

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

CAPITAL FUTURES CORPORATION

FINANCIAL STATEMENTS

With Independent Auditors' Report

For the Years Ended December 31, 2018 and 2017

**Address: 32nd and B1 Fl. No. 97, Tun Hwa South Rd., Sec. 2, Taipei,
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The independent auditors' review report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' review 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, 2018 and 2017, the statements of comprehensive income, changes in equity and cash flows for the years then ended, 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, 2018 and 2017, 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 for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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(13) 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 LEE, FENG HUI and CHUNG, TAN TAN.

KPMG

Taipei, Taiwan, R.O.C.

March 27, 2019

Notes to Readers

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

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

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CAPITAL FUTURES CORPORATION

BALANCE SHEETS

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

ASSETS	December 31, 2018		December 31, 2017		LIABILITIES AND EQUITY		December 31, 2018		December 31, 2017	
	Amount	%	Amount	%			Amount	%	Amount	%
Current Assets					Current Liabilities					
Cash and cash equivalents (Note 6(1))	\$ 3,211,143	8	2,831,889	9	Current financial liabilities at fair value through profit or loss		\$ 9,063	-	122,976	-
Current financial assets at fair value through profit or loss (Note 6(2))	269,845	1	765,321	2	(Note 6(2))		34,098,182	86	26,894,841	84
Bonds purchased under resale agreements (Note 6(2))	198,000	-	11,501	-	Futures traders' equity (Note 6(5))		225,899	1	152,840	1
Customers margin accounts (Note 6(5))	34,122,952	86	26,907,727	84	Leverage contract trading - customers' equity		34,175	-	93,706	-
Receivable - futures margin (Note 6(6))	1	-	1	-	Accounts payable		10,922	-	14,688	-
Accounts receivable	11,986	-	29,316	-	Accounts payable - inter co. (Note 7)		3,117	-	2,381	-
Accounts receivable - inter co. (Note 7)	228	-	694	-	Advance receipts		3,946	-	4,351	-
Prepayments	10,925	-	5,270	-	Receipts under custody		118,899	-	141,612	1
Other receivables	40,230	-	15,600	-	Other payables		2,395	-	1,771	-
Other receivables - inter co. (Note 7)	19,981	-	197	-	Other payables - inter co. (Note 7)		52,418	-	52,957	-
Leverage contract trading - customers' margin accounts	228,564	1	151,540	1	Current income tax liabilities		8,488	-	3,704	-
Other current assets	2	-	1	-	Other current liabilities		34,567,504	87	27,485,827	86
	<u>38,113,857</u>	<u>96</u>	<u>30,719,057</u>	<u>96</u>	Non-current Liabilities					
Non-current Assets					Provision for liabilities - non-current (Note 6(9))		7,912	-	11,855	-
Non-current financial assets at cost (Note 6(2))	-	-	119	-	Deferred income tax liabilities (Note 6(10))		9,556	-	4,361	-
Non-current financial assets at fair value through other comprehensive income (Note 6(2))	1,055	-	-	-			17,468	-	16,216	-
Investments under Equity Method (Note 6(3))	1,099,476	3	1,011,150	3	Total Liabilities		<u>34,584,972</u>	<u>87</u>	<u>27,502,043</u>	<u>86</u>
Property and equipment (Note 6(4))	44,122	-	43,566	-	Equity					
Intangible assets (Note 6(7))	52,405	-	56,292	-	Common stock (Note 6(11))		1,764,376	4	1,603,979	5
Deferred income tax assets (Note 6(10))	170	-	9,392	-	Capital surplus (Note 6(11))		1,047,338	3	1,207,735	4
Other non-current assets	305,979	1	300,199	1	Legal reserve		421,147	1	348,116	1
	<u>1,503,207</u>	<u>4</u>	<u>1,420,718</u>	<u>4</u>	Special reserve		990,784	3	794,335	2
					Unappropriated earnings (Notes 6(11))		835,315	2	730,304	2
					Other equity		(26,868)	-	(46,737)	-
					Total Equity		<u>5,032,092</u>	<u>13</u>	<u>4,637,732</u>	<u>14</u>
TOTAL ASSETS	<u>\$ 39,617,064</u>	<u>100</u>	<u>\$ 32,139,775</u>	<u>100</u>	TOTAL LIABILITIES AND EQUITY		<u>\$ 39,617,064</u>	<u>100</u>	<u>\$ 32,139,775</u>	<u>100</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 COMPREHENSIVE INCOME

For the years ended December 31, 2018 and 2017

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

	2018		2017	
	Amount	%	Amount	%
Income				
Commission income - brokerage (Note 6(13))	\$1,926,768	81	1,565,613	82
Net gains (losses) on sale of trading securities	(81,713)	(3)	141,247	8
Dividend income	5,842	-	5,548	-
Net gains (losses) on measurement of trading securities at fair value through profit or loss	(1,803)	-	(12,780)	(1)
Net gains (losses) on covering of borrowed securities and bonds with resale agreements	-	-	3,808	-
Securities commission income	4,721	-	5,146	-
Net gains (losses) on derivative financial instruments	414,369	18	107,747	6
Net gains (losses) on derivative instruments - Taipei Exchange	72,343	3	72,881	4
Management fee revenue	1,379	-	1,886	-
Consulting fee revenue	29,057	1	17,834	1
Other operating revenue	2,342	-	(4,247)	-
	<u>2,373,305</u>	<u>100</u>	<u>1,904,683</u>	<u>100</u>
Expenses				
Brokerage fees	251,847	11	208,015	11
Brokerage fees - proprietary trading	4,919	-	8,580	1
Financial costs	12,410	1	7,235	-
(Reversal of) expected credit impairment loss (Note 6(14))	33,522	1	-	-
Futures commission expenses (Note 6(13))	451,960	19	398,671	21
Clearing and settlement expenses	173,218	7	147,313	8
Other operating expenditure	5,964	-	4,134	-
Employee benefit expenses (Note 6(13))	414,995	18	379,345	20
Depreciation and amortization expenses (Note 6(13))	26,505	1	22,119	1
Other operating expenses (Note 6(13))	485,689	20	274,964	14
	<u>1,861,029</u>	<u>78</u>	<u>1,450,376</u>	<u>76</u>
Non-operating income and expenses				
Share of profit (loss) of subsidiaries, associates and joint ventures under equity method (Note 6(3))	60,171	2	79,774	4
Other gains and losses (Note 6(13))	377,809	16	292,808	15
	<u>437,980</u>	<u>18</u>	<u>372,582</u>	<u>19</u>
Net income before income tax	<u>950,256</u>	<u>40</u>	<u>826,889</u>	<u>43</u>
Income tax expenses (Note 6(10))	(115,051)	(5)	(95,874)	(5)
Net income	<u>835,205</u>	<u>35</u>	<u>731,015</u>	<u>38</u>
Other comprehensive income:				
Items that will not be reclassified to profit or loss				
Actuarial gain (loss) on defined benefit plans (Note 6(9))	(372)	-	(776)	-
Unrealized gains (losses) from investments in equity instruments at fair value through other comprehensive income	41	-	-	-
Income tax related to the components of other comprehensive income	-	-	-	-
Total items that will not be reclassified subsequently to profit or loss	<u>(331)</u>	<u>-</u>	<u>(776)</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	28,630	1	(84,006)	(4)
Unrealized gain (loss) on available-for-sale financial assets	-	-	(41,494)	(2)
Share of other comprehensive income of subsidiaries, associates and joint venture—Items that may be reclassified to profit or loss in subsequent periods	(475)	-	(753)	-
Income tax related to the components of other comprehensive income (Note 6(10))	(9,222)	-	14,281	1
Total items that may be reclassified to profit or loss in subsequent periods	<u>18,933</u>	<u>1</u>	<u>(111,972)</u>	<u>(5)</u>
Other comprehensive income (After tax)	<u>18,602</u>	<u>1</u>	<u>(112,748)</u>	<u>(5)</u>
Total comprehensive income	<u>\$ 853,807</u>	<u>36</u>	<u>618,267</u>	<u>33</u>
Basic earnings per share (Dollar) (Note 6(12))	<u>\$ 4.73</u>		<u>4.25</u>	
Diluted earnings per share (Dollar) (Note 6(12))	<u>\$ 4.73</u>		<u>4.25</u>	

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

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CAPITAL FUTURES CORPORATION

STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Stock	Retained earnings			Exchange differences on translation of foreign operations	Other equity		Total equity
		Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gain/loss on available-for-sale financial assets	
Beginning balance, January 1, 2017		381,180	297,103	689,758	510,134	23,741	41,494	3,167,389
Net income for the year ended December 31, 2017	\$ 1,223,979	-	-	-	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(11))	380,000	809,025	-	-	-	-	-	1,189,025
Capital increase by remuneration cost of employee stock options (Note 6(11))	-	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
Effects of retrospective application	-	-	-	-	-	-	-	895
Balance on January 1, 2018 after adjustments	1,603,979	1,207,735	348,116	794,335	730,304	(46,737)	-	4,638,627
Net income for the year ended December 31, 2018	-	-	-	-	835,205	-	-	835,205
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	(372)	18,933	-	18,602
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	834,833	18,933	-	853,807
Appropriation of earnings :								
Legal reserve	-	-	73,031	-	(73,031)	-	-	-
Special reserve	-	-	-	196,449	(196,449)	-	-	-
Cash dividends	-	-	-	-	(460,342)	-	-	(460,342)
Changes in other capital surplus :								
Issuance of stock dividends from capital surplus (Note 6(11))	160,397	(160,397)	-	-	-	-	-	-
Ending balance, December 31, 2018	\$ 1,764,376	1,047,338	421,147	990,784	835,315	(27,804)	-	5,032,092

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

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CAPITAL FUTURES CORPORATION

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
Cash flows from operating activities:		
Net income before income tax	950,256	826,889
Adjustments :		
Adjustments to reconcile profit (loss):		
Depreciation expenses	18,844	15,878
Amortization expenses	7,661	6,241
Expected credit loss	33,522	-
Net losses (gains) on financial assets and liabilities at fair value through profit or loss	9,341	12,641
Interest expenses	12,410	7,235
Interest income (Including financial revenue)	(363,732)	(239,445)
Dividend income	(5,891)	(7,292)
Share-based payment remuneration cost	0	17,530
Share of loss (profit) of subsidiaries, associates and joint ventures under equity method	(60,171)	(79,774)
Gain on disposal of investments	0	(38,920)
Total adjustments to reconcile profit	(348,016)	(305,906)
Changes in operating assets and liabilities:		
(Increase) decrease in financial assets at fair value through profit or loss	486,135	(392,229)
(Increase) decrease in bond purchased under resale agreements	(186,499)	137,302
(Increase) decrease in customers margin accounts	(7,215,225)	(4,449,895)
(Increase) decrease in receivable - futures margin	(33,370)	893
(Increase) decrease in leverage contract trading - customers' margin accounts	(77,024)	(151,468)
(Increase) decrease in accounts receivable	17,330	(19,622)
(Increase) decrease in accounts receivable-inter co.	466	(442)
(Increase) decrease in prepayments	(5,655)	7,901
(Increase) decrease in other receivable	(19,065)	17,343
(Increase) decrease in other receivable-inter co.	(19,766)	(193)
(Increase) decrease in other current assets	(1)	1,030
(Increase) decrease in clearing and settlement fund	(5,924)	(4,209)
(Increase) decrease in refundable deposits	144	481
Increase (decrease) in financial liabilities at fair value through profit or loss	(113,913)	68,958
Increase (decrease) in futures traders' equity	7,203,341	4,451,736
Increase (decrease) in leverage contract trading - customers' equity	73,059	152,770
Increase (decrease) in accounts payable	(59,531)	68,732
Increase (decrease) in accounts payable-inter co.	(3,766)	1,984
Increase (decrease) in advance receipts	736	(200)
Increase (decrease) in receipts under custody	(405)	1,116
Increase (decrease) in other payables	(22,706)	27,418
Increase (decrease) in other payables-inter co.	375	1,521
Increase (decrease) in provision for liabilities	(4,315)	2
Increase (decrease) in other current liabilities	4,784	642
Total changes in operating assets and liabilities	19,205	(78,429)
Total adjustments	(328,811)	(384,335)
Cash inflow generated from operations	621,445	442,554
Interest collected	357,997	236,286
Dividend received	5,891	7,292
Interest paid	(12,168)	(7,253)
Income tax paid	(110,395)	(80,236)
Net cash provided by operating activities	862,770	598,643
Cash flows from investing activities:		
Proceeds from disposal of available-for-sale financial assets	-	71,827
Purchase of properties and equipments	(19,400)	(21,536)
Purchase of intangible assets	(3,774)	(11,203)
Net cash provided by (used in) investing activities	(23,174)	39,088
Cash flows from financing activities:		
Issuance of cash dividends	(460,342)	(354,479)
Capital increase by cash	-	1,189,025
Net cash provided by (used in) financing activities	(460,342)	834,546
Increase (decrease) in cash and cash equivalents	379,254	1,472,277
Cash and cash equivalents at the beginning of the year	2,831,889	1,359,612
Cash and cash equivalents at the end of the year	3,211,143	2,831,889

(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, 2018 and 2017

(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 27, 2019.

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, 2018:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 “Clarifications of Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Statement of Cash Flows- Disclosure Initiative”	January 1, 2017

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

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Except for the following items, the 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 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments, impairment and hedge accounting.

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

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

1) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Company classifies and

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measures financial assets and accounts for related gains and losses under IFRS 9, please refer to note 4(6).

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

2) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with the 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt instruments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than IAS 39 – please refer to note 4(6).

3) Transition

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

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and other equity items as at January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

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

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

	IAS39		IFRS9	
	Measurement Categories	Carrying Amount	Measurement Categories	Carrying Amount
Financial Assets				
Cash and equivalents	Amortized cost	\$ 2,843,390	Amortized cost	2,843,390
Financial assets at fair value through profit or loss	FVTPL	765,321	FVTPL	765,321
Customers' margin account	Amortized cost	26,907,727	Amortized cost	26,907,727
Accounts receivable	Amortized cost	45,808	Amortized cost	45,808

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Leverage contract trading - customers' margin account	Amortized cost	151,540	Amortized cost	151,540
Financial assets measured at cost	Measured at cost	119	FVOCI (Note 1)	1,014
Other assets	Amortized cost	300,199	Amortized cost	300,199

Note1: These equity instruments (including financial assets measured at cost) represent investments that the Company intends to hold for the long term strategic purposes. In accordance with IFRS 9, the Company has designated these investments at the date of initial application as measured at FVOCI. Accordingly, an increase of \$895 thousand in those assets recognized, and an increase of \$895 thousand in other equity items on January 1, 2018.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on January 1, 2018.

	2017.12.31 IAS 39 Carrying Amount	Reclassifi- cations	Remeasure- ments	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings	2018.1.1 Other equity
Fair value through other comprehensive income						
Beginning balance of available for sale (including measured at cost) (IAS 39)	\$ 119	-	895	1,014	-	895
The total change of FVOCI	119	-	895	1,014	-	895
The balance of financial assets, types of reclassifications and Remeasurements	<u>\$ 119</u>	<u>-</u>	<u>895</u>	<u>1,014</u>	<u>-</u>	<u>895</u>

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

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 "Leases"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

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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 16 “Leases”

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

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

1) Determining whether an arrangement contains a lease

When the transition of IFRS16, the Company can choose to apply either of the following:

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

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

2) Transition

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

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

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

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease by lease basis, whether to

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apply a number of practical expedients on transition. The Company chooses to elect the following practical expedients:

- The company will apply a single discount rate to a portfolio of leases with similar characteristics.
 - The company will adjust the right of use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
 - The company will apply the exemption not to recognize the right of use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.
 - The company will exclude the initial direct costs from measuring the right of use assets at the date of initial application.
 - The company will use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
- 3) So far, the most significantly identified impact is that the Company will have to recognize the new assets and liabilities for the operating leases of its offices. The company's estimate of the right-of-use assets and the lease liabilities respectively increase by \$37,672 and \$37,672 on January 1, 2019, respectively.

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

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

4. Summary of significant accounting policies

The accompanying consolidated financial statements are the English translation of the Chinese

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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 below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the financial report.

(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.

(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 are measured at fair value (including derivative instruments);
- ii. Financial instruments measured at fair value through other comprehensive income are measured at fair value;
- 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

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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 equity instruments at fair value through other comprehensive income which are recognized in other comprehensive income arising on the retranslation.

(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.

- (1) It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- (2) It is held primarily for the purpose of trading;
- (3) It is expected to be realized within twelve months after the reporting period; or
- (4) 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.

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An entity shall classify a liability as current when:

- (1) It is expected to be settled in the normal operating cycle;
- (2) It is held primarily for the purpose of trading;
- (3) It is due to be settled within twelve months after the reporting period; or
- (4) 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.

(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

(a) Financial assets (policy applicable from January 1, 2018)

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

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

1) Financial assets measured at amortized cost

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

- When it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates' cash flows that just completely pay for principle and interest caused by outstanding principle.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Fair value through other comprehensive income (FVOCI)

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

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

When the Company measures the financial assets at the first time, the Company can make an irreversible choice that the fair value changes of the financial assets can be classified as other comprehensive income. The choice follows the basis of each financial assets.

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses, deriving from debt investments are recognized in profit or loss; whereas dividends deriving from equity investments are recognized as income in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses of financial assets, measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of debt investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of equity investments are reclassified to retain earnings instead of profit or loss.

Dividend income derived from equity investments is recognized 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.

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets and accounts receivable, which is presented as accounts receivable. On initial recognition, the Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value included any dividend and interest income, are recognized in profit or loss.

4) Impairment of financial assets

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The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and accounts receivable, other receivable, guarantee deposit paid and other financial assets), debt investments measured at FVOCI, accounts receivable measured at FVOCI and contract assets.

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

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

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

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

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

The maximum period considered when estimating ECLs is the maximum contractual period which is exposed to credit risk by the Company.

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

The Company considers a debt security to have a low credit risk when the credit risk rating is equivalent to the globally understood definition of "investment grade".

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

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Company in accordance with the contract and the cash flows

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that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data :

- The borrower or issuer has significant financial difficulty ;
- A breach of contract such as a default or being overdue more than 90 days ;
- The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider ;
- It is probable that the borrower will enter bankruptcy or other financial reorganization ; or
- The disappearance of an active market for a security because of financial difficulties.

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

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

5) Derecognition of financial assets

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

On derecognition of a debt instrument in its entirety, the Company recognizes the difference between its 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 on fair value through other comprehensive income", in profit or loss, and presented it in the line item of non-operating income and expenses in the statement of

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comprehensive income.

On derecognition of a financial asset other than in its entirety, the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss, and presented in the line item of non-operating income and expenses. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

(b) Financial assets (policy applicable before January 1, 2018)

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.

1) 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.

2) 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

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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.

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.

3) 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.

4) 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

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credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

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.

5) 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.

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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.

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.

(iii) Financial liabilities

1) 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.

2) 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.

3) Derecognition of financial liabilities

The Company 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.

4) Offsetting of financial assets and liabilities

The Company presents financial assets and liabilities on a net basis when the

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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.

(iv) Derivative financial instruments

Derivatives are recognized initially at fair value and transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss. When the fair value of a derivative instrument is positive, it is classified as a financial asset, whereas when the fair value is negative, it is classified as a financial liability.

(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.

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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.

(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

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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.

(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

CAPITAL FUTURES CORPORATION
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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.

(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:

CAPITAL FUTURES CORPORATION
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- 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)

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

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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.

(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

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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.

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:

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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.

6. Summary of major accounts

(1) Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash	\$ 60	60
Demand deposits	621,489	432,661
Time deposits	2,337,230	1,710,160
Futures margin-excess margin	229,867	542,046
Commercial paper	<u>22,497</u>	<u>146,962</u>
	<u>\$ 3,211,143</u>	<u>2,831,889</u>

(2) Financial assets and liabilities

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Open-ended funds and money-market instruments	\$ 35,000	10,000
Open-ended funds and money-market instruments valuation adjustment	(195)	59
Trading securities - proprietary trading	87,054	512,375
Trading securities - proprietary trading valuation adjustment	(7,488)	(5,685)
Securities invested by securities broker	74,553	-
Securities invested by securities broker valuation adjustment	(7,283)	-
Call options	25	119,230
Futures margin-proprietary fund	41,212	106,896
Foreign exchange rate derivatives	<u>46,967</u>	<u>22,446</u>
Total	<u>\$ 269,845</u>	<u>765,321</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 2018 and 2017 will increase \$1,816 and \$5,167, 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.

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(b) Bonds purchased under resale agreements

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Bonds purchased under resale agreements	\$ <u>198,000</u>	<u>11,501</u>
Resale price under the agreements	\$ <u>198,034</u>	<u>11,504</u>
Interest rate	<u>0.45%~0.48%</u>	<u>0.40%~0.41%</u>

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

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, due to changes in fair value, the Company had recognized \$(41,494) in other comprehensive income, as well as the amount reclassified from equity to net losses is \$(41,494).

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

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

Shares of Taiwan Futures Exchange held by the Company are measured at cost less impairment losses on December 31, 2017 and reclassified to financial assets measured at fair value through other comprehensive income on December 31, 2018.

(e) Equity instruments measured at fair value through other comprehensive income

	<u>December 31, 2018</u>	
<u>Investee Company</u>	<u>Ownership</u>	
	<u>ratio</u>	<u>Amount</u>
Taiwan Futures Exchange Co., Ltd	0.0042%	<u>1,055</u>

The Company holds shares of Taiwan Futures Exchange for long-term strategic purposes and not for trading, therefore, the Company had classified these equity instruments as FVOCI. These investments were classified as financial assets measured at cost on December 31, 2017.

During the years ended December 31, 2018, the dividends of \$49, related to equity

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investments at fair value through other comprehensive income held on December 31, 2018, were recognized. No strategic investments were disposed in 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Put options	\$ -	120,129
Foreign exchange rate derivatives	9,063	2,847
	<u>\$ 9,063</u>	<u>122,976</u>

(3) Investments under Equity Method

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Subsidiary	\$ 1,053,757	969,615
Associate	45,719	41,535
	<u>\$ 1,099,476</u>	<u>1,011,150</u>

(a) Subsidiary

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 2018.

For the year ended December 31, 2018 and 2017, the Company's share of gains or losses of the subsidiaries were as follows:

	<u>2018</u>	<u>2017</u>
Audited by the certified public accountants	<u>\$ 56,353</u>	<u>78,746</u>

(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, 2018	December 31, 2017
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:

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	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Summerized ending balance of the insignificant associate	\$ 45,719	41,535
	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Shares belong to the Company:		
Net loss of the period of continuing business units	\$ 3,818	1,028
Other comprehensive income	366	(1,009)
Total	<u>\$ 4,184</u>	<u>19</u>

(c) Collateral and pledge

As of December 31, 2018 and 2017, the Company did not provide any investment accounted for using equity method as collaterals for its loans.

(4) Property and equipment

For the years ended December 31, 2018 and 2017, the cost and accumulated depreciation of the property and equipment of the Company were as follows:

	<u>Office equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
Cost:			
Balance at 1 January, 2018	\$ 69,386	11,025	80,411
Additions	13,142	6,258	19,400
Balance at 31 December, 2018	<u>\$ 82,528</u>	<u>17,283</u>	<u>99,811</u>
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>\$ 69,386</u>	<u>11,025</u>	<u>80,411</u>
Accumulated depreciation:			
Balance at 1 January, 2018	\$ 33,773	3,072	36,845
Depreciation	15,309	3,535	18,844
Balance at 31 December, 2018	<u>\$ 49,082</u>	<u>6,607</u>	<u>55,689</u>
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>\$ 33,773</u>	<u>3,072</u>	<u>36,845</u>

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Carrying amounts:

Balance at 31 December, 2018	<u>\$ 33,446</u>	<u>10,676</u>	<u>44,122</u>
Balance at 31 December, 2017	<u>\$ 35,613</u>	<u>7,953</u>	<u>43,566</u>

As of December 31, 2018 and 2017, the Company did not provide any property and equipment as collateral and pledge.

(5) Customers margin accounts/ futures traders' equity

As of December 31, 2018 and 2017, the difference between customers' margin accounts and futures traders' equity were reconciled as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Customers margin accounts		
Cash in bank	\$ 25,603,099	19,997,183
Balance of the futures clearing house	2,339,834	3,297,207
Balance of other futures commission merchants	6,179,769	3,611,224
Marketable securities	250	2,113
Balance of customers margin accounts	<u>34,122,952</u>	<u>26,907,727</u>
Plus adjustment items:		
Commission cost	4,288	1,651
Others	52	33
Deduction adjustment items:		
Commission income	(16,348)	(8,264)
Futures transaction tax	(1,426)	(1,356)
Interest income	(3,726)	(2,326)
Temporary credits	(431)	(200)
Remittance amount of the customers after the market closed	(7,179)	(2,424)
Balance of futures traders' equity	<u>\$ 34,098,182</u>	<u>26,894,841</u>

(6) Receivable - futures margin

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Receivable - futures margin	\$ 33,371	1
Less: Loss allowance	33,370	-
Total	<u>\$ 1</u>	<u>1</u>

The movement in the allowance for receivable - futures margin was as follows:

	<u>2018</u>	<u>2017</u>
Balance on January 1	\$ -	-
Impairment losses recognized (reversed)	33,370	-
Balance on December 31	<u>\$ 33,370</u>	<u>-</u>

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(7) Intangible assets

For the years ended December 31, 2018 and 2017, the costs, amortization, and impairment loss of intangible assets were as follows:

	The seats of foreign futures exchanges (Note)	Computer software	Total
Cost:			
Balance at 1 January, 2018	\$ 44,325	20,902	65,227
Acquisition	-	3,774	3,774
Disposal	-	(3,266)	(3,266)
Balance at 31 December, 2018	<u>\$ 44,325</u>	<u>21,410</u>	<u>65,735</u>
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>
Amortization and impairment loss:			
Balance at 1 January, 2018	\$ -	8,935	8,935
Amortization of current period	-	7,661	7,661
Disposal	-	(3,266)	(3,266)
Balance at 31 December, 2018	<u>\$ -</u>	<u>13,330</u>	<u>13,330</u>
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>
Carrying value:			
Balance at 31 December, 2018	<u>\$ 44,325</u>	<u>8,080</u>	<u>52,405</u>
Balance at 31 December, 2017	<u>\$ 44,325</u>	<u>11,967</u>	<u>56,292</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.

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(8) Operating lease

(a) Lessee

Non-cancellable operating lease payables are as follows:

	December 31, 2018	December 31, 2017
Within 1 year	\$ 22,251	21,287
1-5 years	17,421	36,351
	<u>\$ 39,672</u>	<u>57,638</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, 2018 and 2017, the operating lease expenses recognized in profit or loss were \$24,254 and \$23,611 respectively.

(b) Lessor

The Company had leased the office under operating lease, while the lease contract expired on July 31, 2017. There is no other contract that brings rental income until December 31, 2018. For the year ended December 31, 2018 and 2017, the rental income were \$0 and \$85, respectively.

(9) 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, 2018	December 31, 2017
Present value of defined benefit obligations	\$ (26,128)	(29,511)
Fair value of plan assets	18,216	17,656
Recognized liabilities for defined benefit obligations	<u>\$ (7,912)</u>	<u>(11,855)</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.

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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.

The balance of the Company's labor pension preparatory special account in Bank of Taiwan amounted to \$18,216 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 2018 and 2017 were as follows:

	For the years ended December 31,	
	2018	2017
Defined benefit obligation at January 1	\$ 29,511	28,055
Current service costs and interest	669	702
Benefits paid	(4,943)	-
Remeasurement of net defined benefit obligation		
— Experience gain or loss	699	672
— Actuarial loss (gain) arising from changes in financial assumptions	192	82
Defined benefit obligation at December 31	<u>\$ 26,128</u>	<u>29,511</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 2018 and 2017 were as follows:

	For the years ended December 31,	
	2018	2017
Fair value of plan assets at January 1	\$ 17,656	16,978
Interest revenue	188	189
Benefits paid	(630)	-
Remeasurement of net defined benefit obligation		
— Return on plan assets (except net interests of period)	519	(22)
Contributions to the plan assets	483	511
Fair value of plan assets at December 31	<u>\$ 18,216</u>	<u>17,656</u>

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d. Expense recognized in profit or loss

The expenses recognized in profit or loss of the Company in 2018 and 2017 were as follows:

	For the years ended December 31,	
	2018	2017
Current service cost	\$ 359	394
Net interest of net defined benefit obligation	122	119
	\$ 481	513

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

For the years ended December 31, 2018 and 2017, the accumulated remeasurement of net defined benefit obligation recognized in other comprehensive income was as follows:

	For the years ended December 31,	
	2018	2017
Accumulated amount on January 1	\$ (11,094)	(10,318)
Recognized during the period	(372)	(776)
Accumulated amount on December 31	\$ (11,466)	(11,094)

f. Actuarial assumptions

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

	2018	2017
Discount rate	0.93%	1.05%
Future salary growth rate	2.50%	2.50%

The expected contribution to the defined benefit plan for the next year is \$481. 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.

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For the years ended December 31, 2018 and 2017, 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, 2018		
Discount rate	\$ (674)	703
Future salary increasing rate	559	(543)
December 31, 2017		
Discount rate	(779)	813
Future salary increasing rate	650	(631)

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 \$11,712 and \$10,208 under defined contribution plan to the Bureau of the Labor Insurance in the year 2018 and 2017, respectively.

(10) Income taxes

(a) Income tax expense

On February 7, 2018, the Office of the President of ROC promulgated the amendment of Income Tax Act. The corporate income tax rate was adjusted from 17% to 20% and effective in January 1, 2018.

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The amount of income tax expense for the years 2018 and 2017 were as follows:

	For the years ended December 31,	
	2018	2017
Current income tax expense	\$ 109,856	91,513
Deferred income tax expense	5,195	4,361
Total	\$ 115,051	95,874

The amount of income tax expense (benefit) recognized in other comprehensive income of the Company in 2018 and 2017 were as follows:

	For the years ended December 31,	
	2018	2017
Foreign exchange difference from translating financial reports of foreign operations	\$ (9,222)	14,281

Reconciliation of income tax expense (benefit) and profit before tax of the Company for 2018 and 2017 were as follows:

	For the years ended December 31,	
	2018	2017
Profit excluding income tax	\$ 950,256	826,889
Income tax using the Company's domestic tax rate	190,051	140,571
Adjustment in tax rate	770	-
Tax-exempt income	(78,403)	(29,426)
Unrecognized temporary differences for prior years	-	855
Adjustments to prior year's income tax	(2,817)	(7,426)
10% surtax on undistributed earnings	6,510	-
Alternative minimum tax	42	-
Others	(1,102)	(8,700)
Total	\$ 115,051	95,874

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(b) Deferred tax assets and liabilities

1) Unrecognized deferred income tax liabilities

As of December 31, 2018 and 2017, the details of the Company's unrecognized deferred tax liabilities were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Aggregate amount of temporary differences related to investments in subsidiaries	<u>\$ 28,316</u>	<u>18,983</u>

CSC Futures (HK) Ltd. that the Company is able to control has the distribution policy for the surplus earnings before December 31, 2018 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.

2) Recognized deferred income tax assets and liabilities

As of December 31, 2018 and 2017, the details of the Company's recognized deferred income tax assets and liabilities:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Recognized deferred tax assets:		
Foreign exchange difference from translating financial reports of foreign operations	<u>\$ 170</u>	<u>9,392</u>
Recognized deferred tax liabilities:		
Unrealized gains on foreign investments under Equity Method	\$ 1,975	1,030
Unrealized gains on derivative financial instruments	<u>7,581</u>	<u>3,331</u>
Total	<u>\$ 9,556</u>	<u>4,361</u>

(c) Income tax assessment status

The Company's income tax returns through 2016 were assessed by the Tax Authority.

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(11) Capital and other equity

(a) Common stock

On 29 September 2016, the Company has been authorized by the resolution of board meeting to issue 38,000 thousand ordinary shares with par value of \$10 per share. The issue price was set from \$25 to 35 per share on November 29, 2016 under the resolution of board meeting, and the actual issue price was authorized to Chairman of the board and the securities underwriter to set based on above block issue price, related regulation and considering the market situation on 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 10, 2017. The issued cost was deducted from stock premium.

According to the resolution of shareholders' meeting on May 24, 2018, the Company issued share dividends 16,040 thousand shares with par value of \$10 per share from capital surplus. The paid-in capital became \$1,764,376 after the capital increase. The capital increase was agreed and was immediately effective on July 4, 2018. The based-capital increased date was on August 11, 2018 under the resolution of board meeting on July 10, 2018.

As of December 31, 2018 and 2017, the Company had authorized capital both of \$2,500,000, with par value of \$10 dollar per share; the issued common stock shares were 176,438 thousand and 160,398 thousand shares, respectively.

(b) Capital surplus

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Share premium		
Capital addition-Share premium	\$ 1,019,733	1,180,130
Capital addition-Employee stock option	24,134	24,134
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>\$ 1,047,338</u>	<u>1,207,735</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

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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.

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 dollar)	stock option's quantity
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 reverse

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.

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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. 10500278285 issued by the Financial Supervisory Commission on August 5, 2016, 0.5% to 1.0% of the current year's earnings after tax should be set aside as special reserve for year 2016 to 2018. From year 2017, the aforementioned special reserve can be reversed within an amount equal to the expenditures stemming from employee re training, re assignments, or relocations made necessary by the introduction of financial technology.

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 24, 2018 and May 31, 2017, the Company's 2017 and 2016 earnings distribution for owners were as follows:

	For the years ended December 31,	
	2017	2016
Dividends for owners of common stock		
Cash	\$ 460,342	354,479

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

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(12) Earnings per share

The calculation of basic and dilutive earnings per share of the Company in 2018 and 2017 were as follows:

(a) Basic earnings per share

	For the years ended December 31,	
	2018	2017
Net income	<u>\$ 835,205</u>	<u>731,015</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	<u>176,438</u>	<u>171,856</u>
Basic earnings per share (dollar)	<u>\$ 4.73</u>	<u>4.25</u>

(b) Dilutived earnings per share

	For the years ended December 31,	
	2018	2017
Net income	<u>\$ 835,205</u>	<u>731,015</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	176,438	171,856
Influence from stock dividends for employee (thousands of shares)	<u>268</u>	<u>238</u>
Weighted-average outstanding shares of dilutived earnings per share (thousands of shares)	<u>176,706</u>	<u>172,094</u>
Dilutived earnings per share (dollar)	<u>\$ 4.73</u>	<u>4.25</u>

(13) Items of Comprehensive Income

(a) Commission income - brokerage

	For the years ended December 31,	
	2018	2017
Brokerage commission-Domestic futures	<u>\$ 1,021,406</u>	<u>838,033</u>
Brokerage commission-Foreign futures	<u>905,362</u>	<u>727,580</u>
	<u>\$ 1,926,768</u>	<u>1,565,613</u>

(b) Futures commission expenses

	For the years ended December 31,	
	2018	2017
Re-consigned futures trading	<u>\$ 283,333</u>	<u>245,730</u>
Futures introducing broker business	<u>168,627</u>	<u>152,941</u>
	<u>\$ 451,960</u>	<u>398,671</u>

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(c) Employee benefit, depreciation and amortization expenses

	For the years ended December 31,	
	2018	2017
Employee benefit expenses		
Salary	\$ 342,332	315,468
Labor and health insurance	21,807	18,875
Pension	12,193	10,721
Director remuneration	31,389	27,694
Others	7,274	6,587
Depreciation	18,844	15,878
Amortization	7,661	6,241
	\$ 441,500	401,464

(d) Other operating expenses

	For the years ended December 31,	
	2018	2017
Postage expenses	\$ 27,661	18,479
Taxes	75,332	66,090
Rental	24,254	23,611
Information technology service	109,140	83,434
Professional service fees	186,564	31,045
Others	62,738	52,305
	\$ 485,689	274,964

(e) Other income and expenses

	For the years ended December 31,	
	2018	2017
Interest revenue	\$ 363,732	239,445
Dividend revenue	49	1,744
Net gain (loss) on non-operating financial instruments	(7,538)	139
Net gain (loss) on foreign exchange	18,815	(26,769)
Net gain (loss) on disposal of investments	(8,366)	48,104
Other non-operating revenue - other	12,002	32,710
Other non-operating expense - other	(885)	(2,565)
	\$ 377,809	292,808

(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

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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, 2018 and 2017, the estimated amounts of remuneration to employee were \$12,083 and \$10,777, and to directors and supervisors by the Company were \$12,083 and \$10,777, 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, 2018 and 2017. 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 2017 were both \$10,777. There was no difference between accounting estimates and actual distribution. Related information would be available at the Market Observation Post System website.

(14) Financial Instruments

(a) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represent the maximum credit exposure. As of December 31, 2018 and 2017, the maximum credit exposure amounted to \$38,409,964 and \$31,014,104, respectively.

2) Concentration of credit risk

The main counterparties which the Company transacts with regarding cash and cash equivalents, bonds purchased under resale agreements and customer margin deposit are both domestic and overseas financial institutions.

The exposure area of credit risk in December, 2018 as shown in below, focusing on Taiwan (proportion 83.17%), secondly was Asia (proportion 16.60% excluded Taiwan), thirdly was Oceania (proportion 0.22%), and then North America (proportion 0.01%). The proportion of investment area did not change significantly compared to the same period last year.

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<u>Area</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Taiwan	\$ 31,214,655	25,968,806
Asia(excluded Tawian)	6,229,925	2,613,376
Oceania	82,619	1,166,514
North America	4,896	2,421
Total	<u>\$ 37,532,095</u>	<u>29,751,117</u>

3) Impairment loss

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

	<u>December 31, 2018</u>		<u>December 31, 2017</u>	
	<u>Total</u>	<u>Impairment</u>	<u>Total</u>	<u>Impairment</u>
	<u>amount</u>		<u>amount</u>	
Not past due	\$ 80,802	8,376	45,808	-
Past due 0~30 days	-	-	-	-
Past due 31~120 days	-	-	-	-
Past due 121~360 days	25,146	25,146	-	-
Past due more than 360 days	-	-	-	-
	<u>\$ 105,948</u>	<u>33,522</u>	<u>45,808</u>	<u>-</u>

Allowance for doubtful debts under receivables is recorded for the bad debt expense or impairment loss. Where a claim becomes definitely uncollectible, the allowance for doubtful debts should be written off to financial assets account. As of December 31, 2018 and 2017, the loss allowance of accrued receivables were recognized \$33,522 and \$0, respectively.

4) Credit risk of receivables

Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(6). The Company regards a financial asset as a default when the client of brokerage business is unable to fulfill the margin call or settlement obligation or accrued receivables past due, as well as other receivable of stock default that the company as securities interactive business, which the counterparty is unable to pay the Company. Thus, the Company regarded the financial assets as default and recognized impairment losses. The movement of loss allowance for the year ended December 31, 2018 was as follows:

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	2018.12.31				
	12-month ECL	Lifetime ECL -not credit impaired	Lifetime ECL -credit impaired		Total
			Receivable - futures margin	Other receivables	
Balance on January 1 per IAS39	\$ -	-	-	-	-
Adjustment on initial application of IFRS 9	-	-	-	-	-
Balance on January 1 per IFRS 9					
Impairment loss recognized	-	-	33,370	152	33,522
Balance on December 31	<u>\$ -</u>	<u>-</u>	<u>33,370</u>	<u>152</u>	<u>33,522</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.

	Carrying amount	Contract cash flow	Within 6 months	6-12 months	1-2 year	2-5 year	More than 5 year
December 31, 2018							
Financial liabilities at fair value through profit or loss	\$ 9,063	9,063	9,063	-	-	-	-
Futures traders' equity	34,098,182	34,098,182	34,098,182	-	-	-	-
Leverage contract trading- customers' equity	225,899	225,899	225,899				
Accounts payable	45,097	45,097	45,097	-	-	-	-
Receipts under custody	3,946	3,946	3,946				
Other payable	121,294	121,294	121,294	-	-	-	-
	<u>\$ 34,503,481</u>	<u>34,503,481</u>	<u>34,503,481</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Carrying amount	Contract cash flow	Within 6 months	6-12 months	1-2 year	2-5 year	More than 5 year
December 31, 2017							
Financial liabilities measured 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				
Receipts under custody	108,394	108,394	108,394				
Accounts payable	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>

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(c) 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, 2018			
	Foreign Currency (dollar)	Exchange rate	New Taiwan Dollars
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 508,608,787.98	30.7150	15,621,919
JPY	886,599,094.00	0.2782	246,652
HKD	168,930,402.87	3.9210	662,376
GBP	3,655,300.68	38.8800	142,118
EUR	8,575,803.51	35.2000	301,868
AUD	3,101,759.03	21.6700	67,215
SGD	160,061.50	22.4800	3,598
CHF	49,563.86	31.1900	1,546
CNY	21,841,083.04	4.4720	97,673
NZD	50,761.30	20.6200	1,047
CAD	231,506.17	22.5800	5,227
<u>Non-monetary items</u>			
USD	4,412,934.61	30.7150	135,543
HKD	82,672.00	3.9210	324
GBP	2,024.62	38.8800	79
JPY	8,392,500.00	0.2782	2,335
<u>Investments under equity method</u>			
HKD	268,602,885.23	3.9210	1,053,193

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December 31, 2018			
	Foreign Currency (dollar)	Exchange rate	New Taiwan Dollars
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	\$ 500,037,837.54	30.7150	15,358,662
HKD	165,005,037.99	3.9210	646,985
GBP	3,552,856.78	38.8800	138,135
AUD	3,160,808.66	21.6700	68,495
CAD	7,224.19	22.5800	163
SGD	168,666.16	22.4800	3,792
CHF	49,558.86	31.1900	1,546
JPY	869,904,919.00	0.2782	242,008
NZD	1,273.64	20.6200	26
EUR	8,298,223.03	35.2000	292,097
CNY	18,659,311.38	4.4720	83,444
<u>Non-monetary items</u>			
USD	178,910.18	30.7150	5,495
JPY	9,729,960.00	0.2782	2,707
CAD	13,566.14	22.5800	306
AUD	2,150.07	21.6700	47
CNY	112,732.03	4.4720	504
NZD	192.03	20.6200	4

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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

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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

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 \$22,252 and (\$30,318) for the years ended December 31, 2018 and 2017, respectively.

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, 2018 and 2017, 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 \$14,983 and \$18,808, respectively. The analytical basis was the same in both years.

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(d) Analysis in interest rates

For the years ended December 31, 2018 and 2017, 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 \$8,570 and \$3,620. This is mainly due to the Company's time deposits and 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. Listed stock, OTC stock, beneficiary certificates, as well as equity 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).

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:

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December 31, 2018				
	Total	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)
Non-derivative assets and liabilities				
Assets:				
Financial assets at fair value through profit or loss				
Beneficiary certificate	\$ 106,368	106,368	-	-
Stock investment	75,273	75,273	-	-
Financial assets at fair value through other comprehensive income	1,055	-	-	1,055
Derivative assets and liabilities				
Assets:				
Financial assets at fair value through profit or loss	\$ 88,204	41,237	46,967	-
Liabilities:				
Financial liabilities at fair value through profit or loss	9,063	-	9,063	-

December 31, 2017				
	Total	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)
Non-derivative assets and liabilities				
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	-	-
Derivative assets and liabilities				
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	-

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

(2) Valuation techniques

A. Non-derivative financial instruments

The valuation of non-derivative financial instruments are based on transparent offer price as fair value if there is existence of active market, i.e. TSE, OTC and investment Trust and investment Adviser. The equity of non-transparent offer price shall be evaluated by valuation techniques by using the Market approach-public company comparable with the discount of lack equity-liquidity.

B. Derivative financial instruments

The valuation of derivative financial instruments in the active market are mainly measured settlement price of exchange institution as fair value. The fair value of the remaining financial instruments are obtained by financial valuation models or referencing counterparty quotes. Fair value obtained through the calculations of financial valuation models include, but are not limited to, fair value references of substantive factors and characteristics from similar financial instruments, those obtained from the cash flow discounting method or those obtained by other financial valuation techniques. Fair values obtained through financial valuation techniques are derived from market information on the reporting date, and utilizes the fair values derived from the calculations of financial valuation models.

(3) Transfer between Level 1 and Level 2

There is no transfer between Level 1 and Level 2 for the years ended December 31, 2018 and 2017.

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

(In Thousands Dollars)

Item	For the years ended December 31, 2018							Ending Balance
	Beginning Balance	Gains and losses on valuation Amount recognized in profit or loss	Amount recognized in comprehensive income	Addition Purchased or issued	Reduction Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	
Financial assets at fair value through other comprehensive income	\$ 1,014		41	-	-	-	-	1,055

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

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

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

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

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

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

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

	<u>Change in fair value recognized in other comprehensive income</u>	
	<u>Favorable</u>	<u>Unfavorable</u>
December 31, 2018		
Financial assets fair value through other comprehensive income	<u>\$ 11</u>	<u>(11)</u>

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

- 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

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

traders' equity, leverage contract 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.

(15) 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-

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

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.

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,

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

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.

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

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

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
- 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.

(16) Capital management

The Company's objectives for managing capital are to safeguard the capacity to continue to operate and achieve the Group's operating principles, to continue to provide a return on shareholders, to maintain the interest of other related parties, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the dividend payment to the shareholders, reduce the capital for redistribution to shareholders or issue new shares. The Company adopts a risk-adjusted return on capital to allocate the company's capital reasonably and effectively.

As of December 31, 2018, 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, 2018	December 31, 2017
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.

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

(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 Company
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 Investment Trust Corp. (Note)	An associate

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

(4) Key management personnel compensation

	For the years ended December 31,	
	2018	2017
Short-term employee benefits	\$ 77,779	62,836
Post-employment benefits	1,012	1,038
Share-based payment	-	5,794
Total	\$ 78,791	69,668

(5) Significant transactions with related parties

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

	For the years ended December 31,	
	2018	2017
<u>Commission income-brokerage</u>		
Capital Securities Corporation	\$ 21,562	19,522
CSC Futures (HK) Ltd	68,377	55,092
Capital Investment Trust Corp.	856	-
	\$ 90,795	74,614
<u>Management Fee income</u>		
Capital Securities Corporation	\$ 1,117	1,849

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Futures traders' equity</u>		
Capital Securities Corporation	\$ 1,628,417	718,153
CSC Futures (HK) Ltd	2,987,172	2,212,699
CSC Securities (HK) Ltd	-	4
Capital Investment Trust Corp.	287,357	-
	<u>\$ 4,902,946</u>	<u>2,930,856</u>
 <u>Customers margin accounts- other futures commission merchants</u>		
CSC Futures (HK) Ltd	<u>\$ 252,079</u>	<u>310,167</u>
 <u>Futures margin</u>		
CSC Futures (HK) Ltd	<u>\$ 4,179</u>	<u>3,104</u>

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 2018 and 2017, interest expense amounted to \$436 and \$159, respectively.

CSC Futures (HK) Ltd. deposits margins to the Company for futures proprietary trading, and the Company paid the interest of excess margin annually. In 2018 and 2017, interest expense amounted to \$2,482 and \$888, respectively.

Capital Investment Trust Corp. deposits margins to the Company for futures proprietary trading, and the Company paid the interest of excess margin annually. In 2018 and 2017, interest expense amounted to \$78 and \$0, respectively.

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

(b) Accounts payable and receivable:

	December 31, 2018		December 31, 2017	
<u>Accounts receivable</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Capital Securities Corporation	\$ 228	100	694	100
<u>Accounts payable</u>				
Capital Securities Corporation	\$ 10,922	100	14,688	100
<u>Other receivables (Note 1)</u>				
Capital Securities Corporation	\$ 19,981	100	197	100
<u>Other payables</u>				
Capital Securities Corporation (Note 2)	\$ 444	19	277	16
CSC Futures (HK) Ltd. (Note 3)	1,951	81	1,494	84
	<u>\$ 2,395</u>	<u>100</u>	<u>1,771</u>	<u>100</u>

(Note 1) Receivables for information service fee, receivables from future interactive brokers and interest from bonds investment under resell agreements.

(Note 2) Payables for allocated expense and interest.

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

(c) Futures commission expenses

The Company delegated Capital Securities Corporation for introducing brokers. In 2018 and 2017, futures commission expenses amounted to \$166,348 and \$149,776, respectively.

The Company delegated CSC Futures (HK) Ltd. for recon-signing foreign futures trading. In 2018 and 2017, futures commission expenses amounted to \$10,289 and \$8,849, 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 2018 and 2017, rental expense amounted to \$16,455 and \$15,813 respectively, and the guarantee deposits paid for the contract amounted to \$3,819 and \$3,508, respectively.

(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. In 2018 and 2017, rental income were \$0 and \$85, 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 2018 and 2017, the service fee amounted to \$41,637 and \$27,291, respectively.

(g) Securities commission income

The Company was delegated by Capital Securities Corporation for securities introducing brokers. In 2018 and 2017, commission income amounted to \$4,721 and \$5,147, respectively.

(h) Stock service fee

In 2018 and 2017, the Company paid the stock service fee to Capital Securities Corporation both amounted to \$406 and \$404, respectively.

(i) Human resource and legal service fees

In 2018 and 2017, the Company paid the human resource and legal service fee to Capital Securities Corporation both amounted to \$300.

(j) Securities brokerage charge

In 2018 and 2017, the Company paid the securities brokerage charge to Capital Securities Corporation amounted to \$436 and \$12, respectively.

(k) Bonds under resell agreement

The Company conducted investments with the Capital Securities Corporation for bonds purchased under resell agreements. In 2018 and 2017, the interest income amounted to \$321 and \$373, respectively. As of December 31, 2018 and 2017, the remaining investment amounted to \$198,000 and \$11,501, respectively. The maturity dates are from January 2 to January 14, 2019 and from January 10 to January 15, 2018, respectively. The agreed interest rate is 0.45% to 0.48% and 0.40% to 0.41%, respectively.

(l) Recon-signing foreign trading charge

In 2018 and 2017, the Company paid the recon-signing foreign trading charge to Capital Securities Corporation amounted to \$0 and \$72, respectively.

(m) Professional service fees

The Company delegated Capital International Technology Co., Ltd. for developing systems. In 2018 and 2017, the professional service fee amounted to \$1,400 and \$0, 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 software and hardware systems for business development. The price amounted to NT\$18,990, as of December 31, 2018, the Company had outstanding balance NT\$8,903.

10. Significant catastrophic losses : None

11. Significant subsequent events : None

12. Disclosure of information as related to derivative financial instruments

As of December 31, 2018 and 2017, the open positions of futures and option contracts were as follows:

December 31, 2018						
Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/ Short	Number of contracts			
Futures contract :	TAIEX Futures	Long	131	\$ 252,299	253,244	
	TAIEX Futures	Short	95	(183,069)	(183,350)	
	Mini Taiex Futures	Short	264	(126,317)	(127,524)	
	Electronic Sector Index Futures	Long	23	35,333	35,397	
	Finance Sector Index Futures	Short	30	(35,369)	(35,358)	
	USD/JPY FX Futures	Long	53	32,509	32,120	
	USD/JPY FX Futures	Short	213	(130,851)	(130,068)	
	Nifty 50 Index Futures	Long	48	26,045	26,189	
	Nifty 50 Index Futures	Short	4	(2,193)	(2,192)	
	EUR/USD FX Futures	Long	113	79,609	80,110	
	US Dollar Index Futures	Short	1	(2,946)	(2,940)	
	Euro Dollar Futures	Short	18	(79,280)	(79,631)	
	DJIA Index Futures	Short	58	(26,931)	(26,880)	
	MSCI India Index Futures	Short	36	(24,058)	(24,155)	
	JPY Dollar Futures	Short	28	(97,593)	(98,591)	
	Mini Hang Seng Index Futures	Long	4	4,067	4,055	
	2-Year T-Note Futures	Short	1	(6,495)	(6,521)	
	Mini-Dow Futures	Long	5	17,770	17,867	
	Mini-Dow Futures	Short	2	(7,113)	(7,151)	
	Mini-S&P 500 Futures	Long	16	60,226	61,558	
	Mini-S&P 500 Futures	Short	6	(22,746)	(23,115)	
	S&P 500 Futures	Long	18	9,008	9,005	
	S&P 500 Futures	Short	12	(6,008)	(5,993)	
	Subtotal			(234,103)		
Options contract :	TAIEX Weekly Options (Put)	Long	240	72	25	
	Subtotal			72		
	Total			\$ (234,031)		

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

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)

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>5,032,092</u> 486,790	10.34	<u>4,637,732</u> 607,202	7.64	≥ 1	Satisfactory to requirement
17	<u>Current Assets</u> Current Liabilities	<u>38,113,857</u> 34,567,504	1.10	<u>30,719,057</u> 27,485,827	1.12	≥ 1	"
22	<u>Stockholders' equity</u> Minimum paid-in capital	<u>5,032,092</u> 1,115,000	451.31%	<u>4,637,732</u> 1,115,000	415.94%	≥ 60% ≥ 40%	"
22	<u>Post-adjustment net capital</u> Total customer margin deposits required for open positions of customers	<u>3,659,697</u> 6,318,099	57.92%	<u>3,183,040</u> 5,524,491	57.62%	≥ 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

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

- (f) Receivables from related parties amounting to over NT\$100,000 thousands or 20% of paid-in capital : None
- (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, 2018			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%	1,007,474	551,086	57,246	55,683	-	Subsidiary
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%	46,283	1,400	552	670	-	Subsidiary
Capital Futures Corporation	True Partner Capital advisor Co., Ltd.	Hong Kong	2010.5.31	Gin Guan Zheng Zhi No. 1040027513 letter	Assets Management	36,701	36,701	245	49.00%	45,719	133,223	7,791	3,818	-	Associate

(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, 2018	Remittance or recoverable investment this period		Accumulated remittance as of December 31, 2018	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, 2018
					Remittance amount	Recoverable amount						
Capital True Partner Technology Co., Ltd.	Management, consulting and information service business	5,013	C	24,372	-	-	24,372	2,506	51.00%	1,397 B (2)	23,029	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management, consulting and information service business	18,863	C	18,863	-	-	18,863	2,374	100.00%	2,374 B (2)	22,597	-

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

A. Directly invest in a Company in Mainland China.

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

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.
- (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, 2018.

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	(In thousands dollars)	
													Collateral Name	Limit on loans to a single business
1	CSC Futures (HK) Ltd.	Klaw Trading Limited	Account receivables - Customer	No	27,422	42,656	14,320	5%	2	-	Tradings	-	-	103,575
1	CSC Futures (HK) Ltd.	AAA Fintech Limited	Account receivables - Customer	No	60,938	85,313	-	5.4%	2	-	Tradings	-	-	103,575
1	CSC Futures (HK) Ltd.	Future Leading Investment Pte. Ltd.	Account receivables - Customer	No	85,313	85,313	-	3.5%	2	-	Tradings	-	-	103,575
1	CSC Futures (HK) Ltd.	Terrion Capital Limited	Account receivables - Customer	No	0	6,671	-	0.0%	2	-	Tradings	-	-	103,575
1	CSC Futures (HK) Ltd.	Alpha Rnd Singapore Pte Ltd	Account receivables - Customer	No	5,864	85,313	-	5.4%	2	-	Tradings	-	-	103,575
1	CSC Futures (HK) Ltd.	Pinnacle Corp. Pte. Ltd.	Account receivables - Customer	No	3,047	0	-	4%	2	-	Tradings	-	-	103,575
														414,300
														414,300
														414,300
														414,300
														414,300
														414,300

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