019							Ending Balance
	Beginning Balance	Gains and losses on valuation		Addition		Reduction		
		Amount recognized in profit or loss	Amount recognized in comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	
Financial assets at fair value through other comprehensive income	\$ 1,911,577	-	152,729	29,864	-	-	-	2,094,170

Item	For the three months ended March 31, 2018							Ending Balance
	Beginning Balance	Gains and losses on valuation		Addition		Reduction		
		Amount recognized in profit or loss	Amount recognized in comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	
Financial assets at fair value through other comprehensive income	\$ 1,787,809	-	98,359	2,135	-	9,767	-	1,878,536

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

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

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

Item	Valuation technique	Significant unobservable inputs	Correlation between inputs and fair value
Financial assets at fair value through other comprehensive income - equity instruments without an active market	Market approach	· Price-to-Book Ratio · Discount for lack of marketability	· The higher price-to-book ratio is, the higher fair value is. · The higher discount for lack of marketability is, the lower the fair value is.
Financial assets at fair value through other comprehensive income - equity instruments without an active market - venture capital corporation	Net Asset Value Method	· Net Asset Value	Not applicable

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

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

	Change in fair value recognized in other comprehensive income	
	Favorable	Unfavorable
March 31, 2019		
Financial assets fair value through other comprehensive income	\$ <u>20,942</u>	<u>(20,942)</u>
December 31, 2018		
Financial assets fair value through other comprehensive income	\$ <u>19,116</u>	<u>(19,116)</u>
March 31, 2018		
Financial assets fair value through other comprehensive income	\$ <u>18,785</u>	<u>(18,785)</u>

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

- (vi) Transfer of financial assets

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

Types of financial assets	March 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	\$ <u>32,753,252</u>	<u>33,175,387</u>	-	-	-

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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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	\$ <u>28,357,997</u>	<u>28,032,524</u>	<u>-</u>	<u>-</u>	<u>-</u>

March 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	\$ <u>45,132,694</u>	<u>45,748,947</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

(vii) Offsetting financial assets and financial liabilities

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

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

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

March 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	\$ <u>51,135</u>	<u>-</u>	<u>51,135</u>	<u>-</u>	<u>-</u>	<u>51,135</u>

March 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	\$ 318,954	-	318,954	-	-	318,954
Under repurchase agreements	33,175,387	-	33,175,387	33,175,387	-	-
Total	\$ <u>33,494,341</u>	<u>-</u>	<u>33,494,341</u>	<u>33,175,387</u>	<u>-</u>	<u>318,954</u>

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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	\$ 69,659	-	69,659	-	-	69,659

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	\$ 259,786	-	259,786	-	-	259,786
Under repurchase agreements	28,032,524	-	28,032,524	28,032,524	-	-
Total	\$ 28,292,310	-	28,292,310	28,032,524	-	259,786

March 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	\$ 67,418	-	67,418	-	-	67,418

March 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	\$ 385,982	-	385,982	-	-	385,982
Under repurchase agreements	45,748,947	-	45,748,947	45,748,947	-	-
Total	\$ 46,134,929	-	46,134,929	45,748,947	-	385,982

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(x) Financial risk management

Except the following mentioned, there were no material changes in the Group's financial risk management and policies as disclosed in note 6(v) of the consolidated financial statements as of and for the year ended December 31, 2018.

As of March 31, 2019, December 31, 2018 and March 31, 2018, the related financial risk and the presentation of the Group's financial derivatives were as follows:

Stock warrants

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

Financial Instruments	March 31, 2019		December 31, 2018		March 31, 2018	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Stock warrants issued	\$ 7,640,087	-	17,901,620	-	62,136,760	-

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

(ii) Market risk:

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

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

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

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

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

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
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(v) Presentation of financial derivatives

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

1) For the three months ended March 31, 2019 and 2018:

a) Gains (losses) on valuation

	<u>For the three months ended March 31, 2019</u>	<u>For the three months ended March 31, 2018</u>	<u>Account</u>
Stock warrants issued	\$ 4,199,874	8,357,562	Gains (losses) on stock warrants issued
Stock warrants repurchased	(4,202,495)	(7,973,012)	Gains (losses) on stock warrants issued

b) Gains (losses) on sale

	<u>For the three months ended March 31, 2019</u>	<u>For the three months ended March 31, 2018</u>	<u>Account</u>
Security borrowing	\$ 14,924	57,912	Gains (losses) on covering of borrowed securities and bonds with resale agreements
Trading securities - hedging	63,261	(173,535)	Gains (losses) on sale of trading securities
Futures transaction	(62,549)	(143,280)	Gains (losses) on derivative financial instruments - futures

c) Gains (losses) on maturity

	<u>For the three months ended March 31, 2019</u>	<u>For the three months ended March 31, 2018</u>	<u>Account</u>
Stock warrants issued	\$ 3,438,271	4,709,489	Gains (losses) on stock warrants issued
Stock warrants repurchased	(3,419,011)	(4,671,335)	Gains (losses) on stock warrants issued

Futures

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

Please refer to note 12(a) for the notional principal and nominal amount as of March 31, 2019, December 31, 2018 and March 31, 2018.

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

(ii) Market risk:

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

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

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

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

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

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

- (iv) Presentation of financial derivatives:

For the three months ended March 31, 2019 and 2018, gains (losses) on futures and options transactions amounted to \$(343,292) and \$258,769, respectively, and were reflected as gains (losses) on derivatives - futures. As of March 31, 2019, December 31, 2018 and March 31, 2018, futures margin - proprietary fund amounted to \$255,819, \$223,490 and \$426,908, respectively, and were reflected as financial assets at fair value through profit or loss - current; excess future margin which recognized as cash and cash equivalent amounted to \$1,663,258, \$1,998,273 and \$1,840,638, respectively.

As of March 31, 2019, December 31, 2018 and March 31, 2018, the balance of call options which recognized as financial assets at fair value through profit or loss - current amounted to \$5,686, \$11,580 and \$111,801, respectively, put options which recognized as financial liabilities at fair value through profit or loss - current amounted to \$10,598, \$16,074 and \$90,148, respectively.

Derivative financial instruments - OTC

- (i) Interest rate financial derivatives

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

Financial Instruments	March 31, 2019		December 31, 2018		March 31, 2018	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
NT dollar interest swaps	\$ 27,000,000	-	29,800,000	-	41,100,000	-

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

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2) Market risk:

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

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

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

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

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

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

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

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

(ii) Structured notes

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

Financial Instruments	March 31, 2019		December 31, 2018		March 31, 2018	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Equity-linked notes	\$ 60,453	-	49,225	-	81,894	-
Principal guaranteed notes	2,554,513	-	2,730,772	-	4,502,467	-
Credit-linked notes	597,800	-	562,300	-	497,200	-
Principle guaranteed notes (in USD thousands)	USD 7,376	-	USD 10,597	-	USD 11,092	-

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

2) Market risk

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

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

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

(iii) Convertible bond asset-backed swaps

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

Financial Instruments	March 31, 2019		December 31, 2018		March 31, 2018	
	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk	Notional principal / Nominal amount	Credit Risk
For trading purpose:						
Convertible bond asset-backed swaps	\$ 670,500	-	694,900	-	921,000	-
Convertible bond options	3,492,500	-	3,012,400	-	2,647,900	-

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

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

2) Market risk:

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

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

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

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

(iv) Options

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

<u>Financial Instruments</u>	<u>March 31, 2019</u>		<u>December 31, 2018</u>		<u>March 31, 2018</u>	
	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk	Notional principal/ Nominal amount	Credit Risk
For trading purpose:						
Equity options	\$ -	-	-	-	1,000	-

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

- 2) Market risk:

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

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

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

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(v) Presentation of derivative financial instruments - OTC

As of March 31, 2019, December 31, 2018 and March 31, 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:

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Financial assets at fair value through profit or loss - current			
IRS asset swaps	\$ 15,435	13,855	19,111
Asset swap options-long position	7,641	4,072	4,830
Currency derivatives	26,420	46,967	35,001
Structured notes	643	3,075	2,168
Currency swaps	-	1,690	4,289
Interest rate swaps	996	-	2,019
Total	<u>\$ 51,135</u>	<u>69,659</u>	<u>67,418</u>
Financial liabilities at fair value through profit or loss - current			
Equity derivatives	\$ -	-	1,428
IRS asset swaps	1,631	763	1,008
Asset swap options-short position	304,708	208,927	362,231
Structured notes	7,850	8,914	9,152
Currency derivatives	4,531	9,063	1,780
Currency swaps	234	31,575	10,383
Interest rate swaps	-	544	-
Total	<u>\$ 318,954</u>	<u>259,786</u>	<u>385,982</u>
Other financial liabilities - current			
Structured notes principal value	<u>\$ 3,087,769</u>	<u>3,357,887</u>	<u>5,131,125</u>
Other financial liabilities - non-current			
Structured notes principal value	<u>\$ 350,522</u>	<u>310,032</u>	<u>268,516</u>

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For the three months ended March 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:

	For the three months ended March 31, 2019		For the three months ended March 31, 2018	
	Gains (losses) on derivative financial instruments - OTC	Unrealized Gains (losses)	Gains (losses) on derivative financial instruments - OTC	Unrealized Gains (losses)
Interest rate swaps	\$ (571)	996	(1,146)	2,019
Equity derivatives	-	-	45	44
Structured notes	(13,801)	(6,309)	(9,251)	(3,276)
IRS asset swaps	64	13,805	78	18,103
Asset swap options	(77,427)	70,395	(36,259)	(68,746)
Currency swaps	(5,353)	(234)	(16,534)	(6,093)
Currency derivatives	5,569	(16,015)	19,707	13,622
Total	<u>\$ (91,519)</u>	<u>62,638</u>	<u>(43,360)</u>	<u>(44,327)</u>

(y) Capital management

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

As of March 31, 2019, the Company maintains no change of its capital management. The Company's capital adequacy ratio on March 31, 2019 was 431%.

(z) Financing activities not affecting current cash flow

The Group's financing activities which did not affect the current cash flow in the three months ended March 31, 2019 and 2018, were as follows:

- (i) For Short-term borrowings, please refer to note 6(j).
- (ii) For Commercial papers payable, please refer to note 6(k).
- (iii) For Lease liabilities, please refer to note 6(g).

	January 1, 2019		Non-cash changes			March 31, 2019
			Cash flows	Other	Foreign exchange movement	
Short-term borrowings	\$ 3,873,506	184,293	-	-	-	4,057,799
Lease liabilities	1,070,869	(34,630)	22,575	(6)	-	1,058,808
Total liabilities from financing activities	<u>\$ 4,944,375</u>	<u>149,663</u>	<u>22,575</u>	<u>(6)</u>	<u>-</u>	<u>5,116,607</u>

	January 1, 2018		Non-cash changes			March 31, 2018
			Cash flows	Other	Foreign exchange movement	
Short-term borrowings	\$ 7,081,698	(320,201)	-	-	-	6,761,497
Commercial papers payable	4,099,184	1,399,940	-	-	-	5,499,124
Total liabilities from financing activities	<u>\$ 11,180,882</u>	<u>1,079,739</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,260,621</u>

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(7) Related party transactions:

(a) Parent company and ultimate controlling party

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

(b) Names of related parties and relationships

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

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

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

(c) Key management personnel transactions

(i) Key management personnel compensation:

	<u>For the three months ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
Short-term employee benefits	\$ 66,600	118,571
Post-employment benefits	699	568
Total	<u>\$ 67,299</u>	<u>119,139</u>

(ii) Bond transactions - bonds sold under repurchase agreements

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

	<u>March 31, 2019</u>		<u>December 31, 2018</u>		<u>March 31, 2018</u>	
	<u>Par value</u>	<u>Purchase price</u>	<u>Par value</u>	<u>Purchase price</u>	<u>Par value</u>	<u>Purchase price</u>
Key management personnel	<u>\$ 33,000</u>	<u>33,092</u>	<u>43,000</u>	<u>43,060</u>	<u>46,600</u>	<u>46,965</u>
	Total financial expenses				For the three months ended March 31,	
Key management personnel					<u>2019</u>	<u>2018</u>
					<u>\$ 54</u>	<u>48</u>

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(iii) Structured notes transactions

As of March 31, 2019, December 31, 2018 and March 31, 2018, the balances of structured notes transactions with key management personnel were \$65,544, \$55,612 and \$51,907, respectively.

(d) Significant transactions with related parties

(i) Bond transactions - bonds sold under repurchase agreements

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

	March 31, 2019		December 31, 2018		March 31, 2018	
	Par value	Purchase price	Par value	Purchase price	Par value	Purchase price
Juristic-person directors	\$ 20,300	20,300	20,300	20,315	10,500	10,500
Funds issued by associate	140,000	140,120	50,000	50,044	50,000	51,216
Total	<u>\$ 160,300</u>	<u>160,420</u>	<u>70,300</u>	<u>70,359</u>	<u>60,500</u>	<u>61,716</u>

	For the three months ended March 31,	
	2019	2018
Total financial expenses		
Funds issued by associate	\$ 184	53
Juristic-person directors	28	14
Total	<u>\$ 212</u>	<u>67</u>

Transaction terms are the same as those with general clients.

(ii) Structured notes transaction and future transactions

As of March 31, 2019, December 31, 2018 and March 31, 2018 the balances of structured notes transactions with juristic-person directors and others of the Group were \$4,950, \$17,082 and \$4,950, respectively. The balance of future transactions with the associate were \$160,296, \$287,357 and \$782,565, respectively.

(iii) Lease agreements

1) Lease revenue

	For the three months ended March 31,	
	2019	2018
Subsidiaries	\$ 260	260
Associates	4,312	4,312
Total	<u>\$ 4,572</u>	<u>4,572</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Guarantee deposits received

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Subsidiaries	\$ 200	200	200
Associates	3,811	3,811	3,811
Total	<u>\$ 4,011</u>	<u>4,011</u>	<u>4,011</u>

(iv) Insurance commission revenues

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

1) Commission revenues

	<u>For the three months ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
Subsidiaries	\$ <u>3,665</u>	<u>3,206</u>

2) Accounts receivable

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Subsidiaries	\$ <u>2,621</u>	<u>2,020</u>	<u>2,084</u>

(v) Commissions

The brokerage commission received from the Juristic-person directors, funds issued by associate of the Group and other related parties engaging in securities and futures trading for the three months ended March 31, 2019 and 2018, were as follows:

	<u>For the three months ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
Brokerage commissions		
Funds issued by associate	\$ 3,015	3,592
Other related parties	289	1,681
Total	<u>\$ 3,304</u>	<u>5,273</u>
Re-consigned handling commissions		
Funds issued by associate	\$ 2,003	1,950
Other related parties	31	41
Total	<u>\$ 2,034</u>	<u>1,991</u>
Other commissions		
Funds issued by associate	\$ <u>340</u>	<u>340</u>

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(vi) Management service income and stock service income:

The Group provided management service and stock service for associate, and the service income amounted to \$96 and \$40 for the three months ended March 31, 2019 and 2018, respectively.

(vii) Accrued receivables

The accrued receivables between the associate and the Group primarily were securities management service receivable. As of March 31, 2019, December 31, 2018 and March 31, 2018, the accrued receivables amounted to \$86, \$10 and \$28, respectively.

(viii) Disposals of financial assets

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

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

(8) Pledged assets:

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>	<u>The collateral use</u>
Restricted assets - current	\$ 731,071	730,728	632,038	Bank borrowings, commercial paper, accounts settled, repurchase agreement.
Restricted assets - non-current	-	-	94,875	Trust to an impartial third party (Note)
Trading securities and bonds purchased under resale agreements (par value)	34,179,080	29,145,321	47,711,314	Repurchase agreement
Property and equipment	3,962,275	3,968,485	3,931,988	Bank borrowings
Financial assets at fair value through profit or loss - non - current	180,519	185,109	185,670	Guaranty deposited for bills, interest rate swaps business, structured notes business, settlement fund and compensation reserve for trust business
Investment property	<u>893,351</u>	<u>895,814</u>	<u>953,106</u>	Bank borrowings
Total	<u>\$ 39,946,296</u>	<u>34,925,457</u>	<u>53,508,991</u>	

Note : Taiwan International Securities Corp. (hereinafter known as "TISC"), the Company's merged entity on May 2, 2011, entrusted \$182,000 to an impartial third party on the merging date with First Securities Co., Ltd. and Far East Securities Co., Ltd. In relations to the agreement of indemnification to the stockholders with aforementioned companies arising from the fraud matter of Taiwan International Futures Corporation (hereinafter known as "TIFC"). As of December 31, 2018, the accumulated compensation expense was \$87,125 and the trust amount of the impartial third party was \$94,875.

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(9) Significant contingent liability and unrecognized contract commitment:

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

	March 31, 2019		December 31, 2018		March 31, 2018	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities procured through margin purchase	540,329	\$ 5,403,290	528,296	5,282,960	666,935	6,669,350
Collateral for margin purchase	25,432	254,320	34,550	345,500	4,846	48,460
Collateral for short sales	4,581	45,810	6,150	61,500	1,614	16,140
Lending securities to customers through short sales	39,365	393,650	50,957	509,570	23,964	239,640

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

	March 31, 2019		December 31, 2018		March 31, 2018	
	Shares (in thousands)	Par value	Shares (in thousands)	Par value	Shares (in thousands)	Par value
Securities borrowed from securities finance companies	572	\$ 5,720	1,074	10,740	253	2,530
Collateral for refinancing margin	1	10	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:

	March 31, 2019	December 31, 2018	March 31, 2018
Promissory notes	<u>\$ 26,460,000</u>	<u>26,440,000</u>	<u>24,290,000</u>
Promissory notes (in USD thousands)	<u>USD 240,000</u>	<u>USD 60,000</u>	<u>USD 40,000</u>

- (d) As of March 31, 2019, December 31, 2018 and March 31, 2018, the market values of collaterals which received from customers on conducting borrowing and lending business with unrestricted purposes were \$4,514,691, \$3,848,765 and \$2,544,610, respectively.

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (f) According to the documentation No. 0990030563 verdict of Financial Supervisory Commission (dated June 14, 2010), Taiwan International Securities Corporation (hereinafter known as “TISC”) is suspected to violate the “Regulations Governing Securities Firms” due to some employees selling private placed products of Genesis Growth Income Preferred Shares B1 issued by GVEC (Genesis Voyager Equity Corporation, Danny Pang as related party) privately. According to the understanding and inspection of TISC, some employees may have been selling the aforementioned product and the suspected sales amount is US\$15 million. Some investors instituted proceedings towards TISC and claimed damages amounting to US\$7,956,873 dollars (including claim amount US\$130,000 dollars towards Taiwan International Securities Investment Consulting Corp.). The damages claimed for amounted to US\$6,355,536, which was in favor of the Company, or the investors reached compromises to waive off the appeal rights. As of March 31, 2019, there is still one case that currently under the review of the Taiwan High Court. Nevertheless, the Company had signed an agreement with the Unitech Printed Circuit Board Corp. and the other nine companies which were the original major shareholders of TISC on May 2, 2011, the date of merger with TISC. According to this agreement, the maximum claim damage compensation afford by the Company is \$173,000, thus the Company recognized this amount as other liabilities and the balance was \$48,034 as of March 31, 2019.
- (g) The Company provided the Letter of Comfort to the banks which loaned to its subsidiary CSC International Holdings Ltd. and CSC Securities (HK) Ltd.
- (h) The subsidiary, Capital Futures Corp., acquired hardware and software system for the development of future operation, which cost \$6,560 for contract price. As of March 31, 2019, the remaining payable balance was \$3,512.

(10) Significant Catastrophic Loss:None

(11) Significant Subsequent Events:None

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(12) Other:

(a) As of March 31, 2019, December 31, 2018 and March 31, 2018, the open positions of futures and option contracts were as follows:

(i) March 31, 2019

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	TAIEX Futures	Long	3	\$ 6,289	6,350	
	TAIEX Futures	Short	897	(1,877,216)	(1,901,276)	
	Mini TAIEX Futures	Long	36	18,917	19,071	
	Mini-TAIEX Futures	Short	9	(4,719)	(4,760)	
	Electronic Sector Index Futures	Short	2	(3,390)	(3,429)	
	Stock Futures	Long	689	80,589	81,573	
	Stock Futures	Short	4,602	(664,844)	(681,483)	
	H Stocks Index Futures	Long	4	8,814	8,863	
	H Stocks Index Futures	Short	5	(11,044)	(11,164)	
	HSI Futures	Short	7	(39,412)	(39,824)	
	Mini-HSI Futures	Long	13	14,828	14,840	
	Dow Futures	Long	84	43,109	43,340	
	Mini-Dow Futures	Long	14	55,220	55,972	
	Mini-Dow Futures	Short	28	(110,397)	(111,896)	
	Soybean Futures	Short	12	(17,040)	(16,352)	
	FTSE China A50 Index Futures	Long	709	280,263	286,799	
	FTSE China A50 Index Futures	Short	518	(201,579)	(209,460)	
	S&P 500 Futures	Long	74	128,156	128,637	
	S&P 500 Futures	Short	50	(28,178)	(28,303)	
	Mini-S&P 500 Futures	Long	9	39,006	39,357	
	Mini-S&P 500 Futures	Short	8	(34,704)	(35,042)	
	SGX Nikkei 225 Index Futures	Short	1	(3,009)	(2,951)	
	U.S. 10-Year T-Note Futures	Short	42	(161,047)	(160,794)	
	Ultra 10-Year U.S. Treasury Note Futures	Short	8	(32,831)	(32,739)	
	Euro-Bund Futures	Short	5	(28,776)	(28,785)	
	China Free NTR Index Futures	Short	6	(8,070)	(8,123)	
	USD/JPY FX Futures	Short	273	(166,186)	(166,236)	
	EUR/USD FX Futures	Long	156	109,757	109,534	
	EUR/USD FX Futures	Short	182	(126,993)	(126,847)	
	Dollar Index Futures	Short	8	(23,762)	(23,878)	
	Japanese Yen Futures	Long	2	6,987	6,995	
	Japanese Yen Futures	Short	48	(168,822)	(168,675)	
	CAD dollar Futures	Short	3	(6,904)	(6,937)	
	VIX Futures	Short	30	(15,735)	(15,026)	
	Euro Futures	Long	8	35,369	35,053	
	Euro Futures	Short	(4)	(17,465)	(17,396)	
	Subtotal			(2,924,819)		

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/ Short	Number of contracts			
Options contract :						
	TAIEX Options (Call)	Long	15	\$ 329	328	
	TAIEX Options (Put)	Long	65	572	224	
	Stock Options (Call)	Long	1	544	709	
	Stock Options (Put)	Long	888	1,843	981	
	Stock Options (Call)	Short	1,002	(1,371)	(1,336)	
	TAIEX Weekly Options (Put)	Long	19	27	10	
	S&P 500 Options (Call)	Long	33	822	728	
	S&P 500 Options (Put)	Long	159	1,959	363	
	S&P 500 Options (Call)	Short	58	(2,965)	(2,855)	
	S&P 500 Options (Put)	Short	28	(1,414)	(397)	
	Taiwan SE Weighted Index Options (Call)	Long	966	1,449	372	
	Taiwan SE Weighted Index Options (Put)	Long	1,051	1,280	1,971	
	Taiwan SE Weighted Index Options (Call)	Short	425	(3,460)	(4,800)	
	Taiwan SE Weighted Index Options (Put)	Short	1,887	(2,192)	(1,197)	
	Japanese Yen Options (Put)	Short	2	(2)	(1)	
	Soybean Meal Option (Put)	Short	4	(7)	(12)	
	Subtotal			(2,586)		
Total				<u>\$ (2,927,405)</u>		

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) December 31, 2018

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	TAIEX Futures	Long	219	\$ 419,425	423,418	
	TAIEX Futures	Short	674	(1,300,015)	(1,303,020)	
	Mini-TAIEX Futures	Short	264	(126,317)	(127,524)	
	Electronic Sector Index Futures	Long	23	35,333	35,397	
	Finance Sector Index Futures	Short	30	(35,369)	(35,358)	
	Stock Futures	Long	1,938	347,884	344,406	
	Stock Futures	Short	3,226	(395,545)	(380,106)	
	H Stocks Index Futures	Long	7	13,704	13,757	
	HSI Futures	Short	5	(25,340)	(25,343)	
	Mini-HSI Futures	Long	4	4,067	4,055	
	SGX Nifty 50 Index Futures	Short	36	(24,058)	(24,155)	
	Dow Futures	Short	58	(26,931)	(26,880)	
	Mini-Dow Futures	Long	5	17,770	17,867	
	Mini-Dow Futures	Short	2	(7,113)	(7,151)	
	Soybean Futures	Short	12	(16,964)	(16,964)	
	FTSE China A50 Index Futures	Short	466	(149,721)	(148,929)	
	MSCI Taiwan Index Futures	Short	70	(76,977)	(76,654)	
	S&P 500 Futures	Long	42	98,471	100,602	
	S&P 500 Futures	Short	12	(6,009)	(5,993)	
	Mini-S&P 500 Futures	Long	16	60,226	61,558	
	Mini-S&P 500 Futures	Short	6	(22,746)	(23,115)	
	SGX Nikkei 225 Index Futures	Short	4	(12,002)	(11,092)	
	U.S. 2-Year T-Note Futures	Short	1	(6,495)	(6,521)	
	U.S. 10-Year T-Note Futures	Short	100	(372,827)	(374,771)	
	Euro-Bund Futures	Short	23	(132,141)	(132,402)	
	Nifty 50 Index Futures	Long	48	26,045	26,189	
	Nifty 50 Index Futures	Short	4	(2,193)	(2,192)	
	USD/JPY FX Futures	Long	53	32,509	32,120	
	USD/JPY FX Futures	Short	213	(130,851)	(130,068)	
	EUR/USD FX Futures	Long	113	79,609	80,110	
	Dollar Index Futures	Short	1	(2,946)	(2,940)	
	Japanese Yen Futures	Long	3	10,249	10,563	
	Japanese Yen Futures	Short	28	(97,593)	(98,591)	
	Euro Futures	Short	18	(79,280)	(79,631)	
	Subtotal			(1,904,141)		

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/ Short	Number of contracts			
Options contract :						
	TAIEX Options (Call)	Long	572	\$ 1,584	1,183	
	TAIEX Options (Put)	Long	1,475	8,648	9,788	
	TAIEX Options (Call)	Short	538	(4,898)	(3,805)	
	TAIEX Options (Put)	Short	403	(3,794)	(3,187)	
	Stock Options (Call)	Long	1	98	30	
	Stock Options (Put)	Long	54	184	127	
	Stock Options (Call)	Short	1,153	(3,777)	(2,063)	
	Stock Options (Put)	Short	172	(2,263)	(2,749)	
	TAIEX Weekly Options (Put)	Long	240	72	25	
	TAIEX Weekly Options (Call)	Short	90	(173)	(208)	
	S&P 500 Options (Put)	Long	24	654	427	
	S&P 500 Options (Call)	Short	24	(1,684)	(4,059)	
	Japanese Yen Options (Put)	Short	3	(6)	(3)	
	Subtotal			(5,355)		
Total				\$ <u>(1,909,496)</u>		

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) March 31, 2017

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract :						
	TAIEX Futures	Long	27	\$ 55,285	56,247	
	TAIEX Futures	Short	2,175	(4,735,699)	(4,751,808)	
	Mini-TAIEX Futures	Long	40	21,857	21,848	
	Mini-TAIEX Futures	Short	31	(16,237)	(16,820)	
	Electronic Sector Index Futures	Short	24	(43,906)	(43,857)	
	Finance Sector Index Futures	Short	41	(49,675)	(49,799)	
	Non-Finance Non-Electronics Sub-Index Futures	Long	5	6,137	6,289	
	Non-Finance Non-Electronics Sub-Index Futures	Short	6	(7,498)	(7,567)	
	Stock Futures	Long	2,193	203,867	202,855	
	Stock Futures	Short	4,137	(687,842)	(681,349)	
	HSI Futures	Short	4	(22,504)	(22,150)	
	SGX Nifty 50 Index Futures	Short	3	(1,786)	(1,789)	
	Dow Futures	Long	77	36,919	37,168	
	Dow Futures	Short	12	(5,869)	(5,795)	
	Mini-Dow Futures	Long	13	45,177	45,686	
	Mini-Dow Futures	Short	11	(38,139)	(38,654)	
	Soybean Futures	Long	14	21,294	21,285	
	Gold Futures	Short	8	(30,890)	(30,905)	
	MSCI Taiwan Index Futures	Long	423	500,153	501,936	
	FTSE China A50 Index Futures	Long	4,398	1,657,290	1,621,168	
	FTSE China A50 Index Futures	Short	191	(71,861)	(70,330)	
	Real Estate Index Futures	Short	3	(2,562)	(2,612)	
	VIX Futures	Long	54	28,953	30,110	
	S&P 500 Futures	Long	95	50,394	50,262	
	Mini-S&P 500 Futures	Long	95	367,553	362,419	
	Mini-S&P 500 Futures	Short	13	(49,649)	(50,078)	
	Nikkei 225 Index Futures	Short	1	(5,919)	(5,878)	
	SGX Nikkei 225 Index Futures	Short	2	(5,753)	(5,875)	
	U.S. 5-Year T-Note Futures	Short	8	(26,662)	(26,651)	
	U.S. 10-Year T-Note Futures	Short	578	(2,023,535)	(2,037,911)	
	U.S. Treasury Bond Futures	Short	5	(21,260)	(21,338)	
	Ultra 10-Year U.S. Treasury Note Futures	Short	16	(60,320)	(60,473)	
	Euro-Bund Futures	Short	31	(177,143)	(177,281)	
	Crude Oil Futures	Long	3	5,710	5,645	
	Crude Oil Futures	Short	5	(9,091)	(9,450)	
	USD/CNY FX Futures	Short	15	(49,516)	(43,824)	
	Mini-USD/CNY FX Futures	Long	77	50,972	44,993	
	Mini-USD/CNY FX Futures	Short	2	(1,214)	(1,169)	
	Nifty 50 Index Futures	Long	4	2,047	2,049	
	USD/JPY FX Futures	Long	114	65,580	65,953	
	USD/JPY FX Futures	Short	26	(14,863)	(14,969)	
	EUR/USD FX Futures	Long	1	734	726	
	EUR/USD FX Futures	Short	100	(72,842)	(72,081)	
	Japanese Yen Futures	Long	18	62,281	61,842	
	NT dollar Gold Futures	Short	5	(2,363)	(2,338)	
	Euro Futures	Long	19	86,285	85,428	
	Subtotal			(4,966,110)		

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Options contract :						
	TAIEX Options (Call)	Long	11,891	\$ 27,373	22,343	
	TAIEX Options (Put)	Long	10,175	33,380	24,066	
	TAIEX Options (Call)	Short	2,830	(21,335)	(19,775)	
	TAIEX Options (Put)	Short	17,109	(90,580)	(62,775)	
	Stock Options (Call)	Long	2,836	18,940	16,320	
	Stock Options (Put)	Long	1,011	9,221	9,903	
	Stock Options (Call)	Short	228	(1,213)	(911)	
	Stock Options (Put)	Short	274	(1,760)	(1,008)	
	TAIEX Weekly Options (Call)	Long	8,063	10,523	10,704	
	TAIEX Weekly Options (Put)	Long	5,007	11,011	6,228	
	TAIEX Weekly Options (Call)	Short	306	(1,222)	(1,288)	
	TAIEX Weekly Options (Put)	Short	1,059	(3,023)	(1,160)	
	Electronic Sector Index Options (Call)	Long	1,469	2,153	1,433	
	Electronic Sector Index Options (Put)	Long	133	738	714	
	Electronic Sector Index Options (Call)	Short	22	(88)	(102)	
	Electronic Sector Index Options (Put)	Short	84	(473)	(389)	
	Finance Sector Index Options (Call)	Long	1,649	2,473	1,341	
	Finance Sector Index Options (Put)	Long	460	1,173	977	
	Finance Sector Index Options (Put)	Short	40	(92)	(21)	
	S&P 500 Options (Call)	Long	64	2,880	784	
	S&P 500 Options (Put)	Long	167	8,681	16,962	
	S&P 500 Options (Call)	Short	40	(1,938)	(724)	
	S&P 500 Options (Put)	Short	35	(1,649)	(1,772)	
	Japanese Yen Futures	Short	2	(7)	(7)	
	Gold Option (Call)	Long	28	53	13	
	Gold Option (Put)	Long	53	31	13	
	Gold Option (Call)	Short	9	(31)	(23)	
	Gold Option (Put)	Short	50	(221)	(193)	
	Mini-USD/CNY FX Options (Call)	Short	1	(7)	-	
	Subtotal			4,991		
Total				\$ (4,961,119)		

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Restrictions and enforcement of the Group's various financial ratios under futures trading law

Subsidiary - Capital Futures Corp.'s the restrictions and enforcement of each financial ratio was calculated in accordance with "Regulations Governing Futures Commission Merchants" as follow:

Art.	Calculation formula	Current Period		Last Period		Standard	Enforcement
		Calculation	Ratio	Calculation	Ratio		
17	$\frac{\text{Stockholders' equity}}{\text{(Total liabilities - futures traders' equity)}}$	$\frac{5,196,915}{519,249}$	10.01	$\frac{5,017,158}{665,958}$	7.53	≥ 1	Satisfactory to requirement
17	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{38,914,455}{35,242,480}$	1.10	$\frac{31,565,057}{27,970,930}$	1.13	≥ 1	"
22	$\frac{\text{Stockholders' equity}}{\text{Minimum paid-in capital}}$	$\frac{5,196,915}{1,115,000}$	466.09 %	$\frac{5,017,158}{1,115,000}$	449.97 %	$\geq 60\%$ $\geq 40\%$	"
22	$\frac{\text{Post-adjustment net capital}}{\text{Total customers' margin deposits required for open positions of customers}}$	$\frac{3,813,617}{6,873,468}$	55.48 %	$\frac{3,564,087}{5,687,359}$	62.67 %	$\geq 20\%$ $\geq 15\%$	"

(c) Unique risks to specific futures commission merchant services

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

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:

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

(i) Loans to others:

(In Thousands Dollars)

Number	Name of the company providing Loans to Others	Party to Transactions	Account Classification	Related party	Maximum Balance of the Period	Ending balance	Capital Employed	Range of interest rate	Type of Loans (Note)	Amount of Transactions	Purposes of the Borrowers	Allowance of Doubtful Accounts	Collateral		Limit on Loans to a Single Business	Limit on the Amount of Loans
													Name	Value		
1	CSC International Holdings Ltd.	CSC Securities (HK) Ltd	Account receivables - Related party	Yes	US 29,322 thousands	US 29,322 thousands	US 29,322 thousands	- %	2	-	Operations	-	-	-	US 53,380 thousands	US 53,380 thousands
2	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK) Limited.	Other receivables - Related party	Yes	US 3,380 thousands	US 3,380 thousands	US 3,380 thousands	- %	2	-	Operations & repayment of financing	-	-	-	US 3,380 thousands	US 3,380 thousands
3	TIS Securities (HK) Limited.	Taiwan International Capital (HK) Ltd.	Other receivables	Yes	HK 1,463 thousands	HK 1,463 thousands	HK 1,463 thousands	- %	2	-	Repayment of financing	-	-	-	HK 1,463 thousands	HK 1,463 thousands
4	CSC Futures (HK) Ltd.	Klaw Trading Limited	Account receivables - Customer	No	25,996	42,816	19,879	5 %	2	-	Tradings	-	-	-	103,022	412,089
5	CSC Futures (HK) Ltd.	AAA Fintech Limited	Account receivables - Customer	No	61,166	85,633	-	5.81 %	2	-	Tradings	-	-	-	103,022	412,089
6	CSC Futures (HK) Ltd.	Future Leading Investment Pte. Ltd.	Account receivables - Customer	No	85,439	85,633	-	3.5 %	2	-	Tradings	-	-	-	103,022	412,089
7	CSC Futures (HK) Ltd.	Tetrion Capital Limited	Account receivables - Customer	No	-	6,833	-	- %	2	-	Tradings	-	-	-	103,022	412,089
8	CSC Futures (HK) Ltd.	Alpha Rnd Singapore Pte Ltd.	Account receivables - Customer	No	-	85,633	-	5.81 %	2	-	Tradings	-	-	-	103,022	412,089

Note: Type of Loans

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

- (ii) Guarantees and endorsements for other parties:None
- (iii) Acquisition of individual real estate with amount over \$300 million or 20% of paid-in capital:None
- (iv) Disposal of individual real estate over \$300 million or 20% of paid-in capital:None
- (v) Service charge discounts on transactions with related parties over NT\$5 million:None
- (vi) Receivables from related parties over \$100 million or 20% of paid-in capital:None

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(vii) Business relationships and significant intercompany transactions for three months ended March 31, 2019:

(In Thousands Dollars)

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Intercompany transaction details			Percentage of total consolidated revenue or total assets
				General ledger account	Amount	Trading terms	
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts payable	248		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Accounts receivable	9,959		0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other receivables	11,459		0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Bonds sold under repurchase agreements	121,506		0.09 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other payables	19,787		0.02 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Guarantee deposits received	3,819		- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Futures commission revenue	27,648	General transaction	1.53 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Lease revenue	64	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Revenue from securities management, distribution, and management fees	102	General transaction	0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Financial costs	138	General transaction	0.01 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Other operating revenue	1	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Securities commission expense	593	General transaction	0.03 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Interest revenue	46	General transaction	- %
0	Capital Securities Corp.	Capital Futures Corp.	1	Miscellaneous expenses	2,759	General transaction	0.15 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Non-operating revenues	10,934	General transaction	0.61 %
0	Capital Securities Corp.	Capital Futures Corp.	1	Brokerage commissions revenue	9	General transaction	- %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Professional service fees	18,000	General transaction	1.00 %
0	Capital Securities Corp.	Capital Investment Management Corp.	1	Lease revenue	300	General transaction	0.02 %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Guarantee deposits received	30		- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Lease revenue	30	General transaction	- %
0	Capital Securities Corp.	Taiwan International Securities Investment Consulting Corp.	1	Non-operating revenues	30	General transaction	- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other receivables	129		- %
0	Capital Securities Corp.	CSC Securities (HK) Ltd.	1	Other operating expense	941	General transaction	0.05 %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Guarantee deposits received	160		- %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Other receivables	70		- %
0	Capital Securities Corp.	CSC Venture Capital Corp.	1	Lease revenue	240	General transaction	0.01 %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Professional service received	15	General transaction	- %
0	Capital Securities Corp.	Capital International Technology Corp.	1	Guarantee deposits received	36		- %
1	Capital Futures Corp.	Capital Securities Corp.	2	Customers' margin account	1,317,767		1.02 %
1	Capital Futures Corp.	Capital Securities Corp.	2	Futures traders' equity	1,317,767		1.02 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Customers' margin account	500,971		0.39 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures traders' equity	3,090,051		2.40 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Other payables	1,771		- %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Futures commission expense	2,139	General transaction	0.12 %

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Ref No. (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Intercompany transaction details			Percentage of total consolidated revenue or total assets
				General ledger account	Amount	Trading terms	
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Brokerage commissions revenue	16,444	General transaction	0.91 %
1	Capital Futures Corp.	CSC Futures (HK) Ltd.	3	Financial costs	1,483	General transaction	0.08 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Customers' margin account	2,776,110		2.16 %
2	CSC Futures (HK) Ltd.	Capital Futures Corp.	3	Futures traders' equity	187,030		0.15 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Information technology expenses	148	General transaction	0.01 %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Accumulated depreciation	1,200		- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Prepayments	99		- %
2	CSC Futures (HK) Ltd.	Capital True Partner Technology Co., Ltd.	3	Professional service fees	4,701	General transaction	0.26 %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other receivables	HK 12,818		- %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Other operating revenue	HK 1,080	General transaction	0.24 %
3	CSC Securities (HK) Ltd.	CSC Futures (HK) Ltd.	3	Brokerage handling fee expense	HK 85	General transaction	0.02 %
3	CSC Securities (HK) Ltd.	CSC International Holdings Ltd.	3	Other payables	HK 228,306		0.69 %
4	Taiwan International Securities (B.V.I) Corp.	TIS Securities (HK)Limited	3	Other receivables	HK 26,248		0.08 %

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

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

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

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

(Continued)

CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Information on reinvestment business:

(In Thousands of New Taiwan Dollars)

Ref. No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and number of FSC	Primary business operation	Original investment amount		Equity Ownership by company (note 3)			Operating income or loss of investee company during the period	Net income or loss of investee company during the period	Investment gain or loss recognized during the period	Cash dividend	Note
						Balance on March 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 %	105,513	18,000	(1,177)	(1,177)	-	The transaction has been written off in the consolidated financial statements
0	Capital Futures Corp.	Taipei, Taiwan, R.O.C.	February 26, 1997	No. FSC-1050044467 dated November 15, 2016	Engaged in domestic and foreign futures business.	1,212,539	1,212,539	99,182,845	56.21 %	2,921,223	406,631	162,675	91,477	-	"
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 %	1,645,152	8,562	4,092	4,092	-	"
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 %	100,815	51,581	16,083	16,083	-	Subsidiary
0	Capital Insurance Agency Corp.	Taipei, Taiwan, R.O.C.	November 8, 2000		Manages personal insurance agent business.	7,400	7,400	740,000	100.00 %	43,123	25,104	2,367	2,367	-	"
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 %	170	(414)	(414)	(414)	-	The transaction has been written off in the consolidated financial statements
0	Taiwan International Securities Investment Consulting Corp. (Note 5)	Taipei, Taiwan, R.O.C.	March 3, 1994		Liquidation in progress.	9,992	9,992	999,200	99.92 %	12,734	-	(65)	(65)	-	"
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 %	795,488	179	(1,764)	(1,764)	-	"
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 %	1,294,565	367,458	166,176	33,235	-	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 162,566 thousands	HK 7,978 thousands	HK 2,319 thousands	-	-	The transaction has been written off in the consolidated financial statements
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 (26,354) thousands	HK -	HK (105) 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 (66,203) thousands	HK -	HK (46) thousands	-	-	"
4	CSC Futures (HK) Ltd.	Hong Kong	December 9, 1998	No. FSC-1010027412 dated August 24, 2012	Future brokerage and other businesses permitted by local law of Hong Kong.	862,631	862,631	214,000,000	97.27 %	1,002,097	71,367	(6,907)	-	-	"
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 %	46,038	-	(812)	-	-	"
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 %	46,251	27,873	1,052	-	-	Associates

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Ref. No.	Name of investee company (Notes 1 and 2)	Area	Date of establishment	Approval date and number of FSC	Primary business operation	Original investment amount		Equity Ownership by company (note 3)			Operating income or loss of investee company during the period	Net income or loss of investee company during the period	Investment gain or loss recognized during the period	Cash dividend	Note
						Balance on March 31, 2019	Balance on December 31, 2018	Shares	Ratio	Book value					
5	Capital Securities Nominee Ltd.	Hong Kong	April 7, 1995		Agency services.	HK 2	HK 2	2	100.00 %	HK -	HK -	HK -	-	-	The transaction has been written off in the consolidated financial statements

Note 1: (0) Capital Securities Corp. (1) CSC International Holdings Ltd. (2) Taiwan International Securities (B.V.I) Corp. (3) TIS Securities (HK) Limited. (4) Capital Futures Corp. (5) CSC Securities (HK) Ltd.

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

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

Note 4: The stockholders' special meeting resolved to dissolve on June 27, 2012.

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.

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

(In Thousands of New Taiwan Dollars)

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

(d) Information on investments in China:

(i) Investment in Mainland China and related information:

(In Thousands of New Taiwan Dollars)

Name of investee in Mainland China	Major Operations	Issued capital	Method of investment (Note 1)	Accumulated remittance as of January 1, 2019	Remittance of recoverable investment this period		Accumulated remittance as of March 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 March 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	274	28.67%	79 B(3)	13,037	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business.	18,863	(C)	18,863	-	-	18,863	(876)	56.21%	(492) B(3)	12,515	-

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

A. Directly invest in a company in Mainland China.

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

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

Note 2: Investment gains and losses recognized during the period

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

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

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

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

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

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

(ii) Limitation on investment in Mainland China:

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

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

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(14) Segment information:

(a) Operating segment information

The operating segments are consistent with the internal reports provided to the chief operating decision-maker. The Group's operating segments are classified into brokerage, underwriting, dealing, derivative instrument and reinvestment according to the sources of revenue. The remaining operating results which have not reached the threshold requirements are consolidated in other operating segments.

Sources of income from products and services rendered by each segment are as follows:

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

(b) Measurement of segmental information

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

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

		For the three months ended March 31, 2019							
		Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$	<u>712,554</u>	<u>100,553</u>	<u>505,955</u>	<u>29,108</u>	<u>49,486</u>	<u>459,737</u>	<u>(54,673)</u>	<u>1,802,720</u>
Income	\$	<u>256,606</u>	<u>66,485</u>	<u>341,177</u>	<u>(31,298)</u>	<u>33,039</u>	<u>198,521</u>	<u>(92,111)</u>	<u>772,419</u>
		For the three months ended March 31, 2018							
		Brokerage business	Underwriting business	Dealing business	Derivative instrument business	Others	Capital Futures Corp.	Adjustment and elimination	Total
Revenue	\$	<u>971,923</u>	<u>63,220</u>	<u>427,372</u>	<u>281,326</u>	<u>61,078</u>	<u>1,101,958</u>	<u>(83,648)</u>	<u>2,823,229</u>
Income	\$	<u>440,118</u>	<u>25,830</u>	<u>216,216</u>	<u>220,060</u>	<u>49,638</u>	<u>468,404</u>	<u>(243,735)</u>	<u>1,176,531</u>

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CAPITAL SECURITIES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Note 1: Internal segment revenues are eliminated on consolidation.

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

(d) Information about products and services

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

(e) Information about geographical areas

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

(f) Information about major customers

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