

**CAPITAL FUTURES CORPORATION AND
SUBSIDIARIES**

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

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Representation Letter

The entities that are required to be included in the combined financial statements of Capital Futures Corporation as of and for the year ended December 31, 2019 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 endorsed by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Capital Futures Corporation and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Capital Futures Corporation

Chairman: Sun, Tien-Shan

Date: March 26, 2020



安侯建業聯合會計師事務所

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Independent Auditors' Report

To the Board of Directors of Capital Futures Corporation

Opinion

We have audited the consolidated financial statements of Capital Futures Corporation and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2019 and 2018 and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated 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, the Regulations Governing the Preparation of Financial Reports by Securities Firms and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), Interpretations developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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 Group's financial statements are stated as follows:

Commission income – brokerage recognized:

Related accounting policies of commission income – brokerage recognized, please refer to the consolidated financial report note 4(o) revenue recognized. Explanation of commission income – brokerage, please refer to the consolidated financial report note 6(o)(i). Comprehensive income statement commission income – brokerage.

Explanation of key audit matters:

The Group'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 Group'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.

Other Matter

Capital Futures Corporation has prepared its parent-company-only financial statements as of and for the years ended December 31, 2019 and 2018, on which we have issued an unmodified opinion.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group 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 Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group 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 consolidated 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 consolidated financial statements are intended only to present the consolidated 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

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

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES

Consolidated 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					Liabilities and Equity				
Current assets:					Current liabilities:				
111100 Cash and cash equivalents (Note 6(a))	\$ 4,131,969	10	\$ 3,957,955	10	212000 Current financial liabilities at fair value through profit or loss (Note 6(b))	\$ 22,836	-	24,900	-
112000 Current financial assets at fair value through profit or loss (Note 6(b))	512,847	1	495,870	1	214080 Futures traders' equity (Note 6(f))	35,435,978	87	34,787,243	86
114010 Bonds purchased under resale agreements (Note 6(b))	46,000	-	198,000	1	214100 Leverage contract trading - customers' equity	308,590	1	225,899	1
114070 Customers margin accounts (Note 6(f))	35,492,166	87	34,904,047	86	214130 Accounts payable	43,812	-	36,918	-
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	2,511	-	10,264	-
114130 Accounts receivable	13,539	-	13,847	-	214160 Receipts under custody	3,856	-	3,985	-
114140 Accounts receivable to related parties (Note 7)	722	-	334	-	214170 Other payables	132,096	-	145,580	-
114150 Prepayments	8,277	-	15,819	-	214180 Other payables to related parties (Note 7)	871	-	525	-
114170 Other receivables	80,484	-	61,274	-	214600 Current income tax liabilities	86,626	-	52,554	-
114180 Other receivables to related parties (Note 7)	4,068	-	19,998	-	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))	27,546	-	-	-
114600 Current income tax assets	228	-	236	-	219000 Other current liabilities	10,670	-	8,488	-
119000 Other current assets	2	-	2	-		36,092,258	88	35,307,278	87
	<u>40,602,721</u>	<u>99</u>	<u>39,895,947</u>	<u>99</u>	Non-Current liabilities:				
Non-current assets:					226000 Non-current lease liabilities (Note 6(i))	11,882	-	-	-
123200 Non-current financial assets at fair value through other comprehensive income (Note 6(b))	1,375	-	1,055	-	228000 Deferred income tax liabilities (Note 6(l))	8,767	-	9,556	-
124100 Investments under Equity Method (Note 6(c))	47,860	-	45,719	-	229000 Other non-current liabilities (Note 6(k))	6,719	-	7,912	-
125000 Property and equipment (Note 6(d))	66,829	-	48,452	-		27,368	-	17,468	-
125800 Right-of-use assets (Note 6(e))	39,481	-	-	-		36,119,626	88	35,324,746	87
127000 Intangible assets (Note 6(h))	82,235	-	78,032	-	Total liabilities				
128000 Deferred income tax assets (Note 6(i))	236	-	170	-	Equity attributable to owners of parent:				
129000 Other non-current assets	320,173	1	316,643	1	301010 Common stock (Note 6(m))	1,764,376	4	1,764,376	4
	<u>558,189</u>	<u>1</u>	<u>490,071</u>	<u>1</u>	302000 Capital surplus (Note 6(m))	1,047,338	3	1,047,338	3
					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)	-
					Total equity attributable to the parent company				
					306000 Non-controlling interests	5,012,996	12	5,032,092	13
					906004 Total equity	28,288	-	29,180	-
					906002 Total liabilities and equity	5,041,284	12	5,061,272	13
906001 Total assets	<u>\$ 41,160,910</u>	<u>100</u>	<u>\$ 40,386,018</u>	<u>100</u>		<u>\$ 41,160,910</u>	<u>100</u>	<u>\$ 40,386,018</u>	<u>100</u>

See accompanying notes to consolidated financial statements.

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

Consolidated 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	%
Income:					
401000	Commission income - brokerage (Note 6(o))	\$ 1,577,235	82	1,858,391	65
410000	Net gains (losses) on sale of trading securities	54,758	3	(68,276)	(2)
421300	Dividend revenue	1,101	-	5,853	-
421500	Net gains (losses) on measurement of trading securities at fair value through profit or loss	14,751	1	(2,554)	-
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)	-	-	-
424100	Futures commission revenue (Note 6(o))	209,879	11	453,195	16
424200	Securities commission revenue	4,622	-	7,102	-
424400	Net gains (losses) on derivative financial instruments (Note 6(o))	(16,016)	(1)	465,785	16
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	20,996	1	27,217	1
		<u>1,916,778</u>	<u>100</u>	<u>2,849,492</u>	<u>100</u>
Expenses:					
501000	Brokerage fees	266,476	14	342,926	12
502000	Brokerage fees - proprietary trading	1,325	-	4,919	-
521200	Financial costs	19,791	1	10,225	1
521640	Loss from securities borrowing transactions	193	-	-	-
425300	(Reversal of) expected credit impairment loss (Note 6(p))	(2,237)	-	35,328	1
524100	Futures commission expenses (Note 6(o))	432,079	22	634,575	22
524300	Clearing and settlement expenses	149,055	8	173,218	6
528000	Other operating expenditure	2,129	-	5,964	-
531000	Employee benefit expenses (Note 6(o))	457,346	24	483,456	17
532000	Depreciation and amortization expenses (Note 6(o))	67,600	4	30,558	1
533000	Other operating expenses (Note 6(o))	345,359	18	600,792	21
		<u>1,739,116</u>	<u>91</u>	<u>2,321,961</u>	<u>81</u>
Non-operating income and expenses:					
601000	Share of profit (loss) of subsidiaries, associates and joint ventures under equity method (Note 6(c))	2,469	-	3,818	-
602000	Other gains and losses (Note 6(o))	566,483	30	423,627	15
		<u>568,952</u>	<u>30</u>	<u>427,445</u>	<u>15</u>
902001	Net income before income tax	746,614	39	954,976	34
701000	Less: Income tax expenses (Note 6(l))	146,938	8	116,866	5
	Net income	<u>599,676</u>	<u>31</u>	<u>838,110</u>	<u>29</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	(19,498)	(1)	28,935	1
805699	Income tax related to components of other comprehensive income that will be reclassified to profit or loss (Note 6(l))	(66)	-	9,222	-
	Subtotal of components that may be subsequently reclassified into profit or loss	<u>(19,432)</u>	<u>(1)</u>	<u>19,713</u>	<u>1</u>
805000	Other comprehensive income	<u>(19,776)</u>	<u>(1)</u>	<u>19,382</u>	<u>1</u>
902006	Total comprehensive income	<u>\$ 579,900</u>	<u>30</u>	<u>\$ 857,492</u>	<u>30</u>
Net income attributable to:					
913100	Shareholders of the parent	\$ 600,009	31	835,205	29
913200	Non-controlling interests	(333)	-	2,905	-
		<u>\$ 599,676</u>	<u>31</u>	<u>\$ 838,110</u>	<u>29</u>
Comprehensive income attributable to:					
914100	Shareholders of the parent	\$ 580,792	30	853,807	30
914200	Non-controlling interests	(892)	-	3,685	-
		<u>\$ 579,900</u>	<u>30</u>	<u>\$ 857,492</u>	<u>30</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 consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES**Consolidated Statements of Changes in Equity****For the years ended December 31, 2019 and 2018****(Expressed in Thousands of New Taiwan Dollars)**

	Equity attributable to the parent company									
	Retained earnings			Total other equity interest						
	Stock	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences on translation of foreign operations	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Total equity attributable to the parent company	Non-controlling interests	Total equity	
Balance at January 1, 2018	\$ 1,603,979	348,116	794,335	730,304	(46,737)	-	4,637,732	25,495	4,663,227	
Effects of retrospective application	-	-	-	-	-	895	895	-	895	
Balance on January 1, 2018 after adjustments	1,603,979	348,116	794,335	730,304	(46,737)	895	4,638,627	25,495	4,664,122	
Net income for the year ended December 31, 2018	-	-	-	835,205	-	-	835,205	2,905	838,110	
Other comprehensive income	-	-	-	(372)	18,933	41	18,602	780	19,382	
Total comprehensive income	-	-	-	834,833	18,933	41	853,807	3,685	857,492	
Appropriation and distribution of retained earnings:										
Legal reserve	-	73,031	-	(73,031)	-	-	-	-	-	
Special reserve	-	-	196,449	(196,449)	-	-	-	-	-	
Cash dividends	-	-	-	(460,342)	-	-	(460,342)	-	(460,342)	
Changes in capital surplus:										
Issuance of stock dividends from capital surplus	160,397	-	-	-	-	-	-	-	-	
Balance at December 31, 2018	1,764,376	421,147	990,784	835,315	(27,804)	936	5,032,092	29,180	5,061,272	
Net income for the year ended December 31, 2019	-	-	-	600,009	-	-	600,009	(333)	599,676	
Other comprehensive income	-	-	-	(664)	(18,873)	320	(19,217)	(559)	(19,776)	
Total comprehensive income	-	-	-	599,345	(18,873)	320	580,792	(892)	579,900	
Appropriation and distribution of retained earnings:										
Legal reserve	-	83,520	-	(83,520)	-	-	-	-	-	
Special reserve	-	-	171,217	(171,217)	-	-	-	-	-	
Cash dividends	-	-	-	(599,888)	-	-	(599,888)	-	(599,888)	
Reversal of special reserve	-	-	(19,869)	19,869	-	-	-	-	-	
Balance at December 31, 2019	\$ 1,764,376	504,667	1,142,132	599,904	(46,677)	1,256	5,012,996	28,288	5,041,284	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES**Consolidated 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	\$ 746,614	954,976
Adjustments:		
Adjustments to reconcile:		
Depreciation expense	59,246	22,605
Amortization expense	8,354	7,953
Expected credit loss (gain)	(2,237)	35,328
Net gains on financial assets or liabilities at fair value through profit or loss	(21,723)	(9,253)
Interest expense	19,791	10,225
Interest income (including financial income)	(541,224)	(379,425)
Dividend income	(1,457)	(5,902)
Share of loss (profit) of associates and joint ventures under equity method	(2,469)	(3,818)
Total adjustments to reconcile	(481,719)	(322,287)
Changes in operating assets and liabilities:		
Decrease in financial assets at fair value through profit or loss	5,854	589,933
Decrease (increase) in bond purchased under resale agreements	152,000	(186,499)
Increase in customer margin accounts	(588,119)	(6,883,182)
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	308	15,469
(Increase) decrease in accounts receivable to related parties	(388)	767
Decrease (increase) in prepayments	7,542	(6,799)
Increase in other receivable	(22,239)	(7,927)
Decrease (increase) in other receivable to related parties	15,762	(19,777)
Increase in other current assets	-	(1)
(Increase) decrease in clearing and settlement fund	(2,835)	893
(Increase) decrease in refundable deposits	(695)	6,085
Decrease in financial liabilities at fair value through profit or loss	(3,172)	(106,552)
Increase in futures traders' equity	648,735	6,800,864
Increase in leverage contract trading - customers' equity	82,691	73,059
Increase (decrease) in accounts payable	6,894	(59,528)
Decrease in accounts payable to related parties	(8)	(3,766)
Decrease in advance receipts	(7,753)	(14,981)
Decrease in receipts under custody	(129)	(434)
Decrease in other payable	(14,322)	(28,687)
Increase in other payable to related parties	349	179
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	205,287	59,191
Total adjustments	(276,432)	(263,096)
Cash inflow generated from operations	470,182	691,880
Interest received	544,377	372,469
Dividends received	1,349	5,902
Interest paid	(19,071)	(10,220)
Income taxes paid	(113,773)	(112,074)
Income taxes refund	-	3
Net Cash flows from (used in) operating activities	883,064	947,960
Cash flows from (used in) investing activities:		
Acquisition of property and equipment	(47,513)	(22,746)
Acquisition of intangible assets	(12,646)	(3,912)
Proceeds from disposal of intangible assets	-	1,932
Net cash flows from (used in) investing activities	(60,159)	(24,726)
Cash flows from (used in) financing activities:		
Payment of lease liabilities	(29,890)	-
Cash dividends paid	(599,888)	(460,342)
Net cash flows from (used in) financing activities	(629,778)	(460,342)
Effect of exchange rate changes on cash and cash equivalents	(19,113)	28,369
Net increase (decrease) in cash and cash equivalents	174,014	491,261
Cash and cash equivalents at beginning of period	3,957,955	3,466,694
Cash and cash equivalents at end of period	\$ 4,131,969	3,957,955

See accompanying notes to consolidated financial statements.

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

Notes to the Consolidated 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 composition of the consolidated financial statements includes the Company and the subsidiaries (the “Group”). The Group is authorized to conduct the following businesses:

- (a) Futures business
- (b) Futures advisory business
- (c) Securities introducing brokerage
- (d) Futures management business
- (e) Management consulting and information software service
- (f) Securities business on a proprietary basis
- (g) Securities investment consulting
- (h) Lever Exchange Agency

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

The consolidated 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 AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(i) IFRS 16“Leases”

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

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

1) Definition of a lease

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

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

2) As a lessee

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

The Group decided to apply recognition exemptions to short-term leases of office equipment, 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 Group’s incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at either:

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

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

3) Impacts on financial statements

On transition to IFRS 16, the Group recognised additional \$41,065 thousands of right-of-use assets and \$41,065 thousands of lease liabilities. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.61%.

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

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Group's consolidated financial statements	\$ 43,581
Recognition exemption for:	
leases of low -value assets	(1,389)
short-term leases	(516)
	<u>41,676</u>
Discounted using the incremental borrowing rate at January 1, 2019	<u>41,065</u>
Lease liabilities recognized at January 1, 2019	<u><u>\$ 41,065</u></u>

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated 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 Group assesses that the adoption of the abovementioned standards would not have any material impact on its consolidated 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 Group is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its consolidated financial position and consolidated financial performance. The results thereof will be disclosed when the Group completes its evaluation.

(4) **Summary of significant accounting policies:**

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

(a) Statement of compliance

The consolidated 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, the Regulations Governing the Preparation of Financial Reports by Securities Firms and with the IFRSs, IASs, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Basis of preparation

(i) Basis of measurement

Except for the following significant account, the consolidated 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 Group is determined based on the primary economic environment in which the entity operates. The consolidated 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) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries.

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

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

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) List of subsidiaries in the consolidated financial statements

Subsidiaries included in the consolidated financial report are as follows:

Name of the investor	Subsidiaries	Business type	Ratio of Equity Ownership		Note
			December 31, 2019	December 31, 2018	
The Company	CSC Futures (HK) Ltd.	Futures dealing business	97.27 %	97.27 %	The corporation established in December, 1998. The Company acquired 100% of the equity on November 1, 2012, disposed 5% of the equity on April 2, 2014, acquired 5% of the equity on December 23, 2014, disposed 5% of the equity on April 30, 2015 and acquired 2.27% of the equity when the corporation raised its capital by HK\$100,000 thousands on December 12, 2016. As of December 31, 2019, the paid in capitals amounted to HK\$220,000 thousands.
The Company	Capital International Technology Corp.	Management consulting and information service business.	100.00 %	100.00 %	The corporation established in December, 2014. As of December 31, 2019, the paid in capitals amounted to \$50,000 thousands.
Capital International Technology Corp.	Capital True Partner Technology Co., Ltd.	Management consulting and information service business.	51.00 %	51.00 %	The corporation established in August 20, 2008. The Company acquired 51% of the equity on February 9, 2015 and held controlling interest. As of December 31, 2019, the paid in capitals amounted to CNY\$1,000 thousands.
Capital International Technology Corp.	Capital Futures Technology (Shanghai) Co., Ltd.	Management consulting and information service business.	100.00 %	100.00 %	The corporation established in October, 2016. As of December 31, 2019, the paid in capitals amounted to CNY\$4,000 thousands.

(d) Foreign currency

(i) Foreign currency transaction

Transactions in foreign currencies are translated into the respective functional currencies of Group entities 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.

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CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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.

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.

(e) 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.

(f) 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 AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(g) Financial instruments

Trade receivables issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group 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 Group 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.

On initial recognition of an equity investment that is not held for trading, the Group 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.

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group 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 Group 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 Group's historical experience and informed credit assessment as well as forward-looking information.

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

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

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

At each reporting date, the Group 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 AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For debtors, the Group 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 Group 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 Group's procedures for recovery of amounts due.

5) Derecognition of financial assets

The Group 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 Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group 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 Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group 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 AND SUBSIDIARIES

Notes to the Consolidated 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 Group 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.

(h) Investments in associates and joint ventures

Associates are those entities in which the Group 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.

(i) Securities under agreements

The Group engages in securities under resell agreements trading and the nature of transaction substance is financing. When entering securities under resell agreements transactions, the Group 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 Group 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.

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 Group. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(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.

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- the 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
 - 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 Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

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

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

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

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

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

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Applicable before January 1, 2019

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

(n) Intangible assets

Intangible assets of the Group 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) Impairment of non financial assets

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

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

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

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

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

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

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(q) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

The Group'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 Group, 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 Group 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 Group 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 Group can no longer withdraw the offer of those benefits and when the Group 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 Group 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 AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(r) 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.

(s) Income tax

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

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

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 Group 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 Group 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 AND SUBSIDIARIES

Notes to the Consolidated 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.

Income tax of overseas subsidiaries is estimated in accordance with local regulation. Income tax of the Group is the sum of the income tax of subsidiaries in the consolidated financial statements.

(t) **Earnings per share ("EPS")**

The Group presents its basic and dilutive earnings per share attributable to the Company's ordinary equity holders. The basic earnings per share of the Group 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 Group include the estimation of employee remuneration.

(u) **Segment information**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's CEO who allocates resources and assesses segment performance. Each operating segment consists of standalone financial information.

(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, Regulations Governing the Preparation of Financial Reports by Securities Firms and the IFRSs endorsed by the FSC 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:

Impairment of goodwill

The assessment of impairment of goodwill requires the Group to make subjective judgments to identify CGUs, allocate the goodwill to relevant CGUs, and estimate the recoverable amount of relevant CGUs.

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash	\$ 129	159
Demand deposits	552,573	752,120
Time deposits	2,973,498	2,665,551
Futures margin-excess margin	594,777	517,628
Commercial paper	10,992	22,497
Total	<u>\$ 4,131,969</u>	<u>3,957,955</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	187,344
Open-ended funds and money-market instruments valuation adjustment	1,492	(896)
Trading securities - proprietary trading	152,933	116,292
Trading securities - proprietary trading valuation adjustment	6,350	(8,404)
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	11,580
Futures margin-proprietary fund - non-hedging	51,316	75,717
Non-hedging foreign exchange rate derivatives	39,066	46,967
Total	<u>\$ 512,847</u>	<u>495,870</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 \$4,190 and \$3,616, respectively. Conversely, if there is a decrease in the securities price of 1% on the reporting date based on all other variables remain the same, there will be the same amount but opposite direction of influence.

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CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated 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

	December 31, 2019		December 31, 2018	
Investee Company	Ownership ratio	Amount	Ownership ratio	Amount
Taiwan Futures Exchange Co., Ltd	0.0042 %	\$ <u>1,375</u>	0.0042 %	<u>1,055</u>

The Group holds shares of Taiwan Futures Exchange for long-term strategic purposes and not for trading, therefore, the Group 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	15,837
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	<u>7,574</u>	<u>9,063</u>
	<u>\$ 22,836</u>	<u>24,900</u>

(c) Investments under Equity Method

Investments under equity method on the reporting date were as follows:

	December 31, 2019	December 31, 2018
Associate	\$ <u>47,860</u>	<u>45,719</u>

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Associate

The Group 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 assests 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 consolidated financial statement of the Group:

	December 31, 2019	December 31, 2018
Summerized ending balance of the insignificant associate	<u>\$ 47,860</u>	<u>45,719</u>
	<u>For the years ended December 31, 2019</u>	<u>2018</u>
Shares belong to the Group:		
Net gains from continuing operations	\$ 2,469	3,818
Other comprehensive income (losses)	(262)	366
Total comprehensive income	<u>\$ 2,207</u>	<u>4,184</u>

(ii) Collateral and pledge

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

(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 Group were as follows:

	Office equipment	Leasehold improvements	Total
Cost:			
Balance at January 1, 2019	\$ 107,380	20,501	127,881
Additions	45,766	1,747	47,513
Disposal	(17,793)	-	(17,793)
Effect of exchange rate changes	(740)	(62)	(802)
Balance at December 31, 2019	<u>\$ 134,613</u>	<u>22,186</u>	<u>156,799</u>

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Office equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
Balance at January 1, 2018	\$ 90,655	14,156	104,811
Additions	16,488	6,258	22,746
Effect of exchange rate changes	237	87	324
Balance at December 31, 2018	<u>\$ 107,380</u>	<u>20,501</u>	<u>127,881</u>
Accumulated depreciation:			
Balance at January 1, 2019	\$ 70,156	9,273	79,429
Depreciation	24,262	4,708	28,970
Disposal	(17,793)	-	(17,793)
Effect of exchange rate changes	(574)	(62)	(636)
Balance at December 31, 2019	<u>\$ 76,051</u>	<u>13,919</u>	<u>89,970</u>
Balance at January 1, 2018	\$ 52,260	4,379	56,639
Depreciation	17,752	4,853	22,605
Effect of exchange rate changes	144	41	185
Balance at December 31, 2018	<u>\$ 70,156</u>	<u>9,273</u>	<u>79,429</u>
Carrying amounts:			
Balance at December 31, 2019	<u>\$ 58,562</u>	<u>8,267</u>	<u>66,829</u>
Balance at December 31, 2018	<u>\$ 37,224</u>	<u>11,228</u>	<u>48,452</u>

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

(e) Right-of-use assets

The Group leases buildings and equipment. Information about leases for which the Group 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	37,696	3,369	41,065
Additions	23,525	5,608	29,133
Derecognition	(77)	-	(77)
Effect of exchange rate changes	(509)	-	(509)
Balance at December 31, 2019	<u>\$ 60,635</u>	<u>8,977</u>	<u>69,612</u>

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
Accumulated depreciation:			
Balance at January 1, 2019	\$ -	-	-
Effects of retrospective application	-	-	-
Depreciation	27,360	2,916	30,276
Effect of exchange rate changes	(145)	-	(145)
Balance at December 31, 2019	<u>\$ 27,215</u>	<u>2,916</u>	<u>30,131</u>
Carrying amounts:			
Balance at December 31, 2019	<u>\$ 33,420</u>	<u>6,061</u>	<u>39,481</u>

(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:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Customers margin accounts		
Cash in bank	\$ 26,981,210	26,014,805
Balance of the futures clearing house	4,874,988	2,579,464
Balance of other futures commission merchants	3,635,783	6,309,528
Marketable securities	<u>185</u>	<u>250</u>
Balance of customers margin accounts	<u>35,492,166</u>	<u>34,904,047</u>
Plus adjustment items:		
Commission cost	1,248	5,035
Others	(66)	52
Deduction adjustment items:		
Commission income	(7,426)	(17,259)
Futures transaction tax	(1,342)	(1,426)
Interest income	(5,699)	(3,726)
Temporary credits	(1,817)	(669)
Remittance amount of the customers after the market closed	(9,235)	(7,179)
Other receivables	<u>(31,851)</u>	<u>(91,632)</u>
Balance of futures traders' equity	<u>\$ 35,435,978</u>	<u>34,787,243</u>

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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>\$ 2</u>	<u>1</u>

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>\$ 30,981</u>	<u>33,370</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:

	Goodwill	The seats of foreign futures exchanges (Note)	Computer software	Total
Cost:				
Balance at January 1, 2019	\$ 22,088	50,550	25,491	98,129
Additions	-	-	12,646	12,646
Scrap	-	-	(9,621)	(9,621)
Effect of exchange rate changes	<u>-</u>	<u>(114)</u>	<u>(154)</u>	<u>(268)</u>
Balance at December 31, 2019	<u>\$ 22,088</u>	<u>50,436</u>	<u>28,362</u>	<u>100,886</u>
Balance at January 1, 2018	\$ 22,088	52,257	24,929	99,274
Additions	-	-	3,912	3,912
Scrap	-	-	(3,266)	(3,266)
Disposal	-	(1,932)	-	(1,932)
Effect of exchange rate changes	<u>-</u>	<u>225</u>	<u>(84)</u>	<u>141</u>
Balance at December 31, 2018	<u>\$ 22,088</u>	<u>50,550</u>	<u>25,491</u>	<u>98,129</u>

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Goodwill</u>	<u>The seats of foreign futures exchanges (Note)</u>	<u>Computer software</u>	<u>Total</u>
Amortization and impairment loss:				
Balance at 1 January 1, 2019	\$ -	4,280	15,817	20,097
Amortization	-	-	8,354	8,354
Scrap	-	-	(9,621)	(9,621)
Effect of exchange rate changes	-	(79)	(100)	(179)
Balance at December 31, 2019	<u>\$ -</u>	<u>4,201</u>	<u>14,450</u>	<u>18,651</u>
Balance at January 1, 2018	\$ -	4,155	11,180	15,335
Amortization	-	-	7,953	7,953
Scrap	-	-	(3,266)	(3,266)
Effect of exchange rate changes	-	125	(50)	75
Balance at December 31, 2018	<u>\$ -</u>	<u>4,280</u>	<u>15,817</u>	<u>20,097</u>
Carrying value:				
Balance at December 31, 2019	<u>\$ 22,088</u>	<u>46,235</u>	<u>13,912</u>	<u>82,235</u>
Balance at December 31, 2018	<u>\$ 22,088</u>	<u>46,270</u>	<u>9,674</u>	<u>78,032</u>

Note: The Group 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 Group's lease liabilities are as follows:

	December 31, 2019
Current	<u>\$ 27,546</u>
Non-current	<u>\$ 11,882</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>\$ 796</u>
Expenses relating to short-term leases	<u>\$ 3,175</u>
Expenses relating to leases of low-value, excluding short-term leases of low-value assets	<u>\$ 303</u>

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	For the years ended December 31, 2019
Total cash outflow for leases	\$ <u>34,164</u>

(i) Real estate leases

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

(ii) Other leases

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

(j) Operating lease

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

	December 31, 2018
Within 1 year	\$ 24,407
1-5 years	<u>19,174</u>
	<u>\$ 43,581</u>

The Group 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 \$26,890.

(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.

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CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

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>

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 benefit obligation	72	122
	\$ 435	481

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	\$ (12,130)	(11,466)

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.

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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	
	<u>Increase 0.5%</u>	<u>Decrease 0.5%</u>
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)

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 \$11,802 under defined contribution plan to the Bureau of the Labor Insurance in the year 2019 and 2018, respectively.

(iii) For the years ended December 31, 2019 and 2018 the pension costs contributed by overseas subsidiaries in compliance with local ordinance were \$3,031 and \$2,714, respectively.

(I) Income taxes

(i) The Group's tax rate interpretation was as follow:

The Company and its subsidiary Capital International Technology Corp. are founded in Taiwan. The corporate income tax rate are both 20% for the years ended December 31, 2019 and 2018.

The subsidiary CSC Futures (HK) Ltd. is founded in Hong Kong. The corporate income tax rate are both 16.5% for the years ended December 31, 2019 and 2018.

The tax rate of reinvestment business of subsidiaries including Capital True Partner Technology Co., Ltd. and Capital Futures Technology (Shanghai) Co., Ltd. which founded in Mainland are both 25% for the years ended December 31, 2019 and 2018.

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CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Income tax expense

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

	For the years ended December 31,	
	2019	2018
Current income tax expense	\$ 147,727	111,671
Deferred income tax expense	(789)	5,195
Total	<u>\$ 146,938</u>	<u>116,866</u>

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

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

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

	For the years ended December 31,	
	2019	2018
Profit excluding income tax	\$ 746,614	954,976
Income tax using the Company's domestic tax rate	148,744	190,999
Effect of tax rates in foreign jurisdiction (not applicable for separate financial statements)	-	978
Adjustment in tax rate	-	770
Tax exempt income	603	(78,403)
Unrecognized deferred tax assets for current-year losses	54	272
Unrecognized temporary differences for current year	(220)	(256)
Adjustments to prior year's income tax	(4,074)	(2,817)
Alternative minimum tax	-	6,510
10% surtax on undistributed earnings	4	42
Others	1,827	(1,229)
Total	<u>\$ 146,938</u>	<u>116,866</u>

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Deferred tax assets and liabilities

1) Unrecognized deferred income tax liabilities

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

	December 31, 2019	December 31, 2018
Aggregate amount of temporary differences related to investments in subsidiaries	\$ <u>14,845</u>	<u>29,063</u>

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

2) Unrecognized deferred income tax assets

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

	December 31, 2019	December 31, 2018
Unrealized losses on foreign investments under Equity Method	\$ 275	269
Tax loss carried forward	<u>874</u>	<u>779</u>
	\$ <u>1,149</u>	<u>1,048</u>

The R.O.C. Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom.

As of December 31, 2019, the information of the Group's unused tax losses for which no deferred tax assets were recognized are as follows:

Year of loss	Unused tax loss	Expiry date
2016 (Declared)	\$ 874	2026
2017 (Declared)	1,661	2027
2018 (Declared)	1,564	2028
2019 (Estimated)	<u>269</u>	2029
Total	\$ <u>4,368</u>	

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Recognized deferred income tax assets and liabilities

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

	December 31, 2019	December 31, 2018
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>

(iv) Income tax assessment status

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

The subsidiary Capital International Technology Corp.'s income tax returns through 2018 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.

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CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Capital surplus

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

	December 31, 2019	December 31, 2018
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 AND SUBSIDIARIES
Notes to the Consolidated 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 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:

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

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

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

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated 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>
Dilutive 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	\$ 793,127	978,958
Brokerage commission - Foreign futures	<u>784,108</u>	<u>879,433</u>
	\$ <u>1,577,235</u>	<u>1,858,391</u>

(ii) Futures commission revenue

	For the years ended December 31,	
	2019	2018
Futures commission revenues - CSC Futures (HK) Ltd.	\$ <u>209,879</u>	<u>453,195</u>

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

(iii) 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>

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CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
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	For the years ended December 31,	
	2019	2018
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>
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>\$ 36,424</u>	<u>72,343</u>
Net gains (losses) on derivative financial instruments - overseas subsidiaries	<u>\$ (10,795)</u>	<u>51,416</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>
Net gains (losses) on derivative financial instruments - overseas subsidiaries	<u>(10,795)</u>	<u>51,416</u>
	<u>\$ 20,408</u>	<u>538,128</u>

(iv) Futures commission expenses

	For the years ended December 31,	
	2019	2018
Re-consigned futures trading	\$ 246,008	273,044
Futures introducing broker business	131,039	168,627
Commission expenses - CSC Futures (HK) Ltd.	<u>55,032</u>	<u>192,904</u>
	<u>\$ 432,079</u>	<u>634,575</u>

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CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Employee benefit, depreciation and amortization expenses

	For the years ended December 31,	
	2019	2018
Employee benefit expenses		
Salary	\$ 389,244	401,351
Labor and health insurance	22,823	22,861
Pension	15,525	14,997
Director remuneration	21,559	36,026
Others	8,195	8,221
Depreciation	59,246	22,605
Amortization	8,354	7,953
	<u>\$ 524,946</u>	<u>514,014</u>

(vi) Other operating expenses

	For the years ended December 31,	
	2019	2018
Postage expenses	\$ 55,304	42,936
Taxes	48,327	75,345
Rental	3,478	26,890
Information technology service	139,799	134,990
Professional service fees	6,418	225,466
Others	92,033	95,165
	<u>\$ 345,359</u>	<u>600,792</u>

(vii) Other income and expenses

	For the years ended December 31,	
	2019	2018
Interest revenue	\$ 541,224	379,425
Dividend revenue	356	49
Net gain (loss) on non-operating financial instruments at fair value through profit or loss	8,080	11,807
Net gain (loss) on foreign exchange	(5,327)	17,821
Net gain (loss) on disposal of investments	6,954	158
Other non-operating revenue - other	16,465	15,252
Other non-operating expense - other	(1,269)	(885)
	<u>\$ 566,483</u>	<u>423,627</u>

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CAPITAL FUTURES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(viii) 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.

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 \$40,915,762 and \$40,197,588, respectively.

2) Concentration of credit risk

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

The exposure area of credit risk in December 31, 2019 as shown in below, focusing on Taiwan (proportion 85.65%), secondly was Asia (proportion 13.89% excluded Taiwan), thirdly was North America (proportion 0.38%), and then Europe (proportion 0.04%) and Oceania (proportion 0.04%). The proportion of investment area did not change significantly compared to the same period last year.

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CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
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Area	December 31, 2019	December 31, 2018
Taiwan	\$ 33,979,742	30,943,716
Asia (excluded Taiwan)	5,510,080	7,904,845
North America	150,403	128,822
Europe	14,983	-
Oceania	14,927	82,619
Total	<u>\$ 39,670,135</u>	<u>39,060,002</u>

3) Impairment loss

The Group'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	\$ 107,352	8,537	103,830	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>\$ 129,796</u>	<u>30,981</u>	<u>128,976</u>	<u>33,522</u>

Allowance for doubtful debts under receivables is recorded for the bad debt expense or impairment loss. Where a claim becomes definitely uncollectible, the allowance for doubtful debts should be written off to financial assets account. As of December 31, 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(g). The Group 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 Group. Thus, the Group 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:

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CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019						
	12-month ECL	Lifetime ECL-not credit impaired	Lifetime ECL - credit impaired			Total
			Accounts receivable	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>-</u>	<u>30,981</u>	<u>-</u>	<u>30,981</u>

For the years ended December 31, 2018						
	12-month ECL	Lifetime ECL-not credit impaired	Lifetime ECL - credit impaired			Total
			Accounts receivable	Receivable- futures margin	Other receivables	
Balance on January 1 per IAS39	\$ -	-	-	-	-	-
Adjustment on initial application of IFRS9	-	-	-	-	-	-
Balance on January 1 per IFRS 9	-	-	-	-	-	-
Provision of Impairment loss	-	-	1,806	33,370	152	35,328
Amounts written off	-	-	(1,806)	-	-	(1,806)
Balance on December 31	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>33,370</u>	<u>152</u>	<u>33,522</u>

(ii) Liquidity risk

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

	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	35,435,978	35,435,978	35,435,978	-	-	-	-
Leverage contract trading- customers' equity	308,590	308,590	308,590	-	-	-	-
Accounts payable	54,726	54,726	54,726	-	-	-	-
Receipts under custody	3,856	3,856	3,856	-	-	-	-
Other payable	132,967	132,967	132,967	-	-	-	-
Lease liabilities	39,428	40,117	17,924	10,147	9,520	2,526	-
	<u>\$ 35,998,381</u>	<u>35,999,070</u>	<u>35,976,877</u>	<u>10,147</u>	<u>9,520</u>	<u>2,526</u>	<u>-</u>
December 31, 2018							
Financial liabilities at fair value through profit or loss	\$ 24,900	24,900	24,900	-	-	-	-
Futures traders' equity	34,787,243	34,787,243	34,787,243	-	-	-	-
Leverage contract trading- customers' equity	225,899	225,899	225,899	-	-	-	-
Accounts payable	47,840	47,840	47,840	-	-	-	-
Receipts under custody	3,985	3,985	3,985	-	-	-	-
Other payable	146,105	146,105	146,105	-	-	-	-
	<u>\$ 35,235,972</u>	<u>35,235,972</u>	<u>35,235,972</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Currency risk

1) Exposure to foreign currency risk

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

December 31, 2019			
	Foreign Currency (dollar)	Exchange rate	New Taiwan Dollars
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 588,514,556.92	29.9800	17,643,666
EUR	6,829,880.85	33.5900	229,416
GBP	3,088,904.16	39.3600	121,579
JPY	783,993,334.00	0.2760	216,382
HKD	112,564,168.71	3.8490	433,259
AUD	1,707,065.83	21.0100	35,865
CHF	62,191.27	30.9300	1,924
SGD	253,894.15	22.2800	5,657
KRW	327,068,503.00	0.0262	8,569
CNY	36,372,495.76	4.3050	156,584
MYR	26,959.54	7.0330	190
THB	3,513,779.81	1.0098	3,548
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	12,434,330.74	3.8490	47,860

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CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2019		
	Foreign Currency (dollar)	Exchange rate	New Taiwan Dollars
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	\$ 564,365,654.36	29.9800	16,919,682
EUR	6,798,658.00	33.5900	228,367
GBP	3,020,578.48	39.3600	118,890
JPY	846,895,131.00	0.2760	233,743
HKD	153,308,836.36	3.8490	590,086
AUD	1,737,739.71	21.0100	36,510
CHF	62,129.83	30.9300	1,922
SGD	279,407.99	22.2800	6,225
KRW	172,660,349.98	0.0262	4,524
CNY	27,420,049.66	4.3050	118,043
MYR	25,963.00	7.0330	183
THB	1,766,250.00	1.0098	1,784
<u>Non-monetary items</u>			
USD	175,268.09	29.9800	5,254
CNY	538,827.12	4.3050	2,320

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2018			
	Foreign Currency (dollar)	Exchange rate	New Taiwan Dollars
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 535,108,073.50	30.7150	16,435,844
EUR	9,245,081.82	35.2000	325,427
GBP	3,655,388.21	38.8800	142,121
JPY	897,927,184.32	0.2782	249,803
HKD	94,673,998.68	3.9210	371,217
AUD	3,101,759.03	21.6700	67,215
CHF	49,563.86	31.1900	1,546
SGD	161,724.11	22.4800	3,636
KRW	347,903,128.00	0.0278	9,672
CNY	42,675,055.12	4.4720	190,843
MYR	248.44	7.1120	2
THB	5,447,232.27	0.9532	5,192
NZD	50,761.30	20.6200	1,047
CAD	231,506.17	22.5800	5,227
<u>Non-monetary items</u>			
USD	9,389,934.61	30.7150	288,412
JPY	8,392,500.00	0.2782	2,335
HKD	82,672.00	3.9210	324
GBP	2,024.62	38.8800	79
<u>Investments under equity method</u>			
HKD	11,659,965.31	3.9210	45,719

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2018		
	Foreign Currency (dollar)	Exchange rate	New Taiwan Dollars
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	\$ 517,790,682.84	30.7150	15,903,941
EUR	8,547,919.47	35.2000	300,887
GBP	3,552,592.53	38.8800	138,125
JPY	877,063,512.32	0.2782	243,999
HKD	88,926,530.78	3.9210	348,681
AUD	3,160,808.66	21.6700	68,495
CHF	49,558.86	31.1900	1,546
SGD	171,496.56	22.4800	3,855
KRW	168,065,533.74	0.0278	4,672
CNY	36,793,155.89	4.4720	164,539
THB	4,727,360.00	0.9532	4,506
NZD	1,273.64	20.6200	26
CAD	7,224.19	22.5800	163
<u>Non-monetary items</u>			
USD	178,910.18	30.7150	5,495
JPY	9,729,960.00	0.2782	2,707
CNY	112,732.03	4.4720	504
CAD	13,566.14	22.5800	306
NZD	192.03	20.6200	4
AUD	2,150.07	21.6700	47

Due to the variety of currencies, the Group disclosed the summarized information on exchange gain or loss. The realized and unrealized exchange gain (loss) amounted to \$(7,023) and \$21,258 for the years ended December 31, 2019 and 2018, respectively.

2) Sensitivity analysis

The currency risk of the Group arises mainly from cash and cash equivalents, customers' margin accounts, financial assets at fair value through profit or loss 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 Group's after-tax comprehensive income will increase or decrease \$6,295 and \$7,626, respectively. The analytical basis was the same in both years.

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 Group's after-tax comprehensive income will increase or decrease by \$6,948 and \$6,856. This is mainly due to the Group'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 AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Based on fair value measurement

a) Hierarchy information of fair value

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

		December 31, 2019			
			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)
Assets and Liabilities items	Total				
<u>Fair value evaluated on a recurring basis</u>					
<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	154,435	154,435	-	-	
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			
			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)
Assets and Liabilities items	Total				
<u>Fair value evaluated on a recurring basis</u>					
<u>Non derivative assets and liabilities</u>					
Assets:					
Financial assets at fair value through profit or loss					
Beneficiary certificate	\$ 285,658	285,658	-	-	
Stock investment	75,948	75,948	-	-	
Financial assets at fair value through other comprehensive income	1,055	-	-	-	1,055
Liabilities:					
Financial liabilities at fair value through profit or loss	24,900	15,837	9,063	-	
<u>Derivative assets and liabilities</u>					
Assets:					
Financial assets at fair value through profit or loss	\$ 134,264	87,297	46,967	-	
Liabilities:					
Financial liabilities at fair value through profit or loss	24,900	15,837	9,063	-	

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES

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

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

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

Item	Valuation technique	Significant unobservable inputs	Correlation between inputs and fair value
Financial assets at fair value through other comprehensive income equity instruments without an active market	Market approach	<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 Group made for the financial instruments is deemed reasonable; however, different valuation models or inputs could result in different valuation results. Specifically, if the valuation input of financial instruments classified in the Level 3 changes by 1%, the effects on other comprehensive income are as follows:

	Change in fair value recognized in other comprehensive income	
	Favorable	Unfavorable
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 AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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 Group does not disclose the fair value.

(q) Financial risk management

(i) General description

The Group 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 consolidated 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 Group, qualitative and quantitative approaches are taken to recognize, evaluate, monitor and respond to various potential risks. As a result, the Group 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's Office and responsible for developing and monitoring Company's risk management policies. The committee reports regularly to the Board of Directors on its activities

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CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Credit risk

Credit risk is the risk that the Group 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 Group 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 Group. 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 Group 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 Group 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.

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CAPITAL FUTURES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Capital liquidity risk:

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

Liquidity risk management of the Group includes :

- 1) Market liquidity risk management: To avoid loss caused by market liquidity risk, the Group 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 Group's proprietary business. It means that the market price or fluctuation trend is not beneficial to the Group's profitability, which results in risky events happen.

The Group'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)

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CAPITAL FUTURES CORPORATION AND SUBSIDIARIES

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

As of December 31, 2019, the Group didn't change the method of capital management.

(s) Financing activities not affecting current cash flow

The Group'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	\$ 41,065	(30,686)	29,737	(688)	-	39,428
Total liabilities from financing activities	<u>\$ 41,065</u>	<u>(30,686)</u>	<u>29,737</u>	<u>(688)</u>	<u>-</u>	<u>39,428</u>

(7) Related-party transactions:

(a) Parent company and ultimate controlling party

Capital Securities Corporation is the parent company and the ultimate controlling party of the Group. It owns 56.21% of all shares outstanding of the Company, and has issued the consolidated financial statements available for public use.

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CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) 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.

<u>Name of related party</u>	<u>Relationship with the Group</u>
Capital Securities Corporation	The parent company
CSC Securities (HK) Ltd.	An Associate
Capital Investment Trust Corp. (Note)	An Associate

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

(c) Key management personnel compensation

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Short-term employee benefits	\$ 72,512	95,741
Post-employment benefits	1,080	1,171
Total	<u>\$ 73,592</u>	<u>96,912</u>

(d) Significant transactions with related parties

- (i) The amounts of futures trading between the Group 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
Capital Investment Trust Corp.	1,148	856
Total	<u>\$ 10,589</u>	<u>22,418</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
Capital Investment Trust Corp.	142,376	287,357
	<u>\$ 830,823</u>	<u>1,915,774</u>

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CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Transaction terms are the same as those with general clients.

Capital Securities Corporation deposits margins to the Group for futures proprietary trading, and the Group paid the interest of excess margin annually. In 2019 and 2018, interest expense amounted to \$422 and \$436, respectively.

Capital Investment Trust Corp. deposits margins to the Group for futures proprietary trading, and the Group paid the interest of excess margin annually. In 2019 and 2018, interest expense amounted to \$92 and \$78, respectively.

(ii) Accounts payable and receivable:

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Accounts receivable		
Capital Securities Corporation	\$ 374	228
CSC Securities (HK) Ltd.	<u>348</u>	<u>106</u>
	<u>\$ 722</u>	<u>334</u>
Accounts payable		
Capital Securities Corporation	<u>\$ 10,914</u>	<u>10,922</u>
Other receivables (Note 1)		
Capital Securities Corporation	\$ 4,052	19,981
CSC Securities (HK) Ltd.	<u>16</u>	<u>17</u>
	<u>\$ 4,068</u>	<u>19,998</u>
Other payables		
Capital Securities Corporation (Note 2)	\$ 789	444
CSC Securities (HK) Ltd. (Note 3)	<u>82</u>	<u>81</u>
	<u>\$ 871</u>	<u>525</u>

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

(Note 2) Payables for allocated expenses and interests to the parent company.

(Note 3) Payables for routine expenses to the associate.

(iii) Futures commission expenses

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

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CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Leases

The Group signed three-year lease contracts and rented the office and parking spaces from Capital Securities Corporation. The total value of contracts before modification was \$49,557 and the total value of contracts after modification was \$49,989. Rental expenses for the year ended December 31, 2018 amounted to \$16,601. The Group applied IFRS 16, with a date of initial application on January 1, 2019. This lease transaction recognized an additional amounts of \$26,404 of right-of-use assets and \$26,404 of lease liabilities. For the year ended December 31, 2019, the Group recognized the amount of \$254 as interest expense. As of December 31, 2019, the balance of lease liabilities amounted to \$10,170.

The Group signed two-year lease contracts and rented the office from CSC Securities (HK) Ltd. The total value of contracts was \$23,341 (HKD\$6,112). This lease transaction recognized an additional amounts of \$23,018 (HKD\$5,925) of right-of-use assets and \$23,018 (HKD\$5,925) of lease liabilities. For the year ended December 31, 2019, the Group recognized the amount of \$354 as interest expense. As of December 31, 2019, the balance of lease liabilities amounted to \$16,167.

(v) Information technology service

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

(vi) Securities commission income

The Group was delegated by Capital Securities Corporation and CSC Securities (HK) Ltd. for securities introducing brokers. In 2019 and 2018, the commission income amounted to \$4,622 and \$7,102, respectively.

(vii) Stock service fee

In 2019 and 2018, the Group 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 Group paid the human resource and legal service fee to Capital Securities Corporation amounted to \$345 and \$360, respectively.

(ix) Securities brokerage charge

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

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CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(x) Bonds under resell agreement

The Group 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 are January 6, 2020 and from January 2 to January 14, 2019, respectively. The agreed interest rate is 0.47% and 0.45% to 0.48%, respectively.

(xi) Management service fees

In 2019 and 2018, the Group paid the management service fees to CSC Securities (HK) Ltd. amounted to \$9,096 and \$16,692, respectively.

(8) Pledged assets:None

(9) Significant contingent liability and unrecognized contract commitment:

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

(10) Significant catastrophic losses:None

(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 34,000 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.

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CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 Taiex 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 AND SUBSIDIARIES

Notes to the Consolidated 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	219	\$ 419,425	423,418	
	TAIEX Futures	Short	95	(183,069)	(183,350)	
	Mini Taix 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	(6,009)	(5,993)	
	MSCI Taiwan Index Futures	Short	70	(76,977)	(76,654)	
	Hang Seng China Enterprises Index Futures	Long	7	13,704	13,757	
	FTSE China A50 Index Futures	Short	42	(13,227)	(13,325)	
	S&P 500 Futures (CME)	Long	24	89,463	91,597	
	Subtotal			(54,015)		
Options contract:						
	Stock Options (Call)	Long	1	\$ 98	30	
	Stock Options (Call)	Short	1,151	(3,776)	(2,063)	
	Stock Options (Put)	Short	172	(2,263)	(2,749)	
	Stock Options (Put)	Long	54	184	127	
	TAIEX Options (Call)	Short	538	(4,898)	(3,805)	
	TAIEX Options (Call)	Long	572	1,584	1,183	
	TAIEX Options (put)	Long	1,475	8,648	9,788	
	TAIEX Options (put)	Short	385	(3,753)	(3,161)	
	S&P 500 Options (call)	Short	24	(1,684)	(4,059)	
	S&P 500 Options (put)	Long	24	654	427	
	TAIEX Weekly Options (Put)	Long	240	72	25	
	Subtotal			(5,134)		
Total				\$ (59,149)		

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CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (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	\$ <u>2,700,301</u>	<u>1,568,749</u>
Foreign exchange rate derivatives - seller	\$ <u>2,448,322</u>	<u>1,510,240</u>

(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	5,012,996	7.68	5,032,092	10.34	≥ 1	Satisfactory to requirement
	(Total liabilities –futures traders' equity)	652,322		486,790			
17	Current Assets	38,683,882	1.10	38,113,857	1.10	≥ 1	"
	Current Liabilities	35,119,902		34,567,504			
22	Stockholders' equity	5,012,996	449.60 %	5,032,092	451.31 %	≥ 60%	"
	Minimum paid-in capital	1,115,000		1,115,000		≥ 40%	
22	Post-adjustment net capital		55.49 %		57.92 %	≥ 20%	"
	Total customer margin deposits required for open positions of customers	3,630,546 6,542,582		3,659,697 6,318,099		≥ 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 Group needs sufficient liquidity to cover the transactions and suffer the loss may occur.

(15) Other:None

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(16) Other disclosures:

(a) Information on significant transactions:

(i) Loans to other parties:

(In Thousands of New Taiwan Dollars)

Number (Note 1)	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		
I	CSC Futures (HK) Ltd.	Klaw Trading Limited	Account receivables -Customer	No	41,639	41,639	17,845	5%	2	-	Tradings	-		-	193,301	966,505
I	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
I	CSC Futures (HK) Ltd.	Peture Leading Investment Pte. Ltd.	Account receivables -Customer	No	83,278	83,278	-	5%	2	-	Tradings	-		-	193,301	966,505
I	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
I	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

(vii) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
1	CSC Futures (HK) Ltd.	Capital True PartnerTechnology Co., Ltd.	3	Information technology expense	245	General transaction	0.02%
1	CSC Futures (HK) Ltd.	Capital True PartnerTechnology Co., Ltd.	3	Professional service fees	21,117	General transaction	1.10%
1	CSC Futures (HK) Ltd.	Capital True PartnerTechnology Co., Ltd.	3	Other expense	187	General transaction	-%
2	Capital True PartnerTechnology Co., Ltd.	CSC Futures (HK) Ltd.	3	Other operating revenue	21,549	General transaction	1.12%
1	CSC Futures (HK) Ltd.	Capital True PartnerTechnology Co., Ltd.	3	Other payables	185		-%
2	Capital True PartnerTechnology Co., Ltd.	CSC Futures (HK) Ltd.	3	Accounts receivable	185		-%
0	Capital Futures Corp.	CSC Futures (HK) Ltd.	1	Customers' margin account	215,941		0.52%
1	CSC Futures (HK) Ltd.	Capital Futures Corp.	2	Futures traders' equity	215,941		0.52%

(Continued)

CAPITAL FUTURES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
1	CSC Futures (HK) Ltd.	Capital Futures Corp.	2	Customers' margin account	4,010,621		9.74%
0	Capital Futures Corp.	CSC Futures (HK) Ltd.	1	Customers' margin account	365,233		0.89%
0	Capital Futures Corp.	CSC Futures (HK) Ltd.	1	Futures traders' equity	4,375,854		10.63%
0	Capital Futures Corp.	CSC Futures (HK) Ltd.	1	Futures commission expense	8,345	General transaction	0.44%
1	CSC Futures (HK) Ltd.	Capital Futures Corp.	2	Futures commission revenue	8,345	General transaction	0.44%
0	Capital Futures Corp.	CSC Futures (HK) Ltd.	1	Brokerage commissions revenue	61,245	General transaction	3.20%
1	CSC Futures (HK) Ltd.	Capital Futures Corp.	2	Futures commission expense	61,245	General transaction	3.20%
0	Capital Futures Corp.	CSC Futures (HK) Ltd.	1	Financial costs	7,702	General transaction	0.40%
1	CSC Futures (HK) Ltd.	Capital Futures Corp.	2	Interests revenue	7,702	General transaction	0.40%
0	Capital Futures Corp.	CSC Futures (HK) Ltd.	1	Other payables	2,909		0.01%
1	CSC Futures (HK) Ltd.	Capital Futures Corp.	2	Other receivables	2,909		0.01%

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

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

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

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

(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		Highest Percentage of ownership	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	97.27%	214,000	97.27%	946,110	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	100%	5,000	100.00%	42,240	-	(3,224)	(3,224)	-	Subsidiary
Capital Futures Corporation	True Partner Capital Advisory Co., Ltd.	Hong Kong	2010.5.31	Gin Guan Zheng Zhi No. 1040027513 letter	Assets Management	36,701	36,701	49%	245	49.00%	47,890	120,080	5,038	2,460	-	Associate

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

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CAPITAL FUTURES CORPORATION AND SUBSIDIARIES

Notes to the Consolidated 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:

Company Name	Accumulated Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
Capital International Technology Corp.	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.

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CAPITAL FUTURES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(17) Segment information:

(a) General information

The Group has one reportable segment: the brokerage segment. This segment is mainly involved in futures brokerage business. The Group's other operating segments are mainly involved in futures and securities business on a proprietary basis and advisory business, etc. For the years ended December 31, 2019 and 2018, the above segments did not meet the quantitative thresholds.

(b) Information about reportable segments and their measurement and reconciliations

The Group does not allocate the income tax expense or extraordinary gain/loss to the reportable segment. The reported information of operating segments are consistent with the internal reports provided to the chief operating decision-maker. All of the Group's operating segments' accounting policies are no material difference from the ones described in Note 4 "significant accounting policies". The Group evaluates segment performance based on the net profit before tax but not including any extraordinary activity and foreign exchange gain/loss. The Group does not evaluate segment's performance based on its assets and liabilities so that there was no disclosure of assets and liabilities of the operating segment.

For the years ended December 31, 2019				
	Brokerage business	Others	Adjustment and elimination	Total
Segment Revenue	\$ <u>2,095,368</u>	<u>324,639</u>	<u>(503,229)</u>	<u>1,916,778</u>
Segment profit or loss	\$ <u>682,987</u>	<u>63,627</u>	<u>-</u>	<u>746,614</u>
For the years ended December 31, 2018				
	Brokerage business	Others	Adjustment and elimination	Total
Segment Revenue	\$ <u>2,566,313</u>	<u>621,805</u>	<u>(338,626)</u>	<u>2,849,492</u>
Segment profit or loss	\$ <u>840,629</u>	<u>114,347</u>	<u>-</u>	<u>954,976</u>

(c) Information about regions

Since the revenue from foreign customers were not significant and there was no disclosure.

(d) Information about major customers

There was no disclosure because no single customer accounted for 10% or more of the Group's revenues for the current periods.