

CAPITAL FUTURES CORPORATION**Financial Statements**

**With Independent Auditors' Report
For the Years Ended December 31, 2019 and 2018**

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

Table of contents

Contents	Page
1. Cover Page	1
2. Table of Contents	2
3. Independent Auditors' Report	3
4. Balance Sheets	4
5. Statements of Comprehensive Income	5
6. Statements of Changes in Equity	6
7. Statements of Cash Flows	7
8. Notes to the Financial Statements	
(1) Company history	8
(2) Approval date and procedures of the financial statements	8
(3) New standards, amendments and interpretations adopted	8~11
(4) Summary of significant accounting policies	11~25
(5) Major sources of accounting judgments, estimation and assumptions uncertainty	25
(6) Explanation of significant accounts	26~58
(7) Related-party transactions	59~62
(8) Pledged assets	62
(9) Significant contingent liability and unrecognized contract commitment	62
(10) Significant catastrophic losses	62
(11) Significant subsequent events	63
(12) Disclosure of information as related to derivative financial instruments	63~64
(13) Restrictions and enforcement of the Company's various financial ratios under futures trading law	65
(14) Unique risks to specific futures commission merchant services	65
(15) Other	65
(16) Other disclosures	
(a) Information on significant transactions	66
(b) Information on investees	66
(c) Information on overseas branches and representative offices	66
(d) Information on investment in mainland China	67
(17) Segment information	68



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Independent Auditors' Report

To 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, 2019 and 2018, the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2019 and 2018 and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years 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 the financial report note 4(o) revenue recognized. Explanation of commission income – brokerage, please refer to the financial report note 6(o)(i). Comprehensive income statement commission income – brokerage.

Explanation of key audit matters:

The Company'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.

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

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

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

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

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

KPMG

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

Notes to Readers

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

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

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

Balance Sheets

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2019		December 31, 2018			December 31, 2019		December 31, 2018	
	Amount	%	Amount	%		Amount	%	Amount	%
Assets									
Current assets:									
111100 Cash and cash equivalents (Note 6(a))	\$ 3,258,958	8	\$ 3,211,143	8	212000 Current financial liabilities at fair value through profit or loss (Note 6(b))	\$ 22,836	-	9,063	-
112000 Current financial assets at fair value through profit or loss (Note 6(b))	512,716	1	269,845	1	214080 Futures traders' equity (Note 6(f))	34,489,833	86	34,098,182	86
114010 Bonds purchased under resale agreements (Note 6(b))	46,000	-	198,000	-	214100 Leverage contract trading customers' equity	308,590	1	225,899	1
114070 Customers margin accounts (Note 6(f))	34,512,680	86	34,122,952	86	214130 Accounts payable	41,651	-	34,175	-
114080 Receivable futures margin (Note 6(g))	2	-	1	-	214140 Accounts payable to related parties (Note 7)	10,914	-	10,922	-
114100 Security borrowing margin	3,874	-	-	-	214150 Advance receipts	2,422	-	3,117	-
114130 Accounts receivable	11,379	-	11,986	-	214160 Receipts under custody	3,811	-	3,946	-
114140 Accounts receivable to related parties (Note 7)	374	-	228	-	214170 Other payables	118,233	1	118,899	-
114150 Prepayments	3,955	-	10,925	-	214180 Other payables to related parties (Note 7)	3,698	-	2,395	-
114170 Other receivables	21,347	-	40,230	-	214600 Current income tax liabilities	86,372	-	52,418	-
114180 Other receivables to related parties (Note 7)	4,052	-	19,981	-	215100 Provisions - current	5,952	-	-	-
114300 Leverage contract trading customers' margin accounts	308,543	1	228,564	1	216000 Current lease liabilities (Note 6(i))	14,920	-	-	-
119000 Other current assets	2	-	2	-	219000 Other current liabilities	10,670	-	8,488	-
	<u>38,683,882</u>	<u>96</u>	<u>38,113,857</u>	<u>96</u>		<u>35,119,902</u>	<u>88</u>	<u>34,567,504</u>	<u>87</u>
Non-current assets:									
123200 Non-current financial assets at fair value through other comprehensive income (Note 6(b))	1,375	-	1,055	-	226000 Non-current lease liabilities (Note 6(i))	6,767	-	-	-
124100 Investments under Equity Method (Note 6(c))	1,030,228	3	1,099,476	3	228000 Deferred income tax liabilities (Note 6(i))	8,767	-	9,556	-
125000 Property and equipment (Note 6(d))	57,721	-	44,122	-	229000 Other non-current liabilities (Note 6(k))	6,719	-	7,912	-
125800 Right-of-use assets (Note 6(e))	21,602	-	-	-		<u>22,253</u>	<u>-</u>	<u>17,468</u>	<u>-</u>
127000 Intangible assets (Note 6(h))	56,982	-	52,405	-	906003 Total liabilities	<u>35,142,155</u>	<u>88</u>	<u>34,584,972</u>	<u>87</u>
128000 Deferred income tax assets (Note 6(i))	236	-	170	-	301010 Common stock (Note 6(m))	1,764,376	4	1,764,376	4
129000 Other non-current assets	303,125	1	305,979	1	302000 Capital surplus (Note 6(m))	1,047,338	3	1,047,338	3
	<u>1,471,269</u>	<u>4</u>	<u>1,503,207</u>	<u>4</u>	304010 Legal reserve	504,667	1	421,147	1
					304020 Special reserve	1,142,132	3	990,784	3
					304040 Unappropriated earnings (Note 6(m))	599,904	1	835,315	2
					305000 Other equity	(45,421)	-	(26,868)	-
					906004 Total equity	<u>5,012,996</u>	<u>12</u>	<u>5,032,092</u>	<u>13</u>
906001 Total assets	<u>\$ 40,155,151</u>	<u>100</u>	<u>\$ 39,617,064</u>	<u>100</u>	906002 Total liabilities and equity	<u>\$ 40,155,151</u>	<u>100</u>	<u>\$ 39,617,064</u>	<u>100</u>

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

CAPITAL FUTURES CORPORATION**Statements of Comprehensive Income****For the years ended December 31, 2019 and 2018****(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Common Share)**

		2019		2018	
		Amount	%	Amount	%
Incomes:					
401000	Commission income - brokerage (Note 6(o))	\$ 1,638,480	94	1,926,768	81
410000	Net gains (losses) on sale of trading securities	36,165	2	(81,713)	(3)
421300	Dividend revenue	1,101	-	5,842	-
421500	Net gains (losses) on measurement of trading securities at fair value through profit or loss	13,966	1	(1,803)	-
421600	Losses on covering of borrowed securities and bonds with resale agreements short sales	(1,144)	-	-	-
421610	Net losses on borrowed securities and bonds with resale agreements short sales at fair value through profit or loss	(1,108)	-	-	-
424200	Securities commission revenue	3,492	-	4,721	-
424400	Net gains (losses) on derivative financial instruments (Note 6(o))	(5,221)	-	414,369	18
424500	Net gains (losses) on derivative instruments Taipei Exchange (Note 6(o))	36,424	2	72,343	3
424800	Management fee revenue	204	-	1,379	-
424900	Consulting fee revenue	15,076	1	29,057	1
428000	Other operating revenue	(1,800)	-	2,342	-
		<u>1,735,635</u>	<u>100</u>	<u>2,373,305</u>	<u>100</u>
Expenses:					
501000	Brokerage fees	219,170	13	251,847	11
502000	Brokerage fees proprietary trading	1,325	-	4,919	-
521200	Financial costs	26,592	2	12,410	1
521640	Loss from securities borrowing transactions	193	-	-	-
425300	(Reversal of) expected credit impairment loss (Note 6(p))	(2,237)	-	33,522	1
524100	Futures commission expenses (Note 6(o))	385,391	22	451,960	19
524300	Clearing and settlement expenses	149,055	9	173,218	7
528000	Other operating expenditure	2,129	-	5,964	-
531000	Employee benefit expenses (Note 6(o))	384,246	22	414,995	18
532000	Depreciation and amortization expenses (Note 6(o))	55,275	3	26,505	1
533000	Other operating expenses (Note 6(o))	275,576	16	485,689	20
		<u>1,496,715</u>	<u>87</u>	<u>1,861,029</u>	<u>78</u>
Non-operating income and expenses:					
601100	Share of profit (loss) of subsidiaries, associates and joint ventures under equity method (Note 6(c))	(50,309)	(3)	60,171	2
602000	Other gains and losses (Note 6(o))	<u>558,336</u>	<u>32</u>	<u>377,809</u>	<u>16</u>
		<u>508,027</u>	<u>29</u>	<u>437,980</u>	<u>18</u>
902001	Net income before income tax	746,947	42	950,256	40
701000	Less: Income tax expenses (Note 6(l))	<u>146,938</u>	<u>8</u>	<u>115,051</u>	<u>5</u>
	Net income	<u>600,009</u>	<u>34</u>	<u>835,205</u>	<u>35</u>
805000	Other comprehensive income:				
805500	Components that may not be reclassified to profit or loss in subsequent periods:				
805510	Actuarial gain (loss) on defined benefit plans (Note 6(k))	(664)	-	(372)	-
805540	Unrealized gains (losses) from investments in equity instruments at fair value through other comprehensive income	320	-	41	-
805599	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
	Subtotal of components that may not be subsequently reclassified into profit or loss	<u>(344)</u>	<u>-</u>	<u>(331)</u>	<u>-</u>
805600	Components that may be reclassified to profit or loss in subsequent periods:				
805610	Foreign exchange difference from translating financial reports of foreign operations	(18,129)	(1)	28,630	1
805660	Share of other comprehensive income of subsidiaries, associates and joint ventures - Items that may be reclassified to profit or loss in subsequent periods	(810)	-	(475)	-
805699	Income tax related to components of other comprehensive income that will be reclassified to profit or loss (Note 6(l))	<u>(66)</u>	<u>-</u>	<u>9,222</u>	<u>-</u>
	Subtotal of components that may be subsequently reclassified into profit or loss	<u>(18,873)</u>	<u>(1)</u>	<u>18,933</u>	<u>1</u>
805000	Other comprehensive income	<u>(19,217)</u>	<u>(1)</u>	<u>18,602</u>	<u>1</u>
902006	Total comprehensive income	<u>\$ 580,792</u>	<u>33</u>	<u>\$ 853,807</u>	<u>36</u>
975000	Basic earnings per share (Dollar) (Note 6(n))	<u>\$ 3.40</u>		<u>\$ 4.73</u>	
985000	Diluted earnings per share (Dollar) (Note 6(n))	<u>\$ 3.40</u>		<u>\$ 4.73</u>	

See accompanying notes to financial statements.

See accompanying notes to financial statements.

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

Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	2019	2018
Cash flows from (used in) operating activities:		
Net income before income tax	\$ 746,947	950,256
Adjustments:		
Adjustments to reconcile:		
Depreciation expense	47,206	18,844
Amortization expense	8,069	7,661
Expected credit loss (gain)	(2,237)	33,522
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	(20,238)	9,341
Interest expense	26,592	12,410
Interest income (including financial income)	(529,587)	(363,732)
Dividend income	(1,457)	(5,891)
Share of loss (profit) of associates and joint ventures under equity method	50,309	(60,171)
Total adjustments to reconcile profit (loss)	(421,343)	(348,016)
Changes in operating assets and liabilities:		
(Increase) decrease in financial assets at fair value through profit or loss	(221,525)	486,135
Decrease (increase) in bond purchased under resale agreements	152,000	(186,499)
Increase in customer margin accounts	(389,728)	(7,215,225)
Decrease (increase) in receivable-futures margin	2,388	(33,370)
Increase in leverage contract trading - customers' margin accounts	(79,979)	(77,024)
Increase in security borrowing margin	(3,874)	-
Decrease in accounts receivable	607	17,330
(Increase) decrease in accounts receivable to related parties	(146)	466
Decrease (increase) in prepayments	6,970	(5,655)
Decrease (increase) in other receivable	18,544	(19,065)
Decrease (increase) in other receivable to related parties	15,761	(19,766)
Increase in other current assets	-	(1)
Decrease (increase) in clearing and settlement fund	2,954	(5,924)
(Increase) decrease in refundable deposits	(100)	144
Increase (decrease) in financial liabilities at fair value through profit or loss	12,665	(113,913)
Increase in futures traders' equity	391,651	7,203,341
Increase in leverage contract trading - customers' equity	82,691	73,059
Increase (decrease) in accounts payable	7,476	(59,531)
Decrease in accounts payable to related parties	(8)	(3,766)
(Decrease) increase in advance receipts	(695)	736
Decrease in receipts under custody	(135)	(405)
Decrease in other payable	(1,504)	(22,706)
Increase in other payable to related parties	1,086	375
Increase in provisions for liabilities	5,952	-
Increase (decrease) in other current liabilities	2,182	(4,315)
(Decrease) increase in non-current liabilities	(1,857)	4,784
Total changes in operating assets and liabilities	3,376	19,205
Total adjustments	(417,967)	(328,811)
Cash inflow generated from operations	328,980	621,445
Interest received	530,050	357,997
Dividends received	1,349	5,891
Interest paid	(25,652)	(12,168)
Income taxes paid	(113,773)	(110,395)
Net Cash flows from (used in) operating activities	720,954	862,770
Cash flows from (used in) investing activities:		
Acquisition of property and equipment	(38,619)	(19,400)
Acquisition of intangible assets	(12,646)	(3,774)
Net cash flows from (used in) investing activities	(51,265)	(23,174)
Cash flows from (used in) financing activities:		
Payment of lease liabilities	(21,986)	-
Cash dividends paid	(599,888)	(460,342)
Net cash flows from (used in) financing activities	(621,874)	(460,342)
Net increase (decrease) in cash and cash equivalents	47,815	379,254
Cash and cash equivalents at beginning of period	3,211,143	2,831,889
Cash and cash equivalents at end of period	\$ 3,258,958	3,211,143

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

CAPITAL FUTURES CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) 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:

- (a) Futures business.
- (b) Futures advisory business.
- (c) Securities introducing brokerage.
- (d) Futures management business.
- (e) Securities business on a proprietary basis.
- (f) Securities investment consulting
- (g) Lever Exchange Agency

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

The financial statements were authorized for issuance by the Board of Directors on March 26, 2020.

(3) New standards, amendments and interpretations adopted:

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019.

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

(Continued)

CAPITAL FUTURES CORPORATION

Notes to the Financial Statements

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

(i) IFRS 16“Leases”

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

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

1) Definition of a lease

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

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

2) As a lessee

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

The Company decided to apply recognition exemptions to short term leases of office equipment, etc.

- Leases classified as operating leases under IAS 17

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

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee’s incremental borrowing rate at the date of initial application -- the Company applied this approach to its largest property leases; or

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Company applied this approach to all other lease.

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

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

3) Impacts on financial statements

On transition to IFRS 16, the Company recognised additional \$37,672 thousands of right-of-use assets and \$37,672 thousands of lease liabilities. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.35%.

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

	<u>January 1, 2019</u>
Operating lease commitment at December 31, 2018 as disclosed in the Company's financial statements	\$ 39,672
Recognition exemption for:	
leases of low-value assets	(1,389)
short-term leases	(173)
	<u>38,110</u>
Discounted using the incremental borrowing rate at January 1, 2019	<u>37,672</u>
Lease liabilities recognized at January 1, 2019	<u>\$ 37,672</u>

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

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

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

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

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

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

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

(4) Summary of significant accounting policies:

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

(a) 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.

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

(b) Basis of preparation

(i) Basis of measurement

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

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

(ii) 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.

(c) Foreign currency

(i) Foreign currency transaction

Transactions in foreign currencies are translated into the respective functional currencies at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences are generally recognized in profit or loss, except for those differences relating to the investment in equity securities designated as at fair value through other comprehensive income, which are recognized in other comprehensive income.

(ii) 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.

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

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.

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

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

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

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

An entity shall classify a liability as current when:

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

(e) Cash and cash equivalents

Cash comprises cash on hand and 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.

(Continued)

CAPITAL FUTURES CORPORATION

Notes to the Financial Statements

(f) Financial instruments

Trade receivables issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

(i) Financial assets

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

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

1) Financial assets measured at amortized cost

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

2) Fair value through other comprehensive income (FVOCI)

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

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

(Continued)

CAPITAL FUTURES CORPORATION

Notes to the Financial Statements

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

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

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

Dividend income is recognized in profit or loss on the date on which the Company's right to receive payment is established.

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. 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.

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

4) Impairment of financial assets

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

(Continued)

CAPITAL FUTURES CORPORATION

Notes to the Financial Statements

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

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

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

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

The Company assumes that the credit risk on a financial asset has increased significantly if it is overdue more than 30 days or within 30 days but breached the contract. The Company 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 Company in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets 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:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a 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 charge to profit or loss and is recognized in other comprehensive income instead of reducing the carrying amount of the asset.

(Continued)

CAPITAL FUTURES CORPORATION

Notes to the Financial Statements

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For debtors, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

5) Derecognition of financial assets

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

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

(ii) Financial liabilities

1) Financial liabilities

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

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

2) Derecognition of financial liabilities

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

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

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

3) Offsetting of financial assets and liabilities

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

(iii) Non-hedging 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.

(g) 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.

(h) Investments in subsidiaries

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

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

(Continued)

CAPITAL FUTURES CORPORATION

Notes to the Financial Statements

(i) Securities under agreements

The Company engages in securities under 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.

(j) Securities borrowing transactions

The Company engages 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.

(k) 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.

(l) Property and equipment

(i) Recognition and measurement

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

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

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

(ii) 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.

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

(iii) 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:

- 1) Office equipment 3 ~ 5 years
- 2) 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.

(m) Leases

Applicable from January 1, 2019

(i) Identifying a lease

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

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the customer has the right to direct the use of the asset throughout the period of use only if either:
 - 1) the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

- 2) the relevant decisions about how and for what purpose the asset is used are predetermined and:
- the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
 - the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

(ii) As a lessee

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

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

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

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

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

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

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

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

- there is a change of its assessment on whether it will exercise an extension or termination option; or
- there is any lease modifications

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

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease.

The Company presents rightofuse assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

The Company has elected not to recognize rightofuse assets and lease liabilities for shortterm leases of office equipment and transportation equipment etc. that have a lease term of 12 months or less and leases of lowvalue assets. The Company recognizes the lease payments associated with these leases as an expense on a straightline basis over the lease term.

Applicable before January 1, 2019

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 straightline basis over the lease term. Lease incentives received are recognized as an integral part of the total lease expense on a straightline basis over the term of the lease. Lease payments under operating lease shall be recognized in renting expenses and disclosed in financial report.

(n) Intangible assets

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

(o) Revenue recognition

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

(p) Employee benefits

(i) Defined contribution plans

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

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

(ii) Defined benefit plans

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

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

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

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

(iii) Termination benefits

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

(iv) Short-term employee benefits

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

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

(q) Share-based payment

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

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

(r) Income tax

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

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years.

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

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

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

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

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

(Continued)

CAPITAL FUTURES CORPORATION

Notes to the Financial Statements

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

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.

(s) Earnings per share ("EPS")

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

(t) 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 assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is as follows:

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

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash	\$ 60	60
Demand deposits	314,751	621,489
Time deposits	2,723,900	2,337,230
Futures margin-excess margin	209,255	229,867
Commercial paper	10,992	22,497
Total	<u>\$ 3,258,958</u>	<u>3,211,143</u>

(b) Financial assets and liabilities

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

	December 31, 2019	December 31, 2018
Open-ended funds and money-market instruments	\$ 112,948	35,000
Open-ended funds and money-market instruments valuation adjustment	1,492	(195)
Trading securities - proprietary trading	152,674	87,054
Trading securities - proprietary trading valuation adjustment	6,478	(7,488)
Securities invested by securities broker	146,849	74,553
Securities invested by securities broker valuation adjustment	(1,589)	(7,283)
Call options - non-hedging	3,482	25
Futures margin-proprietary fund - non-hedging	51,316	41,212
Non-hedging foreign exchange rate derivatives	39,066	46,967
Total	<u>\$ 512,716</u>	<u>269,845</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 after-tax comprehensive income for 2019 and 2018 will increase \$4,189 and \$1,816, 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.

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

(ii) Bonds purchased under resale agreements

	December 31, 2019	December 31, 2018
Bonds purchased under resale agreements	\$ <u>46,000</u>	<u>198,000</u>
Resale price under the agreements	\$ <u>46,007</u>	<u>198,034</u>
Date of repurchase	<u>2020.1.6</u>	<u>2019.1.2~2019.1.14</u>
Interest rates	<u>0.47%</u>	<u>0.45%~0.48%</u>

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

Investee Company	December 31, 2019		December 31, 2018	
	Ownership ratio	Amount	Ownership ratio	Amount
Taiwan Futures Exchange Co., Ltd	0.0042 %	\$ <u>1,375</u>	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.

During the years ended December 31, 2019 and 2018, the dividends of \$51 and \$49, respectively, related to equity investments at fair value through other comprehensive income held on the years then ended, were recognized. No strategic investments were disposed in 2019 and 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

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

	December 31, 2019	December 31, 2018
Put options - non-hedging	\$ 11,897	-
Liabilities on sale of borrowed securities - non-hedging	2,257	-
Liabilities on sale of borrowed securities valuation adjustment - non-hedging	1,108	-
Non-hedging foreign exchange rate derivatives	7,574	9,063
	<u>\$ 22,836</u>	<u>9,063</u>

(c) Investments under Equity Method

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

	December 31, 2019	December 31, 2018
Subsidiaries	\$ 982,368	1,053,757
Associates	47,860	45,719
	<u>\$ 1,030,228</u>	<u>1,099,476</u>

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

(i) Subsidiaries

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 2019.

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

	For the years ended December 31,	
	2019	2018
Audited by the certified public accountants	<u>\$ (52,778)</u>	<u>56,353</u>

(ii) Associates

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, 2019	December 31, 2018
True Partner Capital Advisor Co., Ltd.	Its main business is assets management, and it's the Company's strategic alliances to expand assets managing business.	Hong Kong	49.00 %	49.00 %

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

	December 31, 2019	December 31, 2018
Summerized ending balance of the insignificant associate	<u>\$ 47,860</u>	<u>45,719</u>

	For the years ended December 31,	
	2019	2018
Shares belong to the Company:		
Net gains from continuing business units	\$ 2,469	3,818
Other comprehensive income (losses)	<u>(262)</u>	<u>366</u>
Total comprehensive income	<u>\$ 2,207</u>	<u>4,184</u>

(iii) Collateral and pledge

As of December 31, 2019 and 2018, the Company did not provide any investment accounted for using equity method as collaterals for its loans.

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

(d) Property and equipment

For the years ended December 31, 2019 and 2018, 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 January 1, 2019	\$ 82,528	17,283	99,811
Additions	36,872	1,747	38,619
Disposal	<u>(17,793)</u>	<u>-</u>	<u>(17,793)</u>
Balance at December 31, 2019	<u>\$ 101,607</u>	<u>19,030</u>	<u>120,637</u>
Balance at January 1, 2018	\$ 69,386	11,025	80,411
Additions	<u>13,142</u>	<u>6,258</u>	<u>19,400</u>
Balance at December 31, 2018	<u>\$ 82,528</u>	<u>17,283</u>	<u>99,811</u>
Accumulated depreciation:			
Balance at January 1, 2019	\$ 49,082	6,607	55,689
Depreciation	20,864	4,156	25,020
Disposal	<u>(17,793)</u>	<u>-</u>	<u>(17,793)</u>
Balance at December 31, 2019	<u>\$ 52,153</u>	<u>10,763</u>	<u>62,916</u>
Balance at January 1, 2018	\$ 33,773	3,072	36,845
Depreciation	<u>15,309</u>	<u>3,535</u>	<u>18,844</u>
Balance at December 31, 2018	<u>\$ 49,082</u>	<u>6,607</u>	<u>55,689</u>
Carrying amounts:			
Balance at December 31, 2019	<u>\$ 49,454</u>	<u>8,267</u>	<u>57,721</u>
Balance at December 31, 2018	<u>\$ 33,446</u>	<u>10,676</u>	<u>44,122</u>

As of December 31, 2019 and 2018, the Company did not provide any property and equipment as collateral and pledge.

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

(e) Right of use assets

The Company leases buildings and equipment. Information about leases for which the Company as a lessee was presented below:

	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
Cost:			
Balance at January 1, 2019	\$ -	-	-
Effects of retrospective application	34,303	3,369	37,672
Additions	<u>508</u>	<u>5,608</u>	<u>6,116</u>
Balance at December 31, 2019	<u>\$ 34,811</u>	<u>8,977</u>	<u>43,788</u>
Accumulated depreciation:			
Balance at January 1, 2019	\$ -	-	-
Effects of retrospective application	-	-	-
Depreciation	<u>19,270</u>	<u>2,916</u>	<u>22,186</u>
Balance at December 31, 2019	<u>\$ 19,270</u>	<u>2,916</u>	<u>22,186</u>
Carrying amounts:			
Balance at December 31, 2019	<u>\$ 15,541</u>	<u>6,061</u>	<u>21,602</u>

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

(f) Customers margin accounts/ futures traders' equity

As of December 31, 2019 and 2018 the difference between customers' margin accounts and futures traders' equity were reconciled as follows:

	December 31, 2019	December 31, 2018
Customers margin accounts		
Cash in bank	\$ 26,413,775	25,603,099
Balance of the futures clearing house	4,544,421	2,339,834
Balance of other futures commission merchants	3,554,299	6,179,769
Marketable securities	<u>185</u>	<u>250</u>
Balance of customers margin accounts	<u>34,512,680</u>	<u>34,122,952</u>
Plus adjustment items:		
Commision cost	1,248	4,288
Others	59	52
Deduction adjustment items:		
Commision income	(7,123)	(16,348)
Futures transaction tax	(1,342)	(1,426)
Interest income	(5,699)	(3,726)
Temporary credits	(755)	(431)
Remittance amount of the customers after the market closed	(9,235)	(7,179)
Balance of futures traders' equity	<u><u>\$ 34,489,833</u></u>	<u><u>34,098,182</u></u>

(g) Receivable - futures margin

	December 31, 2019	December 31, 2018
Receivable - futures margin - current	\$ 386	422
Less: Loss allowance	<u>384</u>	<u>421</u>
Subtotal	<u>2</u>	<u>1</u>
Receivable - futures margin - non - current	30,597	32,949
Less: Loss allowance	<u>30,597</u>	<u>32,949</u>
Subtotal	<u>-</u>	<u>-</u>
Total	<u><u>\$ 2</u></u>	<u><u>1</u></u>

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

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

	2019	2018
Balance on January 1	\$ 33,370	-
Impairment losses recognized (reversed)	<u>(2,389)</u>	<u>33,370</u>
Balance on December 31	<u><u>\$ 30,981</u></u>	<u><u>33,370</u></u>

(h) Intangible assets

For the years ended December 31, 2019 and 2018, 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 January 1, 2019	\$ 44,325	21,410	65,735
Additions	-	12,646	12,646
Scrap	<u>-</u>	<u>(9,621)</u>	<u>(9,621)</u>
Balance at December 31, 2019	<u><u>\$ 44,325</u></u>	<u><u>24,435</u></u>	<u><u>68,760</u></u>
Balance at January 1, 2018	\$ 44,325	20,902	65,227
Additions	-	3,774	3,774
Scrap	<u>-</u>	<u>(3,266)</u>	<u>(3,266)</u>
Balance at December 31, 2018	<u><u>\$ 44,325</u></u>	<u><u>21,410</u></u>	<u><u>65,735</u></u>
Amortization and impairment loss:			
Balance at January 1, 2019	\$ -	13,330	13,330
Amortization	-	8,069	8,069
Scrap	<u>-</u>	<u>(9,621)</u>	<u>(9,621)</u>
Balance at December 31, 2019	<u><u>\$ -</u></u>	<u><u>11,778</u></u>	<u><u>11,778</u></u>
Balance at January 1, 2018	\$ -	8,935	8,935
Amortization	-	7,661	7,661
Scrap	<u>-</u>	<u>(3,266)</u>	<u>(3,266)</u>
Balance at December 31, 2018	<u><u>\$ -</u></u>	<u><u>13,330</u></u>	<u><u>13,330</u></u>
Carrying value:			
Balance at December 31, 2019	<u><u>\$ 44,325</u></u>	<u><u>12,657</u></u>	<u><u>56,982</u></u>
Balance at December 31, 2018	<u><u>\$ 44,325</u></u>	<u><u>8,080</u></u>	<u><u>52,405</u></u>

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

Note : The Company obtained the seats of foreign futures Exchanges - NYMEX, COMEX, CBOT, HKEX 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.

(i) Lease liabilities

The Company's lease liabilities were as follows:

	December 31, 2019
Current	\$ <u>14,920</u>
Non-current	\$ <u>6,767</u>

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

The amounts recognized in profit or loss were as follows :

	For the years ended December 31 2019
Interest on lease liabilities	\$ <u>329</u>
Expenses relating to short-term leases	\$ <u>2,047</u>
Expenses relating to leases of low-value, excluding short-term leases of low-value assets	\$ <u>303</u>

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

	For the years ended December 31, 2019
Total cash outflow for leases	\$ <u>24,665</u>

(i) Real estate leases

The Company leases buildings for its office space. The leases of office space typically run for 1 to 5 years.

(ii) Other leases

The Company leases equipment with contract terms of 1 to 5 years.

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

(j) Operating lease

Lessee's non-cancellable operating lease payables are as follows:

	December 31, 2018
Within 1 year	\$ 22,251
1-5 years	<u>17,421</u>
	<u>\$ 39,672</u>

The Company rents several offices and equipment under operating lease, the lease terms are within 1 to 5 years. For the year ended December 31, 2018, the operating lease expenses recognized in profit or loss \$24,254.

(k) Employee benefits

(i) 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, 2019	December 31, 2018
Present value of defined benefit obligations	\$ (24,616)	(26,128)
Fair value of plan assets	<u>17,897</u>	<u>18,216</u>
Recognized liabilities for defined benefit obligations	<u>\$ (6,719)</u>	<u>(7,912)</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.

1) Composition of plan assets

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

The balance of the Company's labor pension preparatory special account in Bank of Taiwan amounted to \$17,897 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.

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

2) Movement in present value of defined benefit obligation

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

	For the years ended December 31,	
	2019	2018
Defined benefit obligation at January 1	\$ 26,128	29,511
Current service costs and interest	607	669
Benefits paid	(3,444)	(4,943)
Remeasurement of net defined benefit obligation		
- Experience gain or loss	963	699
- Actuarial loss (gain) arising from changes in financial assumptions	362	192
Defined benefit obligation at December 31	<u>\$ 24,616</u>	<u>26,128</u>

3) Movements in fair value of defined benefit plan assets

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

	For the years ended December 31,	
	2019	2018
Fair value of plan assets at January 1	\$ 18,216	17,656
Interest revenue	172	188
Benefits paid	(1,590)	(630)
Remeasurement of net defined benefit obligation		
- Return on plan assets (except net interests of period)	661	519
Contributions to the plan assets	438	483
Fair value of plan assets at December 31	<u>\$ 17,897</u>	<u>18,216</u>

4) Expense recognized in profit or loss

The expenses recognized in profit or loss of the Company in 2019 and 2018 were as follows:

	For the years ended December 31,	
	2019	2018
Current service cost	\$ 363	359
Net interest of net defined benfit obligation	72	122
	<u>\$ 435</u>	<u>481</u>

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

- 5) Remeasurement of net defined benefit obligation recognized in other comprehensive income

For the years ended December 31, 2019 and 2018, the accumulated remeasurement of net defined benefit obligation recognized in other comprehensive income was as follows:

	For the years ended December 31,	
	2019	2018
Accumulated amount on January 1	\$ (11,466)	(11,094)
Recognized during the period	(664)	(372)
Accumulated amount on December 31	<u>\$ (12,130)</u>	<u>(11,466)</u>

- 6) Actuarial assumptions

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

	For the years ended December 31,	
	2019	2018
Discount rate	0.67 %	0.93 %
Future salary growth rate	2.50 %	2.50 %

The expected contribution to the defined benefit plan for the next year is \$435. The weighted average duration of the defined benefit obligation is 2 years.

- 7) Sensitivity Analysis

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

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

	Effects to defined benefit obligations	
	Increase 0.5%	Decrease 0.5%
December 31, 2019		
Discount reate	\$ (582)	606
Future salary increasing rate	470	(457)
December 31, 2018		
Discount reate	(674)	703
Future salary increasing rate	559	(543)

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

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.

(ii) 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 \$12,059 and \$11,712 under defined contribution plan to the Bureau of the Labor Insurance in the year 2019 and 2018, respectively.

(I) Income taxes

(i) Income tax expense

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

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Current income tax expense	\$ 147,727	109,856
Deferred income tax expense	(789)	5,195
Total	<u>\$ 146,938</u>	<u>115,051</u>

- 2) The amount of income tax benefit (expense) recognized in other comprehensive income of the Company in 2019 and 2018 were as follows:

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Foreign exchange difference from translating financial reports of foreign operations	<u>\$ 66</u>	<u>(9,222)</u>

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

Reconciliation of income tax expense (benefit) and profit before tax of the Company for 2019 and 2018 were as follows:

	For the years ended December 31,	
	2019	2018
Profit excluding income tax	\$ 746,947	950,256
Income tax using the Company's domestic tax rate	149,389	190,051
Adjustment in tax rate	-	770
Tax exempt income	603	(78,403)
Adjustments to prior year's income tax	(4,074)	(2,817)
Alternative minimum tax	-	6,510
10% surtax on undistributed earnings	4	42
Others	1,016	(1,102)
Total	\$ 146,938	115,051

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred income tax liabilities

As of December 31, 2019 and 2018, the details of the Company's unrecognized deferred tax liabilities were as follows:

	December 31, 2019	December 31, 2018
Aggregate amount of temporary differences related to investments in subsidiaries	\$ 14,845	28,316

The dividend policies of the Company's subsidiary, CSC Futures (HK) Ltd., were prescribed not to appropriate the retain earning until December 31, 2019. Also, the Company does not plan to dispose of the investee in foreseeable future. Thus, the temporary differences related to investments in subsidiary for the portion of not to intend to dispose or to appropriate are not recognized under deferred tax liabilities.

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

2) Recognized deferred income tax assets and liabilities

As of December 31, 2019 and 2018, the details of the Company's recognized deferred tax assets and liabilities were as follows:

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Recognized deferred tax assets:		
Foreign exchange difference from translating financial reports of foreign operations	\$ <u>236</u>	<u>170</u>
Recognized deferred tax liabilities:		
Unrealized gains on foreign investments under Equity Method	\$ 2,469	1,975
Unrealized gains on derivative financial instruments	6,298	7,581
Total	\$ <u>8,767</u>	<u>9,556</u>

(iii) Income tax assessment status

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

(m) Capital and other equity

(i) Common stock

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 dollars 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, 2019 and 2018, the Company had authorized capital both of \$2,500,000, with par value of \$10 dollars per share; the issued common stock were both 176,438 thousand shares.

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

(ii) Capital surplus

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Share premium		
Capital addition-Share premium	\$ 1,019,733	1,019,733
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	<u>995</u>	<u>995</u>
	<u><u>\$ 1,047,338</u></u>	<u><u>1,047,338</u></u>

In accordance with the ROC Company Act, realized capital surplus can only be used to cover accumulated deficit or to issue new shares or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. The aforementioned capital surplus includes share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital surplus to be capitalized shall not exceed 10 percent of the paid-in capital each year.

(iii) Retained earnings

1) Legal reserve

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.

2) 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.

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

In accordance with Ruling No. 1080321644 issued by the Financial Supervisory Commission on July 10, 2019, from year 2019, a special reserve can not to be set aside, but an certain amount of budget should be designated for the current year to pay for employee transformation and training to protect employee's right and interest. From year 2019, the special reserve can be reversed within an amount equal to special reserve for year 2016 to 2018 when the aforementioned fees being expended.

3) Undistributed earnings

According to the Company's Articles of Incorporation, after-tax earnings should first offset accumulated deficit, and then 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 the 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 30, 2019 and May 24, 2018, the Company's 2018 and 2017 earnings distribution for owners were as follows:

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Dividends for owners of common stock		
Cash	\$ <u>599,888</u>	<u>460,342</u>

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

(n) Earnings per share

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

(i) Basic earnings per share

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Net income attributable to common shareholders of the Company	\$ <u>600,009</u>	<u>835,205</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	<u>176,438</u>	<u>176,438</u>
Basic earnings per share (dollar)	\$ <u>3.40</u>	<u>4.73</u>

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

(ii) Dilutive earnings per share

	For the years ended December 31,	
	2019	2018
Net income attributable to common shareholders of the Company	\$ <u>600,009</u>	<u>835,205</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	176,438	176,438
Influence from stock dividends for employee (thousands of shares)	<u>202</u>	<u>268</u>
Weighted-average outstanding shares of diluted earnings per share (thousands of shares)	<u>176,640</u>	<u>176,706</u>
Diluted earnings per share (dollar)	\$ <u>3.40</u>	<u>4.73</u>

(o) Items of the statements of comprehensive income

(i) Commission income - brokerage

	For the years ended December 31,	
	2019	2018
Brokerage commission-Domestic futures	\$ 843,573	1,021,406
Brokerage commission-Foreign futures	<u>794,907</u>	<u>905,362</u>
	\$ <u>1,638,480</u>	<u>1,926,768</u>

(ii) Net gains (losses) on derivative financial instruments

	For the years ended December 31,	
	2019	2018
Non hedging		
Net gains (losses) on futures contracts		
Gains on futures contracts	\$ 83,421	712,241
Losses on futures contracts	<u>(79,563)</u>	<u>(965,617)</u>
	\$ <u>3,858</u>	<u>(253,376)</u>
Non hedging		
Net gains (losses) on option contracts		
Gains on option contracts	\$ 23,460	938,971
Losses on option contracts	<u>(32,539)</u>	<u>(271,226)</u>
	\$ <u>(9,079)</u>	<u>667,745</u>

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

		<u>For the years ended December 31,</u>	
		<u>2019</u>	<u>2018</u>
Non hedging			
Net gains (losses) on foreign exchange rate derivatives			
Gains on foreign exchange rate derivatives	\$	203,064	280,261
Losses on foreign exchange rate derivatives		<u>(166,640)</u>	<u>(207,918)</u>
	\$	<u><u>36,424</u></u>	<u><u>72,343</u></u>
Non hedging			
Total Gains on derivative financial instruments	\$	309,945	1,931,473
Total Losses on derivative financial instruments		<u>(278,742)</u>	<u>(1,444,761)</u>
	\$	<u><u>31,203</u></u>	<u><u>486,712</u></u>
(iii) Futures commission expenses			
		<u>For the years ended December 31,</u>	
		<u>2019</u>	<u>2018</u>
Re-consigned futures trading	\$	254,352	283,333
Futures introducing broker business		<u>131,039</u>	<u>168,627</u>
	\$	<u><u>385,391</u></u>	<u><u>451,960</u></u>
(iv) Employee benefit, depreciation and amortization expenses			
		<u>For the years ended December 31,</u>	
		<u>2019</u>	<u>2018</u>
Employee benefit expenses			
Salary	\$	326,398	342,332
Labor and health insurance		21,708	21,807
Pension		12,494	12,193
Director remuneration		16,897	31,389
Others		6,749	7,274
Depreciation		47,206	18,844
Amortization		<u>8,069</u>	<u>7,661</u>
	\$	<u><u>439,521</u></u>	<u><u>441,500</u></u>

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

(v) Other operating expenses

	For the years ended December 31,	
	2019	2018
Postage expenses	\$ 40,072	27,661
Taxes	48,322	75,332
Rental	2,350	24,254
Information technology service	114,239	109,140
Professional service fees	3,460	186,564
Others	67,133	62,738
	<u>\$ 275,576</u>	<u>485,689</u>

(vi) Other income and expenses

	For the years ended December 31,	
	2019	2018
Interest revenue	\$ 529,587	363,732
Dividend revenue	356	49
Net gain (loss) on non-operating financial instruments at fair value through profit or loss	7,380	(7,538)
Net gain (loss) on foreign exchange	(1,460)	18,815
Net gain (loss) on disposal of investments	10,746	(8,366)
Other non-operating revenue - other	12,996	12,002
Other non-operating expense - other	(1,269)	(885)
	<u>\$ 558,336</u>	<u>377,809</u>

(vii) Remuneration to employees, directors and supervisors

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

For the years ended December 31, 2019 and 2018, the estimated amounts of remuneration to employee were \$8,714 and \$12,083, and to directors and supervisors by the Company were \$8,714 and \$12,083, 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 years ended December 31, 2019 and 2018. 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.

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

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

(p) Financial Instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represent the maximum credit exposure. As of December 31, 2019 and 2018 the maximum credit exposure amounted to \$38,984,425 and \$38,409,964, 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 31, 2019 as shown in below, focusing on Taiwan (proportion 90.52%), secondly was Asia (proportion 9.24% excluded Taiwan), thirdly was North America (proportion 0.20%), and then Oceania (proportion 0.04%). The proportion of investment area did not change significantly compared to the same period last year.

Area	December 31, 2019	December 31, 2018
Taiwan	\$ 34,233,319	31,214,655
Asia (excluded Taiwan)	3,494,763	6,229,925
North America	74,629	4,896
Oceania	14,927	82,619
Total	<u>\$ 37,817,638</u>	<u>37,532,095</u>

3) Impairment loss

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

	December 31, 2019		December 31, 2018	
	Total amount	Impairment	Total amount	Impairment
Not past due	\$ 45,691	8,537	80,802	8,376
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	22,444	22,444	-	-
	<u>\$ 68,135</u>	<u>30,981</u>	<u>105,948</u>	<u>33,522</u>

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

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, 2019 and 2018, the loss allowance of accrued receivables were recognized \$30,981 and \$33,522, respectively.

4) Credit risk of receivables

Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(f). The Company regards a financial asset as a default when the client of brokerage business is unable to fulfill the 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 years ended December 31, 2019 and 2018 was as follows:

For the year ended December 31, 2019					
	12-month ECL	Lifetime ECL-not credit impaired	Lifetime ECL - credit impaired		Total
			Receivable- futures margin	Other receivables	
Balance on January 1	\$ -	-	33,370	152	33,522
Provision or reversal of Impairment loss	-	-	(2,389)	152	(2,237)
Amounts written off	-	-	-	(304)	(304)
Balance on December 31	<u>\$ -</u>	<u>-</u>	<u>30,981</u>	<u>-</u>	<u>30,981</u>
For the year ended December 31, 2018					
	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	-	-	-	-	-
Provision of Impairment loss	-	-	33,370	152	33,522
Balance on December 31	<u>\$ -</u>	<u>-</u>	<u>33,370</u>	<u>152</u>	<u>33,522</u>

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

(ii) Liquidity risk

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

	Carrying amount	Contract cash flow	Within 6 months	6-12 months	1-2 year	2-5 year	More than 5 year
December 31, 2019							
Financial liabilities at fair value through profit or loss	\$ 22,836	22,836	22,836	-	-	-	-
Futures traders' equity	34,489,833	34,489,833	34,489,833	-	-	-	-
Leverage contract trading- customers' equity	308,590	308,590	308,590	-	-	-	-
Accounts payable	52,565	52,565	52,565	-	-	-	-
Receipts under custody	3,811	3,811	3,811	-	-	-	-
Other payable	121,931	121,931	121,931	-	-	-	-
Lease liabilities	21,687	21,954	11,425	3,666	4,337	2,526	-
	<u>\$ 35,021,253</u>	<u>35,021,520</u>	<u>35,010,991</u>	<u>3,666</u>	<u>4,337</u>	<u>2,526</u>	<u>-</u>
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>

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

(iii) Currency risk

1) Exposure to foreign currency risk

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

December 31, 2019			
	<u>Foreign Currency (dollar)</u>	<u>Exchange rate</u>	<u>New Taiwan Dollars</u>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 551,690,117.58	29.9800	16,539,670
EUR	6,699,078.78	33.5900	225,022
GBP	3,088,904.16	39.3600	121,579
JPY	779,730,412.00	0.2760	215,206
HKD	174,042,499.51	3.8490	669,890
AUD	1,707,065.83	21.0100	35,865
CHF	62,191.27	30.9300	1,924
SGD	193,628.01	22.2800	4,314
CNY	9,570,071.52	4.3050	41,199
NZD	62,939.96	20.1900	1,271
CAD	74,905.50	22.9900	1,722
<u>Non-monetary items</u>			
USD	4,203,877.55	29.9800	126,032
JPY	1,408,881.00	0.2760	389
AUD	4,538.28	21.0100	95
CNY	4,699,184.91	4.3050	20,230
NZD	7,544.96	20.1900	152
CAD	21.90	22.9900	1
<u>Investments under equity method</u>			
HKD	256,684,610.03	3.8490	987,979

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

December 31, 2019			
	Foreign Currency (dollar)	Exchange rate	New Taiwan Dollars
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	\$ 544,153,710.05	29.9800	16,313,728
EUR	6,700,142.02	33.5900	225,058
GBP	3,020,884.73	39.3600	118,902
JPY	844,794,946.00	0.2760	233,163
HKD	170,987,237.21	3.8490	658,130
AUD	1,737,739.71	21.0100	36,510
CHF	62,129.83	30.9300	1,922
SGD	215,388.39	22.2800	4,799
CNY	5,561,659.00	4.3050	23,943
<u>Non-monetary items</u>			
USD	175,268.09	29.9800	5,254
CNY	538,827.12	4.3050	2,320
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

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

December 31, 2018			
	Foreign Currency (dollar)	Exchange rate	New Taiwan Dollars
<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
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

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 \$(3,156) and \$22,252 for the years ended December 31, 2019 and 2018, respectively.

(Continued)

CAPITAL FUTURES CORPORATION

Notes to the Financial Statements

2) 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 TWD currency. For the years ended December 31, 2019 and 2018, with all other variable factors that remain constant, when TWD currency increases or decreases 1% contrary to other currency, the Company's after-tax comprehensive income will increase or decrease \$10,950 and \$11,986, respectively. The analytical basis was the same in both years.

(iv) Analysis in interest rates

For the years ended December 31, 2019 and 2018, with all other variable factors remain constant, when the interest rate increases or decreases by 100 basis points, the Company's after-tax comprehensive income will increase or decrease by \$6,945 and \$6,856. 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.

(v) Fair value and hierarchy information

1) Fair value information

a) General description

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

b) Definition of fair value hierarchy

i) Level 1

The input of Level 1 is the public quote of the same financial instrument in an active market. An active market is a market that meets all the conditions listed below: Products traded in the market is of homogeneity; it is able to reach buyer and seller anytime in the market and the price information can be accessed by the public. 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.

ii) Level 2

The input of Level 2 refers to observable price except public quote in an active market, including direct observable input parameters (such as price) or indirect observable input parameters (derivation from price).

iii) Level 3

The input of Level 3 is not based on observable market data or obtained from the counterparty.

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

2) Based on fair value measurement

a) Hierarchy information of fair value

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

		December 31, 2019		
Assets and Liabilities items	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)
Fair value evaluated on a recurring basis				
<u>Non derivative assets and liabilities</u>				
Assets:				
Financial assets at fair value through profit or loss				
Beneficiary certificate	\$ 264,548	264,548	-	-
Stock investment	154,304	154,304	-	-
Financial assets at fair value through other comprehensive income	1,375	-	-	1,375
Liabilities:				
Financial liabilities at fair value through profit or loss	3,365	3,365	-	-
<u>Derivative assets and liabilities</u>				
Assets:				
Financial assets at fair value through profit or loss	\$ 93,864	54,798	39,066	-
Liabilities:				
Financial liabilities at fair value through profit or loss	19,471	11,897	7,574	-
		December 31, 2018		
Assets and Liabilities items	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)
Fair value evaluated on a recurring basis				
<u>Non derivative assets and liabilities</u>				
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
<u>Derivative assets and liabilities</u>				
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	-

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

b) Valuation techniques

i) 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.

ii) 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.

iii) Transfer between Level 1 and Level 2

There is no transfer between Level 1 and Level 2 for the years ended December 31, 2019 and 2018.

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

(In Thousands Dollars)

For the years ended December 31, 2019							
Item	Gains and losses on valuation		Addition		Reduction		Ending Balance
	Beginning Balance	Amount recognized in profit or loss	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	
Financial assets at fair value through other comprehensive income	\$ 1,055	-	320	-	-	-	1,375

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

(Continued)

CAPITAL FUTURES CORPORATION

Notes to the Financial Statements

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

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

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

Item	Valuation technique	Significant unobservable inputs	Correlation between inputs and fair value
Financial assets at fair value through other comprehensive income equity instruments without an active market	Market approach	<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.

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

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

		Change in fair value recognized in other comprehensive income	
		Favorable	Unfavorable
December 31, 2019			
Financial assets fair value through other comprehensive income		\$ <u>14</u>	<u>(14)</u>
December 31, 2018			
Financial assets fair value through other comprehensive income		\$ <u>11</u>	<u>(11)</u>

(Continued)

CAPITAL FUTURES CORPORATION

Notes to the Financial Statements

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 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.

(q) Financial risk management

(i) General description

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

- 1) Credit risk
- 2) Liquidity risk
- 3) 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.

(ii) 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 the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities

(Continued)

CAPITAL FUTURES CORPORATION

Notes to the Financial Statements

(iii) Credit risk

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

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

- 1) Credit inquiry and assessment before trade: inquire client's credit and ascertain the legality before transaction
- 2) Credit rating management: treat trades with special credit particularly.
- 3) Credit supervision after transaction: regularly inspect client's profit and loss of positions. Evaluate and monitor credit enhancement (including collaterals) on a regular basis.
- 4) 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.

(iv) Liquidity risk

Liquidity risks are market liquidity risk and capital liquidity risk

1) 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.

(Continued)

CAPITAL FUTURES CORPORATION

Notes to the Financial Statements

2) Capital liquidity risk:

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

Liquidity risk management of the Company includes :

- 1) 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.
- 2) 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.

(v) 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:

- 1) Statistic-based measurement: the Value at Risk (VaR) of linear products (stocks) is measured by the Variance Co-Variance (Risk Metrics Approach--EWMA), which calculates the maximal probable risk of portfolio under a certain confidence level for the next business day. The Value at Risk of non-linear products (options) is measured by the Delta-Gamma Approximations (the "Greeks"). After offsetting the risks of trade contracts, the measurement vehicle calculates the maximal probable risk of portfolio under a certain confidence level for the next business day. To test the accuracy, back testing approach is taken to try finding out the violations within one year under pre-calculated VaR using the actual valued profit and loss of inventory positions for the previous day (P&L for T-1 day)

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

- 2) 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
- 3) 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.

(r) Capital management

The Company's objectives for managing capital are to safeguard the capacity to continue to operate and achieve the Company'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, 2019, the Company didn't change the method of capital management.

(s) Financing activities not affecting current cash flow

The Company's financing activities which did not affect the current cash flow for the year ended December 31, 2019, were as follows:

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

	January 1, 2019	Cash flows	Other	Non cash changes		December 31, 2019
				Foreign exchange movement	Fair value changes	
Lease liabilities	\$ 37,672	(21,986)	6,001	-	-	21,687
Total liabilities from financing activities	\$ 37,672	(21,986)	6,001	-	-	21,687

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

(7) Related-party transactions:

(a) Relationships between parents and subsidiaries

The Company's subsidiaries were as follows:

	Location	Owners' equity (share%)	
		December 31, 2019	December 31, 2018
CSC Futures (HK) Ltd.	Hong Kong	97.27 %	97.27 %
Capital International Technology Corp.	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 %

(b) 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% of all shares outstanding of the Company, and has issued the consolidated financial statements available for public use.

(c) 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.

(d) Key management personnel compensation

	For the years ended December 31,	
	2019	2018
Short-term employee benefits	\$ 58,991	77,779
Post-employment benefits	1,010	1,012
Total	<u>\$ 60,001</u>	<u>78,791</u>

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

(e) Significant transactions with related parties

- (i) The amounts of futures trading between the Company and related parties for the years ended December 31, 2019 and 2018 were as follows:

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
<u>Commission income-brokerage</u>		
Capital Securities Corporation	\$ 9,441	21,562
CSC Futures (HK) Ltd.	61,245	68,377
Capital Investment Trust Corp.	1,148	856
Total	<u>\$ 71,834</u>	<u>90,795</u>
<u>Management Fee income</u>		
Capital Securities Corporation	<u>\$ -</u>	<u>1,117</u>
	<u>December 31,</u>	<u>December 31,</u>
	<u>2019</u>	<u>2018</u>
<u>Futures traders' equity</u>		
Capital Securities Corporation	\$ 688,447	1,628,417
CSC Futures (HK) Ltd	4,375,854	2,987,172
Capital Investment Trust Corp.	142,376	287,357
Total	<u>\$ 5,206,677</u>	<u>4,902,946</u>
<u>Customers margin accounts-other futures commission merchants</u>		
CSC Futures (HK) Ltd	<u>\$ 215,941</u>	<u>252,079</u>
<u>Futures margin</u>		
CSC Futures (HK) Ltd	<u>\$ -</u>	<u>4,179</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 2019 and 2018, interest expense amounted to \$422 and \$436, 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 2019 and 2018, interest expense amounted to \$7,702 and \$2,482, 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 2019 and 2018, interest expense amounted to \$92 and \$78, respectively.

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

(ii) Accounts payable and receivable:

	December 31, 2019	December 31, 2018
Accounts receivable		
Capital Securities Corporation	\$ <u>374</u>	<u>228</u>
Accounts payable		
Capital Securities Corporation	\$ <u>10,914</u>	<u>10,922</u>
Other receivables (Note 1)		
Capital Securities Corporation	\$ <u>4,052</u>	<u>19,981</u>
Other payables		
Capital Securities Corporation (Note 2)	\$ 789	444
CSC Futures (HK) Ltd. (Note 3)	<u>2,909</u>	<u>1,951</u>
	<u>\$ 3,698</u>	<u>2,395</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.

(iii) Futures commission expenses

The Company delegated Capital Securities Corporation for introducing brokers. In 2019 and 2018, futures commission expenses amounted to \$130,341 and \$166,348, respectively.

The Company delegated CSC Futures (HK) Ltd. for recon-signing foreign futures trading. In 2019 and 2018, futures commission expenses amounted to \$8,345 and \$10,289, respectively.

(iv) Lease

The Company signed three year lease contracts and rented the office and parking spaces from Capital Securities Corporation. The total value of contracts before modification was \$49,119 and the total value of contracts after modification was \$49,629. Rental expenses for the year ended December 31, 2018 amounted to 16,455. The Company applied IFRS 16, with a date of initial application on January 1, 2019. This lease transaction recognized an additional amounts of \$26,176 of right of use assets and \$26,176 of lease liabilities. For the year ended December 31, 2019 the Company recognized the amount of \$252 as interest expense. As of December 31, 2019, the balance of lease liabilities amounted to \$10,145.

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

(v) Information technology service

Computer information system service contract was signed between the Company and Capital Securities Corporation. In 2019 and 2018, the service fee amounted to \$46,378 and \$41,637, respectively.

(vi) Securities commission income

The Company was delegated by Capital Securities Corporation for securities introducing brokers. In 2019 and 2018, the commission income amounted to \$3,492 and \$4,721, respectively.

(vii) Stock service fee

In 2019 and 2018, the Company paid the stock service fee to Capital Securities Corporation amounted to \$448 and \$406, respectively.

(viii) Human resource and legal service fees

In 2019 and 2018, the Company paid the human resource and legal service fee to Capital Securities Corporation both amounted to \$300.

(ix) Securities brokerage charge

In 2019 and 2018, the Company paid the securities brokerage charge to Capital Securities Corporation amounted to \$10 and \$436, respectively.

(x) Bonds under resell agreement

The Company conducted investments with the Capital Securities Corporation for bonds purchased under resell agreements. In 2019 and 2018, the interest income amounted to \$461 and \$321, respectively. As of December 31, 2019 and 2018, the remaining investment amounted to \$46,000 and \$198,000, respectively. The maturity dates from January 6, 2020 and from January 2 to January 14, 2019, respectively. The agreed interest rates were 0.47% and 0.45% to 0.48%, respectively.

(xi) Professional service fees

The Company delegated Capital International Technology Co., Ltd. for developing systems. In 2018, the professional service fee amounted to \$1,400.

(8) Pledged assets:None

(9) Significant contingent liability and unrecognized contract commitment:

The Company purchased software and hardware systems for business development. The price amounted to NT\$2,520, as of December 31, 2019, the Company had outstanding balance NT\$1,452.

(10) Significant catastrophic losses:None

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

(11) Significant subsequent events:

The Board of Directors of the Company approved to raise new cash capital on November 28, 2019 for \$340,000, and issue new common stock of 340,000 thousand shares with \$10 dollars face value per share. On February 25, 2020, the Board of Directors approved to issue the stock at \$34.4 dollars per share. The capital increase plan got the approval by the FSC No.1090300222 on January 30, 2020 and the capital increase date is set to be March 26, 2020.

(12) Disclosure of information as related to derivative financial instruments:

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

December 31, 2019

Item	Trading category	Open positions		Contract size or paid for (received from) premium	Fair value	Note
		Long/Short	Number of contracts			
Futures contract						
	TAIEX Futures	Short	112	\$ (268,932)	(268,666)	
	Mini Taix Futures	Short	10	(5,998)	(5,997)	
	Electronic Sector Index Futures	Short	2	(4,258)	(4,218)	
	Stock Futures	Long	62	6,873	6,969	
	Stock Futures	Short	18	(727)	(723)	
	JPY Dollar Futures	Short	5	(17,355)	(17,324)	
	10 Year U.S. Treasury Note Futures	Short	5	(19,421)	(19,250)	
	Ultra U.S. Treasury Bond Futures	Short	3	(16,889)	(16,338)	
	Subtotal			(326,707)		
Options contract:						
	Stock Options (Call)	Long	10	\$ 1	1	
	Stock Options (Call)	Short	10	(96)	(127)	
	Stock Options (Put)	Short	1	(3)	(1)	
	Stock Options (Put)	Long	14	1	1	
	TAIEX Options (Call)	Long	377	454	357	
	TAIEX Options (Call)	Short	588	(2,298)	(1,728)	
	TAIEX Options (put)	Long	160	284	332	
	TAIEX Options (put)	Short	556	(2,332)	(2,779)	
	TAIEX Weekly Options (Call)	Long	2,487	621	221	
	TAIEX Weekly Options (Call)	Short	1,148	(1,109)	(680)	
	TAIEX Weekly Options (put)	Long	2,494	1,943	2,548	
	TAIEX Weekly Options (put)	Short	2,714	(3,813)	(6,527)	
	Electronic Sector Index Options(Call)	Long	10	51	22	
	Electronic Sector Index Options(put)	Short	20	(76)	(33)	
	Finance Sector Index Options(Call)	Short	20	(10)	(3)	
	Gold Option (Call)	Short	10	(20)	(19)	
	Gold Option (put)	Long	2	3	-	
	Subtotal			(6,399)		
Total				\$ (333,106)		

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

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 U.S. 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 (TAIFEX)	Long	18	9,008	9,005	
	S&P 500 Futures (TAIFEX)	Short	12	(6,008)	(5,993)	
	Subtotal			(234,103)		
Options contract:						
	TAIEX Weekly Options (Put)	Long	240	\$ 72	25	
	Subtotal			72		
Total				\$ (234,031)		

- (b) As of December 31, 2019 and 2018, the nominal amount of open positions of foreign exchange rate derivatives contracts were as follows:

Item	December 31, 2019	December 31, 2018
Foreign exchange rate derivatives - buyer	\$ 2,700,301	1,568,749
Foreign exchange rate derivatives - seller	\$ 2,448,322	1,510,240

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

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

- (a) 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	Stockholders' equity						
	(Total liabilities –futures traders' equity)	5,012,996	7.68	5,032,092	10.34	≥ 1	Satisfactory to requirement
		652,322		486,790			
17	Current Assets	38,683,882		38,113,857			
	Current Liabilities	35,119,902	1.10	34,567,504	1.10	≥ 1	"
22	Stockholders' equity	5,012,996		5,032,092		$\geq 60\%$	
	Minimum paid-in capital	1,115,000	449.60 %	1,115,000	451.31 %	$\geq 40\%$	"
22	Post-adjustment net capital						
	Total customer margin deposits requiredfor open positions of customers	3,630,546	55.49 %	3,659,697	57.92 %	$\geq 20\%$	
		6,542,582		6,318,099		$\geq 15\%$	"

(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) Other:None

(Continued)

CAPITAL FUTURES CORPORATION

Notes to the Financial Statements

(16) Other disclosures:

(a) Information on significant transactions:

(i) Loans to other parties:

(In Thousands of New Taiwan Dollars)

Number	Name of lender	Name of borrower	Account name	Related party	Maximum Balance of the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower (Note 2)	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Individual funding loan limits	Maximum limit of fund financing
													Item	Value		
1	CSC Futures (HK) Ltd.	Klaw Trading Limited	Account receivables Customer	No	41,639	41,639	17,845	5%	2	-	Tradings	-		-	193,301	966,505
1	CSC Futures (HK) Ltd.	AAA Fintech Limited	Account receivables Customer	No	83,278	83,278	37,177	5.09%	2	-	Tradings	-		-	193,301	966,505
1	CSC Futures (HK) Ltd.	Future Leading Investment Pte. Ltd.	Account receivables Customer	No	83,278	83,278	-	5%	2	-	Tradings	-		-	193,301	966,505
1	CSC Futures (HK) Ltd.	Alpha Rnd Singapore Pte Ltd	Account receivables Customer	No	83,278	83,278	-	5.09%	2	-	Tradings	-		-	193,301	966,505
1	CSC Futures (HK) Ltd.	Derivatives China Alpha Fund	Account receivables Customer	No	83,278	83,278	-	5.09%	2	-	Tradings	-		-	193,301	966,505

Remark: Each loan limit by an individual is 10% amount of the net assets of CSC Futures (HK) Ltd. on the Financial Statements. The loan limit of total credit lines is calculated by net value of CSC Futures (HK) Ltd. and in line with the rules of liquid capital of Securities & Futures Commission of Hong Kong.

Note 1: 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.

Note 2: Type of Loans

(1) Business transactions

(2) Necessaries of short term financing

(ii) Guarantees and endorsements for other parties:None

(iii) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:None

(iv) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:None

(v) Service charge discounts on transactions with related parties in an aggregate amount of NT\$5 million or more:None

(vi) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:None

(b) Information on investees:(excluding information on investees in Mainland China)

(In Thousands of New Taiwan Dollars)

Name of investor	Name of investee	Location	Date of establishment	FSC Rule No.	Main businesses and products	Original investment amount		Balance as of December 31, 2019			Revenue of investee	Net income (losses) of investee	Share of profits/losses of investee	Cash dividend	Note
						December 31, 2019	December 31, 2018	Shares (thousands)	Percentage of ownership	Carrying 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 %	940,119	249,672	(50,944)	(49,554)	-	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 %	42,249	-	(3,224)	(3,224)	-	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 %	47,860	129,089	5,038	2,469	-	Associate

(c) Information on overseas branches and representative offices:None

(Continued)

CAPITAL FUTURES CORPORATION

Notes to the Financial Statements

(d) Information on investment in mainland China:

(i) Investment in mainland china and related information:

(In Thousands of New Taiwan Dollars)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment (Note 1)	Accumulated outflow of investment from Taiwan as of January 1, 2019	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2019	Net income (losses) of the investee	Percentage of ownership	Highest percentage of ownership	Investment income (losses) (Note 2)	Book value	Accumulated remittance of earnings in current period
					Outflow	Inflow							
Capital True Partner Technology Co., Ltd.	Management consulting and information service business	5,013	(3)	24,372	-	-	24,372	2,159	51.00%	51.00%	1,101 B(2)	24,068	-
Capital Futures Technology (Shanghai) Co., Ltd.	Management consulting and information service business	18,863	(3)	18,863	-	-	18,863	(4,057)	100.00%	100.00%	(4,057) B(2)	17,792	-

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

- A. Directly invest in a Company in Mainland China.
- B. Through investing in an existing Company in the third area, which then invested in the investee in Mainland China (Please indicate the investee name of the third area).
- C. Through a subsidiary to invest in a Company in Mainland China.

Note 2: Investment gains and losses recognized during the period

- A. It should be indicated if the investee was still in the incorporation arrangements and had not yet any profit during this period.
- B. Indicate the basis for investment gains and losses recognition in the number of one of the following three categories:
 - (1) The recognition of investment gains or losses is based on the financial statements audited by international certified public accountant cooperated with certified public accountant of the Republic of China.
 - (2) The recognition of investment gains or losses is based on the financial statements audited by certified public accountant of the Company.
 - (3) The recognition of investment gains or losses is based on the financial statements provided by the investee without audited by certified public account.

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

(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
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.

(Continued)

CAPITAL FUTURES CORPORATION
Notes to the Financial Statements

(17) Segment information:

- (a) Please refer to the consolidated financial report for the year ended December 31, 2019.

