

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

CAPITAL FUTURES CORPORATION

FINANCIAL STATEMENTS

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

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

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Independent Auditors' Report

The Board of Directors of Capital Futures Corporation

Opinion

We have audited the financial statements of Capital Futures Corporation (“the Company”), which comprise the balance sheets as of December 31, 2017 and 2016, the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, the related rules of Preparing Financial Reports of Futures Enterprises and the Regulations Governing the Preparation of Financial Reports by Securities Firms.

Basis for Opinion

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

Key Audit Matters

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



Commission income – brokerage recognized:

Related accounting policies of commission income – brokerage recognized, please refer to financial report note 4(15) revenue recognized. Explanation of commission income – brokerage, please refer to financial report note 6(12) a. Comprehensive income statement commission income – brokerage.

Explanation of key audit matters:

Capital Futures Corporation's main income is commission income – brokerage from entrusted futures dealing. The existence and accuracy of commission income – brokerage have major affect on the financial report. Therefore, commission income – brokerage recognized is one of the important evaluation matters of the Company's financial report.

Audit procedures in response:

According to the key audit matters main audit procedures, we perform the sampling test on brokerage business dealing internal control and commission income – brokerage recorded amount , then compare with the entrusted data from brokerage business and evaluate the revenue recognized policies are managed by the related bulletin.

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

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

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

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



Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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



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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Feng-Hui Lee and Tan-Tan Chung.

KPMG

Taipei, Taiwan, R.O.C.

March 26, 2018

Notes to Readers

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

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

(English Translation of Financial Statements and Report Originally Issued in Chinese.)
CAPITAL FUTURES CORPORATION
BALANCE SHEETS

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

| ASSETS | December 31, 2017 | | December 31, 2016 | | LIABILITIES AND EQUITY | | December 31, 2017 | | December 31, 2016 | |
|---|----------------------|------------|-------------------|------------|--|--|----------------------|------------|-------------------|------------|
| | Amount | % | Amount | % | Current Liabilities | | Amount | % | Amount | % |
| Current Assets | | | | | Financial liabilities at fair value through profit or loss-current (Note 6(2)) | | \$ 122,976 | - | \$ 54,018 | - |
| Cash and cash equivalents (Note 6(1)) | 2,843,390 | 9 | 1,508,415 | 6 | Futures traders' equity (Note 6(5)) | | 26,894,841 | 84 | 22,443,105 | 87 |
| Financial assets at fair value through profit or loss - current (Note 6(2)) | 765,321 | 2 | 385,733 | 1 | Leverage contract trading - customers' equity | | 152,840 | 1 | 70 | - |
| Customers margin accounts (Note 6(5)) | 26,907,727 | 84 | 22,457,832 | 87 | Accounts payable | | 93,706 | - | 24,974 | - |
| Receivable - futures margin | 1 | - | 894 | - | Accounts payable - inter co. (Note 7) | | 14,688 | - | 12,704 | - |
| Accounts receivable | 29,316 | - | 9,694 | - | Advance receipts | | 2,381 | - | 2,581 | - |
| Accounts receivable - inter co. (Note 7) | 694 | - | 252 | - | Receipts under custody | | 4,351 | - | 3,235 | - |
| Prepayments | 5,270 | - | 13,171 | - | Other payables | | 141,612 | 1 | 114,251 | 1 |
| Other receivables | 15,600 | - | 29,776 | - | Other payables - inter co. (Note 7) | | 1,771 | - | 211 | - |
| Other receivables - inter co. (Note 7) | 197 | - | 12 | - | Current income tax liabilities | | 52,957 | - | 41,680 | - |
| Leverage contract trading - customers' margin accounts | 151,540 | 1 | 72 | - | Other current liabilities | | 3,704 | - | 3,062 | - |
| Other current assets | 1 | - | 1,031 | - | | | 27,485,827 | 86 | 22,699,891 | 88 |
| | 30,719,057 | 96 | 24,406,882 | 94 | Non-current Liabilities | | | | | |
| Non-current Assets | | | | | Provision for liabilities - non-current (Note 6(8)) | | 11,855 | - | 11,077 | - |
| Financial assets measured at cost - non-current (Note 6(2)) | 119 | - | 119 | - | Deferred income tax liabilities (Note 6(9)) | | 4,361 | - | 4,889 | - |
| Available-for-sale financial assets - non-current (Note 6(2)) | - | - | 74,401 | 1 | | | 16,216 | - | 15,966 | - |
| Investments under equity method (Note 6(3)) | 1,011,150 | 3 | 1,016,135 | 4 | Total Liabilities | | 27,502,043 | 86 | 22,715,857 | 88 |
| Property and equipment (Note 6(4)) | 43,566 | - | 37,908 | - | | | | | | |
| Intangible assets (Note 6(6)) | 56,292 | - | 51,330 | - | Equity | | | | | |
| Deferred income tax assets (Note 6(9)) | 9,392 | - | - | - | Common stock (Note 6(10)) | | 1,603,979 | 5 | 1,223,979 | 5 |
| Other non-current assets | 300,199 | 1 | 296,471 | 1 | Capital surplus (Note 6(10)) | | 1,207,735 | 4 | 381,180 | 1 |
| | 1,420,718 | 4 | 1,476,364 | 6 | Legal reserve | | 348,116 | 1 | 297,103 | 1 |
| | | | | | Special reserve | | 794,335 | 2 | 689,758 | 3 |
| | | | | | Unappropriated earnings (Notes 6(9) and (10)) | | 730,304 | 2 | 510,134 | 2 |
| | | | | | Other equity | | (46,737) | - | 65,235 | - |
| | | | | | Total Equity | | 4,637,732 | 14 | 3,167,389 | 12 |
| TOTAL ASSETS | \$ 32,139,775 | 100 | 25,883,246 | 100 | TOTAL LIABILITIES AND EQUITY | | \$ 32,139,775 | 100 | 25,883,246 | 100 |

(The accompanying notes are an integral part of the financial report)

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

CAPITAL FUTURES CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2017 and 2016

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

| | 2017 | | 2016 | |
|--|-------------------|------------|------------------|------------|
| | Amount | % | Amount | % |
| Income | | | | |
| Commission income - brokerage (Note 6(12)) | \$ 1,565,613 | 82 | 1,534,868 | 92 |
| Net gains (losses) on sale of trading securities | 141,247 | 8 | (15,541) | (1) |
| Dividend income | 5,548 | - | 477 | - |
| Net gains (losses) on measurement of trading securities at fair value through profit or loss | (12,780) | (1) | 7,424 | - |
| Net gains (losses) on covering of borrowed securities and bonds with resale agreements | 3,808 | - | 5,513 | - |
| Net gains (losses) on measurement of borrowed securities and bonds with resale agreements | - | - | 499 | - |
| Securities commission income | 5,146 | - | 2,936 | - |
| Net gains (losses) on derivative financial instruments | 107,747 | 6 | 127,727 | 8 |
| Net gains (losses) on derivative instruments - Taipei Exchange | 72,881 | 4 | 4 | - |
| Management fee revenue | 1,886 | - | 76 | - |
| Consulting fee revenue | 17,834 | 1 | 14,251 | 1 |
| Other operating revenue | (4,247) | - | (4,359) | - |
| | <u>1,904,683</u> | <u>100</u> | <u>1,673,875</u> | <u>100</u> |
| Expenses | | | | |
| Brokerage fees | 208,015 | 11 | 202,636 | 12 |
| Brokerage fees - proprietary trading | 8,580 | 1 | 8,374 | - |
| Financial costs | 7,235 | - | 5,550 | - |
| Futures commission expenses (Note 6(12)) | 398,671 | 21 | 377,095 | 23 |
| Clearing and settlement expenses | 147,313 | 8 | 143,607 | 9 |
| Other operating expenditure | 4,134 | - | 1,175 | - |
| Employee benefit expenses (Note 6(12)) | 379,345 | 20 | 309,216 | 18 |
| Depreciation and amortization expenses (Note 6(12)) | 22,119 | 1 | 18,828 | 1 |
| Other operating expenses (Note 6(12)) | 274,964 | 14 | 277,147 | 17 |
| | <u>1,450,376</u> | <u>76</u> | <u>1,343,628</u> | <u>80</u> |
| Non-operating income and expenses | | | | |
| Share of profit (loss) of subsidiaries, associates and joint ventures under equity method | 79,774 | 4 | 73,539 | 4 |
| Other gains and losses (Note 6(12)) | 292,808 | 15 | 199,996 | 12 |
| | <u>372,582</u> | <u>19</u> | <u>273,535</u> | <u>16</u> |
| Net income before income tax | <u>826,889</u> | <u>43</u> | <u>603,782</u> | <u>36</u> |
| Income tax expenses (Note 6(9)) | (95,874) | (5) | (91,973) | (5) |
| Net income | <u>731,015</u> | <u>38</u> | <u>511,809</u> | <u>31</u> |
| Other comprehensive income: | | | | |
| Items that will not be reclassified to profit or loss | | | | |
| Actuarial gain (loss) on defined benefit plans (Note 6(8)) | (776) | - | (2,490) | - |
| Income tax related to the components of other comprehensive income | - | - | - | - |
| Total items that will not be reclassified subsequently to profit or loss | <u>(776)</u> | <u>-</u> | <u>(2,490)</u> | <u>-</u> |
| Items that may be reclassified to profit or loss in subsequent periods | | | | |
| Foreign exchange difference from translating financial reports of foreign operations | (84,006) | (4) | (8,866) | (1) |
| Unrealized gain (loss) on available-for-sale financial assets | (41,494) | (2) | 14,922 | 1 |
| Share of other comprehensive income of subsidiaries, associates and joint venture—Items that may be reclassified to profit or loss in subsequent periods | (753) | - | (95) | - |
| Income tax related to the components of other comprehensive income (Note 6(9)) | 14,281 | 1 | 1,507 | - |
| Total items that may be reclassified to profit or loss in subsequent periods | <u>(111,972)</u> | <u>(5)</u> | <u>7,468</u> | <u>-</u> |
| Other comprehensive income (After tax) | <u>(112,748)</u> | <u>(5)</u> | <u>4,978</u> | <u>-</u> |
| Total comprehensive income | <u>\$ 618,267</u> | <u>33</u> | <u>516,787</u> | <u>31</u> |
| Basic earnings per share (Dollar) (Note 6(11)) | <u>\$ 4.68</u> | | <u>4.18</u> | |
| Diluted earnings per share (Dollar) (Note 6(11)) | <u>\$ 4.67</u> | | <u>4.17</u> | |

(The accompanying notes are an integral part of the financial report)

(English Translation of Financial Statements and Report Originally Issued in Chinese.)
CAPITAL FUTURES CORPORATION
STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

| | Stock | Retained earnings | | | | Other equity | | |
|--|--------------|-------------------|---------------|-----------------|-------------------------|---|---|--------------|
| | | Capital surplus | Legal reserve | Special reserve | Unappropriated earnings | Exchange differences on translation of foreign operations | Unrealized gain/loss on available-for-sale financial assets | Total equity |
| Beginning balance, January 1, 2016 | Common stock | 380,185 | 253,810 | 603,172 | 433,016 | 31,195 | 26,572 | 2,951,929 |
| Net income for 2016 | \$ 1,223,979 | - | - | - | 511,809 | - | - | 511,809 |
| Other comprehensive income for the year ended December 31, 2016 | - | - | - | - | (2,490) | (7,454) | 14,922 | 4,978 |
| Total comprehensive income for the year ended December 31, 2016 | - | - | - | - | 509,319 | (7,454) | 14,922 | 516,787 |
| Appropriation of earnings : | | | | | | | | |
| Legal reserve | - | - | 43,293 | - | (43,293) | - | - | - |
| Special reserve | - | - | - | 86,586 | (86,586) | - | - | - |
| Cash dividends | - | - | - | - | (302,322) | - | - | (302,322) |
| Change in other capital surplus : | | | | | | | | |
| Changes in ownership interests in subsidiaries | - | 995 | - | - | - | - | - | 995 |
| Ending balance, December 31, 2016 | 1,223,979 | 381,180 | 297,103 | 689,758 | 510,134 | 23,741 | 41,494 | 3,167,389 |
| Net income for 2017 | - | - | - | - | 731,015 | - | - | 731,015 |
| Other comprehensive income for the year ended December 31, 2017 | - | - | - | - | (776) | (70,478) | (41,494) | (112,748) |
| Total comprehensive income for the year ended December 31, 2017 | - | - | - | - | 730,239 | (70,478) | (41,494) | 618,267 |
| Appropriation of earnings : | | | | | | | | |
| Legal reserve | - | - | 51,013 | - | (51,013) | - | - | - |
| Special reserve | - | - | - | 104,577 | (104,577) | - | - | - |
| Cash dividends | - | - | - | - | (354,479) | - | - | (354,479) |
| Capital increase by cash (Note 6(10)) | 380,000 | 809,025 | - | - | - | - | - | 1,189,025 |
| Capital increase by remuneration cost of employee stock options (Note 6(10)) | - | 17,530 | - | - | - | - | - | 17,530 |
| Ending balance, December 31, 2017 | \$ 1,603,979 | 1,207,735 | 348,116 | 794,335 | 730,304 | (46,737) | - | 4,637,732 |

Note : The remuneration to directors and supervisors for the year ended December 31, 2017 and 2016 were \$10,777 and \$7,424 and the employee's bonuses were \$10,777 and \$7,424, which were deducted from the statement of comprehensive income, respectively.

(The accompanying notes are an integral part of the financial report)

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

CAPITAL FUTURES CORPORATION
STATEMENTS OF CASH FLOWS

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

| | 2017 | 2016 |
|---|--------------|-------------|
| Cash flows from operating activities: | | |
| Net income before income tax | \$ 826,889 | 603,782 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Income and expenses items with no effect on cash flow: | | |
| Depreciation expenses | 15,878 | 14,016 |
| Amortization expenses | 6,241 | 4,812 |
| Net losses (gains) on financial assets and liabilities at fair value through profit or loss | 12,641 | (8,241) |
| Interest expenses | 7,235 | 5,550 |
| Interest income (Including financial revenue) | (239,445) | (188,837) |
| Dividend income | (7,292) | (3,627) |
| Share of loss (profit) of subsidiaries, associates and joint ventures under equity method | (79,774) | (73,539) |
| Share-based payment remuneration cost | 17,530 | - |
| Gain on disposal of investments | (38,920) | (90) |
| Total income and expense items with no effect on cash flows | (305,906) | (249,956) |
| Net changes of assets and liabilities from operating activities: | | |
| Net changes of assets from operating activities: | | |
| (Increase) decrease in financial assets at fair value through profit or loss | (392,229) | (245,360) |
| (Increase) decrease in customers margin accounts | (4,449,895) | (5,762,829) |
| (Increase) decrease in receivable - futures margin | 893 | 6 |
| (Increase) decrease in security borrowing margin | - | 77,244 |
| (Increase) decrease in accounts receivable | (19,622) | 10,822 |
| (Increase) decrease in accounts receivable-inter co. | (442) | 101 |
| (Increase) decrease in prepayments | 7,901 | (6,555) |
| (Increase) decrease in other receivable | 17,343 | 21,839 |
| (Increase) decrease in other receivable-inter co. | (193) | (2) |
| (Increase) decrease in leverage contract trading - customers' margin accounts | (151,468) | (72) |
| (Increase) decrease in other current assets | 1,030 | (1,030) |
| (Increase) decrease in operation guarantee deposits | - | (10,000) |
| (Increase) decrease in clearing and settlement fund | (4,209) | 13,925 |
| (Increase) decrease in refundable deposits | 481 | (735) |
| Total net changes of assets from operating activities | (4,990,410) | (5,902,646) |
| Net changes of liabilities from operating activities: | | |
| Increase (decrease) in financial liabilities at fair value through profit or loss | 68,958 | (38,213) |
| Increase (decrease) in futures traders' equity | 4,451,736 | 5,759,691 |
| Increase (decrease) in leverage contract trading - customers' equity | 152,770 | 70 |
| Increase (decrease) in accounts payable | 68,732 | (15,203) |
| Increase (decrease) in accounts payable-inter co. | 1,984 | (2,147) |
| Increase (decrease) in advance receipts | (200) | 115 |
| Increase (decrease) in receipts under custody | 1,116 | 422 |
| Increase (decrease) in other payables | 27,418 | 151 |
| Increase (decrease) in other payables-inter co. | 1,521 | 38 |
| Increase (decrease) in provision for liabilities | 2 | 1 |
| Increase (decrease) in other current liabilities | 642 | (1,968) |
| Total net changes of liabilities from operating activities | 4,774,679 | 5,702,957 |
| Total net changes of assets and liabilities from operating activities | (215,731) | (199,689) |
| Total adjustments | (521,637) | (449,645) |
| Cash flows provided by (used in) operating activities | 305,252 | 154,137 |
| Interest collected | 236,286 | 189,312 |
| Dividend received | 7,292 | 3,627 |
| Interest paid | (7,253) | (5,662) |
| Income tax paid | (80,236) | (86,737) |
| Net cash provided by (used in) operating activities | 461,341 | 254,677 |
| Cash flows from investing activities: | | |
| Proceeds from disposal of available-for-sale financial assets | 71,827 | - |
| Proceeds from disposal of financial assets measured at cost | - | 99 |
| Purchase of properties and equipments | (21,536) | (26,655) |
| Purchase of intangible assets | (11,203) | (6,431) |
| Net cash provided by (used in) investing activities | 39,088 | (32,987) |
| Cash flows from financing activities: | | |
| Issuance of cash dividends | (354,479) | (302,322) |
| Acquisition of subsidiary | - | (412,000) |
| Capital increase by cash | 1,189,025 | - |
| Net cash provided by (used in) financing activities | 834,546 | (714,322) |
| Increase (decrease) in cash and cash equivalents | 1,334,975 | (492,632) |
| Cash and cash equivalents at the beginning of the year | 1,508,415 | 2,001,047 |
| Cash and cash equivalents at the end of the year | \$ 2,843,390 | 1,508,415 |

(The accompanying notes are an integral part of the financial report)

(English Translation of Financial Report Originally Issued in Chinese.)

CAPITAL FUTURES CORPORATION

Notes to Financial Report

December 31, 2017 and 2016

(Amounts expressed in thousands of new Taiwan dollars unless otherwise specified)

1. Company history

Capital Futures Corporation (the "Company") was incorporated on February 26, 1997 and registered under the Ministry of Economic Affairs, R.O.C. The address of the Company's registered office is 32nd and B1 Fl. No. 97, Tun Hwa South Rd., Sec. 2, Taipei, Taiwan, R.O.C. The Company established the Taichung branch. The Company's common shares were listed at Taipei Exchange (TPEX) officially on April 27, 2009, then transferred to Taiwan Stock Exchange (TWSE) on October 16, 2017. The Company is authorized to conduct the following businesses :

- (1) Futures business.
- (2) Futures advisory business.
- (3) Securities introducing brokerage.
- (4) Futures management business.
- (5) Securities business on a proprietary basis.
- (6) Securities investment consulting
- (7) Lever Exchange Agency

2. Approval date and procedures of the financial report

The financial statements were authorized for issuance by the Board of Directors on March 26, 2018.

3. New standards amendments and interpretations adopted:

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

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

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|---|--------------------------------|
| Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception" | January 1, 2016 |
| Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" | January 1, 2016 |
| IFRS 14 "Regulatory Deferral Accounts" | January 1, 2016 |
| Amendment to IAS 1 "Presentation of Financial Statements-Disclosure Initiative" | January 1, 2016 |

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| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|--|--------------------------------|
| Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization" | January 1, 2016 |
| Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants" | January 1, 2016 |
| Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions" | July 1, 2014 |
| Amendment to IAS 27 "Equity Method in Separate Financial Statements" | January 1, 2016 |
| Amendments to IAS 36 "Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non-Financial Assets" | January 1, 2014 |
| Amendments to IAS 39 "Financial Instruments- Novation of Derivatives and Continuation of Hedge Accounting" | January 1, 2014 |
| Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle | July 1, 2014 |
| Annual Improvements to IFRSs 2012-2014 Cycle | January 1, 2016 |
| IFRIC 21 "Levies" | January 1, 2014 |

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

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

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

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|--|--------------------------------|
| Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions" | January 1, 2018 |
| Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" | January 1, 2018 |
| IFRS 9 "Financial Instruments" | January 1, 2018 |
| IFRS 15 "Revenue from Contracts with Customers" | January 1, 2018 |
| Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative" | January 1, 2017 |
| Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses" | January 1, 2017 |
| Amendments to IAS 40 "Transfers of Investment Property" | January 1, 2018 |

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| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|--|----------------------------|
| Annual Improvements to IFRS Standards 2014–2016 Cycle: | |
| Amendments to IFRS 12 | January 1, 2017 |
| Amendments to IFRS 1 and Amendments to IAS 28 | January 1, 2018 |
| IFRIC 22 “Foreign Currency Transactions and Advance Consideration” | January 1, 2018 |

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

(a) IFRS 9 “Financial Instruments”

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

i. Classification and measurement - Financial assets

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

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Based on its assessment, the Company does not believe that the new classification requirements will have a material impact on its accounting for trade receivables and investments in equity securities that are managed on a fair value basis. At December 31, 2017, the Company had equity investments classified as financial assets measured at cost of \$119 thousand that are held for long-term strategic purposes. At initial application of IFRS 9, the Company has designated these investments as measured at FVOCI. Consequently, all fair value gains and losses will be reported in other comprehensive income, no impairment losses would be recognized in profit or loss and no gains or losses will be reclassified to profit or loss on disposal. The Company estimated the application of IFRS 9's classification requirements on January 1, 2018 resulting in an increase of \$895 thousand in other equity.

ii. Impairment - Financial assets and contract assets

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

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

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

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

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

The application of IFRS9's impairment requirement will not occur any impact in term of the Company's assessment.

iii. Disclosures

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

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iv. Transition

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

- The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and other equity items as at January 1, 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

(b) IFRS 15 Revenue from Contracts with Customers

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

The major business of the Company is brokerage from entrusted futures dealing for charging commission which each income has specific recognized method, timing and amount.

The Company will not impact in term of the assessment of adoption of IFRS15, initially.

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

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

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

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|--|---|
| Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture" | Effective date to be determined by IASB |
| IFRS 16 "Leases" | January 1, 2019 |
| IFRS 17 "Insurance Contracts" | January 1, 2021 |
| IFRIC 23 "Uncertainty over Income Tax Treatments" | January 1, 2019 |
| Amendments to IFRS 9 "Prepayment Features with Negative Compensation" | January 1, 2019 |
| Amendments to IAS 28 "Long term Interests in Associates and Joint Ventures" | January 1, 2019 |

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| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|--|--------------------------------|
| Annual Improvements to IFRS 2015–2017 Cycle | January 1, 2019 |
| Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" | January 1, 2019 |

These which may be relevant to the Company are set out below:

| Issuance / Release Dates | Standards or Interpretations | Content of amendment |
|-------------------------------------|---|---|
| January 13, 2016 | IFRS 16 "Leases" | <p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> • For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17. |

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

4. Summary of significant accounting policies

The accompanying consolidated financial statements are the English translation of 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 financial statements, the Chinese version shall prevail.

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

(1) Statement of compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, the related rules of Preparing Financial Reports of Futures Enterprises and the Regulations Governing the Preparation of Financial Reports by Securities Firms.

CAPITAL FUTURES CORPORATION
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(2) Basis of preparation

(a) Basis of measurement

Except for the following significant account, the financial statements has been prepared on a historical cost basis:

- i. Financial instruments measured at fair value through profit or loss (including derivative instruments);
- ii. Available-for-sale financial assets that are measured at fair value; and
- iii. The defined benefit liability is recognized as the fair value of the plan assets less the present value of the defined benefit obligation.

(b) Functional and presentation currency

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

(3) Foreign currency

(a) Foreign currency transaction

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

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

Foreign currency differences arising on retranslation are recognized in profit or loss, except for available-for-sale equity investment which are recognized in other comprehensive income arising on the retranslation.

CAPITAL FUTURES CORPORATION
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(b) Foreign operations

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

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

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

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

- (a) It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- (b) It is held primarily for the purpose of trading;
- (c) It is expected to be realized within twelve months after the reporting period; or
- (d) The asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

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

An entity shall classify a liability as current when:

- (a) It is expected to be settled in the normal operating cycle;
- (b) It is held primarily for the purpose of trading;
- (c) It is due to be settled within twelve months after the reporting period; or
- (d) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

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(5) Cash and cash equivalents

Cash comprises cash on hand, demand deposits.

Cash equivalent comprises time deposit with maturity within one year, excess future margin, and commercial paper, short-term and highly liquid investments that are readily convertible to known amounts of cash and subjected to an insignificant risk of changes in value.

(6) Financial instruments

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

(a) Financial assets

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

i. Financial assets measured at fair value through profit or loss

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

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

ii. Available-for sale financial assets

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

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

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

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

iii. Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

iv. Impairment of financial assets

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

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

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

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

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

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

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

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

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

v. **Derecognition of financial assets**

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

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

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

A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts.

(b) Financial liabilities

i. Financial liabilities measured at fair value through profit or loss

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

ii. Other financial liabilities

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

iii. Derecognition of financial liabilities

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

iv. Offsetting of financial assets and liabilities

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

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(7) Investments in associates and joint ventures

Associates are those entities in which the Company has significant influence, but not control or joint control.

A holding of 20% or more of the voting power (directly or through subsidiaries) will indicate significant unless it can be clearly demonstrated otherwise. Investments in associates are accounted for using equity method and are recognized initially at cost. The carrying amount of the investment in associates includes goodwill which is arising from the acquisition.

On initial recognition, the investor's share of the investee's profit or loss is recognized in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be required arising from changes in the investee's other comprehensive income.

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

The investor's share of the changes from foreign exchange translation differences is recognized in net assets/equity of the investor.

(8) Investments in subsidiaries

When preparing parent-Company-only financial report, the Company uses equity method in evaluating the control of an investee. Under equity method, the net income or loss for the period of parent-Company-only financial report and other comprehensive income of parent-Company-only financial report are the same as net income or loss for the period attributed to owners of parents of consolidated report and other comprehensive income attributed to owners of parents of consolidated report, respectively. The equity of the parent-Company-only financial statements are the same as the equity attributable to the owners of parents of the consolidated report.

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

(9) Securities under agreements

The Company engages in securities under repurchase / resell agreements trading and the nature of transaction substance is financing. When entering securities under resell agreements transactions, the Company establishes an account "Investment in Bonds with resell agreements" with the actual amount of lending and recognizes financing interest revenue by the interest period of resell agreements and no profit and loss is recognized.

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

(10) Securities borrowing transactions

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

(11) Customers margin accounts and future traders' equity

The customers' margin refers to the guarantee deposits and premiums collected from futures customers and also the spread calculated based on the market prices everyday. It is reflected under current assets of the balance sheet. Futures traders' equity refers to futures customers' deposit the guarantee deposits and option premiums and also the spread calculated based on the market prices everyday. It is reflected under current liabilities. The loss is offset only against the balance of the same customers' own margin accounts. If a customer incurs a loss in excess of the margin account balance, the excess is recognized a receivable.

(12) Property and equipment

(a) Recognition and measurement

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

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

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

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(b) Subsequent cost

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

(c) Depreciation

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

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

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

- i. Office equipment 3 ~ 5 years
- ii. Leasehold improvement is depreciated equally over the shorter period of estimated useful life or the lease term.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the change(s) is accounted for as a change in an accounting estimate.

(13) Leases

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

(14) Intangible assets

Intangible assets of the Company are the requirements for transacting business on an exchange. The seats are regarded as intangible assets with an indefinite useful life and measured at cost while originally recognized. After initial recognition, an intangible asset shall be carried at its cost less any accumulated impairment losses. As for computer software, it was amortized on a straight-line basis over estimated useful life of three years, and in the meanwhile, the amortization would be recognized in gains or losses. The residual value, amortization period and amortization method for an intangible asset with a finite useful life are reviewed at each financial year-end. The change is accounted for as a change in an accounting estimate.

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(15) Revenue recognition

The main revenue is commission income - brokerage and is recognized based on an accrual basis.

(16) Employee benefits

(a) Defined contribution plans

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

(b) Defined benefit plans

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

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

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

Remeasurement of net defined benefit liability (asset) includes:

- i. Actuarial gains and losses
- ii. Return on plan assets except net interests of remeasurement of net defined benefit liability (asset).
- iii. Any changes in the effects of the asset ceiling except net interests of remeasurement of net defined benefit liability (asset)

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Remeasurement of net defined benefit liability (asset) is recognized in other comprehensive income. The Company will recognize the remeasurement of net defined benefit plan in retained earnings

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

(c) Termination benefits

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

(d) Short-term employee benefits

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

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

(17) Share-based payment

The grant-date fair value of share-based payment awards granted to employee is recognized as employee expenses with a corresponding increase in equity, over the period which the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of award that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

(18) Income tax

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

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

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

- (a) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.
- (b) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (c) Initial recognition of goodwill.

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

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

- (a) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- (b) The taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
 - i. levied by the same taxing authority; or
 - ii. levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched

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

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

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

(19) Earnings per share ("EPS")

The calculation of basic earnings per share is based on net income, divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on net income, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, such as employee bonus. In the event of capital increase through capitalization of retained earnings, or capital surplus, EPS is retroactively adjusted by the approved capitalization ratio, regardless of the outstanding period when incremental shares are issued. The dilutive potential ordinary shares of the Company include employee bonus and compensation.

(20) Segment information

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

5. Major sources of accounting judgments, estimation and assumptions uncertainty

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

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is as follows:

The impairment of investments accounted for using equity method: The Company performed the impairment test of investments accounted for using equity method annually. The recoverable amount of the cash-generating unit was based on the calculation of the value in use that choosing the appropriate discount rate and estimating the expected cash flows of the cash-generating unit.

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

6. Summary of major accounts

(1) Cash and cash equivalents

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--|--------------------------|--------------------------|
| Cash | \$ 60 | 60 |
| Check deposits | - | 9 |
| Demand deposits | 432,661 | 42,788 |
| Time deposits | 1,710,160 | 819,575 |
| Futures margin-excess margin | 542,046 | 497,180 |
| Commercial paper | 146,962 | - |
| Bonds investment under resell agreements | 11,501 | 148,803 |
| Total | <u>\$ 2,843,390</u> | <u>1,508,415</u> |

(2) Financial assets and liabilities

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

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--|--------------------------|--------------------------|
| Open-ended funds and money-market instruments | \$ 10,000 | 5,000 |
| Open-ended funds and money-market instruments valuation adjustment | 59 | (79) |
| Trading securities - proprietary trading | 512,375 | 217,083 |
| Trading securities - proprietary trading valuation adjustment | (5,685) | 7,095 |
| Call options | 119,230 | 64,346 |
| Futures margin-proprietary fund | 106,896 | 92,285 |
| Foreign exchange rate derivatives | 22,446 | 3 |
| Total | <u>\$ 765,321</u> | <u>385,733</u> |

If there is an increase in the securities price of 1% on the reporting date (assume that all other variables remain the same), the impact on comprehensive income for 2017 and 2016 will increase \$5,167 and \$2,291, respectively. Conversely, if there is a decrease in the securities price of 1% on the reporting date based on all other variables remain the same, there will be the same amount but opposite direction of influence.

(b) Available-for-sale financial assets - non-current

| <u>Investee Company</u> | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|-------------------------|--------------------------|--------------------------|
| CME GROUP | \$ - | 32,907 |
| Valuation adjustments | - | 41,494 |
| Total | <u>\$ -</u> | <u>74,401</u> |

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

The purpose for obtaining the stock of CME Group Inc. is to acquire the membership of foreign futures exchange, however, the member has been required to pay the subscription fee instead of holding the shares. Therefore, the Company disposed of 20,000 shares of stock of CME Group Inc. on April 2017, which generated a gain on disposal of \$38,920.

For the years ended December 31, 2017 and 2016, due to changes in fair value, the Group had recognized \$0 and \$14,922 in other comprehensive income, as well as the amount reclassified from equity to net losses is \$(41,494) and \$0, respectively.

If there is an increase in the securities price of 1% on the reporting date (assume that all other variables remain the same), the impact on comprehensive income for 2017 and 2016 will increase \$0 and \$744, respectively. Conversely, if there is an decrease in the securities price of 1% on the reporting date based on all other variables remain the same, there will be the same amount but opposite direction of influence.

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

| <u>Investee Company</u> | <u>December 31, 2017</u> | | <u>December 31, 2016</u> | |
|----------------------------------|--------------------------|---------------|--------------------------|---------------|
| | <u>Ownership ratio</u> | <u>Amount</u> | <u>Ownership ratio</u> | <u>Amount</u> |
| Taiwan Futures Exchange Co., Ltd | 0.0042% | <u>\$ 119</u> | 0.0042% | <u>119</u> |

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

(d) Financial liabilities at fair value through profit or loss-current

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|-----------------------------------|--------------------------|--------------------------|
| Put options | \$ 120,129 | 54,017 |
| Foreign exchange rate derivatives | 2,847 | 1 |
| | <u>\$ 122,976</u> | <u>54,018</u> |

(3) Investments under Equity Method

Investments under Equity Method on the reporting date were as follows:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|------------|--------------------------|--------------------------|
| Subsidiary | \$ 969,615 | 974,619 |
| Associate | 41,535 | 41,516 |
| | <u>\$ 1,011,150</u> | <u>1,016,135</u> |

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

(a) Subsidiary

The Company established CSC Futures (HK) Ltd. per Gin Guan Zheng Qi No. 1050038018 letter on October 21, 2016 and remitted share proceeds which amounted to HKD 100,000 on December 12, 2016. The registration of alteration and the acquisition of relevant documents were both completed.

Subsidiary - Capital International Technology Co., Ltd. Invested Capital Futures Technology (Shanghai) Co., Ltd. per Gin Guan Zheng Qi No.1050026448 letter on July 22, 2016. The above investment was completed on January 10, 2017.

The accounting figures of investee, which is controlled by the Company, are combined into the consolidated financial statements; please refer to the consolidated financial report of 2017.

(b) Associate

The Company acquired 49% of True Partner Capital Advisor Co., Ltd. shares with US \$1,123 on October 2, 2015, which indicate significant. Below is the relevant information:

| Name of associate | Relationship with the Company | Principal place of business/Register country of company | Ownership equity and % of right to vote | |
|--|--|---|---|-------------------|
| | | | December 31, 2017 | December 31, 2016 |
| True Partner Capital Advisor Co., Ltd. | Its main business is assets management, and it's the Company's strategic alliances to expand assets managing business. | Hong Kong | 49.00% | 49.00% |

The insignificant associate uses equity method and its financial information is summarized as follows. The information is included in the financial statement of the Company:

| | December 31, 2017 | December 31, 2016 |
|--|---------------------------------|-------------------|
| Summerized ending balance of the insignificant associate | \$ 41,535 | 41,516 |
| | For the years ended December 31 | |
| | 2017 | 2016 |
| Shares belong to the Company: | | |
| Net loss of the period of continuing business units | \$ 1,028 | 5,035 |
| Other comprehensive income | (1,009) | (200) |
| Total | \$ 19 | 4,835 |

(c) Collateral and pledge

As of December 31, 2017 and 2016, the Company did not provide any investment accounted for using equity method as collaterals for its loans.

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

(4) Property and equipment

For the years ended December 31, 2017 and 2016, the cost and accumulated depreciation of the property and equipment of the Company were as follows:

| | Office equipment | Leasehold improvements | Total |
|----------------------------------|-----------------------------|-----------------------------------|----------------------|
| Cost: | | | |
| Balance at 1 January, 2017 | \$ 60,735 | 6,015 | 66,750 |
| Additions | 16,316 | 5,220 | 21,536 |
| Disposal | (7,665) | (210) | (7,875) |
| Balance at 31 December, 2017 | <u><u>\$ 69,386</u></u> | <u><u>11,025</u></u> | <u><u>80,411</u></u> |
| Balance at 1 January, 2016 | \$ 49,368 | 419 | 49,787 |
| Additions | 21,059 | 5,596 | 26,655 |
| Disposal | (9,692) | - | (9,692) |
| Balance at 31 December, 2016 | <u><u>\$ 60,735</u></u> | <u><u>6,015</u></u> | <u><u>66,750</u></u> |
| Accumulated depreciation: | | | |
| Balance at 1 January, 2017 | \$ 27,751 | 1,091 | 28,842 |
| Depreciation | 13,687 | 2,191 | 15,878 |
| Disposal | (7,665) | (210) | (7,875) |
| Balance at 31 December, 2017 | <u><u>\$ 33,773</u></u> | <u><u>3,072</u></u> | <u><u>36,845</u></u> |
| Balance at 1 January, 2016 | \$ 24,351 | 167 | 24,518 |
| Depreciation | 13,092 | 924 | 14,016 |
| Disposal | (9,692) | - | (9,692) |
| Balance at 31 December, 2016 | <u><u>\$ 27,751</u></u> | <u><u>1,091</u></u> | <u><u>28,842</u></u> |
| Carrying amounts: | | | |
| Balance at 31 December, 2017 | <u><u>\$ 35,613</u></u> | <u><u>7,953</u></u> | <u><u>43,566</u></u> |
| Balance at 31 December, 2016 | <u><u>\$ 32,984</u></u> | <u><u>4,924</u></u> | <u><u>37,908</u></u> |

As of December 31, 2017 and 2016, the Company did not provide any property and equipment as collateral and pledge.

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

(5) Customers margin accounts/ futures traders' equity

As of December 31, 2017 and 2016, the difference between customers' margin accounts and futures traders' equity were reconciled as follows:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--|--------------------------|--------------------------|
| Customers margin accounts | | |
| Cash in bank | \$ 19,997,183 | 17,815,149 |
| Balance of the futures clearing house | 3,297,207 | 1,949,716 |
| Balance of other futures commission merchants | 3,611,224 | 2,691,373 |
| Marketable securities | 2,113 | 1,594 |
| Balance of customers margin accounts | <u>26,907,727</u> | <u>22,457,832</u> |
| Plus adjustment items: | | |
| Commission cost | \$ 1,651 | - |
| Others | 33 | 1 |
| Deduction adjustment items: | | |
| Commission income | (8,264) | (10,600) |
| Futures transaction tax | (1,356) | (1,045) |
| Interest income | (2,326) | (1,200) |
| Temporary credits | (200) | (134) |
| Remittance amount of the customers after the market closed | (2,424) | (1,749) |
| Balance of futures traders' equity | <u>\$ 26,894,841</u> | <u>22,443,105</u> |

(6) Intangible assets

For the years ended December 31, 2017 and 2016, the costs, amortization, and impairment loss of intangible assets were as follows:

| | <u>The seats of foreign futures exchanges (Note)</u> | <u>Computer software</u> | <u>Total</u> |
|------------------------------|--|------------------------------|---------------|
| Cost: | | | |
| Balance at 1 January, 2017 | \$ 44,325 | 11,885 | 56,210 |
| Acquisition | - | 11,203 | 11,203 |
| Disposal | - | (2,186) | (2,186) |
| Balance at 31 December, 2017 | <u>\$ 44,325</u> | <u>20,902</u> | <u>65,227</u> |
| Balance at 1 January, 2016 | \$ 44,325 | 12,230 | 56,555 |
| Acquisition | - | 6,431 | 6,431 |
| Disposal | - | (6,776) | (6,776) |
| Balance at 31 December, 2016 | <u>\$ 44,325</u> | <u>11,885</u> | <u>56,210</u> |

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

| | The seats of foreign futures exchanges (Note) | Computer software | Total |
|--|---|----------------------|---------------|
| Amortization and impairment loss: | | | |
| Balance at 1 January, 2017 | \$ - | 4,880 | 4,880 |
| Amortization of current period | - | 6,241 | 6,241 |
| Disposal | - | (2,186) | (2,186) |
| Balance at 31 December, 2017 | <u>\$ -</u> | <u>8,935</u> | <u>8,935</u> |
| Balance at 1 January, 2016 | \$ - | 6,844 | 6,844 |
| Amortization of current period | - | 4812 | 4,812 |
| Disposal | - | (6,776) | (6,776) |
| Balance at 31 December, 2016 | <u>\$ -</u> | <u>4,880</u> | <u>4,880</u> |
| Carrying value: | | | |
| Balance at 31 December, 2017 | <u>\$ 44,325</u> | <u>11,967</u> | <u>56,292</u> |
| Balance at 31 December, 2016 | <u>\$ 44,325</u> | <u>7,005</u> | <u>51,330</u> |

Note : The Company obtained the seats of foreign futures Exchanges - NYMEX, COMEX, CBOT and CME for business development. In accordance with IAS No. 38 "Intangible Assets" endorsed by the FSC, the seats are regarded as intangible assets with an indefinite useful life.

(7) Operating lease

(a) Lessee

Non-cancellable operating lease payables are as follows:

| | December 31, 2017 | December 31, 2016 |
|---------------|----------------------|----------------------|
| Within 1 year | \$ 21,287 | 14,787 |
| 1-5 years | 36,351 | 13,429 |
| | <u>\$ 57,638</u> | <u>28,216</u> |

The Company rents several offices under operating lease, the lease terms are within 1 to 5 years and the Company has the preferential renewal options when the lease term expires. For the years ended December 31, 2017 and 2016, the operating lease expenses recognized in profit or loss were \$23,611 and \$21,532 respectively.

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

(b) Lessor

Non-cancellable operating lease receivables are as follows:

| | December 31, 2017 | December 31, 2016 |
|---------------|------------------------------|------------------------------|
| Within 1 year | \$ - | 85 |
| 1-5 years | - | - |
| | <u>\$ -</u> | <u>85</u> |

The Company had leased the office under operating lease. For the year ended December 31, 2017 and 2016, the rental income were \$85 and \$146 respectively.

(8) Employee benefits

(a) Defined benefit plans

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

| | December 31, 2017 | December 31, 2016 |
|--|------------------------------|------------------------------|
| Present value of defined benefit obligations | \$ (29,511) | (28,055) |
| Fair value of plan assets | 17,656 | 16,978 |
| Recognized liabilities for defined benefit obligations | <u>\$ (11,855)</u> | <u>(11,077)</u> |

The Company made defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pensions for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive an annual payment based on years of service and average salary for the six months prior to retirement.

a. Composition of plan assets

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

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

The balance of the Company's labor pension preparatory special account in Bank of Taiwan amounted to \$17,656 at the reporting date. The utilization of the labor pension fund includes the assets allocation and yield of the fund. Please refer to the information published on the website under Labor Pension Fund Supervisory Committee of the Council of Labor Affairs Executive Yuan.

b. Movement in present value of defined benefit obligation

The Change in the present value of defined benefit obligation of the Company in 2017 and 2016 were as follows:

| | For the years ended December 31, | |
|---|---|---------------|
| | 2017 | 2016 |
| Defined benefit obligation at January 1 | \$ 28,055 | 24,956 |
| Current service costs and interest | 702 | 710 |
| Remeasurement of net defined benefit obligation | | |
| — Experience gain or loss | 672 | 2,063 |
| — Actuarial loss (gain) arising from changes in financial assumptions | 82 | 326 |
| Defined benefit obligation at December 31 | <u>\$ 29,511</u> | <u>28,055</u> |

c. Movements in fair value of defined benefit plan assets

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

| | For the years ended December 31, | |
|--|---|---------------|
| | 2017 | 2016 |
| Fair value of plan assets at January 1 | \$ 16,978 | 16,370 |
| Interest revenue | 189 | 219 |
| Remeasurement of net defined benefit obligation | | |
| — Return on plan assets (except net interests of period) | (22) | (101) |
| Contributions to the plan assets | 511 | 490 |
| Fair value of plan assets at December 31 | <u>\$ 17,656</u> | <u>16,978</u> |

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

d. Expense recognized in profit or loss

The expenses recognized in profit or loss of the Company in 2017 and 2016 were as follows:

| | For the years ended December 31, | |
|--|---|-------------|
| | 2017 | 2016 |
| Current service cost | \$ 394 | 381 |
| Net interest of net defined benefit obligation | 119 | 110 |
| | \$ 513 | 491 |

e. Remeasurement of net defined benefit obligation recognized in other comprehensive income

For the years ended December 31, 2017 and 2016, the accumulated remeasurement of net defined benefit obligation recognized in other comprehensive income was as follows:

| | For the years ended December 31, | |
|-----------------------------------|---|---------------|
| | 2017 | 2016 |
| Accumulated amount on January 1 | \$ 10,318 | 7,828 |
| Recognized during the period | 776 | 2,490 |
| Accumulated amount on December 31 | \$ 11,094 | 10,318 |

f. Actuarial assumptions

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

| | 2017 | 2016 |
|---------------------------|-------------|-------------|
| Discount rate | 1.05% | 1.10% |
| Future salary growth rate | 2.50% | 2.50% |

The expected contribution to the defined benefit plan for the next year is \$513. The weighted average duration of the defined benefit obligation is 3 years.

g. Sensitivity Analysis

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

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

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

| | <u>Effects to defined benefit obligations</u> | |
|-------------------------------|---|----------------------|
| | <u>Increase 0.5%</u> | <u>Decrease 0.5%</u> |
| December 31, 2017 | | |
| Discount rate | \$ (779) | 813 |
| Future salary increasing rate | 650 | (631) |
| December 31, 2016 | | |
| Discount rate | (793) | 829 |
| Future salary increasing rate | 673 | (652) |

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

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

(b) Defined contribution plans

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

The Company contributed \$10,208 and \$9,241 under defined contribution plan to the Bureau of the Labor Insurance in the year 2017 and 2016, respectively.

(9) Income taxes

(a) Income tax expense

The amount of income tax expense for the years 2017 and 2016 were as follows:

| | <u>For the years ended December 31,</u> | |
|-----------------------------|---|---------------|
| | <u>2017</u> | <u>2016</u> |
| Current income tax expense | \$ 91,513 | 91,973 |
| Deferred income tax expense | 4,361 | - |
| Total | <u>\$ 95,874</u> | <u>91,973</u> |

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

The amount of income tax expense (benefit) recognized in other comprehensive income of the Company in 2017 and 2016 were as follows:

| | For the years ended December 31, | |
|--|---|----------------|
| | 2017 | 2016 |
| Foreign exchange difference from translating financial reports of foreign operations | \$ 14,281 | (1,507) |

Reconciliation of income tax expense (benefit) and profit before tax of the Company for 2017 and 2016 were as follows:

| | For the years ended December 31, | |
|--|---|-----------------|
| | 2017 | 2016 |
| Profit excluding income tax rate | \$ 826,889 | 603,782 |
| | 140,571 | 102,643 |
| Tax-exempt income | (29,426) | (14,478) |
| Adjustments to prior year's income tax years | (7,426) | 7,473 |
| | 855 | - |
| Others | (8,700) | (3,665) |
| Total | \$ 95,874 | 91,973 |

(b) Deferred tax assets and liabilities

1) Unrecognized deferred income tax liabilities

As of December 31, 2017 and 2016, the details of the Company's unrecognized deferred tax liabilities were as follows:

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

CSC Futures (HK) Ltd. that the Company is able to control has the distribution policy for the surplus earnings before December 31, 2017 will not distribute. Furthermore, the Company will not disposal the investment based on the foreseeable future. Hence, the company did not recognize the deferred tax liabilities of the long term investments, caused by book value of the subsidiary and temporary tax basis which has not of distributed and disposed by the company.

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

2) Recognized deferred income tax assets and liabilities

As of December 31, 2017 and 2016, the details of the Company's recognized deferred income tax assets and liabilities:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---|--------------------------|--------------------------|
| Recognized deferred tax assets: | | |
| Foreign exchange difference from translating financial reports of foreign operations | \$ 9,392 | - |
| Recognized deferred tax liabilities: | | |
| Unrealized gains on foreign investments under Equity Method | \$ 1,030 | |
| Foreign exchange difference from translating financial statements of foreign operations | - | 4,889 |
| Unrealized gains on derivative financial instruments | 3,331 | |
| Total | <u>\$ 4,361</u> | <u>4,889</u> |

(c) Income tax assessment status

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

(d) The information about imputation system were as follows:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--|--------------------------|--------------------------|
| Undistributed earnings after 1998 | (Note) | <u>510,134</u> |
| Imputation credit account | (Note) | <u>58,834</u> |
| | <u>2017 (estimated)</u> | <u>2016(actual)</u> |
| Deductible rate for earnings distributed of dividends to ROC residents | (Note) | <u>18.20%</u> |

The above information was calculated based on the Tai-Tsai-Shuei No. 10204562810 issued by the Ministry of Finance, R.O.C. on October 17, 2013.

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

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

(10) Capital and other equity

(a) Common stock

As of 29 September 2016, the number of authorized ordinary shares were 38,000 thousand shares with par value of \$10 per share, and issued \$25 to 35 per share on November 29, 2016 under the resolution of board meeting. The actual price would be impacted by the above block, the laws, and the market's situation at the determined date. As of 21 December 2016, the Company issued \$31.38 per share. The capital increase was allowed per Gin Guan Zheng Qi No.1050044467 letter on November 15, 2016 and the based-capital increased date was on February 12, 2017. The issued cost was deducted from stock premium.

As of December 31, 2017 and 2016, the Company had authorized capital both of \$2,500,000, with par value of \$10 dollar per share; the issued common stock shares were 160,398 thousand and 122,398 thousand shares, respectively.

(b) Capital surplus

The detail of the capital surplus of the Company is as follows:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--|--------------------------|--------------------------|
| Share premium | | |
| Capital addition-Share premium | \$ 1,180,130 | 371,105 |
| Capital addition-Employee stock option | 24,134 | 6,604 |
| Difference arising from disposal the subsidiaries' share price and its carry value | 2,476 | 2,476 |
| Changes in ownership interests in subsidiaries | 995 | 995 |
| | <u>\$ 1,207,735</u> | <u>381,180</u> |

In accordance with the ROC Company Act, 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 Securities Offering and Issuance Guidelines, the amount of capital surplus to be capitalized shall not exceed 10 percent of the paid-in capital each year.

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

Per shares of common stock for the exercise of employee stock options' fair value was \$4.613. The Company used Black-scholes model to recognize the employee stock options cost as \$17,530, and also adjusted capital surplus. The valuation model adopted parameters as follows :

| | |
|-------------------------|---------|
| Price at given date | \$36.60 |
| Exercise Price | \$31.38 |
| Expected volatility | 12.93% |
| Expected duration | 34 days |
| Risk-free interest rate | 0.38% |

Expected volatility is based on Weighted average historical volatility, and might be adjusted by expected changes from opened information. Expected risk-free interest rate is based on government bonds.

The above information of employee options as follows:

| | For the years ended December 31 | |
|-----------------------------------|--|---------------------------|
| | 2017 | |
| | Weighted average exercise price(NT doller) | stock option's quacity |
| Outstanding shares on January 1 | \$ - | - |
| Given shares | 31.38 | 3,800 |
| Exercise shares | 31.38 | (3,800) |
| Out of date shares | 31.38 | - |
| Outstanding Shares on December 31 | | - |

(c) Retained earnings

a. Legal reserve

According to Company Act, companies shall set aside 10 percent of net income after tax as legal reserve until it equals to the paid-in capital. When companies incur no loss, they are able to distribute new shares or cash dividends through legal reserve under the resolution of stockholders' meeting but companies can only distributed the part that the reserve exceeds 25% of the paid in capital.

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

b. Special reserve

In accordance with Article 41 of the Securities and Exchange Law, 20 percent of the current year's earnings after tax should be set aside as special reserve. Ruling No. 1010048029 issued by the Financial Supervisory Commission on November 1, 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. 1010032090 issued by the Financial Supervisory Commission on July 10, 2012, the balance of reserve for bad debt loss which have been provided but not written-off for January 1, 2013 required reclassifying to special reserve. The special reserve can only be used to offset an accumulated deficit and converted to common stock when it reaches an amount equal to at least one-half of the common stock.

c. Undistributed earnings

According to the Company's Articles of Incorporation, after-tax earnings should first offset accumulated deficit, and then 10% of the remainder should be appropriated as legal reserve. However, when the legal reserve has reached the paid-up capital, is not within this limit. And then 20% of the remainder should be appropriated as special reserve due to the need of Company's operation and the law, if there's earning plus undistributed earnings of beginning of the year, the Company's earnings distribution was proposed by board of directors and is subject to the resolution of the shareholders' meeting.

According to the resolution of shareholders' meeting on May 31, 2017 and May 27, 2016, the Company's 2016 and 2015 earnings distribution for owners were as follows:

| | For the years ended December 31, | |
|--------------------------------------|----------------------------------|---------|
| | 2016 | 2015 |
| Dividends for owners of common stock | | |
| Cash | \$ 354,479 | 302,322 |

The relevant information on earnings distribution approved by the stockholders' meeting can be accessed through the Market Observation Post System or other sites.

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

(11) Earnings per share

The calculation of basic and dilutive earnings per share of the Company in 2016 and 2015 were as follows:

(a) Basic earnings per share

| | For the years ended December 31, | |
|--|----------------------------------|---------|
| | 2017 | 2016 |
| Net income | \$ 731,015 | 511,809 |
| Weighted-average number of common stock shares outstanding (thousands of shares) | 156,233 | 122,398 |
| Basic earnings per share (dollar) | \$ 4.68 | 4.18 |

(b) Diluted earnings per share

| | For the years ended December 31, | |
|---|----------------------------------|---------|
| | 2017 | 2016 |
| Net income | \$ 731,015 | 511,809 |
| Weighted-average number of common stock shares outstanding (thousands of shares) | 156,233 | 122,398 |
| Influence from stock dividends for employee (thousands of shares) | 238 | 205 |
| Weighted-average outstanding shares of diluted earnings per share (thousands of shares) | 156,471 | 122,603 |
| Diluted earnings per share (dollar) | \$ 4.67 | 4.17 |

(12) Items of Comprehensive Income

(a) Commission income - brokerage

| | For the years ended December 31, | |
|---------------------------------------|----------------------------------|-----------|
| | 2017 | 2016 |
| Brokerage commission-Domestic futures | \$ 838,033 | 819,979 |
| Brokerage commission-Foreign futures | 727,580 | 714,889 |
| | \$ 1,565,613 | 1,534,868 |

(b) Futures commission expenses

| | For the years ended December 31, | |
|-------------------------------------|----------------------------------|---------|
| | 2017 | 2016 |
| Re-consigned futures trading | \$ 245,730 | 218,655 |
| Futures introducing broker business | 152,941 | 158,440 |
| | \$ 398,671 | 377,095 |

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

(c) Employee benefit, depreciation and amortization expenses

| | For the years ended December 31, | |
|----------------------------|----------------------------------|----------------|
| | 2017 | 2016 |
| Employee benefit expenses | | |
| Salary | \$ 343,162 | 277,427 |
| Labor and health insurance | 18,875 | 16,331 |
| Pension | 10,721 | 9,732 |
| Others | 6,587 | 5,726 |
| Depreciation | 15,878 | 14,016 |
| Amortization | 6,241 | 4,812 |
| | <u>\$ 401,464</u> | <u>328,044</u> |

(d) Other operating expenses

| | For the years ended December 31, | |
|--------------------------------|----------------------------------|----------------|
| | 2017 | 2016 |
| Postage expenses | \$ 18,479 | 17,030 |
| Taxes | 66,090 | 59,350 |
| Rental | 23,611 | 21,532 |
| Information technology service | 83,434 | 86,864 |
| Others | 83,350 | 92,371 |
| | <u>\$ 274,964</u> | <u>277,147</u> |

(e) Other income and expenses

| | For the years ended December 31, | |
|--|----------------------------------|----------------|
| | 2017 | 2016 |
| Interest revenue | \$ 239,445 | 188,837 |
| Dividend revenue | 1,744 | 3,150 |
| Net gain (loss) on non-operating financial instruments | 139 | 318 |
| Net gain (loss) on foreign exchange | (26,769) | (2,564) |
| Net gain (loss) on disposal of investments | 48,104 | 3,696 |
| Other non-operating revenue - other | 32,710 | 6,943 |
| Other non-operating expense - other | (2,565) | (384) |
| | <u>\$ 292,808</u> | <u>199,996</u> |

CAPITAL FUTURES CORPORATION
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(f) Remuneration to employees, directors and supervisors

According to the Company's Articles of Incorporation, the Company should aside 0.6%-2.0% of annual profit to be distributed as employees' bonus, and aside not higher than 3% of annual profit to be distributed as remuneration to directors and supervisors. However, the Company's accumulated losses should first be covered. People to receive shares or cash include the employees of subsidiaries meeting certain specific requirements.

For the year, 2017 and 2016, the estimated amounts of remuneration to employee were \$10,777 and \$7,424, and to directors and supervisors by the Company were \$10,777 and \$7,424, respectively, which were calculated based on the Company's net profit before income tax and remuneration to employees and directors and supervisors multiple the earnings allocation percentage as specified in the Company's articles. It is recognized as operating expense for the year, 2017 and 2016. 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.

The estimated amounts of remuneration to employee and director and supervisors by the Company for 2016 were both \$7,424. There was no difference between accounting estimates and actual distribution. Related information would be available at the Market Observation Post System website.

(13) Financial Instruments

(a) Credit risk

The carrying amount of financial assets represent the maximum credit exposure. As of December 31, 2017 and 2016, the maximum credit exposure amounted to \$31,014,104 and \$24,763,671, respectively.

The main counterparties which the Company transacts with regarding cash and cash equivalents and customer margin deposit are both domestic and overseas financial institutions.

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

The exposure area of credit risk in December, 2017 as shown in below, focusing on Taiwan (proportion 87.29%), secondly was Asia (proportion 8.78% excluded Taiwan), thirdly was Oceania (proportion 3.92%), and then North America (proportion 0.01%). The proportion of investment area did not change significantly compared to the same period last year.

| <u>Area</u> | <u>December 31,2017</u> | <u>December 31,2016</u> |
|-----------------------|-------------------------|-------------------------|
| Taiwan | \$ 25,968,806 | 21,167,307 |
| Asia(excluded Tawian) | 2,613,376 | 1,439,072 |
| Oceania | 1,166,514 | 1,359,868 |
| North America | 2,421 | - |
| Total | <u>\$ 29,751,117</u> | <u>23,966,247</u> |

(b) Liquidity risk

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

| | <u>Carrying amount</u> | <u>Contract cash flow</u> | <u>Within 6 months</u> | <u>6-12 months</u> | <u>1-2 year</u> | <u>2-5 year</u> | <u>More than 5 year</u> |
|--|----------------------------|-----------------------------------|----------------------------|------------------------|---------------------|---------------------|---------------------------------|
| December 31, 2017 | | | | | | | |
| Financial liabilities at fair value through profit or loss | \$ 122,976 | 122,976 | 122,976 | - | - | - | - |
| Futures traders' equity | 26,894,841 | 26,894,841 | 26,894,841 | - | - | - | - |
| Leverage contract trading-customers' equity | 152,840 | 152,840 | 152,840 | | | | |
| Accounts payable | 108,394 | 108,394 | 108,394 | - | - | - | - |
| Receipts under custody | 4,351 | 4,351 | 4,351 | | | | |
| Other payable | 143,383 | 143,383 | 143,383 | - | - | - | - |
| | <u>\$ 27,426,785</u> | <u>27,426,785</u> | <u>27,426,785</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

| | <u>Carrying amount</u> | <u>Contract cash flow</u> | <u>Within 6 months</u> | <u>6-12 months</u> | <u>1-2 year</u> | <u>2-5 year</u> | <u>More than 5 year</u> |
|---|----------------------------|-----------------------------------|----------------------------|------------------------|---------------------|---------------------|---------------------------------|
| December 31, 2016 | | | | | | | |
| Financial liabilities measured at fair value through profit or loss | \$ 54,018 | 54,018 | 54,018 | - | - | - | - |
| Futures traders' equity | 22,443,105 | 22,443,105 | 22,443,105 | - | - | - | - |
| Leverage contract trading-customers' equity | 70 | 70 | 70 | | | | |
| Receipts under custody | 37,678 | 37,678 | 37,678 | | | | |
| Accounts payable | 3,235 | 3,235 | 3,235 | - | - | - | - |
| Other payable | 114,462 | 114,462 | 114,462 | | | | |
| | <u>\$ 22,652,568</u> | <u>22,652,568</u> | <u>22,652,568</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

(b) Currency risk

a. Exposure to foreign currency risk

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

| December 31, 2017 | | | |
|--|------------------------------|---------------|-----------------------|
| | Foreign Currency (dollar) | Exchange rate | New Taiwan Dollars |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 447,763,417.18 | 29.7600 | 13,325,439 |
| JPY | 993,483,592.00 | 0.2642 | 262,478 |
| HKD | 157,120,051.88 | 3.8070 | 598,156 |
| GBP | 1,752,648.78 | 40.1100 | 70,299 |
| EUR | 7,136,399.99 | 35.5700 | 253,842 |
| AUD | 1,351,282.53 | 23.1900 | 31,336 |
| SGD | 725,612.70 | 22.2600 | 16,152 |
| CHF | 18,315.20 | 30.4550 | 558 |
| CNY | 43,270,381.65 | 4.5650 | 197,529 |
| NZD | (10,274.32) | 21.1400 | (217) |
| CAD | 234,054.64 | 23.7100 | 5,549 |
| <u>Non-monetary items</u> | | | |
| USD | 8,137,838.79 | 29.7600 | 242,182 |
| JPY | 2,340,000.00 | 0.2642 | 618 |
| GBP | 3,849.64 | 40.1100 | 154 |
| NZD | 1,060.90 | 21.1400 | 22 |
| <u>Investments under equity method</u> | | | |
| HKD | 253,496,499.61 | 3.8070 | 965,062 |

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

| December 31, 2017 | | | |
|------------------------------|------------------------------|---------------|-----------------------|
| | Foreign Currency (dollar) | Exchange rate | New Taiwan Dollars |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 425,927,565.39 | 29.7600 | 12,675,604 |
| JPY | 948,120,344.00 | 0.2642 | 250,493 |
| HKD | 156,245,889.62 | 3.8070 | 594,828 |
| GBP | 1,674,518.61 | 40.1100 | 67,165 |
| EUR | 7,142,058.72 | 35.5700 | 254,043 |
| AUD | 1,369,658.30 | 23.1900 | 31,762 |
| SGD | 735,183.25 | 22.2600 | 16,365 |
| CHF | 18,315.20 | 30.4550 | 558 |
| CNY | 42,647,580.42 | 4.5650 | 194,686 |
| <u>Non-monetary items</u> | | | |
| USD | \$ 48,913.58 | 29.7600 | 1,456 |
| JPY | 3,635,432.00 | 0.2642 | 961 |
| AUD | 423.43 | 23.1900 | 10 |
| CNY | 77.54 | 4.5650 | - |
| CAD | 17,728.14 | 23.7100 | 420 |

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

| December 31, 2016 | | | |
|--|------------------------------|---------------|-----------------------|
| | Foreign Currency (dollar) | Exchange rate | New Taiwan Dollars |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 328,225,483.03 | 32.2500 | 10,585,272 |
| JPY | 957,391,640.00 | 0.2756 | 263,857 |
| HKD | 101,212,909.06 | 4.1580 | 420,843 |
| GBP | 400,540.50 | 39.6100 | 15,865 |
| EUR | 19,653,000.75 | 33.9000 | 666,237 |
| AUD | 591,912.78 | 23.2850 | 13,783 |
| SGD | 67,023.26 | 22.2900 | 1,494 |
| CHF | 48,381.13 | 31.5250 | 1,525 |
| CNY | 47,577,845.60 | 4.6170 | 219,667 |
| NZD | 3.54 | 22.4000 | - |
| CAD | 32.43 | 23.9100 | 1 |
| <u>Non-monetary items</u> | | | |
| USD | 4,152,000.00 | 32.2500 | 133,902 |
| JPY | 36,180,000.00 | 0.2756 | 9,971 |
| <u>Investments under equity method</u> | | | |
| HKD | 233,380,359.07 | 4.1580 | 970,396 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD | 320,454,238.23 | 32.2500 | 10,334,649 |
| JPY | 926,456,305.00 | 0.2756 | 255,331 |
| HKD | 97,416,690.61 | 4.1580 | 405,059 |
| GBP | 399,993.22 | 39.6100 | 15,844 |
| EUR | 19,495,610.43 | 33.9000 | 660,901 |
| SGD | 76,766.35 | 22.2900 | 1,711 |
| CHF | 48,350.73 | 31.5250 | 1,524 |
| CNY | 47,561,524.93 | 4.6170 | 219,592 |
| AUD | 591,929.88 | 23.2850 | 13,783 |
| NZD | 3.71 | 22.4000 | - |

Due to the variety of currencies, the Company disclosed the summarized information on exchange gain or loss. The realized and unrealized exchange gain (loss) amounted to (\$30,318) and (\$5,998) for the years ended December 31, 2017 and 2016, respectively.

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

b. Sensitivity analysis

The currency risk of the Company arises mainly from cash and cash equivalents, customers' margin accounts, financial assets at fair value through profit or loss, available-for-sale financial assets and futures traders' equity, which are denominated in foreign currency. Foreign exchange gain or loss occurs as foreign currency was translated to NT currency. For the years ended December 31, 2017 and 2016, with all other variable factors that remain constant, when NT currency increases or decreases 1% contrary to other currency, the Company's comprehensive income will increase or decrease \$18,808 and \$13,944, respectively. The analytical basis was the same in both years.

(d) Analysis in interest rates

For the years ended December 31, 2017 and 2016, with all other variable factors remain constant, when the interest rate increases or decreases by 100 basis points, the Company's net income will increase or decrease by \$3,620 and \$2,745. This is mainly due to the Company's guaranty deposited for business operations in variable rates and settlement fund in variable rate.

(e) Fair value and hierarchy information

a. Fair value information

(1) 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 among market participants at the measurement date.

(2) Definition of fair value hierarchy

A. Level 1

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

B. 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).

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

C. Level 3

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

b. Based on fair value measurement

(1) Hierarchy information of fair value

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

| December 31, 2017 | | | | |
|--|------------|--|---|---|
| | | Public quote of the same financial instrument in an active market (Level 1) | Observable price except public quote in an active market (Level 2) | Based neither on direct market data nor from the counter party (Level 3) |
| <u>Total</u> | | | | |
| <u>Non-derivative assets and liabilities</u> | | | | |
| Assets: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Beneficiary certificate | \$ 84,715 | 84,715 | - | - |
| Stock investment | 423,414 | 423,414 | - | - |
| Call warrant | 8,620 | 8,620 | - | - |
| <u>Derivative assets and liabilities</u> | | | | |
| Assets: | | | | |
| Financial assets at fair value through profit or loss | \$ 248,572 | 226,126 | 22,446 | - |
| Liabilities: | | | | |
| Financial liabilities at fair value through profit or loss | 122,976 | 120,129 | 2,847 | - |

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| December 31, 2016 | | | | |
|---|--------------|---|---|---|
| | | Public quote of the same financial instrument in an active market (Level 1) | Observable price except public quote in an active market (Level 2) | Based neither on direct market data nor from the counter party (Level 3) |
| <u>Non-derivative assets and liabilities</u> | <u>Total</u> | | | |
| Assets: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Beneficiary certificate | \$ 74,162 | 74,162 | - | - |
| Stock investment | 154,937 | 154,937 | - | - |
| Financial assets available-for-sale | 74,401 | 74,401 | - | - |
| Derivative assets and liabilities | | | - | - |
| Assets: | | | | |
| Financial assets at fair value through profit or loss | \$ 156,634 | 156,631 | 3 | - |
| Liabilities: | | | | |
| Financial liabilities at fair value through profit or loss | 54,018 | 54,017 | 1 | - |

(2) Valuation techniques

A. Non-derivative financial instruments

Non-derivative financial instruments are measured at quoted market price, mainly are market price announced by Stock Exchange and fund value announced by Association of Investment Trust and Investment Adviser.

B. Derivative financial instruments

Derivative financial instruments are measured at quoted market price, mainly are settled price announced by Stock Exchange.

(3) Transfer between Level 1 and Level 2

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

c. Financial instruments not measured at fair value

For financial instruments not measured at fair value, such as cash and cash equivalents, customers' margin accounts, accounts receivables, deposits, future traders' equity and account payables. The carrying amount is a reasonable approximation of the fair value. Therefore, the Company does not disclose the fair value.

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

(14) Financial risk management

(a) General description

The Company is exposed to risks below due to the application of financial instruments

- i. Credit risk
- ii. Liquidity risk
- iii. Market risk

The note expresses the exposure, measurement and management target, policy and procedure of the aforementioned risks. Detailed information about the financial instruments has been disclosed as each note to the financial statements.

(b) Risk management structure

To effectively control risks, a management procedure is to build up from top to bottom that includes the Board of Directors, managers of all departments and the employees to participate. From the macroscopic perspective of the Company, qualitative and quantitative approaches are taken to recognize, evaluate, monitor and respond to various potential risks. As a result, the Company may make reasonable risky asset allocation and maximize returns for shareholders within a bearable risk range. On September 21, 2007, the Company deliberated this institution of risk management based on the "Principles of Futures Commission Merchant's Risk Management Practices" and the "Futures Commission Merchant's Self Checklist for the Establishment of Risk Management Mechanism" as promulgated in the letter ref. No. (Taiwan- Futures-Audit) 0940024340 of the Taiwan Futures Exchange. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board of Directors has established the Risk Management Committee, attributable to General Manager' Office and responsible for developing and monitoring Company's risk management policies. The committee reports regularly to the Board of Directors on its activities

(c) Credit risk

Credit risk is the risk that the Company engaged in financial trading exposed, including issuers credit issue, traders credit issue and the subject assets credit risk. And the risk of financial loss to the Company if a customer of brokerage business fails to meet its contractual obligations of margin calls or settlement. According to futures trading practices, futures commission merchant can close position in accordance with the prior agreement of both parties due to the system designed such as advance customers margin, intraday in-time clearing and when customers fail to meet its contractual obligations of margin calls. Therefore, the influence is not significant to the credit risk of the Company. Moreover, most brokerage customers are the general investors and professional institutions. The object sources of investors and the amount of investment are widely dispersed, and thus, there is no situation such as concentration of credit risk.

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Approaches taken to manage credit risk at current stage are as follows:

- i. Credit inquiry and assessment before trade: inquire client's credit and ascertain the legality before transaction
- ii. Credit rating management: treat trades with special credit particularly.
- iii. Credit supervision after transaction: regularly inspect client's profit and loss of positions. Evaluate and monitor credit enhancement (including collaterals) on a regular basis.
- iv. Other effective risk reduction measures: collaterals, guarantee, credit risk netting and offset agreement.

Summarize information on expected credit loss (credit risk exposure amount, counterparty default probability and return rate) and unexpected credit loss, as well as quantify the credit VaR.

(d) Liquidity risk

Liquidity risks are market liquidity risk and capital liquidity risk

i. Market liquidity risk:

Market liquidity risk is the risk which the Company cannot immediately cover or offset the risk of derivative positions. When the condition of insufficient market depth or an unexpected event occurs, it's not easy to obtain trading opportunities or significant spread risk. Due to small trading volume, some domestic futures contracts have this liquidity risk. Therefore, when the proprietary segment of the Company engages in arbitrage trading, it should consider the liquidity risk of goods. Futures commodity liquidity can depend on daily trading volume and open interest (OI) to measure. The more the daily trading volume and open interest as well as the greater liquidity are, the relatively lower the liquidity risk is.

ii. Capital liquidity risk:

Capital liquidity risk is the one that the Company fails to meet its contractual obligations when increasing margins is required by settlement or trading. Therefore, the Company should control and manage the allocation of capital in order to avoid the risk of capital liquidity and financial losses of the Company when proprietary segment of the Company engages in futures trading.

CAPITAL FUTURES CORPORATION
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Liquidity risk management of the Company includes :

- Market liquidity risk management: To avoid loss caused by market liquidity risk, the Company stipulates capital amount budgeted for proprietary trade department in the annual operating plan. Also, a daily report on the Adjusted Net Capital (ANC) ratio is filed to the competent authority. As for other departments and proprietary trade, the risk control office supervises daily trade by comparing actual cash flow and the authorized amount.
- Capital liquidity risk management : The finance department is independent from other units in transferring financial resources. To control capital liquidity risk and to consider capital needs of various products for domestic and foreign markets, the finance department composes daily reports, such as the "Margin Withdrawal/Deposit List", "Securities Transaction Applications", and other management report forms. After reviewing and approving by the management, these reports will be implemented and filed.

(e) Market risk

Market risk is the possibility of loss resulting from trading due to futures price reversal of the Company's proprietary business. It means that the market price or fluctuation trend is not beneficial to the Company's profitability, which results in risky events happen.

The Company's market risk management comprises trading strategy monitoring, loss up limit control, trading margin up limit control, remaining position up limit and open-delta value control, margins ratio control for domestic and foreign remaining positions and the implied volatility inspection of option price.

Quantitative Measurement on Market Risk was as follows:

- i. Statistic-based measurement: the Value at Risk (VaR) of linear products (stocks) is measured by the Variance Co-Variance (Risk Metrics Approach--EWMA), which calculates the maximal probable risk of portfolio under a certain confidence level for the next business day. The Value at Risk of non-linear products (options) is measured by the Delta-Gamma Approximations (the "Greeks"). After offsetting the risks of trade contracts, the measurement vehicle calculates the maximal probable risk of portfolio under a certain confidence level for the next business day. To test the accuracy, back testing approach is taken to try finding out the violations within one year under pre-calculated VaR using the actual valued profit and loss of inventory positions for the previous day (P & L for T-1 day)
- ii. Sensitivity analysis measures the sensitivity of the positions to individual risk factors (such as interest rate and exchange rate). The sensitivity analysis on exchange rate variation includes evaluation and analysis on the proprietary overseas capital and service fee revenue from foreign futures products

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Notes To Financial Report (Cont'd)

- iii. Stress test emulates and measures the impacts on portfolio value at unusual market change, from which responding actions can be made. The portfolio stress test at current stage aims at the weighted index or targeted stock price within $\pm 15\%$ change.

(15) 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. Capital consists of ordinary shares, capital surplus, and retained earnings of the Company. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

As of December 31, 2017, the Company didn't change the method of capital management.

7. Related-party transactions

(1) Relationships between parents and subsidiaries

The Company's subsidiaries were as follows:

| | Location | December 31, 2017 | December 31, 2016 |
|---|-----------------|------------------------------|------------------------------|
| CSC Futures (HK) Ltd. | Hong kong | 97.27% | 97.27% |
| Capital International Technology Co., Ltd. | Taiwan | 100.00% | 100.00% |
| Capital True Partner Technology Co., Ltd | China | 51.00% | 51.00% |
| Capital Futures Technology (Shanghai) Co., Ltd. | China | 100.00% | 100.00% |

(2) Parent Company and ultimate controlling party

Capital Securities Corporation is both the Parent Company of the Company and the ultimate controlling party of the consolidated entity. It owns 56.21 percent of all shares outstanding of the Company, and has issued the consolidated financial statements available for public use.

(3) Names and relationship with related parties

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

| Name of related party | Relationship with the Group |
|--|------------------------------------|
| Capital Securities Corporation | The parent company |
| CSC Futures (HK) Ltd. | A Subsidiary |
| Capital International Technology Co., Ltd. | A Subsidiary |
| CSC Securities (HK) Ltd. | An associate |

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

(4) Key management personnel compensation

| | <u>For the years ended December 31,</u> | |
|------------------------------|---|---------------|
| | <u>2017</u> | <u>2016</u> |
| Short-term employee benefits | \$ 62,836 | 54,317 |
| Post-employment benefits | 1,038 | 883 |
| Share-based payment | 5,794 | - |
| Total | <u>\$ 69,668</u> | <u>55,200</u> |

(5) Significant transactions with related parties

(a) The amounts of futures trading between the Company and related parties were as follows:

| | <u>For the years ended December 31,</u> | |
|---|---|---------------|
| | <u>2017</u> | <u>2016</u> |
| <u>Commission income-brokerage</u> | | |
| Capital Securities Corporation | \$ 19,522 | 10,296 |
| CSC Futures (HK) Ltd | 55,092 | 60,627 |
| | <u>\$ 74,614</u> | <u>70,923</u> |

| | | |
|-------------------------------------|----------|---|
| <u>Management Fee income</u> | | |
| Capital Securities Corporation | \$ 1,849 | 0 |

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---------------------------------------|--------------------------|--------------------------|
| <u>Futures traders' equity</u> | | |
| Capital Securities Corporation | \$ 718,153 | 308,212 |
| CSC Futures (HK) Ltd | 2,212,699 | 1,377,458 |
| CSC Securities (HK) Ltd | 4 | 4 |
| | <u>\$ 2,930,856</u> | <u>1,685,674</u> |

| | | |
|---|------------|---------|
| <u>Customers margin accounts- other futures commission merchants</u> | | |
| CSC Futures (HK) Ltd | \$ 310,167 | 151,920 |

| | | |
|------------------------------|----------|-------|
| <u>Futures margin</u> | | |
| CSC Futures (HK) Ltd | \$ 3,104 | 9,137 |

Transaction terms are the same as those with general clients.

Capital Securities Corporation deposits margins to the Company for futures proprietary trading, and the Company paid the interest of excess margin annually. In 2017 and 2016, interest expense amounted to \$159 and \$183, respectively.

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

CSC Futures (HK) Ltd. deposits margins to the Company for futures proprietary trading, and the Company paid the interest of excess margin annually. In 2017 and 2016, interest expense amounted to \$888 and \$430, respectively.

(b) Accounts payable and receivable:

| | <u>December 31, 2017</u> | | <u>December 31, 2016</u> | |
|---|--------------------------|------------|--------------------------|------------|
| <u>Accounts receivable</u> | <u>Amount</u> | <u>%</u> | <u>Amount</u> | <u>%</u> |
| Capital Securities Corporation | <u>\$ 694</u> | <u>100</u> | <u>252</u> | <u>100</u> |
| <u>Accounts payable</u> | | | | |
| Capital Securities Corporation | <u>\$ 14,688</u> | <u>100</u> | <u>12,704</u> | <u>100</u> |
| <u>Other receivables (Note 1)</u> | | | | |
| Capital Securities Corporation | <u>\$ 197</u> | <u>100</u> | <u>12</u> | <u>100</u> |
| <u>Other payables</u> | | | | |
| Capital Securities Corporation (Note 2) | \$ 277 | 16 | 211 | 100 |
| CSC Futures (HK) Ltd. (Note 3) | 1,494 | 84 | - | - |
| | <u>\$ 1,771</u> | <u>100</u> | <u>211</u> | <u>100</u> |

(Note 1) Receivables for interest from bonds investment under resell agreements.

(Note 2) Payables for stock investments settlement proceeds and allocated expense.

(Note 3) Payables for commission-brokerage allowance and interest.

(c) Futures commission expenses

The Company delegated Capital Securities Corporation to introducing brokers. In 2017 and 2016, futures commission expenses amounted to \$149,776 and \$156,810, respectively.

The Company delegated CSC Futures (HK) Ltd. for reconsigning foreign futures trading. In 2017 and 2016, futures commission expenses amounted to \$8,849 and \$11,766, respectively.

(d) Lease agreements-rental expense

The Company leased its office and parking lot from Capital Securities Corporation. The rental expense was based on market price and paid monthly. In 2017 and 2016, rental expense amounted to \$15,813 and \$15,525 respectively, and the guarantee deposits paid for the contract both amounted to \$3,508.

(e) Lease agreements-rental income

Capital International Technology Co., Ltd. leased its office from the Company. The rental income was based on market price and paid monthly. From January 1 to July 31, 2017 and for the year ended December 2016, rental income were \$85 and \$14, respectively.

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

(f) Information technology service

Computer information system service contract was signed between the Company and Capital Securities Corporation. In 2017 and 2016, the service fee amounted to \$27,291 and \$22,127, respectively.

The Company signed an information technology system management service contract with CSC Futures (HK) Ltd., and the information technology fee for the years 2017 and 2016 amounted to \$0 and \$15,592, respectively.

(g) Securities commission income

The Company was delegated by Capital Securities Corporation for securities introducing brokers. In 2017 and 2016, commission income amounted to \$5,147 and \$2,936, respectively.

(h) Stock service fee

In 2017 and 2016, the Company paid the stock service fee to Capital Securities Corporation both amounted to \$404 and \$353, respectively.

(i) Human resource and legal service fees

In 2017 and 2016, the Company paid the human resource and legal service fee to Capital Securities Corporation both amounted to \$300.

(j) Securities brokerage charge

In 2017 and 2016, the Company paid the securities brokerage charge to Capital Securities Corporation amounted to \$12 and \$61, respectively.

(k) Reconsigning foreign trading charge

In 2017 and 2016, the Company paid the reconsigning foreign trading charge to Capital Securities Corporation amounted to \$72 and \$155, respectively.

(l) Bonds under resell agreement

The Company conducted investments with the Capital Securities Corporation for bonds purchased under resell agreements. In 2017 and 2016, the interest income amounted to \$373 and \$1,532, respectively. As of December 31, 2017 and 2016, the remaining investment amounted to \$11,501 and \$148,803, respectively. The maturity dates are from January 10 to January 15, 2018 and from January 3 to February 20, 2017, respectively. The agreed interest rate is 0.40% to 0.41% and 0.36% to 1.60%, respectively.

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

8. Pledged assets : None

9. Material contingent liability and unrecognized contract commitment :

The Company purchased the software system for business development since March 2016, the price amounted to NT\$6,760, as of December 31, 2017, the Company had outstanding balance NT\$2,072.

10. Significant catastrophic losses : None

11. Significant subsequent events : None

12. Disclosure of information as related to derivative financial instruments

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

| December 31, 2017 | | | | | | |
|--------------------|---|----------------|---------------------|---|-------------|------|
| Item | Trading category | Open positions | | Contract size or paid for (received from) premium | Fair value | Note |
| | | Long/Short | Number of contracts | | | |
| Futures contract : | | | | | | |
| | TAIEX Futures | Long | 166 | \$ 341,696 | 351,721 | |
| | TAIEX Futures | Short | 1,421 | (3,011,196) | (3,019,475) | |
| | Mini Taiex Futures | Short | 113 | (59,538) | (59,835) | |
| | Electronic Sector Index Futures | Short | 72 | (126,534) | (127,066) | |
| | Finance Sector Index Futures | Long | 2 | 2,374 | 2,376 | |
| | Non-Finance Non-Electronics Sub-Index Futures | Long | 24 | 29,054 | 29,801 | |
| | NT Dollar Gold Futures | Long | 3 | 1,399 | 1,399 | |
| | Stock Futures | Long | 1,332 | 215,492 | 216,581 | |
| | Stock Futures | Short | 629 | (59,526) | (59,774) | |
| | USD/CNY FX Futures | Long | 7 | 22,476 | 20,937 | |
| | USD/CNY FX Futures | Short | 17 | (54,697) | (51,083) | |
| | Mini-USD/CNY FX Futures | Long | 81 | 52,641 | 48,696 | |
| | USD/JPY FX Futures | Long | 76 | 45,094 | 45,066 | |
| | USD/JPY FX Futures | Short | 90 | (53,137) | (53,082) | |
| | Nifty 50 Index Futures | Short | 99 | (52,266) | (52,272) | |
| | EUR/USD FX Futures | Long | 134 | 95,766 | 96,370 | |
| | EUR/USD FX Futures | Short | 188 | (133,994) | (134,423) | |
| | FTSE China A50 Index Futures | Long | 51 | 20,115 | 20,099 | |
| | Euro Dollar Futures | Long | 9 | 40,182 | 40,428 | |
| | Mini-S&P 500 Futures | Long | 1 | 3,996 | 3,981 | |
| | Mini-S&P 500 Futures | Short | 9 | (36,031) | (35,864) | |
| | MSCI India Index Futures | Long | 83 | 52,124 | 52,161 | |
| | JPY Dollar Futures | Short | 3 | (9,942) | (9,948) | |
| | MSCI Taiwan Index Futures | Long | 140 | 163,256 | 163,740 | |
| | Mini-Dow Futures | Long | 6 | 22,185 | 22,083 | |
| | Mini-Dow Futures | Short | 2 | (7,362) | (7,366) | |
| | DJIA Index Futures | Long | 92 | 45,670 | 45,711 | |
| | DJIA Index Futures | Short | 97 | (48,132) | (48,174) | |
| | S&P 500 Futures | Long | 63 | 33,766 | 33,875 | |
| | S&P 500 Futures | Short | 3 | (1,616) | (1,614) | |
| | Subtotal | | | (2,466,685) | | |

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

| Item | Trading category | Open positions | | Contract size or paid for (received from) premium | Fair value | Note |
|--------------------|---------------------------------------|----------------|------------------------|---|------------|------|
| | | Long/ Short | Number of contracts | | | |
| Options contract : | Stock Options (Call) | Long | 652 | \$ 2,310 | 1,663 | |
| | Stock Options (Call) | Short | 528 | (2,068) | (1,940) | |
| | Stock Options (Put) | Short | 222 | (1,468) | (711) | |
| | Stock Options (Put) | Long | 1,147 | 4,810 | 6,290 | |
| | TAIEX Options (Call) | Short | 4,216 | (27,788) | (36,956) | |
| | TAIEX Options (Call) | Long | 22,117 | 39,982 | 60,042 | |
| | TAIEX Options (Put) | Short | 27,283 | (76,981) | (48,240) | |
| | TAIEX Options (Put) | Long | 25,938 | 56,782 | 32,393 | |
| | TAIEX Weekly Options (Call) | Long | 3,328 | 2,811 | 3,250 | |
| | TAIEX Weekly Options (Call) | Short | 3,086 | (10,004) | (24,342) | |
| | TAIEX Weekly Options (Put) | Short | 4,741 | (6,410) | (3,951) | |
| | TAIEX Weekly Options (Put) | Long | 21,995 | 2,686 | 1,105 | |
| | Electronic Sector Index Options(Call) | Short | 40 | - | - | |
| | Electronic Sector Index Options(Call) | Long | 2,221 | 4,656 | 4,830 | |
| | Electronic Sector Index Options(Put) | Short | 130 | (559) | (275) | |
| | Electronic Sector Index Options(Put) | Long | 473 | 2,066 | 1,116 | |
| | Finance Sector Index Options(Call) | Short | 39 | (330) | (294) | |
| | Finance Sector Index Options(Call) | Long | 826 | 1,025 | 853 | |
| | Finance Sector Index Options(Put) | Short | 42 | (10) | - | |
| | Finance Sector Index Options(Put) | Long | 598 | 1,537 | 847 | |
| | Gold Option (Call) | Short | 5 | (26) | (26) | |
| | Gold Option (Call) | Long | 1 | 1 | 1 | |
| | Gold Option (Put) | Short | 2 | (1) | (1) | |
| | Gold Option (Put) | Long | 33 | 143 | 128 | |
| | USD/CNY FX Options(Put) | Long | 12 | 1,155 | 2,978 | |
| | USD/CNY FX Options(Put) | Short | 22 | (463) | (3,393) | |
| | Mini USD/CNY FX Options(Call) | Short | 1 | (7) | - | |
| | Mini USD/CNY FX Options(Call) | Long | 2 | 12 | - | |
| | Mini USD/CNY FX Options(Put) | Long | 78 | 1,424 | 3,734 | |
| | Subtotal | | | (4,715) | | |
| | Total | | | -S 2,471,400 | | |

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

December 31, 2016

December 31, 2016

| 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 | 18 | \$ 32,699 | 33,253 | |
| | TAIEX Futures | Short | 369 | (679,970) | (682,238) | |
| | Electronic Sector Index Futures | Short | 1 | (1,477) | (1,478) | |
| | Finance Sector Index Futures | Short | 43 | (46,101) | (46,345) | |
| | Non-Finance Non-Electronics Sub- Index Futures | Short | 4 | (4,547) | (4,542) | |
| | NT Dollar Gold Futures | Long | 12 | 5,437 | 5,451 | |
| | Stock Futures | Long | 637 | 62,516 | 62,824 | |
| | Stock Futures | Short | 1,106 | (66,012) | (65,787) | |
| | USD/CNY FX Futures | Short | 26 | (86,582) | (86,961) | |
| | Nifty 50 Index Futures | Short | 357 | (240,213) | (241,492) | |
| | Nifty 50 Index Futures | Long | 19 | 7,800 | 7,754 | |
| | USD/JPY FX Futures | Long | 246 | 154,546 | 157,738 | |
| | USD/JPY FX Futures | Short | 267 | (171,968) | (171,689) | |
| | EUR/USD FX Futures | Long | 201 | 139,916 | 136,750 | |
| | EUR/USD FX Futures | Short | 603 | (410,752) | (410,249) | |
| | Euro Dollar Futures | Long | 64 | 270,616 | 272,809 | |
| | MSCI India Index Futures | Short | 15 | (7,925) | (7,918) | |
| | JPY Dollar Futures | Short | 4 | (13,867) | (13,863) | |
| | MSCI Taiwan Index Futures | Long | 317 | 351,842 | 351,475 | |
| | VIX Futures | Short | 95 | (46,924) | (48,210) | |
| | Subtotal | | | (750,966) | | |
| Options contract : | | | | | | |
| | Stock Options (Call) | Long | 749 | 2,082 | 1,869 | |
| | Stock Options (Call) | Short | 114 | (599) | (436) | |
| | Stock Options (Put) | Short | 141 | (468) | (349) | |
| | Stock Options (Put) | Long | 887 | 3,116 | 2,690 | |
| | TAIEX Options (Call) | Long | 17,152 | 32,412 | 27,409 | |
| | TAIEX Options (Call) | Short | 4,724 | (25,652) | (26,724) | |
| | TAIEX Options (Put) | Short | 7,271 | (14,172) | (6,203) | |
| | TAIEX Options (Put) | Long | 9,607 | 13,012 | 6,769 | |
| | TAIEX Weekly Options (Call) | Long | 16,137 | 3,295 | 3,533 | |
| | TAIEX Weekly Options (Call) | Short | 3,610 | (6,169) | (10,107) | |
| | TAIEX Weekly Options (Put) | Short | 4,375 | (10,588) | (5,786) | |
| | TAIEX Weekly Options (Put) | Long | 14,685 | 2,411 | 1,081 | |
| | Electronic Sector Index Options(Call) | Long | 256 | 721 | 855 | |
| | Electronic Sector Index Options(Call) | Short | 1 | (5) | (7) | |
| | Electronic Sector Index Options(Put) | Long | 85 | 271 | 164 | |
| | Electronic Sector Index Options(Put) | Short | 263 | (1,009) | (722) | |
| | Finance Sector Index Options(Call) | Long | 825 | 2,591 | 2,854 | |
| | Finance Sector Index Options(Put) | Long | 813 | 1,693 | 1,078 | |
| | Finance Sector Index Options(Put) | Short | 95 | (198) | (118) | |
| | Gold Option (Call) | Short | 54 | (125) | (190) | |
| | Gold Option (Call) | Long | 7 | 26 | 27 | |
| | Gold Option (Put) | Long | 13 | 68 | 67 | |
| | Gold Option (Put) | Short | 5 | (4) | (2) | |
| | USD/CNY FX Options(Call) | Short | 4 | (93) | (103) | |
| | USD/CNY FX Options(Call) | Long | 153 | 5,194 | 5,225 | |
| | USD/CNY FX Options(Put) | Short | 153 | (951) | (809) | |
| | Mini USD/CNY FX Options(Call) | Long | 64 | 10,652 | 10,725 | |
| | Mini USD/CNY FX Options(Put) | Short | 80 | (3,489) | (2,461) | |
| | Subtotal | | | 14,022 | | |
| Total | | | | \$ (736,944) | | |

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

13. Restrictions and enforcement of the Company's various financial ratios under futures trading law

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

14. 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 Company needs sufficient liquidity to cover the transactions and suffer the loss may occur.

15. Others : None

16. Disclosures Required

(1) Information on significant transactions

- (a) Loans to others : Exhibit 1
- (b) Endorsement and guarantees for others : None
- (c) Acquisition of real estate amounting to over NT\$300,000 thousands or 20% of paid-in capital : None
- (d) Disposal of real estate amounting to over NT\$300,000 thousands or 20% of paid-in capital : None
- (e) Discount of commissions of handling fees with related parties amounting to over NT\$5,000 thousands : None
- (f) Receivables from related parties amounting to over NT\$100,000 thousands or 20% of paid-in capital : None

CAPITAL FUTURES CORPORATION

Notes To Financial Report (Cont'd)

(g) Details of material transactions between parent and subsidiaries: Please refer to the consolidated financial report

(2) Information on reinvestment business (exclude investment in Mainland China)

| Names of investor company | Names of investee company | Area | Date of establishment | Approval date and number of FSC | Main business scope | Amount of Original Investment | | Ownership as of December 31, 2016 | | | Operating income of investee company | Current income or loss of investee company | Recognized gain (loss) on investment | Cash dividend | Note |
|-----------------------------|--|-----------|-----------------------|--|--|-------------------------------|-------------|-----------------------------------|---------|------------|--------------------------------------|--|--------------------------------------|---------------|------------|
| | | | | | | Current Period | Last Period | Number of shares | Ratio | Book value | | | | | |
| Capital Futures Corporation | CSC Futures (HK) Ltd. | Hong Kong | 1998.12.9 | Gin Guan Zheng Zhi No. 1010027412 letter | Futures brokerage and other businesses permitted by local law of Hong Kong | 862,631 | 862,631 | 214,000 | 97.27% | 923,527 | 825,594 | 79,824 | 77,644 | - | Sunsiidary |
| Capital Futures Corporation | Capital International Information Technology Co., Ltd. | Taiwan | 2014.12.29 | Gin Guan Zheng Zhi No. 1030038387 letter | Consultancy, Information software service | 50,000 | 50,000 | 5,000 | 100.00% | 46,088 | 1,806 | 898 | 1,102 | - | Sunsiidary |
| Capital Futures Corporation | True Partner Capital advisor Co., Ltd. | Hong Kong | 2010.5.31 | Gin Guan Zheng Zhi No. 1040027513 letter | Assets Manangement | 36,701 | 36,701 | 245 | 49.00% | 41,535 | 70,678 | 2,097 | 1,028 | - | Assosiate |

(3) Information on branch units or representative offices overseas: None

(4) Information on investments in China:

(a) Investment in Mainland China and related information :

| Name of the investee in Mainland China | Major operations | Issued capital | Method of investment (Note 1) | Accumulated remittance as of January 1, 2016 | Remittance or recoverable investment this period | | Accumulated remittance as of December 31, 2016 | Net gains or losses of investee | Direct or indirect shareholdings (%) by the company | Investment gains and losses recognized during this period (Note 2) | Ending balance of investment | Investment income remitted back as of December 31, 2016 |
|---|---|----------------|-------------------------------|--|--|--------------------|--|---------------------------------|---|--|------------------------------|---|
| | | | | | Remittance amount | Recoverable amount | | | | | | |
| Capital True Partner Technology Co., Ltd. | Management, consulting and information service business | 5,013 | C | 24,372 | - | - | 24,372 | 83 | 51.00% | 246 B (2) | 21,646 | - |
| Capital Futures Technology (Shanghai) Co., Ltd. | Management, consulting and information service business | 18,863 | C | - | 18,863 | - | 18,863 | 2,553 | 100.00% | 2,553 B (2) | 20,684 | - |

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 recognition of investment gains or losses is based on the financial statements audited by international certified public accountant cooperated with certified public accountant of the Republic of China.
 - (2) The recognition of investment gains or losses is based on the financial statements audited by certified public accountant of the Company.

CAPITAL FUTURES CORPORATION
Notes To Financial Report (Cont'd)

(3) The recognition of investment gains or losses is based on the financial statements provided by the investee without audited by certified public account.

(b) Limitation of investment in China:

Unit: NT\$ thousands

| Name of the Company | Accumulative remittance from Taiwan to Mainland China | Amount of investment approved by Investment Commission, Ministry of Economic Affairs (MOEA) | Limit on the amount of investment in Mainland China by MOEA |
|--|---|---|---|
| Capital International Technology Co., Ltd. | 43,235 | 43,235 | 80,000 |

Note: The Company invests through a subsidiary, Capital International Technology Co., Ltd., 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.

17. Segment information

Please refer to the consolidated financial report for the year ended December 31, 2017.

CAPITAL FUTURES CORPORATION
NOTES TO SEPARATE FINANCIAL STATEMENTS (CONT'D)
(Amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

Exhibit 1: Loans to others

| No. | 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 | 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 Futures (HK) Ltd. | Klaw Trading Limited | Account receivables - Customer | No | 26,568 | 41,328 | - | 5% | 2 | - | Tradings | - | - | - | 94,945 | 379,779 |
| 1 | CSC Futures (HK) Ltd. | Three Arrows Capital, Ltd. | Account receivables - Customer | No | 47,206 | 82,656 | - | 5% | 2 | - | Tradings | - | - | - | 94,945 | 379,779 |
| 1 | CSC Futures (HK) Ltd. | Future Leading Investment Pte. Ltd. | Account receivables - Customer | No | 41,328 | 41,328 | - | 3.5% | 2 | - | Tradings | - | - | - | 94,945 | 379,779 |
| 1 | CSC Futures (HK) Ltd. | Tetris Capital Limited | Account receivables - Customer | No | 6,515 | 6,810 | - | 0% | 2 | - | Tradings | - | - | - | 94,945 | 379,779 |
| 1 | CSC Futures (HK) Ltd. | Pinnacle Corp. Pte. Ltd. | Account receivables - Customer | No | 30,547 | 82,656 | - | 4% | 2 | - | Tradings | - | - | - | 94,945 | 379,779 |

Remark: Each loan limit by an individual is 10% amount of the net assets of CSC Futures (HK) Ltd. on the Financial Statements. Total credit line is 40% of CSC Futures (HK) Ltd. Net income on the Financial statements.

Note1: Type of Numbering

1. 0 represents Parent company
2. Invested company is being numbered by company type from 1, same company should have same number.

Note2: Type of Loans

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