

**HO TAI MOTOR COMPANY LIMITED
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REVIEW REPORT OF INDEPENDENT ACCOUNTANTS
JUNE 30, 2018 AND 2017**

For the convenience of readers and for information purposes only, the review report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English and the Chinese version or any differences in interpretation between the two versions, the original Chinese version shall prevail.

HO TAI MOTOR CO., LTD. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REVIEW REPORT OF INDEPENDENT ACCOUNTANTS
JUNE 30, 2018 AND 2017
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REVIEW REPORT OF INDEPENDENT ACCOUNTANTS
(TRANSLATED FROM CHINESE)

PWCR18000076

To the Board of Directors and Shareholders of
Ho Tai Motor Co., Ltd.

Introduction

We have reviewed the accompanying consolidated balance sheets of Ho Tai Motor Co., Ltd. and its subsidiaries (the “Group”) as of June 30, 2018 and 2017, and the related consolidated statements of comprehensive income for the three months and six months then ended, as well as the consolidated statements of changes in equity and of cash flows for the six months then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, “Regulations Governing the Preparation of Financial and Operational Reports by Enterprises Engaging in Insurance” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

Scope of Review

Except as explained in the following paragraph, we conducted our reviews in accordance with the Statement of Auditing Standards No. 65 “Review of Financial Information Performed by the Independent Auditor of the Entity” in the Republic of China. A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As explained in Notes 4(3) and 6(10), the financial statements of certain insignificant consolidated subsidiaries and investments accounted for using equity method were not reviewed by independent accountants. Those statements reflect total assets of NT\$39,195,581

thousand and NT\$37,305,693 thousand, constituting 18% and 19% of the consolidated total assets, and total liabilities of NT\$6,205,356 thousand and NT\$4,415,700 thousand, constituting 4% and 3% of the consolidated total liabilities as at June 30, 2018 and 2017, and total comprehensive income of NT\$960,185 thousand, NT\$1,061,996 thousand, NT\$2,043,092 thousand and NT\$1,914,054 thousand, constituting 33%, 39%, 33% and 32% of the consolidated total comprehensive income for the three months and six months then ended. These amounts and the information disclosed in Note 13 were based solely on the unreviewed financial statements of these companies as of June 30, 2018 and 2017.

Qualified Conclusion

Except for the adjustments to the consolidated financial statements, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries been reviewed by independent accountants, that we might have become aware of had it not been for the situation described above, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as at June 30, 2018 and 2017, and of its consolidated financial performance for the three months and six months then ended, and its consolidated cash flows for the six months then ended, in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, “Regulations Governing the Preparation of Financial Reports by Insurance Enterprises”, and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission.

Chin-Mu, Hsiao

Fang-Yu, Wang

For and on behalf of PricewaterhouseCoopers, Taiwan
August 10, 2018

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of management, PricewaterhouseCoopers, Taiwan cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

HO TAI MOTOR CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2018 AND 2017 AND DECEMBER 31, 2017

(Expressed in thousands of New Taiwan Dollars)

(The consolidated balance sheets as of June 30, 2018 and 2017 are reviewed, not audited)

Assets	Notes	June 30, 2018		December 31, 2017		June 30, 2017		
		Amount	%	Amount	%	Amount	%	
Current Assets								
1100	Cash and cash equivalents	6(1)	\$ 12,810,117	6	\$ 15,041,676	7	\$ 9,019,959	5
1120	Financial assets at fair value through profit or loss-current	6(2) and 12(13)	6,510,783	3	764,921	-	2,907,871	1
1125	Financial assets at fair value through other comprehensive income-current	6(3)	20,648	-	-	-	-	-
1130	Available-for-sale financial assets-current	12(13)	-	-	1,616,954	1	991,503	-
1150	Derivative financial assets for hedging-current	6(4) and 12(13)	35,533	-	-	-	-	-
1190	Other financial assets-current	6(1) and 8	2,314,712	1	2,866,626	1	1,858,646	1
1195	Contract assets-current	6(27)	17,970	-	-	-	-	-
1201	Notes receivable	6(5), 7 and 8	10,222,063	4	9,396,104	5	9,711,885	5
1202	Accounts receivable	6(5), 7 and 8	107,038,287	48	98,910,479	48	89,837,972	46
1203	Other receivables	7	1,568,854	1	1,331,076	1	1,498,111	1
1270	Inventories	6(7)	8,362,023	4	7,209,935	3	8,387,841	4
1280	Prepayments	6(8)	7,447,842	3	6,678,663	3	6,965,363	4
1310	Reinsurance contract assets, net	6(9)	1,618,874	1	1,468,440	1	1,784,077	1
	Total current assets		<u>157,967,706</u>	<u>71</u>	<u>145,284,874</u>	<u>70</u>	<u>132,963,228</u>	<u>68</u>
Non-current assets								
1410	Financial assets at fair value through profit or loss-non-current	6(2)	1,000,000	-	-	-	-	-
1290	Non-current assets held for sale (or disposal group), net		31,534	-	-	-	-	-
1415	Financial assets at fair value through other comprehensive income-non-current	6(3)	4,571,102	2	-	-	-	-
1420	Available-for-sale financial assets-non-current	12(13)	-	-	5,622,117	3	7,121,586	4
1470	Investments accounted for using equity method	6(10)	15,012,999	7	14,479,827	7	14,710,862	7
1480	Other financial assets-non-current	6(1)	198,328	-	94,020	-	110,900	-
1500	Property, plant and equipment, net	6(11) and 8	38,461,512	17	34,993,759	17	34,819,046	18
1600	Investment property, net	6(12)	1,853,665	1	1,857,722	1	1,875,004	1
1700	Intangible assets, net	6(13)	1,216,606	1	1,208,992	1	1,213,426	1
1800	Deferred income tax assets, net	6(32)	1,137,365	-	999,088	-	941,830	-
1900	Other assets	6(14)	1,639,475	1	2,061,351	1	1,499,612	1
	Total non-current assets		<u>65,122,586</u>	<u>29</u>	<u>61,316,876</u>	<u>30</u>	<u>62,292,266</u>	<u>32</u>
1XXX	Total Assets		<u>\$ 223,090,292</u>	<u>100</u>	<u>\$ 206,601,750</u>	<u>100</u>	<u>\$ 195,255,494</u>	<u>100</u>

(Continued)

HO TAI MOTOR CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2018 AND 2017 AND DECEMBER 31, 2017
(Expressed in thousands of New Taiwan Dollars)

(The consolidated balance sheets as of June 30, 2018 and 2017 are reviewed, not audited)

	Liabilities and equity	Notes	June 30, 2018		December 31, 2017		June 30, 2017	
			Amount	%	Amount	%	Amount	%
	Current Liabilities							
2110	Short-term loans	6(15)	\$ 40,744,674	18	\$ 36,744,035	18	\$ 32,341,094	16
2120	Short-term notes and bills payable	6(16)	57,771,421	26	55,091,275	27	52,311,790	27
2140	Financial liabilities at fair value through profit or loss-current	6(2)	3,720	-	96,003	-	4,264	-
2150	Derivative financial liabilities for hedging-current	6(4) and 12(13)	218,549	-	403,699	-	290,835	-
2165	Contract liabilities-current	6(27)	716,540	-	-	-	-	-
2201	Notes payable		193,340	-	202,209	-	135,915	-
2202	Accounts payable	7	10,704,134	5	10,501,308	5	9,563,134	5
2203	Accrued expenses	6(19) and 7	4,714,359	2	4,804,814	2	4,128,730	2
2204	Other payables		8,061,531	4	1,227,628	1	7,327,480	4
2250	Commissions payable	7	291,837	-	276,736	-	277,309	-
2260	Due to reinsurance and ceding companies		260,895	-	278,262	-	184,404	-
2270	Claims payable		12,526	-	40,190	-	9,877	-
2310	Current income tax liabilities		1,785,577	1	1,646,741	1	1,518,463	1
2320	Advance receipts		275,438	-	1,122,815	-	1,125,037	1
2330	Long-term liabilities-current portion	6(17)(18)	4,649,594	2	4,471,849	2	6,637,431	3
2350	Other current liabilities	6(22)	1,476,657	1	1,273,162	1	1,387,628	1
	Total current liabilities		<u>131,880,792</u>	<u>59</u>	<u>118,180,726</u>	<u>57</u>	<u>117,243,391</u>	<u>60</u>
	Non-current liabilities							
2550	Long-term loans	6(18)	13,082,430	6	11,037,163	5	6,379,102	3
2600	Provisions	6(9)(22)	9,155,854	4	8,379,558	4	8,037,641	4
2620	Guarantee deposits received	6(23)	12,256,485	6	11,858,610	6	11,389,778	6
2630	Deferred income tax liabilities	6(32)	2,505,262	1	2,160,455	1	2,124,519	1
2660	Other liabilities		154,914	-	109,090	-	49,599	-
	Total non-current liabilities		<u>37,154,945</u>	<u>17</u>	<u>33,544,876</u>	<u>16</u>	<u>27,980,639</u>	<u>14</u>
2XXX	Total liabilities		<u>169,035,737</u>	<u>76</u>	<u>151,725,602</u>	<u>73</u>	<u>145,224,030</u>	<u>74</u>
	Equity attributable to shareholders of the parent							
	Share capital	6(24)						
3110	Common stock		5,461,792	2	5,461,792	3	5,461,792	3
	Capital surplus	6(25)						
3200	Capital surplus		263,060	-	263,060	-	263,060	-
	Retained earnings	6(26)						
3310	Legal reserve		10,348,282	5	9,336,721	5	9,336,721	5
3320	Special reserve		381,843	-	381,843	-	381,843	-
3330	Unappropriated earnings		28,241,071	13	30,517,783	15	25,814,472	13
	Other equity							
3400	Other equity		735,895	-	694,102	-	590,933	1
31XX	Total equity attributable to shareholders of the parent		<u>45,431,943</u>	<u>20</u>	<u>46,655,301</u>	<u>23</u>	<u>41,848,821</u>	<u>22</u>
32XX	Non-controlling interest		<u>8,622,612</u>	<u>4</u>	<u>8,220,847</u>	<u>4</u>	<u>8,182,643</u>	<u>4</u>
3XXX	Total equity		<u>54,054,555</u>	<u>24</u>	<u>54,876,148</u>	<u>27</u>	<u>50,031,464</u>	<u>26</u>
	Significant contingent liabilities and unrecognized contract commitments	9						
	Total liabilities and equity		<u>\$ 223,090,292</u>	<u>100</u>	<u>\$ 206,601,750</u>	<u>100</u>	<u>\$ 195,255,494</u>	<u>100</u>

The accompanying notes are an integral part of these consolidated financial statements.

HO TAI MOTOR CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share amounts)
(Reviewed, not audited)

Items	Notes	Three months ended June 30,				Six months ended June 30,				
		2018		2017		2018		2017		
		Amount	%	Amount	%	Amount	%	Amount	%	
Revenues										
4010	Interest income	6(3)(27)(28) and 7	\$ 1,484,686	3	\$ 1,228,722	3	\$ 2,869,457	3	\$ 2,420,673	3
4020	Premiums revenue	6(29) and 7	1,124,132	2	763,452	2	2,176,838	2	1,304,850	2
4040	Reinsurance commission revenue		60,937	-	24,127	-	118,605	-	35,967	-
4050	Fee income		2,871	-	2,753	-	5,668	-	5,153	-
4060	Share of profit of associates and joint ventures accounted for using equity method	6(10)	381,763	1	350,141	1	641,788	1	896,687	1
4090	Gains on financial assets (liabilities) at fair value through profit or loss	6(2)	229,383	1	-	-	357,535	-	-	-
4100	Realized gains on available-for-sale financial assets		-	-	47,371	-	-	-	109,121	-
4105	Realized gains on financial assets at fair value through other comprehensive income		18,873	-	-	-	18,873	-	-	-
4160	Net sales revenue	6(27) and 7								
4161	Sales revenue		42,506,483	88	38,498,519	89	84,056,211	88	81,517,276	89
4162	Sales returns	(	338,260)	(1)	(396,681)	(1)	(743,975)	(1)	(879,093)	(1)
4163	Sales discounts and allowances	(	1,259,626)	(3)	(924,488)	(2)	(2,213,096)	(2)	(1,653,451)	(2)
4170	Rental revenue		3,384,645	7	3,154,392	7	6,693,560	7	6,279,607	7
4180	Service revenue	6(27) and 7	522,829	1	493,210	1	962,365	1	979,298	1
4200	Gains on disposals of investments	6(2)	(17,300)	-	1,481	-	-	-	36,084	-
4210	Gains on disposals of property, plant and equipment		2,403	-	4,119	-	2,403	-	5,927	-
4230	Income from investment property	6(12) and 7	36,470	-	29,753	-	72,639	-	67,371	-
4260	Foreign exchange gains	(	115,573)	(-)	(45,072)	(-)	(-)	(-)	(92,572)	(-)
4270	Other income	6(27)	254,792	1	203,619	-	449,634	1	340,644	-
4251	Impairment loss and reversal gain on expected credit of investment	(	15)	-	-	-	141	-	-	-
4245	Gains on using overlay approach of investment	6(2)	(5,577)	-	-	-	(22,079)	-	-	-
4280	Unrealized profit from sales	(	71,030)	(-)	(21,682)	(-)	(82,358)	(-)	(98,060)	(-)
4290	Realized profit from sales		72,738	-	35,419	-	72,738	-	35,419	-
	Total revenues		<u>48,275,624</u>	<u>100</u>	<u>43,449,155</u>	<u>100</u>	<u>95,436,947</u>	<u>100</u>	<u>91,496,045</u>	<u>100</u>
Expenses										
5010	Interest expense	7	(485,734)	(1)	(387,106)	(1)	(940,734)	(1)	(774,215)	(1)
5030	Underwriting expenses		(77)	(-)	(40)	(-)	(93)	(-)	(60)	(-)
5040	Commission expenses	7	(646,723)	(1)	(568,469)	(1)	(1,262,871)	(2)	(1,053,019)	(1)
5050	Claims payment	7	(516,546)	(1)	(355,739)	(1)	(972,276)	(1)	(568,900)	(-)
5070	Net changes in other insurance liabilities	(	59,270)	(-)	(53,884)	(-)	(129,258)	(-)	(50,027)	(-)
5110	Losses on financial assets (liabilities) at fair value through profit or loss	6(2)	-	-	152,827	-	-	(-)	(82,860)	(-)
5125	Realized losses on financial assets at fair value through comprehensive income		1,298	-	-	-	-	-	-	-
5190	Cost of sales	6(7)(30) and 7	(36,217,007)	(75)	(32,999,743)	(76)	(71,729,134)	(75)	(70,186,750)	(77)
5200	Cost of rental revenue	(	2,335,300)	(5)	(2,401,533)	(5)	(4,671,689)	(5)	(4,779,785)	(5)
5210	Cost of services	(	285,274)	(1)	(152,291)	(-)	(482,922)	(1)	(298,569)	(-)
5230	Operating expenses	6(30)(31) and 7								
5231	Selling expenses	(	2,166,314)	(5)	(1,982,649)	(5)	(4,119,076)	(4)	(3,566,668)	(4)
5232	General and administrative expenses	(	1,341,599)	(3)	(1,258,421)	(3)	(2,754,465)	(3)	(2,521,797)	(3)
5233	Research and development expenses	(	11,423)	(-)	(13,889)	(-)	(26,945)	(-)	(29,087)	(-)
5281	Impairment loss and reversal gain on non-expected credit of investment	12(5)	(8,848)	(-)	(-)	(-)	(2,601)	(-)	(-)	(-)
5240	Loss on disposal of investments	(	9,969)	(-)	(-)	(-)	(9,969)	(-)	(-)	(-)
5250	Losses on disposals of property, plant and equipment		5,525	-	-	-	-	-	-	-
5270	Expenses and losses from investment property	6(12)	(5,343)	(-)	(8,188)	(-)	(11,798)	(-)	(13,742)	(-)
5290	Foreign exchange loss	(	105,348)	(-)	(-)	(-)	(105,348)	(-)	(-)	(-)
5320	Other expenses	(	9,088)	(-)	(7,681)	(-)	(54,185)	(-)	(13,583)	(-)
	Total expenses		<u>(44,197,040)</u>	<u>(92)</u>	<u>(39,929,038)</u>	<u>(92)</u>	<u>(87,273,364)</u>	<u>(92)</u>	<u>(83,839,008)</u>	<u>(91)</u>
6100	Income before income tax from continuing operation		<u>4,078,584</u>	<u>8</u>	<u>3,520,117</u>	<u>8</u>	<u>8,163,583</u>	<u>8</u>	<u>7,657,037</u>	<u>9</u>
6200	Income tax expense	6(32)	(1,087,695)	(2)	(916,931)	(2)	(2,084,928)	(2)	(1,567,592)	(2)
6500	Profit for the period		<u>\$ 2,990,889</u>	<u>6</u>	<u>\$ 2,603,186</u>	<u>6</u>	<u>\$ 6,078,655</u>	<u>6</u>	<u>\$ 6,089,445</u>	<u>7</u>

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HO TAI MOTOR CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share amounts)
(Reviewed, not audited)

Items	Notes	Three months ended June 30,				Six months ended June 30,			
		2018		2017		2018		2017	
		Amount	%	Amount	%	Amount	%	Amount	%
Other comprehensive income (loss) for the period									
Components of other comprehensive income (loss) that may not be reclassified to profit or loss									
6617 Gain from investments in equity instruments measured at fair value through other comprehensive income		\$ 22,373	-	\$ -	-	\$ 58,980	-	\$ -	-
6610 Total components of other comprehensive income (loss) that may not be reclassified to profit or loss		<u>22,373</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,980</u>	<u>-</u>	<u>-</u>	<u>-</u>
Components of other comprehensive income (loss) that will be reclassified to profit or loss									
6651 Financial statement translation differences of foreign operations		(52,908)	-	90,487	-	40,551	-	(157,607)	-
6653 Unrealized gains from available-for-sale financial assets	12(14)	-	-	41,751	-	-	-	95,115	-
6659 Unrealized losses from investments in debt instruments measured at fair value through other comprehensive income	6(3)	(8,994)	-	-	-	(27,246)	-	-	-
6655 Loss on effective portion of cash flow hedges	6(4)	-	-	11,407	-	-	-	(36,188)	-
6661 Gain on hedging instrument	6(4)	(59,270)	-	-	-	(45,591)	-	-	-
6675 Other comprehensive income reclassified by using overlay approach	6(3)	5,577	-	-	-	22,079	-	-	-
6665 Share of other comprehensive income of associates and joint ventures accounted for using equity method - components of other comprehensive income		(4,876)	-	-	-	2,576	-	-	-
6689 Income tax related to components of other comprehensive income	6(32)	<u>12,587</u>	<u>-</u>	<u>(3,471)</u>	<u>-</u>	<u>13,486</u>	<u>-</u>	<u>3,561</u>	<u>-</u>
Total components of other comprehensive income (loss) that will be reclassified to profit or loss		<u>(107,884)</u>	<u>-</u>	<u>140,174</u>	<u>-</u>	<u>5,855</u>	<u>-</u>	<u>(95,119)</u>	<u>-</u>
6600 Other comprehensive income (loss) for the period		<u>(\$ 85,511)</u>	<u>-</u>	<u>\$ 140,174</u>	<u>-</u>	<u>\$ 64,835</u>	<u>-</u>	<u>(\$ 95,119)</u>	<u>-</u>
6700 Total comprehensive income for the period		<u>\$ 2,905,378</u>	<u>6</u>	<u>\$ 2,743,360</u>	<u>6</u>	<u>\$ 6,143,490</u>	<u>6</u>	<u>\$ 5,994,326</u>	<u>7</u>
Profit attributable to:									
6810 Owners of parent		\$ 2,556,499	5	\$ 2,228,628	5	\$ 5,266,962	5	\$ 5,368,269	6
6820 Non-controlling interests		434,390	1	374,558	1	811,693	1	721,176	1
		<u>\$ 2,990,889</u>	<u>6</u>	<u>\$ 2,603,186</u>	<u>6</u>	<u>\$ 6,078,655</u>	<u>6</u>	<u>\$ 6,089,445</u>	<u>7</u>
Comprehensive income attributable to:									
6910 Owners of parent		\$ 2,494,782	5	\$ 2,355,394	5	\$ 5,330,792	5	\$ 5,296,729	6
6920 Non-controlling interests		410,596	1	387,966	1	812,698	1	697,597	1
		<u>\$ 2,905,378</u>	<u>6</u>	<u>\$ 2,743,360</u>	<u>6</u>	<u>\$ 6,143,490</u>	<u>6</u>	<u>\$ 5,994,326</u>	<u>7</u>
Earnings per share (in dollars)	6(33)								
Basic earnings per share		<u>\$ 4.68</u>		<u>\$ 4.08</u>		<u>\$ 9.64</u>		<u>\$ 9.83</u>	
Diluted earnings per share	6(33)	<u>\$ 4.68</u>		<u>\$ 4.08</u>		<u>\$ 9.63</u>		<u>\$ 9.82</u>	

The accompanying notes are an integral part of these consolidated financial statements.

HO TAI MOTOR CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
SIX MONTHS ENDED JUNE 30, 2018 AND 2017

(Expressed in thousands of New Taiwan Dollars)

(Reviewed, not audited)

		Equity attributable to shareholders of the parent													
		Retained earnings					Other equity								
		Share capital- common stock	Capital surplus – additional paid -in capital	Legal reserve	Special reserve	Unappropriated earnings	Financial statement translation differences of foreign operations	Unrealized gain from available- for- sale financial assets	Unrealised gains on financial assets at fair value through other compre- hensive income	Other compre- hensive income reclassified by using overlay approach	Loss on effective portion of cash flow hedges	Gain (loss) on hedging instru- ments	Total	Non- controlling interests	Total equity
Notes															
For the six months ended June 30, 2017															
		\$ 5,461,792	\$ 263,060	\$ 8,262,717	\$ 381,843	\$ 28,074,357	(\$ 111,582)	\$ 783,180	\$ -	\$ -	(\$ 9,125)	\$ -	\$ 43,106,242	\$ 7,472,847	\$ 50,579,089
		-	-	-	-	5,368,269	-	-	-	-	-	-	5,368,269	721,176	6,089,445
		-	-	-	-	-	(143,277)	92,393	-	-	(20,656)	-	(71,540)	(23,579)	(95,119)
		-	-	-	-	5,368,269	(143,277)	92,393	-	-	(20,656)	-	5,296,729	697,597	5,994,326
		Appropriation and distribution of retained earnings:													
		-	-	1,074,004	-	(1,074,004)	-	-	-	-	-	-	-	-	-
		-	-	-	-	(6,554,150)	-	-	-	-	-	-	(6,554,150)	-	(6,554,150)
		-	-	-	-	-	-	-	-	-	-	-	-	12,199	12,199
		\$ 5,461,792	\$ 263,060	\$ 9,336,721	\$ 381,843	\$ 25,814,472	(\$ 254,859)	\$ 875,573	\$ -	\$ -	(\$ 29,781)	\$ -	\$ 41,848,821	\$ 8,182,643	\$ 50,031,464
For the six months ended June 30, 2018															
		\$ 5,461,792	\$ 263,060	\$ 9,336,721	\$ 381,843	\$ 30,517,783	(\$ 194,239)	\$ 909,962	\$ -	\$ -	(\$ 21,621)	\$ -	\$ 46,655,301	\$ 8,220,847	\$ 54,876,148
		-	-	-	-	22,037	-	(909,962)	848,446	39,479	21,621	(21,621)	-	-	-
		5,461,792	263,060	9,336,721	381,843	30,539,820	(194,239)	-	848,446	39,479	-	(21,621)	46,655,301	8,220,847	54,876,148
		-	-	-	-	5,266,962	-	-	-	-	-	-	5,266,962	811,693	6,078,655
		-	-	-	-	-	30,409	-	34,867	22,035	-	(23,481)	63,830	1,005	64,835
		-	-	-	-	5,266,962	30,409	-	34,867	22,035	-	(23,481)	5,330,792	812,698	6,143,490
		Appropriation and distribution of retained earnings:													
		-	-	1,011,561	-	(1,011,561)	-	-	-	-	-	-	-	-	-
		-	-	-	-	(6,554,150)	-	-	-	-	-	-	(6,554,150)	(410,933)	(6,965,083)
		\$ 5,461,792	\$ 263,060	\$ 10,348,282	\$ 381,843	\$ 28,241,071	(\$ 163,830)	\$ -	\$ 883,313	\$ 61,514	\$ -	(\$ 45,102)	\$ 45,431,943	\$ 8,622,612	\$ 54,054,555

The accompanying notes are an integral part of these consolidated financial statements.

HO TAI MOTOR CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(Expressed in thousands of New Taiwan Dollars)
(Reviewed, not audited)

	Notes	Six months ended June 30	
		2018	2017
<u>Cash flows from operating activities</u>			
Consolidated profit before income tax		\$ 8,163,583	\$ 7,657,037
Adjustments to reconcile profit before tax to net cash provided by operating activities			
Income and expenses having no effect on cash flows			
Net (gain) loss on financial assets and liabilities at fair value through profit or loss	6(2)	(357,535)	82,860
Bad debts expense and financial guarantee expense		763,199	652,253
Expected credit impairment loss and gain on reversal of investment		(141)	-
Expected credit impairment loss and gain on reversal of non-investment		2,601	-
Depreciation	6(11)(12)(30)	3,925,685	3,925,453
Amortization	6(30)	34,996	28,778
(Reversal of) provision for allowance for loss of rental assets	6(11)	(61,388)	74,905
Net gain on disposal of property, plant and equipment (not including rental property)		(2,403)	(5,927)
Share of profit of associates accounted for using equity method	6(10)	(641,788)	(896,687)
Interest expense		940,734	774,215
Interest income	6(28)	(2,869,457)	(2,207,273)
Dividend income		(17,482)	(10,186)
Unrealized profit from sales		82,358	98,060
Realized profit from sales		(72,738)	(35,419)
Changes in assets and liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Financial assets at fair value through profit or loss		(3,894,323)	1,733,511
Contract assets		3,421	-
Notes and accounts receivable		(9,740,958)	(6,948,430)
Inventories		1,232,908	3,267,305
Prepayments		(773,248)	559,027
Other receivables		(228,474)	388,839
Reinsurance contract assets		(150,434)	(206,784)
Net changes in liabilities relating to operating activities			
Financial liabilities at fair value through profit or loss		(92,283)	-
Contract liabilities		172,007	-
Notes and accounts payable		193,957	(340,918)
Accrued expenses		(110,712)	161,325
Other payables		(41,416)	(623,575)
Commission payable		15,101	(110,584)
Due to reinsurance and ceding companies		(17,367)	99,084
Claims payable		(27,664)	(197,528)
Advance receipts		(392,608)	(54,324)
Other current liabilities		203,495	(22,469)
Provisions		776,296	544,330
Other liabilities		45,824	6,617
Cash (outflow) inflow generated from operations		(2,936,254)	8,393,495
Cash dividends received		119,054	168,248
Interest paid		(915,664)	(743,679)
Income tax paid		(1,726,820)	(1,283,705)
Interest received		2,860,153	2,209,660
Net cash (used in) provided by operating activities		(2,599,531)	8,744,019

(Continued)

HO TAI MOTOR CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(Expressed in thousands of New Taiwan Dollars)
(Reviewed, not audited)

	Notes	Six months ended June 30	
		2018	2017
Cash flows from investing activities			
Net cash flow from acquisition of subsidiaries		\$ -	(\$ 6,636,836)
Decrease in financial assets at fair value through other comprehensive income		207,271	-
Increase in available-for-sale financial assets		-	(652,261)
Decrease (increase) in other financial assets		447,606	(428,070)
Acquisition of investments accounted for using equity method	6(10)	-	(298,864)
Acquisition of property, plant and equipment	6(11)(12)	(9,262,150)	(6,798,170)
Proceeds from disposal of property, plant and equipment (not including rental assets)		71,050	14,390
Acquisition of intangible assets	6(13)	(26,224)	(21,772)
(Increase) decrease in other assets		(135,384)	41,940
Acquisition of investment property		(5,405)	-
Net cash used in investing activities		(8,703,236)	(14,779,643)
Cash flows from financing activities			
Proceeds from issuing bonds	6(17)	-	2,800,000
Increase (decrease) in short-term loans	6(36)	3,734,365	(5,798,159)
Increase in short-term notes and bills payable	6(36)	2,680,146	5,213,179
Proceeds from long-term loans	6(36)	3,203,095	2,394,700
Repayment of long-term loans	6(36)	(1,042,357)	(1,479,990)
Increase in guarantee deposits received		397,875	73,417
Net cash flows provided by financing activities		8,973,124	3,203,147
Net effect of changes in foreign currency exchange rates		98,084	(172,079)
Decrease in cash and cash equivalents		(2,231,559)	(3,004,556)
Cash and cash equivalents at beginning of period		15,041,676	12,024,515
Cash and cash equivalents at end of period		\$ 12,810,117	\$ 9,019,959

The accompanying notes are an integral part of these consolidated financial statements.

HO TAI MOTOR CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2018 AND 2017

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

(Reviewed, not audited)

1. HISTORY AND ORGANISATION

Ho Tai Motor Co., Ltd. (the “Company”) was incorporated as a company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.). The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in import, trading, selling and repairing of vehicles and their parts, as well as installment sales and leases of vehicles, and sales of used vehicles and business of property insurance.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These consolidated financial statements were authorised for issuance by the Board of Directors on August 10, 2018.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

New and revised standards, interpretations and amendments endorsed by the FSC effective from 2018 are as follows:

<u>New and Revised Standards, Interpretations and Amendments</u>	<u>Effective date issued by International Accounting Standards Board</u>
Classification and measurement of share-based payment transactions (amendment to IFRS 2)	January 1, 2018
Applying IFRS 9 ‘Financial instruments’ with IFRS 4 ‘Insurance contracts’ (amendments to IFRS 4)	January 1, 2018
IFRS 9, ‘Financial instruments’	January 1, 2018
IFRS 15, ‘Revenue from contracts with customers’	January 1, 2018
Clarifications to IFRS 15, ‘Revenue from contracts with customers’ (amendments to IFRS 15)	January 1, 2018
Disclosure initiative (amendment to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealized losses (amendment to IAS 12)	January 1, 2017

<u>New and Revised Standards, Interpretations and Amendments</u>	<u>Effective date issued by International Accounting Standards Board</u>
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

A. Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts'

To address the concerns about the different effective dates of IFRS 9, 'Financial instruments', and the forthcoming new standard IFRS 17, 'Insurance contract', which may result in different bases for measuring assets and liabilities, this amendment allows insurers who meet specific requirements as set out in IFRS 4, 'Insurance contract' to adopt temporary exemption from IFRS 9, 'Financial instruments', or to use overlay approach under IFRS 9, 'Financial instruments' alternatively.

B. IFRS 9, 'Financial instruments'

- (a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortized cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.
- (b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognize 12-month expected credit losses ('ECL') or lifetime ECL (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Group shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.
- (c) The amended general hedge accounting requirements align hedge accounting more closely with an entity's risk management strategy. Risk components of non-financial items and a group of items can be designated as hedged items. The standard relaxes the requirements for hedge effectiveness, removing the 80-125% bright line, and introduces the concept of 'rebalancing'; while its risk management objective remains unchanged, an entity shall rebalance the hedged item or the hedging instrument for the purpose of maintaining the

hedge ratio.

- (d) The Group has elected not to restate prior period financial statements using the modified retrospective approach under IFRS 9. For details of the significant effect as January 1, 2018, please refer to Note 12(13)B and C.

C. IFRS 15, 'Revenue from contracts with customers' and amendments

- (a) IFRS 15, 'Revenue from contracts with customers' replaces IAS 11, 'Construction contracts', IAS 18 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognized when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer.

Step 2: Identify separate performance obligations in the contract(s).

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognize revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

- (b) The Group has elected not to restate prior period financial statements and recognised the cumulative effect of initial application as retained earnings at January 1, 2018, using the modified retrospective approach under IFRS 15. The significant effects of adopting the modified transition as of January 1, 2018 are summarised below:

Presentation of contract assets and contract liabilities

In line with IFRS 15 requirements, the Group changes the presentation of certain accounts in the balance sheet as follows:

- i. Under IFRS 15, customer contracts whereby construction contracts receivable are recognized as contract assets, but were previously presented as part of accounts receivable in the balance sheet. As of January 1, 2018, the balance amounted to \$23,787.
- ii. Under IFRS 15, liabilities in relation to customer contracts are recognized as contract liabilities, but were previously presented as advance receipts and other payables in the balance sheet. As of January 1, 2018, the balance amounted to \$888,547.

D. Please refer to Note 12(14) for disclosure in relation to the first application of IFRS 15.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New and revised standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

<u>New and revised Standards, Interpretations and Amendments</u>	<u>Effective date issued by International Accounting Standards Board</u>
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
IFRS 16, 'Leases'	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
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognize a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

In the first quarter of 2018, the Group reported to the Board of Directors that IFRS 16 has no material impact to the Group.

The Group will adopt the simple modified retrospective transitional provisions of IFRS 16 'Lease', and classify the effects on the lease contract of lessee to January 1, 2019 in accordance with IFRS 16.

(3) Effects of IFRSs issued by IASB but not yet endorsed by the FSC

New and revised standards, interpretations and amendments issued by IASB but not yet included in the IFRSs endorsed by the FSC are as follows:

<u>New and revised Standards, Interpretations and Amendments</u>	<u>Effective date issued by International Accounting Standards Board</u>
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
IFRS 17, 'Insurance contracts'	January 1, 2021

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

IFRS 17, 'Insurance contracts'

IFRS 17 'Insurance Contracts' replaces IFRS 4 and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. The standard applies to insurance contracts (including reinsurance contracts) issued, to reinsurance contracts held and to investment contracts with discretionary participation features issued, provided the entity also

issues insurance contracts. Embedded derivatives, distinct investment components and distinct performance obligations shall be separated from the insurance contracts. An entity shall at initial recognition to disaggregate a portfolio into three groups of contracts: onerous, no significant risk of becoming onerous, and remaining contracts. IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ('CSM') representing the unearned profit of the contract. An entity may apply a simplified measurement approach (the premium allocation approach) to some insurance contracts. An entity recognizes the profit from a group of insurance contracts over the period the entity provides insurance coverage, and as the entity is released from risk. If a group of contracts is or becomes loss-making, an entity recognizes the loss immediately. Entities are required to present separately insurance revenue, insurance service expenses and insurance finance income or expenses and to disclose information about amounts, judgements and risks arising from insurance contracts.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", "Regulations Governing the Preparation of Financial Reports by Enterprises Engaging in Insurance" and IAS 34, "Interim financial reporting" as endorsed by the FSC.

(2) Basis of preparation

A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:

- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- (b) Financial assets at fair value through other comprehensive income/Available-for-sale financial assets measured at fair value.
- (c) Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation.
- (d) The insurance liabilities and reinsurance reserve assets recognized in accordance with specific statutory requirements and regulations relevant to insurance enterprises.

B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs") requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was

recognized as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 and for the second quarter of 2017 was not restated. The financial statements for the year ended December 31, 2017 and for the second quarter of 2017 were prepared in compliance with International Accounting Standard 39 ('IAS 39'), International Accounting Standard 18 ('IAS 18') and related financial reporting interpretations. Please refer to Notes 12(13) and (14) for details of significant accounting policies and details of significant accounts.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Profit or loss and each component of other comprehensive income are attributed to the shareholders of the parent and to the non-controlling interests. 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.
- (d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.
- (e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.
- (f) For the subsidiaries included in the consolidated financial statements except for Hozan Investment Co., Ltd., Hotai Finance Co., Ltd., Hotai Leasing Co., Ltd., Hotai Insurance Co., Ltd., Hoyun International Limited., Hoyun International lease Co., Ltd. and Hoyun (Shanghai) Commercial Factoring Co., Ltd. which were evaluated and disclosed in accordance with their reviewed financial statements, other subsidiaries were evaluated and disclosed in accordance with their unreviewed financial statements.

B. Subsidiaries included in the consolidated financial statements:

Investor	Investee	Main business activities	Ownership (%)			Note
			June 30, 2018	December 31, 2017	June 30, 2017	
Ho Tai Motor Co., Ltd.	Shanghai Ho-Yu (BVI) Investment Co., Ltd.	Equity investments in Mainland China, trading and repairing of vehicles and their parts	100.00	100.00	100.00	
Ho Tai Motor Co., Ltd.	Hozan Investment Co., Ltd.	General investment	100.00	100.00	100.00	
Ho Tai Motor Co., Ltd.	Chang Yuan Motor Co., Ltd.	Sales of vehicles and parts and repairing of vehicles	100.00	100.00	100.00	
Ho Tai Motor Co., Ltd.	Toyota Material Handling Taiwan Ltd.	Sales of vehicles and parts for industry use	100.00	100.00	100.00	
Ho Tai Motor Co., Ltd.	Ho Tai Development Co., Ltd.	Agent for sales of air conditioning system and contracting of air conditioning construction	45.01	45.01	45.01	Note 2
Ho Tai Motor Co., Ltd.	Carmax Co., Ltd.	Trading of vehicle products/accessories	51.00	51.00	51.00	
Ho Tai Motor Co., Ltd.	Eastern Motor Co., Ltd.	Sales of vehicles and parts and repairing of vehicles	100.00	100.00	100.00	
Ho Tai Motor Co., Ltd.	Smart Design Technology Co., Ltd.	Electronic parts and components manufacturing	20.00	20.00	20.00	Note 1
Shanghai Ho-Yu (BVI) Investment Co., Ltd.	Tienjin Ho Yu Investment Co., Ltd.	Equity investments in Mainland China, trading and repairing of vehicles and their parts	70.00	70.00	70.00	
Shanghai Ho-Yu (BVI) Investment Co., Ltd.	Hotong Motor Investment Co., Ltd.	Operation decision making, capital using and financial management, information services, employee trainings and other services	100.00	100.00	100.00	
Tienjin Ho Yu Investment Co., Ltd.	Tianjin Ho-Yu Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	100.00	100.00	100.00	
Hotong Motor Investment Co., Ltd.	Tianjin Heling Lexus Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	100.00	100.00	100.00	
Hotong Motor Investment Co., Ltd.	Tianjin Hozhan Motor Service Co., Ltd.	Sales and repairing of vehicles	100.00	100.00	100.00	
Hotong Motor Investment Co., Ltd.	Shanghai Hoyu Motor Service Co., Ltd.	Sales and repairing of vehicles	100.00	100.00	100.00	
Hotong Motor Investment Co., Ltd.	Shanghai Heling Motor Service Co., Ltd.	Sales and repairing of vehicles	75.00	75.00	75.00	
Hotong Motor Investment Co., Ltd.	Shanghai Hozhan Motor Service Co., Ltd.	Sales and repairing of vehicles	100.00	100.00	100.00	
Hotong Motor Investment Co., Ltd.	Chongqing Heling Lexus Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	100.00	100.00	100.00	
Hotong Motor Investment Co., Ltd.	Tangshan Heling Lexus Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	100.00	100.00	100.00	
Hotong Motor Investment Co., Ltd.	Nanchang Heling Lexus Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	100.00	100.00	100.00	
Hotong Motor Investment Co., Ltd.	Zaozhuang Ho-Yu Toyota Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	100.00	100.00	100.00	

Investor	Investee	Main business activities	Ownership (%)			Note
			June 30, 2018	December 31, 2017	June 30, 2017	
Hotong Motor Investment Co., Ltd.	Shanghai Ho Mian Motor Technology Co., Ltd.	Trading of vehicle products / accessories	100.00	100.00	-	Note 7
Hotong Motor Investment Co., Ltd.	Tianjin Heyi International Trading Co., Ltd.	Sales of imported cars	100.00	-	-	Note 3
Zaozhuang Ho-Yu Toyota Motor Sales & Service Co., Ltd.	Zaozhuang Ho-Wan Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	100.00	100.00	-	Note 6
Shanghai Hoyu Motor Service Co., Ltd.	Shanghai Heling Motor Service Co., Ltd.	Sales and repairing of vehicles	25.00	25.00	25.00	Note 1
Shanghai Hoyu Motor Service Co., Ltd.	Shanghai Hede Used Vehicle Co., Ltd.	Trading of used vehicles	20.00	20.00	20.00	Note 1
Shanghai Hoyu Motor Service Co., Ltd.	Shanghai Guangxin Cultural Media Co., Ltd.	Advertisement design and production	100.00	100.00	100.00	
Shanghai Heling Motor Service Co., Ltd.	Shanghai Hede Used Vehicle Co., Ltd.	Trading of used vehicles	20.00	20.00	20.00	Note 1
Shanghai Heling Motor Service Co., Ltd.	Shanghai Yangpu Heling Lexus Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	100.00	100.00	100.00	Note 5
Shanghai Hozhan Motor Service Co., Ltd.	Shanghai Hede Used Vehicle Co., Ltd.	Trading of used vehicles	20.00	20.00	20.00	Note 1
Hozan Investment Co., Ltd.	Hotai Leasing Co., Ltd.	Leasing of light passenger vehicles	66.04	66.04	66.04	
Hozan Investment Co., Ltd.	Hotai Finance Co., Ltd.	Installment trading and leasing of various vehicles	66.03	66.03	66.03	
Hozan Investment Co., Ltd.	Hotai Insurance Co., Ltd.	Property and casualty insurance services	99.80	99.80	99.80	Note 4
Hozan Investment Co., Ltd.	Ho Tai Cyber Connection Co., Ltd.	E-commerce platform services of used vehicles	100.00	100.00	-	Note 6
Hotai Finance Co., Ltd.	Hoyun International Limited	General investment	50.50	50.50	50.50	
Hotai Leasing Co., Ltd.	Hoyun International Limited	General investment	49.50	49.50	49.50	Note 1
Hoyun International Limited	Hoyun International Lease Co., Ltd.	Leasing, wholesale, retail of and support service for vehicles	100.00	100.00	100.00	
Hoyun International Lease Co., Ltd.	Hoyun (Shanghai) Commercial Factoring Co., Ltd.	Factoring services	100.00	100.00	100.00	
Toyota Material Handling Taiwan Ltd.	Shanghai Ho-Qian Logistics Equipment Trading Co., Ltd.	Sales of vehicles and parts for industry use	100.00	100.00	100.00	
Ho Tai Development Co., Ltd.	Ichiban International Co., Ltd.	General investment	100.00	100.00	100.00	
Ho Tai Development Co., Ltd.	Ho Tai Service & Marketing Co., Ltd.	Repairing of air conditioning equipment and trading of their parts	100.00	100.00	100.00	
Ichiban International Co., Ltd.	Air Master International Co., Ltd.	General investment	100.00	100.00	100.00	
Air Master International Co., Ltd.	He Zhan Development Co., Ltd.	Trading of air conditioning equipment	100.00	100.00	100.00	
Carmax Co., Ltd.	Carmax Autotech (Shanghai) Co., Ltd.	Trading of vehicle products/accessories	100.00	100.00	100.00	

Investor	Investee	Main business activities	Ownership (%)			Note
			June 30, 2018	December 31, 2017	June 30, 2017	
Carmax Co., Ltd.	Smart Design Technology Co., Ltd.	Electronic parts and components manufacturing	61.77	61.77	61.77	
Eastern Motor Co., Ltd.	Doroman Autoparts Co., Ltd.	Wholesale and retail of vehicles parts and accessories	100.00	100.00	100.00	

Note 1: The Group holds more than 50% shareholding in the subsidiary.

Note 2: The abovementioned investees whose equity were held directly or indirectly by the Group not exceeding 50%, were regarded as subsidiaries and consolidated in the Company's financial statements, since the Company could control over a half of voting rights in the Board of Directors.

Note 3: Tianjin Heyi International Trading Co., Ltd. was established in the second quarter of 2018. As of June 30, 2018, asset injection from Hotong Motor Investment Co., Ltd. has not been completed.

Note 4: In January 2017, Hozan Investment Co., Ltd. acquired 99.80% equity of Hotai Insurance Co., Ltd. (formerly Zurich Insurance Co., Ltd.) which was consolidated in the Company's financial statements since January 17, 2017.

Note 5: In January 2017, Shanghai Heling Motor Service Co., Ltd. acquired 100% equity of Shanghai Yangpu Heling Lexus Motor Sales & Service Co., Ltd. (formerly Shanghai Inchcape Auto Sales & Service Co., Ltd) which was consolidated in the Company's financial statements since February 1, 2017.

Note 6: The investee was newly established in the third quarter of 2017.

Note 7: The investee was newly established in the fourth quarter of 2017.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interest that are material to the Group:

As of June 30, 2018, December 31, 2017 and June 30, 2017, the non-controlling interest amounted to \$8,622,612, \$8,220,847 and \$8,182,643, respectively. The information of non-controlling interest that are material to the Group and respective subsidiaries is as follows:

Name of subsidiary	Principal place of business	Non-controlling interest			
		June 30, 2018		December 31, 2017	
		Amount	Ownership (%)	Amount	Ownership (%)
Hotai Finance Co., Ltd.	Taiwan	\$ 3,195,655	33.967%	\$ 3,224,731	33.967%
Hotai Leasing Co., Ltd.	Taiwan	1,040,897	33.958%	1,111,065	33.958%

Name of subsidiary	Principal place of business	Non-controlling interest	
		June 30, 2017	
		Amount	Ownership (%)
Hotai Finance Co., Ltd.	Taiwan	\$ 2,949,810	33.967%
Hotai Leasing Co., Ltd.	Taiwan	1,014,648	33.958%

Summarized financial information of the subsidiaries:

Balance sheets

	<u>Hotai Finance Co., Ltd.</u>		
	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Current assets	\$ 114,852,895	\$ 107,112,139	\$ 97,197,774
Non-current assets	2,360,745	2,429,738	2,613,608
Current liabilities	(95,838,324)	(89,101,010)	(84,291,445)
Non-current liabilities	(10,876,841)	(9,909,275)	(6,140,419)
Total net assets	<u>\$ 10,498,475</u>	<u>\$ 10,531,592</u>	<u>\$ 9,379,518</u>

	<u>Hotai Leasing Co., Ltd.</u>		
	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Current assets	\$ 2,246,791	\$ 2,249,706	\$ 2,060,622
Non-current assets	27,508,784	24,935,495	24,192,268
Current liabilities	(10,997,552)	(9,871,742)	(10,560,769)
Non-current liabilities	(15,692,927)	(14,041,579)	(12,704,172)
Total net assets	<u>\$ 3,065,096</u>	<u>\$ 3,271,880</u>	<u>\$ 2,987,949</u>

Statements of comprehensive income

	<u>Hotai Finance Co., Ltd.</u>	
	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Revenue	\$ 2,780,809	\$ 2,265,331
Profit before income tax	583,839	471,414
Income tax expense	(157,771)	(110,207)
Profit for the period	<u>426,068</u>	<u>361,207</u>
Other comprehensive loss for the period, net of tax	(65,859)	(24,150)
Total comprehensive income for the period	<u>\$ 360,209</u>	<u>\$ 337,057</u>
Comprehensive income attributable to non-controlling interests	<u>\$ 122,352</u>	<u>\$ 114,488</u>

	<u>Hotai Finance Co., Ltd.</u>	
	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Revenue	\$ 5,353,229	\$ 4,641,469
Profit before income tax	1,170,432	919,750
Income tax expense	(281,524)	(198,456)
Profit for the period	<u>888,908</u>	<u>721,294</u>
Other comprehensive loss for the period, net of tax	(22,960)	(75,322)
Total comprehensive income for the period	<u>\$ 865,948</u>	<u>\$ 645,972</u>
Comprehensive income attributable to non-controlling interests	<u>\$ 294,136</u>	<u>\$ 219,417</u>

	<u>Hotai Leasing Co., Ltd.</u>	
	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Revenue	\$ 3,812,744	\$ 3,817,294
Profit before income tax	182,529	155,158
Income tax expense	(55,022)	(43,542)
Profit for the period	<u>127,507</u>	<u>111,616</u>
Other comprehensive income (loss) for the period, net of tax	(9,316)	10,894
Total comprehensive income for the period	<u>\$ 118,191</u>	<u>\$ 122,510</u>
Comprehensive income attributable to non-controlling interests	<u>\$ 40,135</u>	<u>\$ 41,602</u>

	<u>Hotai Leasing Co., Ltd.</u>	
	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Revenue	\$ 7,727,343	\$ 7,522,306
Profit before income tax	364,076	313,949
Income tax expense	(266,903)	(74,165)
Profit for the period	<u>97,173</u>	<u>239,784</u>
Other comprehensive income (loss) for the period, net of tax	<u>6,861</u>	(24,530)
Total comprehensive income for the period	<u>\$ 104,034</u>	<u>\$ 215,254</u>
Comprehensive income attributable to non-controlling interests	<u>\$ 35,328</u>	<u>\$ 73,096</u>

Statements of cash flows

	<u>Hotai Finance Co., Ltd.</u>	
	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Net cash used in operating activities	(\$ 6,025,763)	(\$ 2,595,752)
Net cash used in investing activities	(297,178)	(447,230)
Net cash provided by financing activities	6,388,157	3,082,664
Net effect of changes in foreign currency exchange rates	<u>64,739</u>	(15,567)
Increase in cash and cash equivalents	129,955	24,115
Cash and cash equivalents, beginning of period	<u>763,737</u>	<u>472,262</u>
Cash and cash equivalents, end of period	<u>\$ 893,692</u>	<u>\$ 496,377</u>

	<u>Hotai Leasing Co., Ltd.</u>	
	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Net cash provided by operating activities	\$ 5,014,851	\$ 5,536,628
Net cash used in investing activities	(8,061,000)	(6,072,435)
Net cash provided by financing activities	<u>3,033,880</u>	<u>571,526</u>
(Decrease) increase in cash and cash equivalents	(12,269)	35,719
Cash and cash equivalents, beginning of period	<u>153,391</u>	<u>197,106</u>
Cash and cash equivalents, end of period	<u>\$ 141,122</u>	<u>\$ 232,825</u>

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollar ("NTD"), which is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise, except when deferred in other comprehensive income as qualifying cash flow hedges.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within "foreign exchange gains or losses".

B. Translation of foreign operations

The operating results and financial position of all the group entities, associates and jointly arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

(b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and

(c) All resulting exchange differences are recognized in other comprehensive income.

(5) Classification of current and non-current items

Consolidated subsidiaries are engaged in installment sales, and the operating cycle usually exceeds 1 year. The consolidated subsidiaries use the operating cycle as its criterion for classifying current or non-current assets and liabilities related to installment sales. For other assets and liabilities, the criteria are as follows:

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

(a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realized within twelve months from the balance sheet date;

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

(a) Liabilities that are expected to be settled within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be settled within twelve months from the balance sheet date;

(d) 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.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(7) Financial assets at fair value through profit or loss

A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortized cost or fair value through other comprehensive income. The Group could designate financial assets at fair value through profit or loss using overlay approach when financial assets meet the following conditions:

(a) It is measured at fair value through profit or loss applying IFRS 9 but would not have been measured at fair value through profit or loss in its entirety applying IAS 39; and

(b) It is not held in respect of an activity that is unconnected with contracts within the scope of this IFRS.

- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value. All related transaction costs are recognized in profit or loss. The Group subsequently measures the financial assets at fair value with any gain or loss recognized in profit or loss.
- D. The Group recognizes the dividend income when the right to receive dividends is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.
- E. Subsidiary, Hotai Insurance Co., Ltd., reclassifies between profit or loss and other comprehensive income an amount for the designated financial assets applying overlay approach. Accordingly, the amount reclassified is equal to the difference between:
 - (a) The amount reported in profit or loss for the designated financial assets applying overlay approach; and
 - (b) The amount that would have been reported in profit or loss for the designated financial assets applying overlay approach if IAS 39 had been applied.

(8) Financial assets at fair value through other comprehensive income

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognize changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:
 - (a) The objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets; and
 - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognized and derecognized using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value:
 - (a) The changes in fair value of equity investments that were recognized in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognized as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.
 - (b) Except for the recognition of impairment loss, interest income and gain or loss on foreign exchange which are recognized in profit or loss, the changes in fair value of debt instruments are taken through other comprehensive income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

(9) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.

B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(10) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(11) Impairment of financial assets

A. For debt instruments measured at fair value through other comprehensive income, receivables, and financial assets at amortized cost, at each reporting date, the Group recognizes the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognizes the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Group recognizes the impairment provision for lifetime ECLs.

B. The Group will perform the following procedure when the financial assets are assessed as having a significant increase in credit risk after initial recognition:

(a) Financial assets at fair value through other comprehensive income

Reclassify the amount of credit loss which originally are unrealized gains (losses) of accumulated losses of other comprehensive income as profit or loss.

(b) Financial assets at amortized cost

Decrease its carrying amount through allowance account. When financial assets at amortized cost are assessed as no longer recoverable, write-off the allowance accounts. For proceeds that were previously written-off and subsequently recovered, credit the allowance account. Except for financial assets at amortized cost that are assessed as no longer recoverable and written-off allowance accounts, the carrying amount of allowance accounts are recognized in profit or loss.

(12) Loss allowance

The Group provisioned for the appropriate allowance loss under IFRS 9, IFRS 4 and “Regulation Governing the Procedure for Asset Assessment and Collection of Overdue Debts in Insurance Industry” for receivables, investments in debt instruments measured at fair value through other comprehensive income, financial assets at amortized cost, claims recoverable from reinsurers of reinsurance contract assets, due from reinsurance and ceding companies, other receivables and debt obligations.

(13) Derecognition of financial assets

The Group derecognizes a financial asset when one of the following conditions is met:

A. The contractual rights to receive the cash flows from the financial asset expire.

B. The contractual rights to receive cash flows of the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.

C. The contractual rights to receive cash flows of the financial asset have been transferred; however, the Group has not retained the control of the financial asset.

(14) Lease receivables/ operating leases (lessor)

A. Based on the terms of a lease contract, a lease is classified as a finance lease if the lessee assumes substantially all the risks and rewards incidental to ownership of the leased asset.

(a) At commencement of the lease term, the lessor should record a finance lease in the balance sheet as 'lease receivables' at an amount equal to the net investment in the lease (including initial direct costs). The difference between gross lease receivable and the present value of the receivable is recognized as 'unearned finance income of finance lease'.

(b) The lessor should allocate finance income over the lease term based on a systematic and rational basis reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

(c) Lease payments (excluding costs for services) relating to the lease term are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

B. Lease income from an operating lease (net of any incentives given to the lessee) is recognized in profit or loss on a straight-line basis over the lease term.

(15) Inventories

Inventories are stated at the lower of cost and net realizable value. Except for the cost of inventories of Ho Tai Development Co., Ltd. which is determined using the weighted-average method, the cost of inventories of all other entities in the group is determined using the moving average method. The item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the applicable variable selling expenses.

(16) Investments accounted for using equity method / associates

A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.

B. The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

C. When changes in an associate's equity are not recognized in profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognizes change in ownership interests in the associate in 'capital surplus' in proportion to its ownership.

D. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

- E. In the case that an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for using the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Group's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.
- F. When the Group disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it retains significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

(17) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each component of property, plant and equipment that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate using IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	5 ~ 60 years
Utility equipment	5 ~ 10 years
Office equipment	2 ~ 20 years
Machinery and equipment	2 ~ 10 years
Rental assets	1 ~ 10 years
Leasehold improvements	1 ~ 35 years

(18) Operating leases (lessee)

- A. If the Group is a lessee, leased assets will not be recognized in the balance sheet. Payments that the Company receives or charges under the operating lease are recognized as 'income from investment property' and 'expenses and losses from investment property'. Rental income and expenses from operating lease include rental rewards and confirmed long-term future rent adjustment, which are recognized as gain and loss on a straight-line basis over the lease terms.
- B. A lease is classified as a finance lease if the lessee assumes substantially all the risks and rewards incidental to ownership of the leased asset. The Group leases in equipment under finance lease. At the lease's commencement, the lower of the fair value of the leased asset and the present value of the minimum lease payments is capitalized. Finance lease payments of each period are apportioned between the interest expenses on finance lease and the reduction of the outstanding liability. The interest expense is recognized in the statement of comprehensive income within 'interest expense'. Total minimum lease payments, net of the interest expense on finance lease, is recognized as 'payables'.

(19) Investment property

- A. An investment property is stated initially at its cost and measured subsequently using the cost model.
- B. The significant improvements, additions and betterments of an item of investment property shall be recognized as an asset if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognized. General repairs and maintenance are charged to current expenses.
- C. An investment property shall be derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. When assets are derecognized, the cost and the accumulated depreciation at the time of sale or retirement are written off. Gain and loss on sale of the investment property, rental income, and relevant payment shall be recognized in gain and loss on investment property under net investment income (loss). Except for land, property (including accessory equipment) is depreciated on a straight-line basis over its estimated useful life of 5~50 years. Each part of an item of investment property with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change.

(20) Intangible assets

A. Computer software

Intangible assets held by the Group pertain to computer software which are stated at cost and subsequently measured using the cost model. The computer software has a finite useful life and is amortized on a straight-line basis over its estimated economic useful life of 2~3 years.

B. Goodwill

Goodwill arises from business combination accounted for using the acquisition method. Goodwill acquired in business combination shall be tested for impairment at least once a year. Impairment loss is recognized when the goodwill is impaired. Impairment loss of goodwill that has been recognized shall not be reversed.

C. Client relationship

Arising from business combination, and amortized on a straight-line basis over 30 years.

(21) Impairment of non-financial assets

- A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.
- B. The recoverable amounts of goodwill, intangible assets with an indefinite useful life and intangible assets that have not yet been available for use are evaluated periodically. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.
- C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or groups of cash-generating units, that is/are expected to benefit from the synergies of the business combination.

(22) Borrowings

Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

(23) Notes and accounts payable

- A. Liabilities for purchases of raw materials, goods or services and notes payables resulting from operating and non-operating activities.
- B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

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

- A. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges.
- B. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognized in profit or loss. The Group subsequently measures the financial liabilities at fair value with any gain or loss recognized in profit or loss.

(25) Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(26) Bonds payable

Ordinary corporate bonds issued by the Group are initially recognized at fair value, net of transaction costs incurred. Ordinary corporate bonds are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is accounted for as the premium or discount on bonds payable and presented as an addition to or deduction from bonds payable, which is amortized in profit or loss as an adjustment to the 'interest expense' over the period of bond circulation using the effective interest method.

(27) Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

At initial recognition, the Group measures financial guarantee contracts at fair value and subsequently at the higher of the amount of provisions determined by the expected credit losses and the cumulative gains that were previously recognized.

(28) Non-hedging and embedded derivatives

A. Non-hedging derivatives are initially recognized at fair value on the date a derivative contract is entered into and recorded as financial assets or financial liabilities at fair value through profit or loss. They are subsequently remeasured at fair value and the gains or losses are recognized in profit or loss.

B. Under the financial assets, the hybrid contracts embedded with derivatives are initially recognized as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortized cost based on the contract terms.

C. Under the non-financial assets, whether the hybrid contracts embedded with derivatives are accounted for separately at initial recognition is based on whether the economic characteristics and risks of an embedded derivative are closely related in the host contract. When they are closely related, the entire hybrid instrument is accounted for by its nature in accordance with the applicable standard. When they are not closely related, the derivative is accounted for differently from the host contract as derivative while the host contract is accounted for by its nature in accordance with the applicable standard. Alternatively, the entire hybrid instrument is designated as financial liabilities at fair value through profit or loss upon initial recognition.

(29) Hedge accounting

A. At the inception of the hedging relationship, there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements.

B. The Group designates the hedging relationship as follows:

Cash flow hedge: a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

C. Cash flow hedges

- (a) The cash flow hedge reserve associated with the hedged item is adjusted to the lower of the following (in absolute amounts):
 - i. The cumulative gain or loss on the hedging instrument from inception of the hedge; and
 - ii. The cumulative change in fair value of the hedged item from inception of the hedge.
- (b) The effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income. The gain or loss on the hedging instrument relating to the ineffective portion is recognized in profit or loss.
- (c) The amount that has been accumulated in the cash flow hedge reserve in accordance with (a) is accounted for as follows:
 - i. If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Group shall remove that amount from the cash flow hedge reserve and include it directly in the initial cost or other carrying amount of the asset or liability.
 - ii. For cash flow hedges other than those covered by i. above, that amount shall be reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss.
 - iii. If that amount is a loss and the Group expects that all or a portion of that loss will not be recovered in one or more future periods, it shall immediately reclassify the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.
- (d) When the hedging instrument expires, or is sold, terminated, exercised or when the hedging relationship ceases to meet the qualifying criteria, if the forecast transaction is still expected to occur, the amount that has been accumulated in the cash flow hedge reserve shall remain in the cash flow hedge reserve until the forecast transaction occurs; if the forecast transaction is no longer expected to occur, the amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment.

(30) Provisions

Provisions (provision for warranties) are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognized as interest expense. Provisions are not recognized for future operating losses. For details of provisions for other insurance liabilities, please refer to Note 4(37).

(31) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expenses in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds at the balance sheet date of a currency and term consistent with the currency and term of the employment benefit obligations.
- ii. Remeasurement arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and immediately presented in retained earnings.
- iii. Past-service costs are recognized immediately in profit or loss.
- iv. Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations, curtailments, settlements, or other significant one-off events. And, the related information should be disclosed accordingly.

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Company's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Group recognizes expense as it can no longer withdraw an offer of termination benefits or it recognizes relating restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

D. Employees' compensation and directors' remuneration

Employees' compensation and directors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(32) Classification of insurance contracts

The insurance and reinsurance businesses of the subsidiary, Hotai Insurance Co., Ltd. for insurance contracts newly issued or undertaken are accounted for in accordance with IFRS 4, 'Insurance Contracts'. They are tested in accordance with the subsidiary's internal control procedures to classify newly issued insurance products. Currently, insurance policies sold by Hotai Insurance Co., Ltd. are all insurance contracts.

Insurance contract is a contract under which one party (the insurer) accepts significant risk transferred from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder, including reinsurance contracts with a transferrable significant risk held. The definition of significant transferred risks employed by Hotai Insurance Co., Ltd. refers to an occurrence of any event or incident that leads to Hotai Insurance Co., Ltd.'s additional significant payment.

(33) Direct insurance income and expenses

A. Direct premiums are recognized in the year the insurance policies are issued without regard to the effective dates of the policies except premiums related to open cover policies which are recognized in the year they are earned. Premiums adjustments, including policy cancellations, are recorded in the year they occur.

B. Claims are accrued after the claim letters are received.

C. Commission expenses are accrued after the policies are issued.

(34) Reinsurance contract

Reinsurance premiums ceded and reinsurance premiums are recognized on the date the bills are received. A sufficient and reasonable method should be adopted to estimate reinsurance premiums ceded. Relevant revenues and expenses (such as reinsurance commission expenses and revenues, handling fee expenses and revenues, reinsurance claims recovery, etc.) shall all be recognized.

With the classification of reinsurance contracts, Hotai Insurance Co., Ltd. assesses whether significant insurance risk transferred to the reinsurer. If the significant insurance risks of reinsurance contracts are not transferred to reinsurer, the subsidiary should treat reinsurance contracts as deposit accounting.

Hotai Insurance Co., Ltd. evaluates the impairment losses and unrecoverable amounts of reinsurance reserve assets, claims recoverable from reinsurers, due from reinsurers and ceding companies and funds held by other insurance companies. When there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the cedant may not receive all amounts due to it under the terms of the contract; and that event has a reliably measurable impact on the amounts that the cedant will receive from the reinsurer, the cedant reduces the carrying amount accordingly and recognizes the provision for impairment loss. Allowance for doubtful debts of recoverable from the reinsurers, due from reinsurers and ceding companies and funds held by other insurance companies is recognized when the cedant may not receive all amounts.

(35) Salvage and subrogation

Salvage legally assumed from the claim procedure by direct underwriting business and subrogation legally acquired for the rights of the subject matter and relevant claims expenses are recognized when the actual recovery is definite and the amount can be reliably measured.

(36) Underwriting pools and coinsurance

Hotai Insurance Co., Ltd. has participated in the coinsurance of compulsory automobile liability insurance, residential earthquake fund, engineering insurance association, injury insurance for acts of terrorism co-insurance organizations and Nuclear Energy Insurance Federation of the Republic of China. The Company recognizes coinsurance premiums based on its participation share.

(37) Insurance liabilities

All reserves of insurance contracts that Hotai Insurance Co., Ltd. recognized are based on “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises”, “Regulations Governing the Setting Aside and for Management of the Reserves of Compulsory Automobile Liability Insurance”, “Regulations Governing the Setting Aside of Nuclear Reserve by Property Insurance Enterprises”, “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance”, “Notes for Strengthening Reserve of Pool Members Residential Earthquake”, “Regulations Governing Various Reserves for Commercial Earthquake Insurance and Typhoon Flood Insurance by Property Insurance Enterprises” and “Notes for Strengthening Catastrophe Reserve of Property Insurance Enterprises”, and shall be certified by actuary authorized by the Financial Supervisory Commission. Provision for reserve is also applicable for assumed reinsurance and ceded reinsurance business, but is not applicable for special reserve and liability adequacy reserve.

Except for the reserves for one-year group accident insurance which is provided based on the higher of actual insurance premium or insurance premium calculated in accordance with the Tai-Tsai-Bao Letter No. 852367814, the provision for other insurance liabilities is based on the following:

A. Unearned premium reserve

Unearned premium reserve is provided based on various risk calculation for effective contracts yet to mature or covered risks yet to terminate in the coverage period based on unexpired risks of effective and unexpired contracts or covered risks.

B. Claims reserve

Claims reserve with a coverage period are provided based on claim experience and expenses of various insurance types and are calculated based on actuarial principles. Besides, reserves are provided for “claims reported but not paid” and “claims incurred but not reported”. For “claims reported but not paid”, a reserve has been provided on an individual claim basis for each type of insurance.

C. Special reserve

Special reserves includes “catastrophe reserve” and “risk claim reserve”. Except for compulsory automobile liability insurance, nuclear insurance, residential earthquake insurance and commercial earthquake and typhoon flood insurance which are covered by other regulations requiring reserves for them to be recognized under liability, the additional provision for special reserve less income tax should be recognized as special reserve under equity after annual closing. The release of special reserve shall be made through special reserve under equity based on its net value after tax.

D. Premium deficiency reserve

Potential claims and expenses are estimated for effective contracts yet to mature and injury insurance contracts with a coverage period. If the assessed amount is more than unearned

premium reserve and expected premium income, the insufficient amount is recognized as premium deficiency reserve by product types.

E. Liability adequacy reserve

In accordance with IFRS 4, 'Insurance Contracts' and the regulations of The Actuarial Institute of the Republic of China, the subsidiary's liability adequacy test is performed using the gross premium valuation method based on all contracts of the subsidiary. At the end of each reporting period, the test is performed by comparing the carrying amount of insurance liabilities less related deferred acquisition costs and related intangible assets with current estimates of future cash flows under its insurance contracts. If the carrying amount is insufficient, the provision for liability adequacy reserve for the entire deficiency is recognized in profit or loss in the period.

F. Unqualified ceded reserve

Unqualified reinsurance ceded reserve under "Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms", should be disclosed in financial statements.

Among the reserves above, except for unearned premium reserve for long-term fire insurance which was calculated at a rate of 7.8% based on the coefficient table of unearned premium reserve for long-term fire insurance, the other reserves were not calculated by discounting.

(38) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.
- D. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.

- E. A deferred tax asset shall be recognized for the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.
- F. The interim period income tax expense is recognized based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.
- G. If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognizes the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognized outside profit or loss is recognized in other comprehensive income or equity while the effect of the change on items recognized in profit or loss is recognized in profit or loss.

(39) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(40) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(41) Revenue recognition

A. Sales of goods

- (a) The Group sells cars and related products. Sales are recognized when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.
- (b) Sales revenue was recognized based on the contract price net of sales discount. Accumulated experience and other known reason is used to estimate and provide for the sales discounts and allowances, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. A refund liability is recognized for expected sales discounts and allowances payable to customers in relation to sales made until the end of the reporting period.
- (c) The Group's obligation to provide a refund or maintenance for faulty products under the standard warranty terms is recognized as a provision.
- (d) A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

- (e) The Group operates a loyalty programme where retail customers accumulate points for purchases made which entitle them to discount on future purchases. The points provide a material right to customers that they would not receive without entering into a contract. Therefore, the promise to provide points to the customer is a separate performance obligation. The transaction price is allocated to the product and the points on a relative stand-alone selling price basis. The stand-alone selling price per point is estimated on the basis of the discount granted when the points are redeemed and on the basis of the likelihood of redemption, based on past experience. The stand-alone selling price of the product sold is estimated on the basis of the retail price. A contract liability is recognized for the transaction price which is allocated to the points and revenue is recognized when the points are redeemed or expire.
- (f) Installment sales for vehicles - the subsidiary, Hotai Finance Co., Ltd. engages in installment sales which mainly aims to receive interest income rather than gross profit. There is no gross profit from such transactions. The accounting treatment is to recognize future proceeds from loans receivable and not to recognize sales revenue and cost of sales when the transaction occurs. When the amount of installment payment exceeds the price of cash sale, the difference is recognized as unrealized interest income and listed as a deduction to installment notes and accounts receivable, and interest is recognized using interest method annually over the installment period. Furthermore, the commission expense related to installment payments is deferred (shown under 'prepayments') and amortized over the term of the installment payments. Other related cost is recognized as current expenses when incurred.

B. Service revenue

The Group provides services related to vehicles and air conditioners for vehicles. Revenue from delivering services is recognized under the percentage-of-completion method when the outcome of services provided can be estimated reliably. The stage of completion of a service contract is measured by the proportion of contract costs incurred for services performed as of the financial reporting date to the estimated total costs for the service contract. If the outcome of a service contract cannot be estimated reliably, contract revenue should be recognized only to the extent that contract costs incurred are likely to be recoverable.

C. Recognition of premium revenue and deferred acquisition cost of the insurance business of Hotai Insurance Co., Ltd. were as follows:

- (a) For the revenue recognition policies on insurance and reinsurance contracts, please refer to Note 4(33) and (34).
- (b) Commission revenue is recognized on the accrual basis of the service period.

D. Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year or one operating period. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

E. Incremental costs of obtaining a contract

The Group recognizes an asset (shown as 'other non-current assets') the incremental costs (mainly comprised of sales commissions) of obtaining a contract with a customer if the Group expects to recover those costs. The recognized asset is amortized on a systematic basis that is consistent with the transfers to the customer of the goods or services to which the asset relates.

The Group recognizes an impairment loss to the extent that the carrying amount of the asset exceeds the remaining amount of consideration that the Group expects to receive less the costs that have not been recognized as expenses.

(42) Business combinations

- A. The Group uses the acquisition method to account for business combinations. The consideration transferred for an acquisition is measured as the fair value of the assets transferred, liabilities incurred or assumed and equity instruments issued at the acquisition date. All acquisition-related costs are expensed as incurred. Identified assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to the proportionate share of the entity's net assets in the event of liquidation at the present ownership instruments' proportionate share in the recognized amounts of the acquiree's identified net assets. All other non-controlling interests should be measured at the acquisition-date fair value.
- B. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previous equity interest in the acquiree over the fair value of the identified assets acquired and the liabilities assumed is recorded as goodwill at the acquisition date.

(43) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Group's Chief Operating Decision-Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical judgements in applying the Group's accounting policies

None.

(2) Critical accounting estimates and assumptions

A. Revenue recognition

The Group estimates sales discounts and returns refund liabilities for sales returns based on historical results and other known factors. Provisions for such liabilities are recorded as a deduction item to sales revenues when the sales are recognized. The Group reassesses the reasonableness of estimates of discounts and returns periodically.

B. Provisions for warranty

To provide vehicle owners more complete after-sales service and dependable quality, in addition to 3-year or 100 thousand-kilometer limited warranty offered by original manufacturer, the Company provides extra 4th year or 20 thousand-kilometer limited warranty for all vehicles in the Toyota and Lexus line-up. Provisions for warranty is estimated based on

historical information regarding the nature, frequency, and average cost of claims for each vehicle line by model year, and is revaluated on a regular basis. Please refer to Note 6(22) “Provisions” for more information.

C. Impairment assessment of goodwill and customer relation

The impairment assessment of goodwill and customer relation relies on the Group’s subjective judgement, including identifying cash-generating units, allocating assets and liabilities as well as goodwill and customer relation to related cash-generating units, and determining the recoverable amounts of related cash-generating units. Please refer to Note 6(13) for details.

D. Doubtful accounts valuation of accounts receivable

For the subsidiary, Hotai Finance Co., Ltd., the provision for allowance for impairment of accounts receivable is recognized individually when the accounts receivable becomes past due and deemed unrecoverable by assessing the customer’s financial status or payment history. Other accounts receivable that were past due were provided for allowance for impairment based on the forecastability factors to adjust historical and timely information of specific period to assess the allowance for impairment determined by ageing. The valuation of provision is a reasonable prediction of future events at the balance sheet date. Significant changes may occur when there are differences between actual results and estimation.

E. Insurance liabilities

The estimates and significant assumptions of Hotai Insurance Co., Ltd.’s insurance contracts are used for claim reserve liabilities and claim reserve assets ceded.

The claim reserve liabilities are estimated through adoption of internationally accepted actuarial methods, nature or location of insurance risks, claim payment development module, experience data, and etc., which resulted in a reasonable ultimate claims paid amount. The calculation for reported but not paid claims are based on the experience of claim handling experts by each case and the remaining shall be incurred but not reported reserve.

For claim reserve assets ceded, the amounts of claim reserve recovered from reinsurers are estimated for each insurance case.

Hotai Insurance Co., Ltd.’s significant assumptions for claims reserve include:

(A) Loss development factors: properly chosen loss development factors based on experience over the past few years.

(B) Expected loss ratio for each insurance line of business and accident year: the expected loss ratio is selected based on the historical loss trends of each insurance line of business and accident years.

The abovementioned assumptions exclude earthquake insurances, compulsory automobile insurances and nuclear insurances, while their reserves are provided in accordance with the regulatory requirements.

Analysis of insurance risk sensitivity is provided in Note 12 (6) (B).

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Cash on hand and revolving funds	\$ 14,466	\$ 15,516	\$ 12,264
Checking accounts and demand deposits	6,468,112	5,932,295	4,438,358
Cash equivalents			
Time deposits	1,445,452	1,373,452	714,802
Short-term notes and bills	<u>4,882,087</u>	<u>7,720,413</u>	<u>3,854,535</u>
	<u>\$ 12,810,117</u>	<u>\$ 15,041,676</u>	<u>\$ 9,019,959</u>

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. As of June 30, 2018, December 31, 2017 and June 30, 2017, the Group, presented its long-term time deposits of \$2,430,250, \$2,372,029 and \$1,470,829, respectively, under other financial assets-current and non-current.

C. Of the short-term notes held by the Group, investments in notes issued under reverse repurchase agreements have obtained notes as collateral. The maximum exposure amount after receiving financial collateral is the net amount after offsetting. For related explanations, please refer to Note 6(6).

(2) Financial instruments at fair value through profit or loss

<u>Items</u>	<u>June 30, 2018</u>
Financial assets at fair value through profit or loss	
Current items:	
Financial assets mandatorily measured at fair value through profit or loss	
Beneficiary certificates	\$ 4,347,260
Derivative instruments	196,670
Financial products	95,943
Listed stocks	1,059,982
Listed preference share	59,980
Exchange Traded Funds	602,140
Valuation adjustment	<u>148,808</u>
	<u>\$ 6,510,783</u>
Non-current items :	
Financial assets mandatorily measured at fair value through profit or loss	
Corporate bonds	<u>\$ 1,000,000</u>
Financial liabilities at fair value through profit or loss	
Current items:	
Financial liabilities held for trading	
Derivative instruments	<u>\$ 3,720</u>

A. Amounts recognized in profit or loss in relation to financial assets at fair value through profit or loss are listed below:

Items	Three months ended June 30, 2018	Six months ended June 30, 2018
Financial assets mandatorily measured at fair value through profit or loss		
Derivative instruments	\$ 205,609	\$ 281,240
Money market fund	2,904	4,529
Listed stocks	33,061	54,621
Listed preference share	1,056	1,986
Exchange Traded Funds	(10,575)	21,210
Beneficiary certificates	(6,973)	(14,558)
Corporate bonds	4,301	8,507
	\$ 229,383	\$ 357,535

B. The Group entered into contracts relating to derivative financial assets which were not accounted for under hedge accounting. The information is listed below:

	June 30, 2018	
<u>Derivative instruments</u>	Contract amount (Notional principal) (in thousands)	Contract period
Current items:		
Forward foreign exchange contracts	<u>USD 241,790</u>	2018.04.11~2018.09.17
Foreign exchange swap contracts	<u>USD 21,400</u>	2018.05.24~2018.08.31

The Group entered into forward foreign exchange contracts and foreign exchange swap contracts to buy USD to hedge exchange rate risk of import proceeds and foreign investments. In addition, Hotai Insurance Co., Ltd. entered into foreign exchange swap contracts to hedge exchange rate risk of foreign investments. However, these forward foreign exchange contracts and foreign exchange swap contracts are not accounted for under hedge accounting. Furthermore, the Group considers the maximum exposure amount after master netting arrangements as the net amount after offsetting. Please refer to Note 6(6) for details.

C. The Group has no financial assets at fair value through profit or loss pledged to others.

D. Information relating to credit risk of financial assets at fair value through profit or loss is provided in Note 12(2).

E. Information on financial assets at fair value through profit or loss as of December 31, 2017 and June 30, 2017 is provided in Note 12(13).

F. The Group applied the new rules under IFRS 9 retrospectively from January 1, 2018, and has elected to use overlay approach under IFRS 4, 'Insurance contract' at the same time to present the gains or losses on designated financial assets.

(a) On June 30, 2018, such financial assets designated using overlay approach are as follows:

<u>Items</u>	<u>June 30, 2018</u>
Financial assets at fair value through profit or loss designated using overlay approach	
Listed stocks	\$ 1,059,982
Listed preference shares	59,980
Exchange Traded Funds	602,140
Beneficiary certificates	961,300
Corporate bonds	500,000
Valuation adjustment	<u>140,763</u>
	<u>\$ 3,324,165</u>

(b) For the three months ended June 30, 2018, and six months ended June 30, 2018, the reclassifications between profit or loss and other comprehensive income of such financial assets designated using overlay approach are as follows:

	<u>Three months ended June 30, 2018</u>	<u>Six months ended June 30, 2018</u>
Gains recognized in profit or loss under IFRS 9	\$ 20,870	\$ 71,766
Less: Gains recognized in profit or loss under IAS 39	(15,293)	(49,687)
Profit or loss reclassified under overlay approach	<u>\$ 5,577</u>	<u>\$ 22,079</u>

G. Information on equity of the structured entities which were not controlled by the Group is as follows:

(a)

<u>Type of structured entities</u>	<u>Book value at June 30, 2018</u>	<u>Description</u>
Infrastructure fund	\$ <u>305,750</u>	Investment fund is set for raising capital, and investors acquire long-term capital gains through investing in restricted fund.

(b) The intention of the Group for holding these structured entities is for earning investment income.

(c) The Group recognized equity of the structured entities which were not consolidated into the financial statements under financial assets at fair value through profit or loss. The maximum exposed risk of such entities is the carrying amount of held assets, and the related risk exposure of the investment position is restricted by contract terms and issuance terms. Please refer to Note 12 (5) for more information.

(3) Financial assets at fair value through other comprehensive income

<u>Items</u>	<u>June 30, 2018</u>
Current items:	
Debt instrument	
Government bonds	\$ 99,824
Foreign financial bonds	<u>18,359</u>
	118,183
Valuation adjustment (including loss allowance)	665
Less: Operation bonds	<u>(98,200)</u>
	<u>\$ 20,648</u>
Non-current items:	
Debt instrument	
Government bonds	\$ 2,079,361
Corporate bonds	380,626
Financial bonds	702,826
Foreign corporate and financial bonds	<u>675,388</u>
	3,838,201
Valuation adjustment (including loss allowance)	5,971
Less: Operation bonds	<u>(202,100)</u>
	<u>3,642,072</u>
Equity instruments	
Listed stocks and unlisted stocks	359,194
Valuation adjustment	<u>569,836</u>
	<u>929,030</u>
	<u>\$ 4,571,102</u>

A. The Group has elected to classify equity instruments that are considered to be strategic investments and steady dividend income as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$929,030 as at June 30, 2018.

B. Amounts recognized in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

<u>Items</u>	<u>Three months ended June 30, 2018</u>	<u>Six months ended June 30, 2018</u>
Debt instruments at fair value through other comprehensive income		
Fair value change recognized in other comprehensive income	(\$ 6,321)	(\$ 25,715)
Cumulative other comprehensive income reclassified to profit or loss		
Reclassified due to impairment recognition	\$ 15	(\$ 141)
Reclassified due to derecognition	<u>(2,688)</u>	<u>(1,390)</u>
	<u>(\$ 8,994)</u>	<u>(\$ 27,246)</u>
Interest income recognized in profit or loss	<u>\$ 13,985</u>	<u>\$ 30,009</u>

Items	Three months ended June 30, 2018	Six months ended June 30, 2018
Equity instruments at fair value through other comprehensive income		
Fair value change recognized in other comprehensive income	\$ 22,373	\$ 58,980

C. Under the Insurance Law of the Republic of China, Hotai Insurance Co., Ltd. is required to deposit 15% of its registered operating capital with the Central Bank of Republic of China. As of June 30, 2018, government bonds with par value both of \$300,300 were deposited.

D. Information relating to credit risk of financial assets at fair value through other comprehensive income is provided in Note 12(2).

E. Information on available-for-sale financial assets and financial assets at cost as of December 31, 2017 and June 30, 2017 is provided in Note 12(13).

(4) Hedging financial assets and liabilities

	June 30, 2018	
	Current assets	Current liabilities
Cash flow hedges		
<u>Exchange rate risk and interest rate risk</u>		
Cross currency swaps	\$ 35,533	(\$ 218,549)

A. Hedge accounting is applied to remove the accounting inconsistency between the hedging instrument and the hedged item. As the Group's USD and JPY denominated borrowings are exposed to the impact of variable exchange rate and interest rates, the Group uses cross currency swap to control the exchange rate risk and interest rates under their acceptable range.

B. Transaction information associated with the Group adopting hedge accounting is as follows:

	June 30, 2018				Six months ended June 30, 2018			
	Notional amount (in thousand dollars)	Contract period	Assets carrying amount	Liabilities carrying amount	Changes in fair value in relation to recognizing hedge ineffectiveness basis	Average exchange rates	Average interest rate	Gains (losses) on valuation of ineffective hedge that will be recognized in financial assets/liabilities at fair value through profit or loss
Hedging instruments								
Cash flow hedges :								
<u>Exchange rate risk and interest rate risk</u>								
Cross currency swaps transactions								
USD	5,000	2017/5/23 ~2019/5/10	\$ -	(\$ 7,649)	\$ -	6.89	4.74	\$ -
USD	175,000	2015/10/19 ~2021/4/16	35,533	210,046)	-	30.85~32.93	0.84~1.45	-
JPY	3,100,000	2015/10/19 ~2018/9/18	-	(854)	-	0.27	1.95	-

	June 30, 2018	
	Valuation on asset's carrying amount due to fair value hedges	Valuation on liabilities' carrying amount due to fair value hedges
<u>Hedged items</u>	<u>Assets carrying amount</u>	<u>Liabilities carrying amount</u>
Cash flow hedges		
<u>Exchange rates risk and interest rate risk</u>		
Long-term borrowings	(\$ 6,450,426)	\$ 183,016

C. Cash flow hedges

	Six months ended <u>June 30, 2018</u>
<u>Other equity - cash flow hedge reserve</u>	
At January 1	(\$ 21,621)
Add: Gains (losses) on hedge effectiveness-amount recognized in other comprehensive income	(45,591)
Less: Income tax relating to the hedge effectiveness-amount recognized in other comprehensive income	10,031
Other comprehensive income attributable to non-controlling interest	<u>12,079</u>
At June 30	(<u>\$ 45,102</u>)

To hedge exposed exchange rate risk and interest rate risk arising from long-term and short-term borrowings, the Group entered into a cross currency swap agreement. The effective portion with respect to the changes in the fair value of the hedging instruments is deferred to recognize in the cash flow hedge reserve, which is under other comprehensive income, and will be directly included in finance costs when the hedged items are subsequently recognized in long-term and short-term borrowings.

D. The information on December 31, 2017 and June 30, 2017 is provided in Note 12(13).

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(5) Notes and accounts receivable, net (including related parties)

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Notes receivable	\$ 2,192,078	\$ 1,811,064	\$ 1,952,767
Installment notes receivable	7,343,248	7,149,348	7,318,935
Accounts receivable	7,570,442	5,922,968	6,509,964
Installment accounts receivable	93,820,613	88,418,262	81,847,798
Lease payments and notes receivable	18,637,795	16,199,000	11,702,625
Premiums receivable	520,229	382,366	425,339
Overdue receivable	<u>44,144</u>	<u>22,228</u>	<u>15,472</u>
	130,128,519	119,905,236	109,772,900
Less: Unrealized interest income	(8,717,358)	(8,039,001)	(7,293,286)
Unearned finance income	(2,260,194)	(1,900,973)	(1,496,926)
Allowance for doubtful accounts	<u>(1,890,617)</u>	<u>(1,658,679)</u>	<u>(1,432,831)</u>
Notes and accounts receivable, net	<u>\$ 117,260,350</u>	<u>\$ 108,306,583</u>	<u>\$ 99,549,857</u>

As of June 30, 2018, December 31, 2017 and June 30, 2017, the subsidiary - Hotai Finance Co., Ltd.'s notes receivable were pledged as collateral for loans and issuance of commercial papers to banks amounted to \$5,427,643, \$5,715,284 and \$5,938,932, respectively. Furthermore, the promissory note for installment accounts receivable pledged as collateral for loans to banks amounted to \$2,531,930, \$1,784,190 and \$2,102,354 as of June 30, 2018, December 31, 2017 and June 30, 2017, respectively.

A. The ageing analysis of receivables that were past due but not impaired is as follows:

	<u>June 30, 2018</u>
	<u>Receivables</u>
Not past due	\$ 128,375,035
Up to 30 days	152,047
31 to ~ 90 days	623,464
91 to ~ 180 days	411,443
Over 181 days	<u>566,530</u>
	<u>\$ 130,128,519</u>

The above ageing analysis was based on past due date.

B. The expected recovery of the Group's installment notes and accounts receivable is as follows:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Up to 12 months	\$ 40,946,620	\$ 39,027,733	\$ 37,236,036
Over 12 months	<u>60,217,241</u>	<u>56,539,877</u>	<u>51,930,697</u>
	<u>\$ 101,163,861</u>	<u>\$ 95,567,610</u>	<u>\$ 89,166,733</u>

C. The Group leases office machines and vehicles to others under finance lease. Based on the terms of the lease contracts, the ownership of these assets shall be transferred to the lessees when the leases expire. The gross investments in those leases and present value of total minimum lease payments receivable as of June 30, 2018, December 31, 2017 and June 30,

2017 were as follows:

	June 30, 2018		
	Total lease payments receivable	Unearned finance income	Net lease payments receivable
Not later than one year	\$ 11,192,492	(\$ 1,315,728)	\$ 9,876,764
Later than one year but not later than five years	<u>7,445,303</u>	<u>(944,466)</u>	<u>6,500,837</u>
	<u>\$ 18,637,795</u>	<u>(\$ 2,260,194)</u>	<u>\$ 16,377,601</u>
	December 31, 2017		
	Total lease payments receivable	Unearned finance income	Net lease payments receivable
Not later than one year	\$ 9,707,499	(\$ 1,100,934)	\$ 8,606,565
Later than one year but not later than five years	6,491,363	(800,039)	5,691,324
Over five years	<u>138</u>	<u>-</u>	<u>138</u>
	<u>\$ 16,199,000</u>	<u>(\$ 1,900,973)</u>	<u>\$ 14,298,027</u>
	June 30, 2017		
	Total lease payments receivable	Unearned finance income	Net lease payments receivable
Not later than one year	\$ 8,463,981	(\$ 863,858)	\$ 7,600,123
Later than one year but not later than five years	<u>3,238,644</u>	<u>(633,068)</u>	<u>2,605,576</u>
	<u>\$ 11,702,625</u>	<u>(\$ 1,496,926)</u>	<u>\$ 10,205,699</u>

D. The quality information of accounts receivable is based on customers' credit ranking and recoverable period of receivables in order to calculate the accrual of impairment. The Group has an internal credit rating policy. The Group's finance department periodically or occasionally evaluates whether credit ratings of existing customers are appropriate and adjusts to obtain the latest information when necessary. Customers' credit rating assessment is based on financial position and repayment position.

E. Information relating to credit risk of accounts receivable and notes receivable is provided in Note 12(2).

(6) Offsetting financial assets and financial liabilities

A. The derivatives and reverse repurchase agreement held by the Group do not conform to the offsetting requirements under paragraph 42 of IAS 32. However, the subsidiary has entered into enforceable master netting arrangements or similar agreements with counterparties. Upon the event of a delinquency (default, insolvency or bankruptcy) of a party, the counterparties may set-off the netting arrangement or pursue legal action against the collateral. The related amount of the collateral received (paid) is its fair value. However, the offsetting amount is limited to

recognized financial assets (liabilities).

B. Financial assets and financial liabilities subject to master netting arrangements are as follows:

June 30, 2018						
Financial assets						
Description	Gross amounts of recognized financial assets (a)	Gross amounts of recognized financial liabilities set off (b)	Net amounts of financial assets presented in the balance sheet (c)=(a)-(b)	Not set off in the balance sheets		Net amount (f)=(c)-(d)-(e)
				Financial instruments (d)	Collateral received (e)	
Reverse repurchase agreement	\$4,882,087	\$ -	\$ 4,882,087	\$ -	\$4,882,087	\$ -
December 31, 2017						
Financial assets						
Description	Gross amounts of recognized financial assets (a)	Gross amounts of recognized financial liabilities set off (b)	Net amounts of financial assets presented in the balance sheet (c)=(a)-(b)	Not set off in the balance sheets		Net amount (f)=(c)-(d)-(e)
				Financial instruments (d)	Collateral received (e)	
Reverse repurchase agreement	\$7,720,413	\$ -	\$ 7,720,413	\$ -	\$7,720,413	\$ -
June 30, 2017						
Financial assets						
Description	Gross amounts of recognized financial liabilities (a)	Gross amounts of recognized financial assets set off (b)	Net amounts of financial liabilities presented in the balance sheet (c)=(a)-(b)	Not set off in the balance sheets		Net amount (f)=(c)-(d)-(e)
				Financial instruments (d)	Collateral received (e)	
Reverse repurchase agreement	\$3,854,535	\$ -	\$ 3,854,535	\$ -	\$3,854,535	\$ -
Derivative instruments	31	-	31	31	-	-
	\$3,854,566	\$ -	\$ 3,854,566	\$ 31	\$3,854,535	\$ -
Financial liabilities						
Description	Gross amounts of recognized financial liabilities (a)	Gross amounts of recognized financial assets set off (b)	Net amounts of financial liabilities presented in the balance sheet (c)=(a)-(b)	Not set off in the balance sheets		Net amount (f)=(c)-(d)-(e)
				Financial instruments (d)	Collateral received (e)	
Derivative instruments	\$ 3,131	\$ -	\$ 3,131	\$ 31	\$ -	\$ 3,100

(7) Inventories

	<u>June 30, 2018</u>		
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Book value</u>
Vehicles and parts	\$ 4,397,894	(\$ 73,593)	\$ 4,324,301
Air conditioner and parts	2,940,618	(374,954)	2,565,664
Other goods	166,217	(7,225)	158,992
Inventory in transit	<u>1,313,066</u>	<u>-</u>	<u>1,313,066</u>
	<u>\$ 8,817,795</u>	<u>(\$ 455,772)</u>	<u>\$ 8,362,023</u>

	<u>December 31, 2017</u>		
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Book value</u>
Vehicles and parts	\$ 2,932,147	(\$ 69,660)	\$ 2,862,487
Air conditioner and parts	2,240,281	(370,186)	1,870,095
Other goods	128,199	(7,226)	120,973
Inventory in transit	<u>2,356,380</u>	<u>-</u>	<u>2,356,380</u>
	<u>\$ 7,657,007</u>	<u>(\$ 447,072)</u>	<u>\$ 7,209,935</u>

	<u>June 30, 2017</u>		
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Book value</u>
Vehicles and parts	\$ 3,767,551	(\$ 71,001)	\$ 3,696,550
Air conditioner and parts	2,931,933	(309,328)	2,622,605
Other goods	171,981	(7,341)	164,640
Inventory in transit	<u>1,904,046</u>	<u>-</u>	<u>1,904,046</u>
	<u>\$ 8,775,511</u>	<u>(\$ 387,670)</u>	<u>\$ 8,387,841</u>

A. Above listed inventories were not pledged to others as collateral.

B. The cost of inventories recognized as expense for the period:

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Cost of goods sold	\$ 36,215,493	\$ 32,980,283
Loss on market value decline of inventories	<u>1,514</u>	<u>19,460</u>
	<u>\$ 36,217,007</u>	<u>\$ 32,999,743</u>

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Cost of goods sold	\$ 71,720,434	\$ 70,152,492
Loss on market value decline of inventories	<u>8,700</u>	<u>34,258</u>
	<u>\$ 71,729,134</u>	<u>\$ 70,186,750</u>

(8) Prepayments

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Deferred commissions expense	\$ 2,570,461	\$ 2,424,926	\$ 2,264,281
Prepayments to suppliers	1,997,753	1,526,274	2,205,963
Offset against business tax payable	1,011,948	960,070	862,241
Prepaid insurance premiums	502,498	547,038	471,276
Other prepayments	1,365,182	1,220,355	1,161,602
	<u>\$ 7,447,842</u>	<u>\$ 6,678,663</u>	<u>\$ 6,965,363</u>

(9) Reinsurance contract assets and insurance liabilities

A. Details of reinsurance contract assets are as follows:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Claims recoverable from reinsurers	\$ 45,168	\$ 38,905	\$ 150,095
Due from reinsurance and ceding companies	139,462	128,090	171,497
Reinsurance reserve assets			
-Ceded unearned premium reserve	708,378	618,021	574,137
-Ceded claims reserve	726,586	684,194	887,622
Due from reinsurance and ceding companies-overdue	<u>6,732</u>	<u>7,911</u>	<u>12,845</u>
	1,626,326	1,477,121	1,796,196
Less: Loss allowance	(7,452)	-	-
Less: Allowance for bad debts	<u>-</u>	<u>(8,681)</u>	<u>(12,119)</u>
	<u>\$ 1,618,874</u>	<u>\$ 1,468,440</u>	<u>\$ 1,784,077</u>

For the credit risk of reinsurance contract assets, please refer to Note 12 (5).

B. Movements of loss allowance/allowance for bad debts of reinsurance contract assets are as follows:

	<u>Six months ended June 30, 2018</u>
At January 1	\$ 8,681
Provisions during the period	<u>(1,229)</u>
At June 30	<u>\$ 7,452</u>
	<u>Six months ended June 30, 2017</u>
Acquired from business combinations	\$ 3,332
Provisions during the period	<u>8,787</u>
At June 30	<u>\$ 12,119</u>

C. Details of insurance liabilities are as follows:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Unearned premium reserve	\$ 3,355,213	\$ 2,850,169	\$ 2,524,575
Claims reserve	2,571,488	2,398,727	2,380,221
Special reserve	1,894,438	1,895,550	1,868,032
	<u>\$ 7,821,139</u>	<u>\$ 7,144,446</u>	<u>\$ 6,772,828</u>

D. Movements of ceded unearned premium reserve and unearned premium reserve are as follows:

	<u>Six months ended June 30, 2018</u>		
	<u>Gross amount</u>	<u>Ceded amount</u>	<u>Net amount</u>
Acquired from business combinations	\$ 2,850,169	\$ 618,021	\$ 2,232,148
Provision during the period	3,355,213	708,378	2,646,835
Recovery during the period	(2,850,169)	(618,021)	(2,232,148)
At June 30	<u>\$ 3,355,213</u>	<u>\$ 708,378</u>	<u>\$ 2,646,835</u>

	<u>Six months ended June 30, 2017</u>		
	<u>Gross amount</u>	<u>Ceded amount</u>	<u>Net amount</u>
Acquired from business combinations	\$ 1,952,197	\$ 488,996	\$ 1,463,201
Provision during the period	2,524,575	574,137	1,950,438
Recovery during the period	(1,952,197)	(488,996)	(1,463,201)
At June 30	<u>\$ 2,524,575</u>	<u>\$ 574,137</u>	<u>\$ 1,950,438</u>

E. Details of claims reserve and movements of ceded claims reserve and claims reserve are as follows:

(a) As of June 30, 2018, December 31, 2017 and June 30, 2017, details of claims reserve and ceded claims reserve are as follows:

	<u>June 30, 2018</u>		
	<u>Gross amount</u>	<u>Ceded amount</u>	<u>Net amount</u>
Reported but not paid	\$ 1,491,042	\$ 389,994	\$ 1,101,048
Incurred but not reported	1,080,446	336,592	743,854
	<u>\$ 2,571,488</u>	<u>\$ 726,586</u>	<u>\$ 1,844,902</u>

	<u>December 31, 2017</u>		
	<u>Gross amount</u>	<u>Ceded amount</u>	<u>Net amount</u>
Reported but not paid	\$ 1,494,241	\$ 456,181	\$ 1,038,060
Incurred but not reported	904,486	228,013	676,473
	<u>\$ 2,398,727</u>	<u>\$ 684,194</u>	<u>\$ 1,714,533</u>

	<u>June 30, 2017</u>		
	<u>Gross amount</u>	<u>Ceded amount</u>	<u>Net amount</u>
Reported but not paid	\$ 1,523,501	\$ 667,509	\$ 855,992
Incurred but not reported	<u>856,720</u>	<u>220,113</u>	<u>636,607</u>
	<u>\$ 2,380,221</u>	<u>\$ 887,622</u>	<u>\$ 1,492,599</u>

(b) Movements of claims reserve and ceded claims reserve are as follows:

	<u>Six months ended June 30, 2018</u>		
	<u>Gross amount</u>	<u>Ceded amount</u>	<u>Net amount</u>
At January 1	\$ 2,398,727	\$ 684,194	\$ 1,714,533
Provision during the period	2,571,488	726,586	1,844,902
Recovery during the period	(2,398,727)	(684,194)	(1,714,533)
At June 30	<u>\$ 2,571,488</u>	<u>\$ 726,586</u>	<u>\$ 1,844,902</u>

	<u>Six months ended June 30, 2017</u>		
	<u>Gross amount</u>	<u>Ceded amount</u>	<u>Net amount</u>
Acquired from business combinations	\$ 2,449,737	\$ 892,662	\$ 1,557,075
Provision during the period	2,380,221	887,622	1,492,599
Recovery during the period	(2,449,737)	(892,662)	(1,557,075)
At June 30	<u>\$ 2,380,221</u>	<u>\$ 887,622</u>	<u>\$ 1,492,599</u>

F. Movement of special reserve is as follows:

	<u>Six months ended June 30, 2018</u>
At January 1	\$ 1,895,550
Recovery during the period	(1,112)
At June 30	<u>\$ 1,894,438</u>
	<u>Period from January 17, 2017 to June 30, 2017</u>
Acquired from business combinations	\$ 1,853,583
Provision during the period	15,177
Recovery during the period	(728)
At June 30	<u>\$ 1,868,032</u>

To Hotai Insurance Co., Ltd., the insurance types of the special reserve include compulsory automobile liability insurance, nuclear insurance, policy earthquake insurance and typhoon and flood insurance.

G. Pursuant to Jin-Guan-Pao-Tsai Letter No. 10102515061, “Guidelines for Strengthening Catastrophe Reserve of Property Insurance Enterprises”, special reserve recognized under liabilities shall first be used to make up required catastrophe reserve and risk claim reserve for commercial earthquake insurance and typhoon flood insurance. The remaining, net of income tax, shall be recognized as special reserve under stockholders’ equity in accordance with IAS 12.

If the above is not taken into consideration, the effects on liabilities, equity, profit and earnings per share to Hotai Insurance Co., Ltd. are as follows:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Decrease in special reserve under liability	\$ 384,966	\$ 385,762	\$ 386,559
Increase in special reserve under retained earnings	307,973	320,183	320,844

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Increase (decrease) in net loss (income) before tax	\$ 398	\$ 398
Increase (decrease) in losses (earnings) per share before tax	0.02	0.02

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Increase (decrease) in net loss (income) before tax	\$ 796	\$ 728
Increase (decrease) in losses (earnings) per share before tax	0.04	0.04

H. Pursuant to Jin-Guan-Pao-Chan Letter No. 10102531541, “Guidelines for Strengthening Reserve of Pool Members Residential Earthquake” and Jin-Guan-Pao-Tsai Letter No. 10102517091, “Regulations Governing the Setting Aside of Nuclear Reserve by Property Insurance Enterprises”, Hotai Insurance Co., Ltd. maintains a special reserve for the residential earthquake insurance and nuclear insurance provisioned under insurance liabilities for the six months ended June 30, 2018.

If the above is not taken into consideration, the effects on liabilities, equity and profit to Hotai Insurance Co., Ltd. are as follows:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Decrease in special reserve under liability	\$ 223,894	\$ 223,894	\$ 223,894
Increase in special reserve under retained earnings	179,115	185,832	185,332

Both special reserve of the residential earthquake insurance and nuclear insurance have no provision or recovery and have no effect on net income before tax and earnings per share before tax for the six months ended June 30, 2018.

(10) Investments accounted for using equity method

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Kuozui Motors, Ltd.	\$ 4,971,474	\$ 4,609,218	\$ 5,041,032
Central Motor Co., Ltd.	2,487,628	2,448,865	2,383,629
Tau Miao Motor Co., Ltd.	1,413,592	1,386,398	1,423,277
Kau Du Automobile Co., Ltd.	1,300,515	1,319,043	1,292,510
Kuotu Motor Co., Ltd.	985,556	948,238	940,461
Taipei Toyota Motor Co., Ltd.	966,702	916,027	927,635
Nan Du Motor Co., Ltd.	894,684	893,335	857,748
Lang Yang Toyota Motor Co., Ltd.	280,297	281,434	278,330
Formosa Flexible Packaging Corp.	259,766	273,757	267,929
Shi-Ho Screw Industrial Co., Ltd.	125,349	131,622	123,722
Yokohama Tire Taiwan Co., Ltd., etc.	1,327,436	1,271,890	1,174,589
	<u>\$ 15,012,999</u>	<u>\$ 14,479,827</u>	<u>\$ 14,710,862</u>

A. The carrying amount of the Group's interests in all individually immaterial associates and the Group's share of the financial performance are summarized as follows:

As of June 30, 2018, December 31, 2017 and June 30, 2017, the carrying amount of the Group's individually immaterial associates amounted to \$15,012,999, \$14,479,827 and \$14,710,862, respectively.

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Comprehensive income for the period	<u>\$ 376,887</u>	<u>\$ 354,407</u>

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Comprehensive income for the period	<u>\$ 644,364</u>	<u>\$ 880,828</u>

B. The Group's investments have no quoted market price. The share of profit of investments accounted for using the equity method amounted to \$381,763, \$350,141, \$641,788 and \$896,687 for the three months ended June 30, 2018 and 2017, and six months ended June 30, 2018 and 2017, respectively, and were valued based on the investees' financial statements that were not reviewed by the independent accountants.

C. The Group acquired 40% of the share capital of Heng Yun Investment Co., Ltd. for \$298,864 in January 2017.

(11) Property, plant and equipment

	<u>Land</u>	<u>Buildings and structures</u>	<u>Utility equipment</u>	<u>Office equipment</u>	<u>Machinery and equipment</u>	<u>Rental assets (Note)</u>	<u>Leasehold improvements</u>	<u>Construction in progress</u>	<u>Total</u>
<u>At January 1, 2018</u>									
Cost	\$ 4,628,014	\$ 4,301,177	\$ 138,212	\$ 1,501,043	\$ 366,066	\$ 39,032,620	\$ 655,849	\$ 77,433	\$ 50,700,414
Revaluation gain	1,345,967	12,079	-	-	-	-	-	-	1,358,046
Accumulated depreciation and impairment	(26,850)	(1,709,052)	(133,351)	(1,026,030)	(233,905)	(13,522,622)	(412,891)	-	(17,064,701)
	<u>\$ 5,947,131</u>	<u>\$ 2,604,204</u>	<u>\$ 4,861</u>	<u>\$ 475,013</u>	<u>\$ 132,161</u>	<u>\$ 25,509,998</u>	<u>\$ 242,958</u>	<u>\$ 77,433</u>	<u>\$ 34,993,759</u>
<u>2018</u>									
Opening net book amount	\$ 5,947,131	\$ 2,604,204	\$ 4,861	\$ 475,013	\$ 132,161	\$ 25,509,998	\$ 242,958	\$ 77,433	\$ 34,993,759
Additions	1,174,042	20,546	-	171,470	15,617	7,095,808	14,054	770,613	9,262,150
Disposals	-	(4,446)	(1,070)	(61,622)	(1,509)	(2,384,996)	-	-	(2,453,643)
Reclassifications	184,191	1,219	455	14,394	(93)	56,256	190	255,191	511,803
Depreciation	-	(75,546)	(459)	(82,168)	(14,483)	(3,710,372)	(35,658)	-	(3,918,686)
Reversal of loss on rental assets	-	-	-	-	-	61,388	-	-	61,388
Net exchange differences	-	4,130	17	620	189	9,009	35	(9,259)	4,741
Closing net book amount	<u>\$ 7,305,364</u>	<u>\$ 2,550,107</u>	<u>\$ 3,804</u>	<u>\$ 517,707</u>	<u>\$ 131,882</u>	<u>\$ 26,637,091</u>	<u>\$ 221,579</u>	<u>\$ 1,093,978</u>	<u>\$ 38,461,512</u>
<u>At June 30, 2018</u>									
Cost	\$ 5,986,247	\$ 4,353,888	\$ 137,609	\$ 1,576,803	\$ 366,507	\$ 39,930,403	\$ 670,486	\$ 1,093,978	\$ 54,115,921
Revaluation gain	1,345,967	12,079	-	-	-	-	-	-	1,358,046
Accumulated depreciation and impairment	(26,850)	(1,815,860)	(133,805)	(1,059,096)	(234,625)	(13,293,312)	(448,907)	-	(17,012,455)
	<u>\$ 7,305,364</u>	<u>\$ 2,550,107</u>	<u>\$ 3,804</u>	<u>\$ 517,707</u>	<u>\$ 131,882</u>	<u>\$ 26,637,091</u>	<u>\$ 221,579</u>	<u>\$ 1,093,978</u>	<u>\$ 38,461,512</u>

Note: Rental assets are exclusively for leasing business by Hotai Leasing Co., Ltd., Hotai Finance Co., Ltd. and other subsidiaries. The rental assets at disposal should be reclassified to inventories at their carrying value when the assets are no longer leased and are ready to be sold. Proceeds from disposal are reclassified as sales revenue and the related cost of sales should be recognized.

	<u>Land</u>	<u>Buildings and structures</u>	<u>Utility equipment</u>	<u>Office equipment</u>	<u>Machinery and equipment</u>	<u>Rental assets (Note)</u>	<u>Leasehold improvements</u>	<u>Construction in progress</u>	<u>Total</u>
<u>At January 1, 2017</u>									
Cost	\$ 3,935,553	\$ 3,870,599	\$ 136,169	\$ 1,194,995	\$ 326,185	\$39,333,871	\$ 504,098	\$ 250,254	\$ 49,551,724
Revaluation gain	1,345,967	12,079	-	-	-	-	-	-	1,358,046
Accumulated depreciation and impairment	(26,850)	(1,497,320)	(132,469)	(824,528)	(206,060)	(14,195,165)	(321,201)	-	(17,203,593)
	<u>\$ 5,254,670</u>	<u>\$ 2,385,358</u>	<u>\$ 3,700</u>	<u>\$ 370,467</u>	<u>\$ 120,125</u>	<u>\$25,138,706</u>	<u>\$ 182,897</u>	<u>\$ 250,254</u>	<u>\$ 33,706,177</u>
<u>2017</u>									
Opening net book amount	\$ 5,254,670	\$ 2,385,358	\$ 3,700	\$ 370,467	\$ 120,125	\$25,138,706	\$ 182,897	\$ 250,254	\$ 33,706,177
Additions	17,586	5,034	72	78,987	18,123	6,593,141	8,238	76,989	6,798,170
Acquired from business combinations	643,509	68,245	-	85,420	3,826	5,711	15,531	-	822,242
Disposals	- (2)	- (2)	- (7,562)	(106)	(2,455,020)	(793)	-	(2,463,483)	
Reclassifications	25,301 (21,868)	- 22,260	7,035	12,450	(3,383)	41,795	-	(3,916,126)	
Depreciation	- (72,295)	(442)	(78,819)	(13,999)	(3,721,932)	(28,639)	-	(3,916,126)	
Provision for loss on rental assets	-	-	-	-	(74,905)	-	-	(74,905)	
Net exchange differences	- (23,388)	(6)	(5,174)	(1,154)	(64,815)	(287)	-	(94,824)	
Closing net book amount	<u>\$ 5,941,066</u>	<u>\$ 2,341,084</u>	<u>\$ 3,324</u>	<u>\$ 465,579</u>	<u>\$ 133,850</u>	<u>\$25,433,336</u>	<u>\$ 176,947</u>	<u>\$ 323,860</u>	<u>\$ 34,819,046</u>
<u>At June 30, 2017</u>									
Cost	\$ 4,621,949	\$ 3,954,768	\$ 136,173	\$ 1,478,793	\$ 352,434	\$39,247,630	\$ 557,514	\$ 323,860	\$ 50,673,121
Revaluation gain	1,345,967	12,079	-	-	-	-	-	-	1,358,046
Accumulated depreciation and impairment	(26,850)	(1,625,763)	(132,849)	(1,013,214)	(218,584)	(13,814,294)	(380,567)	-	(17,212,121)
	<u>\$ 5,941,066</u>	<u>\$ 2,341,084</u>	<u>\$ 3,324</u>	<u>\$ 465,579</u>	<u>\$ 133,850</u>	<u>\$25,433,336</u>	<u>\$ 176,947</u>	<u>\$ 323,860</u>	<u>\$ 34,819,046</u>

Note : Rental assets are exclusively for leasing business by Hotai Leasing Co., Ltd., Hotai Finance Co., Ltd. and other subsidiaries. The rental assets at disposal should be reclassified to inventories at carrying value when the assets are no longer leased and are ready to be sold. Proceeds from disposal are reclassified as sales revenue and the related cost of sales should be recognized.

Information about the property, plant and equipment that were pledged to others as collateral is provided in Note 8.

(12) Investment property

	<u>Land</u>	<u>Buildings and structures</u>	<u>Total</u>
<u>At January 1, 2018</u>			
Cost	\$ 1,212,157	\$ 634,963	\$ 1,847,120
Revaluation gain	327,794	-	327,794
Accumulated depreciation	-	(317,192)	(317,192)
	<u>\$ 1,539,951</u>	<u>\$ 317,771</u>	<u>\$ 1,857,722</u>
<u>2018</u>			
Opening net book amount	\$ 1,539,951	\$ 317,771	\$ 1,857,722
Additions	-	5,405	5,405
Reclassifications	-	(2,463)	(2,463)
Depreciation	-	(6,999)	(6,999)
Closing net book amount	<u>\$ 1,539,951</u>	<u>\$ 313,714</u>	<u>\$ 1,853,665</u>
<u>At June 30, 2018</u>			
Cost	\$ 1,212,157	\$ 586,557	\$ 1,798,714
Revaluation gain	327,794	-	327,794
Accumulated depreciation	-	(272,843)	(272,843)
	<u>\$ 1,539,951</u>	<u>\$ 313,714</u>	<u>\$ 1,853,665</u>
	<u>Land</u>	<u>Buildings and structures</u>	<u>Total</u>
<u>At January 1, 2017</u>			
Cost	\$ 322,035	\$ 489,412	\$ 811,447
Revaluation gain	327,794	-	327,794
Accumulated depreciation	-	(226,983)	(226,983)
	<u>\$ 649,829</u>	<u>\$ 262,429</u>	<u>\$ 912,258</u>
<u>2017</u>			
Opening net book amount	\$ 649,829	\$ 262,429	\$ 912,258
Acquired from business combinations	923,163	52,343	975,506
Reclassifications	(25,301)	21,868	(3,433)
Depreciation	-	(9,327)	(9,327)
Closing net book amount	<u>\$ 1,547,691</u>	<u>\$ 327,313</u>	<u>\$ 1,875,004</u>
<u>At June 30, 2017</u>			
Cost	\$ 1,219,897	\$ 629,574	\$ 1,849,471
Revaluation gain	327,794	11,983	339,777
Accumulated depreciation	-	(314,244)	(314,244)
	<u>\$ 1,547,691</u>	<u>\$ 327,313</u>	<u>\$ 1,875,004</u>

A. Rental income from investment property and direct operating expenses arising from investment property are as follows:

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Rental income from investment property	<u>\$ 36,470</u>	<u>\$ 29,753</u>
Direct operating expenses arising from the investment property that generated rental income during the period (including depreciation)	<u>\$ 5,343</u>	<u>\$ 8,188</u>
	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Rental income from investment property	<u>\$ 72,639</u>	<u>\$ 67,371</u>
Direct operating expenses arising from the investment property that generated rental income during the period (including depreciation)	<u>\$ 11,798</u>	<u>\$ 13,742</u>

B. The fair value of the investment property held by the Group was \$2,178,129, \$2,172,572 and \$2,228,152 as of June 30, 2018, December 31, 2017 and June 30, 2017, respectively, based on the market value method, except for Hotai Insurance Co., Ltd.. Hotai Insurance Co., Ltd. appoints external independent appraisers to assess those investment properties every 3 years and prepares internal assessment every years, and if a significant difference has been identified, the Company will engage an external independent appraiser revaluing the fair values of investment property under “Regulations on Real Estate Appraisal” and adjust the financial statement disclosure accordingly.

(13) Intangible assets

	<u>Goodwill</u>	<u>Client relationship</u>	<u>Computer software</u>	<u>Total</u>
<u>At January 1, 2018</u>				
Cost	\$ 662,323	\$ 527,106	\$ 100,141	\$ 1,289,570
Accumulated amortization and impairment	<u>-</u>	<u>(16,838)</u>	<u>(63,740)</u>	<u>(80,578)</u>
	<u>\$ 662,323</u>	<u>\$ 510,268</u>	<u>\$ 36,401</u>	<u>\$ 1,208,992</u>
<u>2018</u>				
At January 1	\$ 662,323	\$ 510,268	\$ 36,401	\$ 1,208,992
Additions-acquired separately	-	-	26,224	26,224
Amortization	<u>-</u>	<u>(9,311)</u>	<u>(9,299)</u>	<u>(18,610)</u>
At June 30	<u>\$ 662,323</u>	<u>\$ 500,957</u>	<u>\$ 53,326</u>	<u>\$ 1,216,606</u>
<u>At June 30, 2018</u>				
Cost	\$ 662,323	\$ 527,106	\$ 114,350	\$ 1,303,779
Accumulated amortization and impairment	<u>-</u>	<u>(26,149)</u>	<u>(61,024)</u>	<u>(87,173)</u>
	<u>\$ 662,323</u>	<u>\$ 500,957</u>	<u>\$ 53,326</u>	<u>\$ 1,216,606</u>

	<u>Goodwill</u>	<u>Client relationship</u>	<u>Computer software</u>	<u>Total</u>
<u>2017</u>				
Additions-acquired from business combinations	\$ 662,323	\$ 527,106	\$ 16,999	\$ 1,206,428
Additions-acquired separately	-	-	21,772	21,772
Amortization	-	(8,053)	(6,721)	(14,774)
At June 30	<u>\$ 662,323</u>	<u>\$ 519,053</u>	<u>\$ 32,050</u>	<u>\$ 1,213,426</u>

<u>At June 30, 2017</u>				
Cost	\$ 662,323	\$ 527,106	\$ 89,175	\$ 1,278,604
Accumulated amortization and impairment	-	(8,053)	(57,125)	(65,178)
	<u>\$ 662,323</u>	<u>\$ 519,053</u>	<u>\$ 32,050</u>	<u>\$ 1,213,426</u>

Details of amortization on intangible assets are as follows:

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Administrative expenses	<u>\$ 9,481</u>	<u>\$ 9,314</u>

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Administrative expenses	<u>\$ 18,610</u>	<u>\$ 14,774</u>

(14) Other assets

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Long-term accounts receivable	\$ 468,365	\$ 446,545	\$ 430,641
Land use right	308,724	313,134	313,945
Operation bonds	300,300	300,300	300,300
Guarantee deposits paid	266,753	247,745	190,182
Prepayments for business facilities	32,275	543,203	46,314
Other	263,058	210,424	218,230
	<u>\$ 1,639,475</u>	<u>\$ 2,061,351</u>	<u>\$ 1,499,612</u>

(15) Short-term loans

<u>Type of loans</u>	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Bank loans			
Unsecured loans	\$ 35,505,654	\$ 31,764,823	\$ 27,027,899
Mortgage loans	2,010,000	2,015,000	2,230,000
Mid-term syndicated loans for working capital	3,229,020	2,964,212	3,083,195
	<u>\$ 40,744,674</u>	<u>\$ 36,744,035</u>	<u>\$ 32,341,094</u>
Annual interest rate	<u>0.6%~6.53%</u>	<u>0.75%~5.1%</u>	<u>0.55%~5.22%</u>

As of June 30, 2018, December 31, 2017 and June 30, 2017, the details of loans are as follows:

- A. The subsidiary, Hotai Finance Co., Ltd., has entered into a mid-term syndicated contract for a credit line of \$3.32 billion with 8 financial institutions including Japan Bank for International Cooperation, in order to fulfill its working capital. The duration is 35 months (from September 25, 2015 to September 18, 2018). The loan can be drawn several times but is non-revolving. The payment term is to repay the full amount drawn at the maturity date.
- B. The subsidiary, Hotai Finance Co., Ltd.'s commitments to the abovementioned syndicated loans and partial loans from other financial institutions during the contract periods are summarized as follows:
- (a) Current ratio: At least 90%
- (b) Ratio of self-owned capital: At least 7%
- (c) Interest coverage ratio: At least 120%
- (d) Net value: At least \$3.5 billion

(16) Short-term notes and bills payable

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Commercial paper payable	\$ 57,810,000	\$ 55,120,000	\$ 52,340,000
Less: Unamortized discount	(38,579)	(28,725)	(28,210)
	<u>\$ 57,771,421</u>	<u>\$ 55,091,275</u>	<u>\$ 52,311,790</u>
Annual interest rate	<u>0.57%~1.30%</u>	<u>0.57%~1.53%</u>	<u>0.58~1.54%</u>

(17) Bonds payable (Recorded as 'Long-term liabilities current portion')

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Bonds payable	<u>\$ 2,800,000</u>	<u>\$ 2,800,000</u>	<u>\$ 3,800,000</u>

The information of corporate bond issued by the Group's subsidiary, Hotai Finance Co., Ltd. that has been approved by the competent authority are as follows:

- A. The first unsecured ordinary corporate bonds was issued in 2016. The total amount was \$2,800,000, the coupon rate was 0.93% with 3-year periods, the outstanding period was from January 11, 2017 to January 11, 2020, and the bonds would be repaid at face value in a lump sum with cash on the due date.
- B. The first unsecured ordinary corporate bonds was issued in 2014. The total amount was \$1,000,000, the coupon rate was 2% with 3-year periods, the outstanding period was from November 7, 2014 to November 7, 2017, and the bonds would be repaid at face value in a lump sum with cash on the due date.

(18) Long-term loans

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Unsecured loans	\$ 8,091,018	\$ 6,765,565	\$ 4,122,698
Mortgage loans	-	100,000	350,000
Commercial papers payable	6,850,000	5,850,000	4,750,000
Less: Unamortized discount	(8,994)	(6,553)	(6,165)
	14,932,024	12,709,012	9,216,533
Less: Current portion	(1,849,594)	(1,671,849)	(2,837,431)
	<u>\$ 13,082,430</u>	<u>\$ 11,037,163</u>	<u>\$ 6,379,102</u>
Loans interest rate range	<u>0.92%~5.65%</u>	<u>0.92%~5.91%</u>	<u>0.92%~6.05%</u>

As of June 30, 2018, the maturities of long-term loans of the subsidiaries, Hotai Leasing Co., Ltd. and Hoyun International Lease Co., Ltd., are as follows:

<u>Duration of maturity</u>	<u>Loans amount</u>
Up to 1 year	\$ 1,850,189
1 to 2 years	6,128,962
2 to 3 years	<u>6,961,867</u>
	<u>\$ 14,941,018</u>

(19) Accrued expenses

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Wages and salaries payable	\$ 1,079,355	\$ 1,539,870	\$ 1,026,381
Dealer bonus payable	1,245,518	746,231	1,081,807
Remuneration payable to employees	315,466	474,364	293,486
Remuneration payable to directors	132,382	242,514	132,304
Interest payable	183,230	162,974	149,376
Others	<u>1,758,408</u>	<u>1,638,861</u>	<u>1,445,376</u>
	<u>\$ 4,714,359</u>	<u>\$ 4,804,814</u>	<u>\$ 4,128,730</u>

(20) Other payables

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Dividends payable	\$ 6,973,967	\$ 9,753	\$ 6,563,963
Others	<u>1,087,564</u>	<u>1,217,875</u>	<u>763,517</u>
	<u>\$ 8,061,531</u>	<u>\$ 1,227,628</u>	<u>\$ 7,327,480</u>

(21) Pensions

A. Defined benefit pension

(a) The Group has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Group contributes monthly an amount equal to the pension cost stated in the actuarial report to the retirement fund deposited with the Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Group would assess the balance in the aforementioned labor pension reserve account by the end of June 30, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Group will make contributions to cover the deficit by next March.

(b) For the aforementioned pension plan, the Group recognized pension costs of \$0, \$1,352, \$0 and \$2,519 for the three months ended June 30, 2018 and 2017, and six months ended June 30, 2018 and 2017, respectively.

B. Defined contribution pension plan

- (a) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- (b) The Company’s mainland China subsidiaries have defined contribution plans. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People’s Republic of China (“PRC”) are based on certain percentage of employees’ monthly salaries and wages. Other than the monthly contributions, the mainland China subsidiaries have no further obligations.
- (c) The pension costs under the defined contribution pension plans of the Group for the three months ended June 30, 2018 and 2017, and six months ended June 30, 2018 and 2017, were \$67,039, \$62,742, \$132,904 and \$118,563, respectively.

(22) Provisions

	<u>Warranty</u>
At January 1, 2018	\$ 2,328,294
Additional provisions during the period	679,138
Used during the period	(566,875)
At June 30, 2018	<u>\$ 2,440,557</u>

Analysis of provision for warranty is as follows:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Current (shown as other current liabilities)	\$ 1,105,842	\$ 1,093,182	\$ 1,101,755
Non-current	<u>\$ 1,334,715</u>	<u>\$ 1,235,112</u>	<u>\$ 1,242,390</u>

- A. The Group provides warranties on vehicles and air conditioners sold. Provision for warranty is estimated based on historical warranty data of vehicles, air conditioners and related products.
- B. On September 27, 2017, the Board of Directors of the Group’s subsidiary, Hotai Insurance Co., Ltd., at their meeting resolved to settle the defined benefit liability, which generated the settlement benefit in the current year. The Group entered into a settlement agreement of defined benefit liability with employees effective from November 1, 2017.

(23) Guarantee deposits received

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Deposits received for car rentals	\$ 12,227,757	\$ 11,830,021	\$ 11,360,878
Others	<u>28,728</u>	<u>28,589</u>	<u>28,900</u>
	<u>\$ 12,256,485</u>	<u>\$ 11,858,610</u>	<u>\$ 11,389,778</u>

(24) Share capital

As of June 30, 2018, the Company’s authorized capital was \$6,000,000, consisting of 600,000,000 shares of ordinary stock and the paid-in capital was \$5,461,792 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected. The number of the Company’s ordinary shares outstanding at January 1, 2018 and June 30, 2018 was both 546,179,184 shares.

(25) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(26) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses, then 10% of the remaining amount shall be set aside as legal reserve, and shall be set aside as special reserve as required by the regulations when necessary. The remainder, if any, shall be appropriated as dividends to shareholders which shall account for at least 50%, and cash dividends shall account for at least 10% of the total dividends distributed.

The earnings appropriation ratios and distribution method of dividends to shareholders are determined based on current year's profit and capital position and shall be proposed by the Board of Directors and resolved by the shareholders.

B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

C. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

(b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865 issued by FSC on April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently. Such amounts are reversed upon disposal or reclassified if the assets are investment property of land, and reversed over the use period if the assets are investment property other than land.

D. On June 21, 2018 and June 22, 2017, the stockholders resolved that total dividends for the distribution of earnings for the years of 2018 and 2017 were both \$6,554,150 (\$12 per share).

E. For the information relating to employees' compensation and directors' remuneration, please refer to Note 6(31).

(27) Revenue from contracts with customers

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

	<u>Three months ended June 30, 2018</u>	<u>Six months ended June 30, 2018</u>
Goods category:		
Sales of goods	\$ 40,910,899	\$ 81,099,140
Interest income	1,439,580	2,791,364
Others	<u>515,819</u>	<u>1,004,338</u>
	<u>\$ 42,866,298</u>	<u>\$ 84,894,842</u>
Timing of revenue recognition		
At a point in time	\$ 40,983,461	\$ 81,573,680
Over time	<u>1,882,837</u>	<u>3,321,162</u>
	<u>\$ 42,866,298</u>	<u>\$ 84,894,842</u>

B. Contract assets and liabilities

The Group has recognized the following revenue-related contract assets and liabilities:

	<u>June 30, 2018</u>
Contract assets:	
Contract assets- construction contracts	<u>\$ 17,970</u>
Contract liabilities:	
Contract liabilities- sales of goods	\$ 708,880
Contract liabilities-customer loyalty programmes	<u>7,660</u>
	<u>\$ 716,540</u>

For the six months ended June 30, 2018, revenue recognized that was included in the contract liability balance at the beginning of the period amounted to \$625,580.

C. Related disclosures for 2017 operating revenue are provided in Note 12(14).

(28) Interest income

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Installment revenue	\$ 1,409,493	\$ 1,174,131
Interest from deposits and short-term notes	56,907	33,983
Investment income	<u>18,286</u>	<u>20,608</u>
	<u>\$ 1,484,686</u>	<u>\$ 1,228,722</u>

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Installment revenue	\$ 2,737,602	\$ 2,323,361
Interest from deposits and short-term notes	93,339	60,027
Investment income	<u>38,516</u>	<u>37,285</u>
	<u>\$ 2,869,457</u>	<u>\$ 2,420,673</u>

(29) Premium

Details of premium are as follows:

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Written premium	\$ 1,577,431	\$ 1,277,847
Reinsurance premium	70,129	76,755
Less: Reinsurance expense	(279,093)	(212,894)
Net change in unearned premiums reserve	(244,335)	(378,256)
	<u>\$ 1,124,132</u>	<u>\$ 763,452</u>

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Written premium	\$ 3,158,948	\$ 2,170,645
Reinsurance premium	165,591	165,955
Less: Reinsurance expense	(733,015)	(544,512)
Net change in unearned premiums reserve	(414,686)	(487,238)
	<u>\$ 2,176,838</u>	<u>\$ 1,304,850</u>

(30) Expenses by nature

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Employee benefit expense	\$ 1,950,665	\$ 1,726,829
Depreciation	1,972,875	1,958,046
Amortization	17,594	16,879
	<u>\$ 3,941,134</u>	<u>\$ 3,701,754</u>

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Employee benefit expense	\$ 3,766,843	\$ 3,376,719
Depreciation	3,925,685	3,925,453
Amortization	34,996	28,778
	<u>\$ 7,727,524</u>	<u>\$ 7,330,950</u>

(31) Employee benefit expense

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Wages and salaries	\$ 1,687,682	\$ 1,496,956
Labor and health insurance fees	105,377	91,832
Pension costs	67,039	64,094
Other personnel expenses	90,567	73,947
	<u>\$ 1,950,665</u>	<u>\$ 1,726,829</u>

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Wages and salaries	\$ 3,239,051	\$ 2,910,657
Labor and health insurance fees	219,307	194,035
Pension costs	132,904	121,082
Other personnel expenses	175,581	150,945
	<u>\$ 3,766,843</u>	<u>\$ 3,376,719</u>

A. According to the Articles of Incorporation of the Company, a percentage of distributable profit of the current year, shall be distributed as employees' compensation and directors' remuneration. The percentage shall be 1% for employees' compensation and shall not be higher than 2% for directors' remuneration. Independent directors will not receive any distributable profit. If a company has accumulated deficit, earnings should be channeled to cover losses.

B. For the three months ended June 30, 2018 and 2017, and six months ended June 30, 2018 and 2017, employees' remuneration was accrued at \$33,355, \$29,579, \$66,191 and \$66,152, respectively; while directors' remuneration was accrued at \$66,711, \$59,159, \$132,382 and \$132,304, respectively. The aforementioned amounts were recognized in salary expenses.

The employees' compensation and directors' remuneration were estimated and accrued based on 1% and 2% of distributable profit of current year for the six months ended June 30, 2018.

Employees' compensation and directors' remuneration of 2017 as resolved by the Board of Directors were in agreement with those amounts recognized in the 2017 financial statements. The employees' compensation will be distributed in cash.

Information about employees' compensation and directors' remuneration of the Company as resolved by the Board of Directors and shareholders' meeting will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(32) Income tax

A. Income tax expense

(a) Components of income tax expense:

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Current tax:		
Current tax expense recognized in the current period	\$ 800,287	\$ 541,379
Additional 10% income tax imposed on unappropriated earnings	254,990	363,070
Prior year income tax overestimation	(5,007)	(14,941)
Total current tax	<u>1,050,270</u>	<u>889,508</u>
Deferred tax:		
Origination and reversal of temporary differences	<u>37,425</u>	<u>27,423</u>
Total deferred tax	<u>37,425</u>	<u>27,423</u>
Income tax expense	<u>\$ 1,087,695</u>	<u>\$ 916,931</u>

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Current tax:		
Current tax expense recognized in the current period	\$ 1,641,900	\$ 1,076,603
Additional 10% income tax imposed on unappropriated earnings	254,990	363,070
Prior year income tax overestimation	(5,007)	(14,941)
Total current tax	<u>1,891,883</u>	<u>1,424,732</u>
Deferred tax:		
Origination and reversal of temporary differences	29,641	142,860
Impact of change in tax rate	<u>163,404</u>	<u>-</u>
Total deferred tax	<u>193,045</u>	<u>142,860</u>
Income tax expense	<u>\$ 2,084,928</u>	<u>\$ 1,567,592</u>

(b)The income tax (charge)/ credit relating to components of other comprehensive income are as follows:

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Cash flow hedges	(\$ 11,583)	\$ 2,795
Unrealized gains on available-for-sale financial assets	<u>\$ -</u>	<u>\$ 676</u>
Changes in fair value of financial assets at fair value through other comprehensive income	(\$ 1,004)	<u>-</u>
Impact of change in tax rate	<u>\$ -</u>	<u>\$ -</u>

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Cash flow hedges	(\$ 10,031)	(\$ 5,293)
Unrealized gains on available-for-sale financial assets	<u>\$ -</u>	<u>\$ 1,732</u>
Changes in fair value of financial assets at fair value through other comprehensive income	(\$ 3,463)	<u>-</u>
Impact of change in tax rate	<u>\$ 8</u>	<u>\$ -</u>

- B. The Company's income tax returns through 2016 have been assessed and approved by the Tax Authority.
- C. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

	<u>Six months ended June 30, 2017</u>		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (shares in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to common shareholders of the parent	\$ 5,368,269	546,179	\$ 9.83
<u>Diluted earnings per share</u>			
Profit attributable to common shareholders of the parent	\$ 5,368,269	546,179	
Assumed conversion of all dilutive potential common shares			
Employees' compensation	-	343	
Profit attributable to common shareholders of the parent plus assumed conversion of all dilutive potential common shares	\$ 5,368,269	546,522	\$ 9.82

(34) Operating leases

A. Lessor

- (a) The subsidiaries, Hotai Finance Co., Ltd. and Hotai Leasing Co., Ltd., engage in vehicles rental services. Partial collection is advance receipts of notes for rents which expire based on payment terms. As of June 30, 2018, December 31, 2017 and June 30, 2017, the notes receivable collected in advance amounted to \$8,215,635, \$8,273,706 and \$8,575,653, respectively. The notes receivable and advance rents are presented at net amount and are not shown in the balance sheet. As of June 30, 2018, December 31, 2017 and June 30, 2017, the amounts of \$6,093,184, \$6,254,167 and \$6,379,586 of notes receivable have been pledged as collateral for long-term and short-term bank loans and issuance of commercial papers.

Total future notes receivable for rents are as follows:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Up to 1 year	\$ 4,790,117	\$ 4,798,777	\$ 4,893,495
1 to 5 years	3,425,246	3,474,929	3,682,131
Over 5 years	272	-	27
	<u>\$ 8,215,635</u>	<u>\$ 8,273,706</u>	<u>\$ 8,575,653</u>

- (b) The Group entered into lease agreements with related parties and the third party to lease land and building, the future aggregate minimum lease payments receivable are as follows:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Up to 1 year	\$ 119,794	\$ 41,458	\$ 20,357
1 to 5 years	158,574	31,620	19,519
Over 5 years	4,825	2,089	-
	<u>\$ 283,193</u>	<u>\$ 75,167</u>	<u>\$ 39,876</u>

B. Lessee

The Group leases buildings for operation under operating lease agreements. The lease terms are between 1 and 10 years, and all these lease agreements are renewable at the end of the lease period. The Group recognized rental expenses of \$166,061, \$154,024, \$333,359 and \$301,633 for the three months ended June 30, 2018 and 2017 and six months ended June 30, 2018 and 2017, respectively. The future aggregate minimum lease payments under non-cancellable operating leases agreements are as follows:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Up to 1 year	\$ 353,176	\$ 259,063	\$ 284,769
1 to 5 years	660,065	414,500	569,922
Over 5 years	<u>234,086</u>	<u>207,493</u>	<u>249,896</u>
	<u>\$ 1,247,327</u>	<u>\$ 881,056</u>	<u>\$ 1,104,587</u>

(35) Business combination

A. On January 17, 2017, the Group acquired 99.80% equity of Zurich Insurance (Taiwan) Ltd. with \$6,831,887, and obtained control over Zurich Insurance (Taiwan) Ltd., which was engaging in various kind of property and casualty insurance. The Group expected to strengthen the market position and lower cost through economic scale. Zurich Insurance (Taiwan) Ltd. re-elected the directors on February 6, 2017, and renamed as Hotai Insurance Co., Ltd., on March 1, 2017.

The information about the acquisition price of aforementioned company, the fair value of assets and liabilities obtained on the date of acquisition, and the amount of non-controlling interest to identified net assets acquired on acquisition date were as follows:

	<u>Zurich Insurance (Taiwan) Ltd.</u>
Purchase consideration	
Cash	\$ 6,831,887
Non-controlling interests	<u>12,199</u>
	<u>6,844,086</u>
Fair value of the identified assets acquired and liabilities assumed	
Cash and cash equivalents	445,095
Accounts receivable	452,444
Financial assets	7,990,907
Reinsurance contract assets	1,577,293
Other current assets	535,910
Property, plant and equipment	807,242
Investment property	975,506
Intangible assets	544,105
Insurance liabilities	(6,255,516)
Other current liabilities	(719,717)
Deferred tax liabilities	<u>(171,506)</u>
Total identified net assets	<u>6,181,763</u>
Goodwill	<u>\$ 662,323</u>

B. In the end of January 2017, the Group acquired 100% equity of Shanghai Inchcape Auto Sales & Service Co., Ltd. with RMB 55,000 thousand and obtained control over Shanghai Inchcape Auto Sales & Service Co., Ltd., which is engaged in sales and services of automobiles of Lexus in Shanghai, was renamed as Shanghai Yangpu Heling Lexus Motor Sales & Service Co., Ltd. in the fourth quarter of 2017.

Shanghai
Inchape Lexus

Purchase consideration (Expressed in thousands of RMB)

Cash \$ 55,000

Fair value of the identified assets acquired and liabilities assumed

Cash and cash equivalents	\$	2,964
Accounts receivable		2,785
Other receivables		2,744
Inventories		19,641
Prepayments		6,436
Property, plant and equipment		3,323
Other assets		38,718
Accounts payable	(	1,486)
Accrued expense	(	13,757)
Advance receipts	(	<u>6,368</u>)
Total identifiable net assets	\$	<u>55,000</u>

C. From the date of acquisition, the acquisition increased operating income and net loss before tax in the amounts of \$5,154,908 and \$18,221, respectively. If Zurich Insurance (Taiwan) Ltd. and Shanghai Inchape Auto Sales & Service Co., Ltd. were consolidated starting from January 1, 2017, the amounts of operating income and net profit before tax for the year ended December 31, 2017, would have been \$181,482,383 and \$14,283,832, respectively.

(36) Changes in liabilities from financing activities

	Short-term loans	Short-term notes and bills payable	Long-term liabilities- current portion	Long-term loans	Guarantee deposits received	Liabilities from financing activities-gross
January 1, 2018	\$ 36,744,035	\$ 55,091,275	\$ 4,471,849	\$ 11,037,163	\$ 11,858,610	\$ 119,202,932
Changes in cash flow from financing activities	3,734,365	2,680,146	-	2,160,738	397,875	8,973,124
Impact of changes in foreign exchange rate	-	-	-	62,274	-	62,274
Changes in other non-cash items	<u>266,274</u>	<u>-</u>	<u>177,745</u>	<u>(177,745)</u>	<u>-</u>	<u>266,274</u>
June 30, 2018	<u>\$ 40,744,674</u>	<u>\$ 57,771,421</u>	<u>\$ 4,649,594</u>	<u>\$ 13,082,430</u>	<u>\$ 12,256,485</u>	<u>\$ 128,504,604</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and Relationship with the Group

<u>Names of related parties</u>	<u>Relationship with the Group</u>
Ho Yu Investment Co., Ltd.	Entities controlled by key management
Ho An Insurance Agency Co., Ltd. (Ho An)	Entities controlled by key management
Ho Chuang Insurance Agency Co., Ltd. (Ho Chuang)	Entities controlled by key management
Toyota Motor Corporation (TMC)	Entities controlled by key management
Hino Motors, Ltd. (Hino)	Entities controlled by key management
Toyota Motor Asia Pacific Pte Ltd. (TMAP)	Entities controlled by key management

<u>Names of related parties</u>	<u>Relationship with the Group</u>
Toyota Motor (China) Investment Co., Ltd. (Toyota China)	Entities controlled by key management
Toyota Industries Corporation	Entities controlled by key management
Toyota Motor Philippines Cor. (Toyota Philippines)	Entities controlled by key management
Toyota Motor Manufacturing Turkey Inc.	Entities controlled by key management
Toyota Kirloskar Motor Pvt. Ltd	Entities controlled by key management
Toyota-Motor-Europe-Nv/Sa (TME)	Entities controlled by key management
Toyota-Motor-Sales-USA (TMS)	Entities controlled by key management
Kuotu Motor Co., Ltd. (Kuotu)	Associates
Nan Du Motor Co., Ltd. (Nan Du)	Associates
Taipei Toyota Motor Co., Ltd. (Taipei Motor)	Associates
Tau Miau Motor Co., Ltd. (Tau Miau)	Associates
Kau Du Automobile Co., Ltd. (Kau Du)	Associates
Central Motor Co ., Ltd. (Central Motor)	Associates
Kuozui Motors, Ltd. (Kuozui)	Associates
Lang Yang Toyota Motor Co., Ltd.	Associates
Yokohama Tire Taiwan Co., Ltd.	Associates
Shi-Ho Screw Industrial Co., Ltd.	Associates
Formosa Flexible Packaging Corp.	Associates
Hozao Enterprise Co., Ltd.	Associates
Beijing Ho-Yu Toyota Motor Sales And Service Co., Ltd.	Associates
Beijing Heling Lexus Motor Sales & Service Co., Ltd.	Associates
Linyi Ho-Yu Toyota Motor Sales And Service Co., Ltd.	Associates
Linyi Heling Lexus Motor Sales & Service Co., Ltd.	Associates
ChongQing Yuou Toyota Automobile Sales and Service Co., Ltd.	Associates
ChongQing Yurun Toyota Automobile Service Co., Ltd.	Associates
Taizhou Zhongdu Lexus Motor Sale & Service Co., Ltd.	Associates
Guangzhou Gac Changho Autotech Corporation	Associates
Kashiwabara Hotai Taiwan Co., Ltd.	Associates
Horung Motors Co., Ltd.	Associates
Zhong Cheng Motors Co., Ltd.	Associates

<u>Names of related parties</u>	<u>Relationship with the Group</u>
Hohung Motors Co., Ltd.	Associates
Fan Tai Transportation Co., Ltd. (Fan Tai)	Associates
Yi Tai Transportation Co., Ltd. (Yi Tai)	Associates
Hua Tai Transportation Co., Ltd.	Associates
Kuai Shun Transportation Co., Ltd.	Associates
Ho Cheng Auto Parts Co., Ltd.	Associates
Innovation Auto Parts Co., Ltd.	Associates
Tung Yu Motor Co., Ltd.	Associates
Wang Fu Co., Ltd.	Associates
Zhongyang Motor Co., Ltd.	Associates
Nan I Motor Co., Ltd.	Associates
New Strong Power Logistics Co., Ltd. (Dissolved in September 2017)	Associates
Chang Guan Logistics Co., Ltd.	Associates
The Company's Directors, president, vice president and others	Key management

(2) Significant related party transactions and balances

A. Revenue

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
(a) Interest income:		
-Associates	\$ 12,516	\$ 11,165

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Interest income:		
-Associates	\$ 25,210	\$ 24,783

Interest income is the interest between transaction dates and collection dates due to the collection of sales transaction is based on agreed collection period. Starting from July 3, 2016, the annual interest rate was adjusted to 2.275%.

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
(b) Premium:		
-Associates	\$ 15,191	\$ 7,099
-Entities controlled by key management	92	38
	<u>\$ 15,283</u>	<u>\$ 7,137</u>

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Premium:		
-Associates	\$ 27,310	\$ 11,094
-Entities controlled by key management	<u>1,013</u>	<u>127</u>
	<u>\$ 28,323</u>	<u>\$ 11,221</u>
	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
(c) Sales revenue:		
-Associates		
Central Motor	\$ 5,835,788	\$ 5,346,546
Tau Miao	5,368,942	4,939,689
Taipei Motor	4,074,210	3,935,041
Kau Du	3,929,563	3,690,470
Others	8,685,830	8,106,128
-Entities controlled by key management	<u>13,591</u>	<u>14,565</u>
	<u>\$ 27,907,924</u>	<u>\$ 26,032,439</u>
	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Sales revenue:		
-Associates		
Central Motor	\$ 11,561,775	\$ 11,927,399
Tau Miao	10,663,874	11,220,284
Taipei Motor	8,701,498	9,099,057
Kau Du	7,792,389	8,052,610
Others	17,325,995	17,172,546
-Entities controlled by key management	<u>33,350</u>	<u>29,513</u>
	<u>\$ 56,078,881</u>	<u>\$ 57,501,409</u>
Sales from the Company and subsidiaries to related parties are based on the price lists in force and terms that would be available to third parties. Terms are shown in table 6 of Note 13(1) significant transactions information.		
	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
(d) Rental revenue:		
-Associates	\$ 33,130	\$ 29,232
-Entities controlled by key management	<u>1,745</u>	<u>1,084</u>
	<u>\$ 34,875</u>	<u>\$ 30,316</u>

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Rental revenue:		
-Associates	\$ 63,562	\$ 56,137
-Entities controlled by key management	<u>3,477</u>	<u>2,168</u>
	<u>\$ 67,039</u>	<u>\$ 58,305</u>

The Company and subsidiary entered into rental contracts based on normal conditions with related parties and collects rents monthly based on the contracts.

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
(e) Service revenue		
Service sales:		
-Associates	\$ 10,954	\$ 11,826
-Entities controlled by key management	5,600	37,475
Contracted operating revenue:		
-Associates	<u>5,172</u>	<u>5,018</u>
	<u>\$ 21,726</u>	<u>\$ 54,319</u>

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Service revenue		
Service sales:		
-Associates	\$ 20,515	\$ 21,378
-Entities controlled by key management	11,200	55,540
Contracted operating revenue:		
-Associates	<u>11,062</u>	<u>12,603</u>
	<u>\$ 42,777</u>	<u>\$ 89,521</u>

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
(f) Subsidy income for price difference from installments:		
-Associates	<u>\$ 73,164</u>	<u>\$ 83,462</u>

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Subsidy income for price difference from installments:		
-Associates	<u>\$ 159,772</u>	<u>\$ 160,611</u>

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
(g) Warranty revenue (shown as deductions to cost of sales):		
-Associates		
Kuozui	\$ 47,186	\$ 49,313
-Entities controlled by key management		
TMAP	182,848	130,314
Others	<u>333</u>	<u>468</u>
	<u>\$ 230,367</u>	<u>\$ 180,095</u>

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Warranty revenue (shown as deductions to cost of sales):		
-Associates		
Kuozui	\$ 77,758	\$ 112,379
-Entities controlled by key management		
TMAP	375,825	256,382
Others	<u>878</u>	<u>906</u>
	<u>\$ 454,461</u>	<u>\$ 369,667</u>

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
(h) Advertisement subsidy and sales promotion revenue (shown as deductions to advertisement expense):		
-Associates		
Kuotu	\$ 10,439	\$ 6,562
Others	33,961	23,063
-Entities controlled by key management		
TMC	46,514	8,738
Others	<u>5,431</u>	<u>6,829</u>
	<u>\$ 96,345</u>	<u>\$ 45,192</u>

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Advertisement subsidy and sales promotion revenue (shown as deductions to advertisement expense):		
-Associates		
Kuotu	\$ 16,640	\$ 66,565
Others	53,610	55,986
-Entities controlled by key management		
TMC	55,665	25,571
Others	<u>6,291</u>	<u>7,113</u>
	<u>\$ 132,206</u>	<u>\$ 155,235</u>

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
(i) Distribution income (shown as deductions to freight):		
-Associates	\$ 7,060	\$ 6,625
-Entities controlled by key management	<u>4</u>	<u>-</u>
	<u>\$ 7,064</u>	<u>\$ 6,625</u>

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Distribution income (shown as deductions to freight):		
-Associates	\$ 14,675	\$ 16,559
-Entities controlled by key management	<u>10</u>	<u>-</u>
	<u>\$ 14,685</u>	<u>\$ 16,559</u>

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
(j) Miscellaneous income:		
-Associates		
Kuotu	\$ 30,426	\$ 31,784
Others	40,789	43,551
-Entities controlled by key management	<u>22,262</u>	<u>12,578</u>
	<u>\$ 93,477</u>	<u>\$ 87,913</u>

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Miscellaneous income:		
-Associates		
Kuotu	\$ 61,167	\$ 71,258
Others	74,622	78,170
-Entities controlled by key management	<u>37,422</u>	<u>34,220</u>
	<u>\$ 173,211</u>	<u>\$ 183,648</u>

B. Expenditures

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
(a) Interest expense:		
-Associates	<u>\$ 4,414</u>	<u>\$ 3,959</u>

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Interest expense:		
-Associates	<u>\$ 8,485</u>	<u>\$ 9,811</u>

The interest expense is paid for interest arising from purchases between transaction dates and payment dates. Starting from July 3, 2016, the annual interest rate was adjusted to 1.875%.

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
(b) Purchases of goods:		
-Associates		
Kuozui	\$ 12,461,485	\$ 11,251,330
Others	7,873,907	7,516,454
-Entities controlled by key management		
TMC	10,077,528	8,900,851
Others	<u>3,278,660</u>	<u>3,234,437</u>
	<u>\$ 33,691,580</u>	<u>\$ 30,903,072</u>

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Purchases of goods:		
-Associates		
Kuozui	\$ 24,738,517	\$ 27,297,036
Others	15,727,299	14,180,808
-Entities controlled by key management		
TMC	18,148,299	15,940,618
Others	<u>7,720,602</u>	<u>6,008,812</u>
	<u>\$ 66,334,717</u>	<u>\$ 63,427,274</u>

The Company and subsidiaries sold domestic cars which were purchased from Kuozui and imported cars and parts which were purchased from TMC, HINO, Toyota Motor (China) Investment Co., Ltd. (“TMCP”), TMAP, TMS and TME. Payment terms are shown in table 6 of Note 13(1) Significant transactions information.

Partial purchases from other related parties are from installment sales by the subsidiary, Hotai Finance Co., Ltd. As described in Note 4(41), Hotai Finance Co., Ltd. receives only interest income rather than gross profit from the installment sales. Therefore, sales revenue and cost of sales are presented in net amount. Terms of purchases from related parties are in agreement with third parties. Terms are shown in table 6 of Note 13(1) significant transactions information.

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
(c) Rental expense:		
-Associates	\$ 1,777	\$ 1,814
-Entities controlled by key management	<u>1,860</u>	<u>1,140</u>
	<u>\$ 3,637</u>	<u>\$ 2,954</u>
	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Rental expense:		
-Associates	\$ 3,384	\$ 3,317
-Entities controlled by key management	<u>2,999</u>	<u>2,279</u>
	<u>\$ 6,383</u>	<u>\$ 5,596</u>

The Company and subsidiaries entered into the lease agreement with related parties based on the market price and the rent is paid on a monthly basis according to the agreement.

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
(d) Warranty cost:		
-Associates		
Central Motor	\$ 39,840	\$ 37,159
Tau Miao	39,736	30,984
Kuotu	35,350	27,003
Kau Du	25,157	20,175
Nan Du	25,343	19,362
Taipei Motor	23,564	16,664
Others	3,609	2,997
-Entities controlled by key management	<u>33</u>	<u>129</u>
	<u>\$ 192,632</u>	<u>\$ 154,473</u>

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Warranty cost:		
-Associates		
Central Motor	\$ 74,885	\$ 62,490
Tau Miao	72,220	55,433
Kuotu	61,873	47,921
Kau Du	48,824	36,086
Nan Du	47,118	34,711
Taipei Motor	41,363	29,347
Others	8,284	5,324
-Entities controlled by key management	<u>182</u>	<u>129</u>
	<u>\$ 354,749</u>	<u>\$ 271,441</u>

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
(e) Advertisement expense:		
-Associates	\$ 9,450	\$ 1,695
-Entities controlled by key management	<u>1,523</u>	<u>1,168</u>
	<u>\$ 10,973</u>	<u>\$ 2,863</u>

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Advertisement expense:		
-Associates	\$ 12,863	\$ 1,832
-Entities controlled by key management	<u>5,215</u>	<u>1,473</u>
	<u>\$ 18,078</u>	<u>\$ 3,305</u>

		<u>Three months ended June 30,</u>	
		<u>2018</u>	<u>2017</u>
(f) Freight:			
-Associates			
Fan Tai	\$	40,823	\$ 39,150
Yi Tai		19,635	20,498
Others		<u>910</u>	<u>1,004</u>
	\$	<u>61,368</u>	<u>\$ 60,652</u>
		<u>Six months ended June 30,</u>	
		<u>2018</u>	<u>2017</u>
Freight:			
-Associates			
Fan Tai	\$	80,109	\$ 39,150
Yi Tai		35,108	27,136
Others		<u>1,999</u>	<u>1,004</u>
	\$	<u>117,216</u>	<u>\$ 67,290</u>
		<u>Three months ended June 30,</u>	
		<u>2018</u>	<u>2017</u>
(g) Insurance claim payment:			
-Associates	\$	3,810	\$ 407
-Entities controlled by key management		<u>2</u>	<u>-</u>
	\$	<u>3,812</u>	<u>\$ 407</u>
		<u>Six months ended June 30,</u>	
		<u>2018</u>	<u>2017</u>
Insurance claim payment:			
-Associates	\$	6,770	\$ 1,228
-Entities controlled by key management		<u>2</u>	<u>-</u>
	\$	<u>6,772</u>	<u>\$ 1,228</u>
		<u>Three months ended June 30,</u>	
		<u>2018</u>	<u>2017</u>
(h) Commission expense:			
-Entities controlled by key management			
Ho An	\$	<u>126,562</u>	<u>\$ 93,441</u>
		<u>Six months ended June 30,</u>	
		<u>2018</u>	<u>2017</u>
Commission expense:			
-Entities controlled by key management			
Ho An	\$	<u>238,773</u>	<u>\$ 119,227</u>

C. Receivables from (payables to) related parties

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
(a) Receivables from related parties:			
-Associates	\$ 3,580,402	\$ 2,972,592	\$ 3,233,757
-Entities controlled by key management	<u>7,699</u>	<u>7,210</u>	<u>5,670</u>
	<u>\$ 3,588,101</u>	<u>\$ 2,979,802</u>	<u>\$ 3,239,427</u>
	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
(b) Other receivables from related parties:			
-Associates	\$ 242,836	\$ 303,957	\$ 172,366
-Entities controlled by key management	<u>3,604</u>	<u>6,190</u>	<u>2,840</u>
	<u>\$ 246,440</u>	<u>\$ 310,147</u>	<u>\$ 175,206</u>
	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
(c) Accounts payable:			
-Associates			
Kuozui	\$ 1,185,428	\$ 473,786	\$ 1,111,574
Others	843,995	632,852	766,261
-Entities controlled by key management			
TMC	3,616,200	4,273,475	3,373,851
Others	<u>385,017</u>	<u>402,113</u>	<u>499,419</u>
	<u>\$ 6,030,640</u>	<u>\$ 5,782,226</u>	<u>\$ 5,751,105</u>
	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
(d) Accrued expenses:			
-Associates	\$ 291,318	\$ 396,566	\$ 195,223
-Entities controlled by key management	<u>857</u>	<u>598</u>	<u>-</u>
	<u>\$ 292,175</u>	<u>\$ 397,164</u>	<u>\$ 195,223</u>
	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
(e) Commissions payable:			
-Entities controlled by key management			
Ho An	<u>\$ 36,280</u>	<u>\$ 32,400</u>	<u>\$ 54,280</u>

D. Prepayments to suppliers

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Entities controlled by key management	\$ 96,459	\$ 134,690	\$ 118,215

E. Property transactions

Acquisition of rental assets and cars for self-use

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
-Associates		
Kuotu	\$ 576,082	\$ 268,092
Taipei Motor	334,891	404,816
Tau Miao	220,582	253,446
Central Motor	228,921	86,523
Kau Du	189,700	230,686
Nan Du	136,455	86,985
Others	39,374	182,298
	<u>\$ 1,726,005</u>	<u>\$ 1,512,846</u>

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
-Associates		
Kuotu	\$ 1,153,034	\$ 545,714
Taipei Motor	698,576	694,234
Tau Miao	460,349	505,600
Central Motor	434,188	399,601
Kau Du	339,319	505,714
Nan Du	263,971	214,119
Others	80,861	339,304
	<u>\$ 3,430,298</u>	<u>\$ 3,204,286</u>

(3) Key management remuneration

	<u>Three months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Salaries and other short-term employee benefits	\$ 98,470	\$ 88,371

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Salaries and other short-term employee benefits	\$ 193,492	\$ 194,107

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

Pledged asset	June 30, 2018	December 31, 2017	June 30, 2017	Purpose
Notes and accounts receivable	\$ 7,959,573	\$ 7,499,474	\$ 8,041,286	Short-term borrowings and commercial papers payable
Financial assets at fair value through other comprehensive income	300,300	-	-	Operation bonds
Available-for-sale financial assets	-	300,300	300,300	Operation bonds
Restricted assets (Note 1)				
-Demand and time deposits	515,342	604,292	391,244	Short-term borrowings, performance guarantee and issuance of L/C (Note 2)
Property, plant and equipment				
-Land	-	-	98,900	Short-term borrowings
-Buildings and structures	-	-	37,252	Short-term borrowings
	<u>\$ 8,775,215</u>	<u>\$ 8,404,066</u>	<u>\$ 8,868,982</u>	
Transactions not listed in the balance sheet				
-Notes receivable for rent	<u>\$ 6,093,184</u>	<u>\$ 6,254,167</u>	<u>\$ 6,379,586</u>	Long-term and short-term borrowings and commercial papers payable

Note 1: Shown as 'other financial assets-current'.

Note 2: As of June 30, 2018, December 31, 2017 and June 30, 2017 the certificates of deposits amounting to \$5,912, \$10,675 and \$10,675, respectively, were pledged to the financial institution to issue the letter of credit required by the unexpired insurance policies worldwide underwritten by the subsidiary, Hotai Insurance Co., Ltd.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Details of operating lease agreements are shown in Note 6(34).

(2) Significant contracts signed by the Group as of June 30, 2018 are summarized as follows:

Type of contracts	Party involved	Contract period	Main contents
<u>The Company</u>			
Distributor agreement	Toyota Motor Corporation	January 1, 2016 to December 31, 2018 (Toyota) January 1, 2016 to December 31, 2018 (Lexus)	Sales of imported or domestic models, parts and accessories of Toyota and Hino in Taiwan.
Distributor agreement	Hino Motors, Ltd.	April 1, 2016 to March 31, 2021 (Hino)	Sales of imported or domestic models, parts and accessories of Toyota and Hino in Taiwan.
Agreement on sale and purchase of Kuozui product	Kuozui Motors, Ltd.	Except for execution of termination clause, contract terms remain effective from July 1, 1995 (Hino) and January 1, 1998 (Toyota).	Kuozui Motors, Ltd. agrees to provide vehicles, parts and accessories, which are manufactured under authorization, to the Company for sale purpose in Taiwan.
Product dealership agreement	Kuotu Motor Co., Ltd. and other dealers	May 15, 2018 to May 14, 2021	Authorized dealers sell vehicles, parts and automobile products provided by the Company.

<u>Type of contracts</u>	<u>Party involved</u>	<u>Contract period</u>	<u>Main contents</u>
Contracted operating contracts	Kuotu Motor Co., Ltd.	Starting from July 1, 2009	The Company was designated to conduct affairs such as sales, supply chain management, pre-sale services, after-sale services and promotion management.
	Kuozui Motors, Ltd.	Starting from June 1, 2002	
	Chang Yuan Motor Co., Ltd.	Starting from January 1, 2003	
	Except for termination signed by both parties, contracts remain effective.		
	<u>Chang Yuan Motor Co., Ltd.</u>		
Trading contracts	Kuozui Motors, Ltd.	Starting from January 1, 2003, except for termination signed by both parties or breach of contract, contracts remain effective.	Kuozui Motors, Ltd. agrees to provide vehicles and parts, which are manufactured under authorization, to the Company for sale purpose in Taiwan.
	<u>Toyota Material Handling Taiwan Ltd.</u>		
Distributor agreement	Toyota Industries Corporation	April 1, 2017 to March 31, 2020	Sales of imported Toyota vehicles and parts for industrial and industry use in Taiwan.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

- (1) The competent authority has approved the first domestic unsecured ordinary corporate bonds of 2018 issued by the Company's subsidiary, Hotai Finance Co., Ltd. The bonds are with a total issuance amount of \$2,400,000 and a coupon rate of 0.73%, covering a 3-year period of issuance and a circulation period from July 6, 2018 to July 6, 2021. The subsidiary will redeem the bonds at the face value and pay in full amount using cash at the maturity date.
- (2) On August 7, 2018, the Board of Directors of the subsidiaries, Hotai Finance Co., Ltd. and Hotai Leasing Co., Ltd., approved to invest USD 15,150 thousand and USD 14,850 thousand, respectively, to increase capital in Hoyun International Limited.
- (3) On August 7, 2018, the Board of Directors of the subsidiary, Hotai Leasing Co., Ltd, approved to invest \$300,000 to establish a subsidiary.

12. OTHERS

(1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and considering future capital requirements and long-term capital plan in order to support operations and maximize returns for shareholders.

(2) Financial instruments

A. Financial instruments by category

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
<u>Financial assets</u>			
Financial assets at fair value through profit or loss			
Financial assets mandatorily measured at fair value through profit or loss	\$ 7,510,783	\$ -	\$ -
Financial assets held for trading	-	764,921	2,907,871
Financial assets at fair value through other comprehensive income			
Designation of equity instrument	929,030	-	-
Qualifying equity instrument	3,662,720	-	-
Available-for-sale financial assets	-	7,239,071	8,113,089
Financial assets at amortized cost/Loans and receivables			
Cash and cash equivalents	12,810,117	15,041,676	9,019,959
Notes receivable	10,222,063	9,396,104	9,711,885
Accounts receivable	107,038,287	98,910,479	89,837,972
Other receivables	1,568,854	1,331,076	1,498,111
Guarantee deposits paid	567,053	548,045	490,482
Other financial assets	2,513,040	2,960,646	1,969,546
Derivative financial assets for hedging	35,533	-	-
	<u>\$ 146,857,480</u>	<u>\$ 136,192,018</u>	<u>\$ 123,548,915</u>
<u>Financial liabilities</u>			
Financial liabilities at fair value through profit or loss			
Financial liabilities held for trading	\$ 3,720	\$ 96,003	\$ 4,264
Financial liabilities at amortized cost			
Short-term loans	40,744,674	36,744,035	32,341,094
Short-term notes and bills payable	57,771,421	55,091,275	52,311,790
Notes payable	193,340	202,209	135,915
Accounts payable	10,704,134	10,501,308	9,563,134
Other payables	8,061,531	1,227,628	7,327,480
Corporate bonds payable (including current portion)	2,800,000	2,800,000	3,800,000
Long-term borrowings (including current portion)	14,932,024	12,709,012	9,216,533
Guarantee deposits received	12,256,485	11,858,610	11,389,778
Other financial liabilities	78,754	74,600	68,063
Financial liabilities for hedging	218,549	403,699	290,835
	<u>\$ 147,764,632</u>	<u>\$ 131,708,379</u>	<u>\$ 126,448,886</u>

B. Financial risk management policies

- (a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. To minimize any adverse effects on the financial performance of the Group, derivative financial instruments, such as foreign exchange forward contracts are used to hedge certain exchange rate risk, and interest rate swaps are used to fix variable future cash flows.
- (b) Risk management is carried out by finance departments of companies within the Group under policies approved by the Board of Directors. Finance departments identify, evaluate and hedge financial risks in close cooperation with the Group's operating units. The Board

provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Group operates internationally and is exposed to foreign exchange rate arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.
- ii. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. Exchange rate risk is measured through a forecast of highly probable USD and JPY expenditures. Forward foreign exchange contracts are adopted to minimize the volatility of the exchange rate affecting cost of forecast inventory purchases.
- iii. The Group hedges foreign exchange rate by using forward exchange contracts. However, the Group does not adopt hedging accounting. Details of financial assets or liabilities at fair value through profit or loss are provided in Note 6(2).
- iv. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	June 30, 2018			December 31, 2017		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	USD	13,744	30.4600	\$	418,642	USD 26,460 29.7600 \$ 787,450
JPY:NTD	JPY	210,555	0.2754		57,987	JPY 301,587 0.2642 79,679
RMB:NTD	CNY	11,267	4.5980		51,806	CNY 14,072 4.5700 64,309
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	USD	354,743	30.4600	\$	10,805,472	USD 333,485 29.7600 \$ 9,924,514
JPY:NTD	JPY	3,127,237	0.2754		861,241	JPY 3,180,120 0.2642 840,188
USD:RMB (Note)	USD	132,950	6.6246		4,049,657	USD 94,950 6.5120 2,825,712

		June 30, 2017		
		Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	USD	12,402	30.4200	\$ 377,269
JPY:NTD	JPY	112,770	0.2716	30,628
RMB:NTD	CNY	11,825	4.4863	53,050
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	USD	287,172	30.4200	\$ 8,735,772
JPY:NTD	JPY	3,120,802	0.2716	847,610
USD:RMB (Note)	USD	42,950	6.7807	1,306,539

Note: The functional currencies of certain consolidated entities are not NTD, thus, this information has to be considered when reporting. For example, when a subsidiary's functional currency is RMB, the subsidiary's segments that are involved with USD have to be taken into consideration.

- v. The total exchange (loss) gain, including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the three months ended June 30, 2018 and 2017, and six months ended June 30, 2018 and 2017, amounted to (\$220,921), (\$45,072), (\$105,348) and \$92,572 respectively.
- vi. Analysis of foreign currency market risk arising from significant foreign exchange variation:

	<u>Six months ended June 30, 2018</u>			<u>Six months ended June 30, 2017</u>		
	<u>Sensitivity analysis</u>			<u>Sensitivity analysis</u>		
	<u>Degree of variation</u>	<u>Effect on profit or loss</u>	<u>Effect on other comprehensive income</u>	<u>Degree of variation</u>	<u>Effect on profit or loss</u>	<u>Effect on other comprehensive income</u>
(Foreign currency: functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	1%	\$ 4,186	\$ -	1%	\$ 3,773	\$ -
JPY:NTD	1%	580	-	1%	306	-
RMB:NTD	1%	518	-	1%	531	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	1%	108,055	-	1%	87,358	-
JPY:NTD	1%	8,612	-	1%	8,476	-
USD:RMB (Note)	1%	40,497	-	1%	13,065	-

Note: The functional currencies of certain consolidated entities are not NTD, thus, this information has to be considered when reporting. For example, when a subsidiary's functional currency is RMB, the subsidiary's segments that are involved with USD have to be taken into consideration.

Price risk and interest rate risk

- i. The Company's and the subsidiaries' financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are domestic quasi money market fund and listed stocks which are influenced by fluctuation in market price.

- ii. The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Under these swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates.
- iii. The subsidiary, Hotai Finance Co., Ltd., assessed the market risk of interest rate swap by using PVBP (Present Value of Basis Point). However, the contracted notional principal equal to the amount of hedged liabilities, and the duration, resetting date, date of receiving and paying of interest and principal and the index of measuring interest were both the same, which can use to offset the market risk, thus, the Group did not expect significant market risk.
- iv. The borrowings of the subsidiaries, Hotai Finance Co., Ltd., Hotai Leasing Co., Ltd. and Hoyun Leasing International Limited, are partially held at fixed rates so it has certain market risk. For the position held at the balance sheet date, if market interest rates had been 1% higher/lower, fair value of the borrowings would have been \$1,033,973 higher/lower.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortized cost, at fair value through profit or loss and at fair value through other comprehensive income.
- ii. The Group manages their credit risk taking into consideration the entire group's concern. For banks and financial institutions, only independently rated parties with good rating are accepted. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.
- iii. The subsidiary, Hotai Finance Co., Ltd. (HFC), entered into agreements with banks for handling financing through pledging new and used vehicles. In accordance with the agreements, HFC is responsible for expansion of client lists, assisting expansion of installment loans for cars and unsecured loans. If borrowers are late for payment, HFC shall repay on behalf of the borrowers, and request claims of the borrowings and mortgage of vehicles. As of June 30, 2018, December 31, 2017 and June 30, 2017, HFC has financial instruments with off-balance-sheet credit risk amounting to \$9,188,774, \$9,308,727 and \$9,703,676, respectively, and HFC has collected notes for installment

payment on behalf of the banks. HFC assesses financial guarantee contract liabilities which may arise from rendering the above services based on historical experience, and recognizes financial guarantee expense which is shown as ‘other current liabilities’.

- iv. The Group adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:
- (i) If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
 - (ii) For investments in bonds that are traded over the counter, if any external credit rating agency rates these bonds as investment grade, the credit risk of these financial assets is low.
- v. The Group adopts historical experience, the default occurs when the contract payments are past due over 30 days.
- vi. The Group classifies customers’ accounts receivable, contract assets and rents receivable in accordance with situation of default. The Group applies the simplified approach using provision matrix, loss rate methodology to estimate expected credit loss under the provision matrix basis.
- vii. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:
- (i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;
 - (ii) The disappearance of an active market for that financial asset because of financial difficulties;
 - (iii) Default or delinquency in interest or principal repayments;
 - (iv) Adverse changes in national or regional economic conditions that are expected to cause a default.
- viii. Subsidiary, Hotai Finance Co., Ltd., used the forecastability to adjust historical and timely information to assess the default possibility of notes receivable, accounts receivable and lease payments receivable. On June 30, 2018, the provision matrix is as follows:

	Later than 30 days	Later than 60 days	Later than 90 days	Later than 120 days	Over 150 days	Total
<u>June 30, 2018</u>						
Expected loss rate	30%	60%	80%	90%	100%	
Total book value	\$ 276,534	\$ 129,024	\$ 123,756	\$ 100,930	\$ 142,992	\$ 773,236
Loss allowance	\$ 82,960	\$ 77,414	\$ 99,005	\$ 90,837	\$ 142,992	\$ 493,208

- ix. Credit risk information of subsidiary, Hotai Insurance Co., Ltd., on June 30, 2018 is provided in Note 12(5)A.

- x. The Group applies the simplified approach using loss rate methodology to estimate expected credit loss.
- xi. Movements in relation to the group applying the simplified approach to provide loss allowance for notes receivable, accounts receivable, contract assets and lease payments receivable are as follows:

	<u>Three months ended June 30, 2018</u>	
	<u>Receivables</u>	<u>Contract assets</u>
At January 1_IAS 39	\$ 1,658,679	\$ -
Adjustments under new standards	-	-
At January 1_IFRS 9	1,658,679	-
Provision for impairment	677,481	2,396
Write-offs	(450,097)	-
Others	<u>4,554</u>	<u>-</u>
At June 30	<u>\$ 1,890,617</u>	<u>\$ 2,396</u>

For provisioned loss for the six months ended June 30, 2018, the impairment losses arising from customers' contracts amounted to \$679,877.

- xii. The Group used the forecastability to adjust historical and timely information to assess the default possibility of debt instrument on June 30, 2018, and estimate expected credit loss.
- xiii. Credit risk information of 2017 is provided in Note 12(13).

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by finance departments of companies within the Group. Finance departments of companies within the Group monitor rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets.
- ii. As of June 30, 2018, December 31, 2017 and June 30, 2017, the Group's unused credit line amounted to \$14,648,154, \$13,855,602 and \$13,120,500, respectively.
- iii. The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

June 30, 2018

	<u>Up to 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>
Short-term loans	\$ 37,188,874	\$ 1,567,710	\$ 1,988,090
Short-term notes and bills payable	57,771,421	-	-
Notes payable	193,340	-	-
Accounts payable	10,704,134	-	-
Accrued expenses	4,714,359	-	-
Other payables	8,061,531	-	-
Bonds payable	-	2,800,000	-
Long-term loans (including current portion)	1,850,189	6,128,962	6,961,867

Non-derivative financial liabilities:

December 31, 2017

	<u>Up to 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>
Short-term loans	\$ 35,099,114	\$ 600,000	\$ 1,044,921
Short-term notes and bills payable	55,091,275	-	-
Notes payable	202,209	-	-
Accounts payable	10,501,308	-	-
Accrued expenses	4,804,814	-	-
Other payables	1,227,628	-	-
Bonds payable	-	-	2,800,000
Long-term loans (including current portion)	1,672,815	3,950,413	7,092,337

Non-derivative financial liabilities:

June 30, 2017

	<u>Up to 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>
Short-term loans	\$ 27,040,784	\$ 3,720,700	\$ 1,579,610
Short-term notes and bills payable	52,311,790	-	-
Notes payable	135,915	-	-
Accounts payable	9,563,134	-	-
Accrued expenses	4,128,730	-	-
Other payables	7,327,480	-	-
Bonds payable	1,000,000	-	2,800,000
Long-term loans (including current portion)	2,839,019	1,809,486	4,574,193

Derivative financial liabilities:

June 30, 2018

	<u>Up to 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>
Cross currency swaps	\$ 186,351	\$ 32,198	\$ -
Foreign exchange swap contracts	3,720	-	-

Derivative financial liabilities:

December 31, 2017

	<u>Up to 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>
Cross currency swaps	\$ 334,581	\$ 10,245	\$ 58,873
Forward exchange contracts	96,003	-	-

Derivative financial liabilities:

June 30, 2017

	<u>Up to 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>
Cross currency swaps	\$ 35,762	\$ 214,775	\$ 40,298
Forward exchange contracts	4,264	-	-

(3) Fair value information

A. The different levels of valuation techniques used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed shares and beneficial certificates is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Group's investment in derivative instruments is included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The Group's equity investments with no active markets are included in Level 3.

B. Fair value information of investment property at cost is provided in Note 6(12).

C. Financial instruments not measured at fair value

Including the carrying amounts of cash and cash equivalents, notes receivable, accounts receivable, other receivables, short-term loans, notes payable, accounts payable, accrued expenses, other payables, commission payables and bonds payable are approximate to their fair values.

D. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities are as follows:

(a) The related information of natures of the assets and liabilities is as follows:

<u>June 30, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Beneficiary certificates	\$ 4,049,212	\$ -	\$ 305,750	\$ 4,354,962
Forward exchange contracts	-	196,670	-	196,670
Bond investment	-	1,000,000	-	1,000,000
Equity securities	1,162,479	-	-	1,162,479
Exchange traded funds	700,494	-	-	700,494
Financial instruments	-	96,178	-	96,178
Derivative financial assets for hedging	-	35,533	-	35,533
Financial assets at fair value through other comprehensive income				
Bond investment (Note)	-	3,662,720	-	3,662,720
Equity securities	646,309	-	282,721	929,030
	<u>\$ 6,558,494</u>	<u>\$ 4,991,101</u>	<u>\$ 588,471</u>	<u>\$ 12,138,066</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Foreign exchange swap contracts	\$ -	\$ 3,720	\$ -	\$ 3,720
Derivative financial liabilities for hedging	-	218,549	-	218,549
	<u>\$ -</u>	<u>\$ 222,269</u>	<u>\$ -</u>	<u>\$ 222,269</u>

Note: Including operation bonds.

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<u>December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
<u>Recurring fair value measurements</u>				
Financial assets at fair value				
through profit or loss				
Beneficiary certificates	\$ 757,207	\$ -	\$ -	\$ 757,207
Foreign exchange swap contracts	-	7,714	-	7,714
Available-for-sale financial assets				
Bond investment (Note)	-	5,176,511	-	5,176,511
Exchange traded funds	888,947	-	-	888,947
Equity Securities	1,096,582	-	281,388	1,377,970
Financial instruments	-	95,943	-	95,943
	<u>\$ 2,742,736</u>	<u>\$ 5,280,168</u>	<u>\$ 281,388</u>	<u>\$ 8,304,292</u>

<u>Liabilities</u>				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value				
through profit or loss				
Forward exchange contracts	\$ -	\$ 96,003	\$ -	\$ 96,003
Derivative financial liabilities for hedging	-	403,699	-	403,699
	<u>\$ -</u>	<u>\$ 499,702</u>	<u>\$ -</u>	<u>\$ 499,702</u>

Note: Including operation bonds.

<u>June 30, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
<u>Recurring fair value measurements</u>				
Financial assets at fair value				
through profit or loss				
Beneficiary certificates	\$ 2,854,724	\$ -	\$ -	\$ 2,854,724
Forward exchange contracts	-	53,116	-	53,116
Foreign exchange swap contracts	-	31	-	31
Available-for-sale financial assets				
Bond investment (Note)	-	6,690,710	-	6,690,710
Exchange traded funds	737,807	-	-	737,807
Equity securities	312,772	-	275,793	588,565
Financial instruments	-	96,007	-	96,007
	<u>\$ 3,905,303</u>	<u>\$ 6,839,864</u>	<u>\$ 275,793</u>	<u>\$ 11,020,960</u>

<u>Liabilities</u>				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value				
through profit or loss				
Forward exchange contracts	\$ -	\$ 1,133	\$ -	\$ 1,133
Foreign exchange swap contracts	-	3,131	-	3,131
Derivative financial liabilities for hedging	-	290,835	-	290,835
	<u>\$ -</u>	<u>\$ 295,099</u>	<u>\$ -</u>	<u>\$ 295,099</u>

Note: Including operation bonds.

- (b) The methods and assumptions the Group used to measure fair value are as follows:
- i. The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	<u>Listed stocks</u>	<u>Open-end fund</u>	<u>Exchange traded funds</u>
Market quoted price	Closing price	Net asset value	Closing price

- ii. Except for financial instruments with active markets, domestic investments take the quoted price of Taipei Exchange while foreign investments take the quoted price of the Swiss Exchange's financial information system as the fair value. The fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date.
- iii. When assessing non-standard and low-complexity financial instruments, for example, debt instruments without active market, interest rate swap contracts and foreign exchange swap contracts and options, the Group adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market. Forward foreign currency contracts are generally assessed using forward exchange rates.
- iv. The Group takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Group's credit quality.

E. The following chart is the movement of Level 3 for the six months ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2018</u>
	<u>Beneficiary</u>	<u>Equity securities</u>
	<u>certificates</u>	<u>Equity securities</u>
At January 1	\$ -	\$ 281,388
Acquisition of Level 3 financial assets	291,300	-
Recorded as unrealized gains (losses) on valuation of investments in equity instruments measured at fair value through other comprehensive income	-	1,333
Recorded as gains (losses) on financial assets at fair value through profit or loss	<u>14,450</u>	<u>-</u>
At June 30	<u>\$ 305,750</u>	<u>\$ 282,721</u>

	<u>2017</u>
At January 1	<u>Equity securities</u> \$ 263,422
Acquisition of Level 3 financial assets	31
Recorded as unrealized gains (losses) on valuation of investments in equity instruments measured at fair value through other comprehensive income	<u>12,340</u>
At June 30	<u>\$ 275,793</u>

F. For the six months ended June 30, 2018 and 2017, there was no transfer between Level 1, Level 2, and Level 3.

G. Treasury department is in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

H. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	<u>Fair value at June 30, 2018</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Non-derivative equity instrument:					
Unlisted shares	\$ 282,721	Asset liability method, Market comparable companies method	Net asset value, price to earnings ratio multiple	-	The higher the multiple and control premium, the higher the fair value.
Infrastructure fund	305,750	Net asset value	Not applicable	Not applicable	Not applicable

	<u>Fair value at December 31, 2017</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Non-derivative equity instrument:					
Unlisted shares	\$ 281,388	Asset liability method, Market comparable companies method	Net asset value, price to earnings ratio multiple	-	The higher the multiple and control premium, the higher the fair value.

	<u>Fair value at June 30, 2017</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Non-derivative equity instrument:					
Unlisted shares	\$ 275,793	Asset liability method, Market comparable companies method	Net asset value, price to earnings ratio multiple	-	The higher the multiple and control premium, the higher the fair value.

I. The Group has carefully assessed the valuation models and assumptions used to measure fair value, and regards its fair value measurements as reasonable. However, the use of different valuation models or assumptions may result in different measurements. If assumptions from financial assets and liabilities categorized within Level 3 had increased or decreased by 1%, other comprehensive income would not have been significantly impacted as of June 30, 2018, December 31, 2017 and June 30, 2017.

(4) The nature and range of contract risk governance of the subsidiary, Hotai Insurance Co., Ltd.

A. The objectives, policies, procedures and methods of risk governance on insurance contracts:

(a) Risk Governance Structure and Responsibilities

The subsidiary, Hotai Insurance Co., Ltd. has set up the Risk & Control Committee (RCC) under the Board of Directors as well as an independent risk management department in order to effectively plan, advocate and monitor risk management matters.

The subsidiary's goals in managing its risks are to:

- i. Protect the subsidiary's capital by not taking risks beyond the subsidiary's risk tolerance.
- ii. Enhance value creation and achieve an optimal risk-return profile by efficiently deploying capital.
- iii. Support decision making processes by providing consistent, reliable and timely risk information.
- iv. Protect the subsidiary's brand and reputation by fostering the subsidiary's core values and promoting a sound culture of risk awareness.

The "three lines of defense" approach runs through the subsidiary's risk governance structure, so that risks are clearly identified, owned, and managed:

1st line: Business management takes risks and is responsible for day-to-day risk management.

2nd line: The risk management function oversees the overall risk management framework, and helps manage risk. Other governance and control functions (e.g. legal and compliance, finance, technical underwriting review, claims QA) are responsible for and help control specific types of risks.

3rd line: The audit function provides independent assurance regarding the effectiveness of the ERM framework and risk controls.

In accordance with "Risk Management Practice Rules for Insurance Industry", the subsidiary has established "Risk Management Policy" which is approved by the subsidiary's Board of Directors, to establish its corporate risk management framework.

(b) Risk Reporting and Measurement System

i. Risk Reporting

Each department branch periodically delivers risk information to the risk management department for monitoring purpose. The mitigating actions and response plans are required while breaching the risk-type limits.

Risk management department consolidates risk information, reviews and follows up improvement actions. In the quarterly RCC meeting, Integrated Assessment and

Assurance Reporting will be presented in accordance with the meeting agenda. After the CEO signs off quarterly RCC meeting minutes as a formal risk report, the report will be submitted to RCC and the Board of Directors for monitoring and verifying the soundness of the risk management framework.

ii. Measurement System

Pursuant to the regulatory authority's requirement, the subsidiary has performed sensitivity analysis, scenario analysis and stress test to understand the related risks which have quantitative influence on the subsidiary's performance.

(c) Insurance Risk and Underwriting Guidelines

Insurance risk management includes product development, pricing, underwriting, reinsurance, natural/man-made catastrophes, claims and reserve related risks. All of these risks are managed by the front-line responsible functions, such as underwriting, claims, technical management, product development and actuarial departments. According to the "Risk Management Policy," related functional policies and procedures, and local regulations, the Risk management framework and mechanism are designed and embedded into day-to-day operations, which includes authorization, operational process and risk-type limit monitoring, etc. The Risk Policy adherence self-assessment checklist and Risk Management Practice Rules for Insurance Industry checklist should be filled in by risk-type owners annually, in order to comply with the requirements of "Risk Management Policy" and "Risk Management Practice Rules for Insurance Industry".

(d) Total Risk Profiling and Insurance Risk Management

The subsidiary adopts the Total Risk Profiling (TRP) methodology to identify, assess, response and document its overall risks (incl. Business and Strategic Risk, Insurance Risk, Operational Risk, ALM / Investment / Credit Risk, and Financial Reporting Risk that can have an impact on the sustainability of Earnings, Capital and Reputation) systematically across the subsidiary. The risk management department coordinates the TRP efforts and provides quality assurance with all departments within their areas of responsibilities. The implementation status of improvement actions will be reviewed quarterly according to the fall TRP results in the previous year. The insurance risks (incl. product development, pricing, underwriting, reinsurance, natural / man-made catastrophes, claims, reserve and so on) are covered in the TRP process as well.

(e) Concentration Exposures on Insurance Risk

The subsidiary, Hotai Insurance Co., Ltd. has established the related risk control mechanism and developed risk management plan to run retention and ceded/assumed businesses based on reinsurance capacity by following the "Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms". The net retention limit per risk for each line of business is listed below:

<u>Line of Business</u>	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Fire insurance	\$ 50,000	\$ 50,000	\$ 50,000
Fire & A.P. insurance	50,000	50,000	50,000
Long-term residential fire insurance	50,000	50,000	50,000
Residential fire insurance	50,000	50,000	50,000
Marine cargo insurance	20,000	20,000	20,000
Inland marine insurance	20,000	20,000	20,000
Automobile insurance	Nil	Nil	Nil
General liability insurance	50,000	50,000	50,000
Engineering insurance	50,000	105,000	105,000
Fidelity insurance	60,000	90,000	90,000
Other property insurance	50,000	50,000	50,000
Personal accident insurance	50,000	50,000	50,000

In addition to control the own-retention limit per risk/catastrophe for confining risk exposures, the subsidiary, in accordance with the characteristics of each line of insurance business and to align with operational strategies, arranges reinsurance contracts or arranges facultative reinsurance to appropriately spread the subsidiary's endured risk. For the credit risk of main reinsurers, the subsidiary considers their credit rating, financial status, and location to ensure that the subsidiary has a stable and appropriate reinsurance coverage.

(f) Asset/Liability Management

The Asset/Liability Management Investment Committee (ALMIC) meeting is held on a quarterly basis to monitor the subsidiary's asset/liability matching duration and evaluate liquidity risk by ensuring the fulfillment of due liabilities and future claims provisions.

(g) Capital Adequacy Management

In accordance with the "Regulations Governing Capital Adequacy of Insurance Companies", the subsidiary has established the capital solvency management mechanism, which includes a risk-based capital ratio review on a regular basis. Also, the RBC Ratio Report is prepared and filed semiannually to monitor and implement regulatory capital adequacy requirements. Currently, the subsidiary's RBC ratio ((adjusted net capital / risk-based capital) X 100%) is in compliance with the regulatory requirement of "no lower than 200%."

(5) Credit risk, liquidity risk and market risk of insurance contract

The insurance contracts of the subsidiary, Hotai Insurance Co., Ltd. are all short-term policies and the reserves are not discounted; therefore, there is no significant impact in the interest rate risk.

A. Credit risk

- (a) Credit risk refers to the risk of financial loss to the subsidiary, Hotai Insurance Co., Ltd., arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at fair value through other comprehensive income.

- (b) Except for using historical loss rate as a basis and forecastable macroeconomic information to estimate expected credit loss in line with IAS, the Group also provisioned allowance for loss in line with “Regulation of the Procedure for Asset Assessment and Collection of Overdue Debts” and related procedures.
- (c) The Company adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk since initial recognition:
- i. If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
 - ii. For bonds or banks that issue non-short-term certificates of deposit, if any external credit rating agency rates these bonds and banks as investment grade, the credit risk of these financial assets is low. However, if the rating of these bonds and banks are degraded to non-investment grade, the credit risk of these financial assets was significantly increased.
- (d) The Company adopts IFRS 9 to presume the following assumptions that financial assets have been impaired:
- i. If the contract payments were past due over 90 days based on the terms, there has been an impairment and default on that instrument since initial recognition.
 - ii. If companies that issue bonds or banks that issue non-short-term certificates of deposit experience significant financial difficulties and enter into bankruptcy or financial reorganization, the credit of the financial assets would be considered impaired.
 - iii. If the Company actively clears these financial assets in line with the “Regulation of the Procedure for Asset Assessment and Collection of Overdue Debts”, and the financial assets could no longer be recovered, the financial assets should be written-off after it is reported to the Board of Directors. However, the Group will continue executing the recourse procedures to secure their rights.
- (e) On June 30, 2018, the subsidiary, Hotai Insurance Co., Ltd., included receivables and other assets into the range whose impairment should be assessed (excluding prepayments and operation bonds the expected loss rates are as follows:

The credit rating levels and each input value are presented below:

	June 30, 2018		
	12 months	Significant increase in credit risk	Impairment of credit
	Not past due or not over 30 days	Over 30 days	Over 90 days
Expected loss rate	0%	0%	100%
Total book value	\$ 777,081	\$ -	\$ 160
Loss allowance	-	-	160

The provision of allowance for loss referred to the “Regulation of the Procedure for Asset Assessment and Collection of Overdue Debts”. For the six months ended June 30, 2018, the movement of allowance for loss are as follows:

	2018				
	<u>12 months</u>	<u>in credit risk</u>	<u>Impairment</u>	<u>Amount of</u>	<u>Total</u>
			<u>of credit</u>	<u>provision in line</u>	
				<u>with the</u>	
				<u>“Regulation</u>	
				<u>of the Procedure</u>	
				<u>for Asset</u>	
				<u>Assessment and</u>	
				<u>Collection of</u>	
				<u>Overdue Debts”</u>	
At January 1	\$ -	\$ -	\$ 160	\$ 19,201	\$ 19,361
Amounts reversed	-	-	-	2,601	2,601
At June 30	\$ -	\$ -	\$ 160	\$ 21,802	\$ 21,962

As of June 30, 2018, the allowance for loss of abovementioned financial assets was \$21,962, and the maximum exposure to credit risk was \$755,279.

- (f) On June 30, 2018, the subsidiary, Hotai Insurance Co., Ltd., has financial assets at fair value through other comprehensive income and non-short term time deposits (excluding valuation adjustment) amounting to \$5,467,137, and are both classified as investment grade. The external credit risk rating are as follows:

<u>Credit risk rating</u>	<u>June 30, 2018</u>
tw AAA	\$ 3,034,629
tw AA+	306,886
tw AA	674,132
tw AA-	605,919
tw A+	430,950
tw A	395,374
tw A-	19,247
	<u>\$ 5,467,137</u>

The probable expected loss rate of abovementioned financial assets within 12 months was 0%~0.06%, the amount of allowance for loss was \$502, and the maximum exposure amount was \$5,466,635. Aforementioned amount of allowance for loss was using the forecastability of Standard & Poor's research report to adjust historical and timely information to assess the expected loss rate. For the six months ended June 30, 2018, the movements of allowance for loss are as follows:

	<u>2018</u>
At January 1	\$ 506
Amounts reversed	(4)
At June 30	<u>\$ 502</u>

(g) Reinsurance Credit Risk

The counterparties of the subsidiary, Hotai Insurance Co., Ltd. in conducting reinsurance transactions are companies with good credit ratings. Also, the subsidiary, Hotai Insurance Co., Ltd. transacts with numerous counterparties to diversify credit risk. The possibility of expected defaults is remote. In addition, the reinsurer list that the subsidiaries transacts with has been reviewed and approved by the subsidiary, Hotai Insurance Co., Ltd., and all are qualified reinsurance ceded companies. Policy underwriting units also non-routinely check on the newest approved reinsurance list. For the six months ended June 30, 2018, the

reinsurance companies reinsurance premiums ceded and credit rating levels are as follows (if the reinsurance companies' reinsurance transactions is through reinsurance brokers, then the credit rating levels as follows is based on the reinsurance broker):

Six months ended June 30, 2018

Credit rating levels (S&P)	Reinsurance premiums ceded	Percentage
AA+	\$ 288	-
AA	1,475	-
AA-	250,814	40
A+	203,747	33
A	20,911	3
A-	9,043	2
BBB+	1,211	-
Unrated	133,156	22
Total	\$ 620,645	100

Note: Compulsory automobile insurance and residential earthquake insurance are excluded.

B. Liquidity risk management

Liquidity risk is the risk that the subsidiary, Hotai Insurance Co., Ltd. may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. The subsidiary is not exposed to liquidity risk as there is no need for the subsidiary to hold adequate current assets to fulfill the financial liabilities as they become due or use higher costs to settle relevant financial liabilities.

(a) Cash flow control and hedging strategy

With the following controls and hedge strategies, the working capital of the subsidiary, Hotai Insurance Co., Ltd. is sufficient to meet insurance services and operational needs, and no liquidity risk is expected.

- i. The investment in debt instruments and equity instruments are mostly traded in the active market and can be expected to be disposed at the price close to fair value.
- ii. To make sure liquidity fund fulfill the liabilities when they fall due or capital requirements, the subsidiary manages liquidity through bank deposits and money market instruments.
- iii. To make sure the effectiveness of liquidity risk management, cash flow analysis is employed, the subsidiary generates yearly and monthly net cash flow forecast according to annual plan of operating income and expenses. Based on the cash flow forecast, the subsidiary periodically monitors the actual income and expenses to execute cash management activities.

(b) Liquidity risk management

To effectively manage liquidity risk, except for holding a considerable portion of current assets, the subsidiary also limits the proportion of investment amount and reviews current assets and liabilities on a regular basis to ensure that above requirement is fully supported.

The table below analyses the insurance liabilities and non-derivative financial liabilities of the subsidiary, Hotai Insurance Co., Ltd., based on the remaining period at the balance

sheet date to the contractual maturity date.

i. Non-derivative financial liabilities

	<u>Contractual undiscounted cash flows</u>			
	<u>Less than 1 year</u>	<u>Between 1 and 5 years</u>	<u>Between 5 and 10 years</u>	<u>Over 10 years</u>
<u>June 30, 2018</u>				
Insurance liabilities	\$ 4,342,972	\$ 1,440,404	\$ 131,822	\$ 1,905,941
Payables	791,770	-	-	-
Deposits-in (shown as other liabilities)	2,537	1,607	390	-

	<u>Contractual undiscounted cash flows</u>			
	<u>Less than 1 year</u>	<u>Between 1 and 5 years</u>	<u>Between 5 and 10 years</u>	<u>Over 10 years</u>
<u>December 31, 2017</u>				
Insurance liabilities	\$ 3,794,594	\$ 1,326,002	\$ 118,525	\$ 1,905,326
Payables	770,876	-	-	-
Deposits-in (shown as other liabilities)	2,553	1,549	390	-

	<u>Contractual undiscounted cash flows</u>			
	<u>Less than 1 year</u>	<u>Between 1 and 5 years</u>	<u>Between 5 and 10 years</u>	<u>Over 10 years</u>
<u>June 30, 2017</u>				
Insurance liabilities	\$ 3,295,767	\$ 1,358,204	\$ 222,674	\$ 1,896,182
Payables	571,969	-	-	-
Deposits-in (shown as other liabilities)	704	3,768	-	-

ii. Derivatives

On June 30, 2018, the subsidiary, Hotai Insurance Co., Ltd., has derivative instruments at net settlement whose duration are all within 3 months from reporting period-end to the due date of contract.

C. Market risk

Market risk refers to the risk of changes in values or cash flows of accounts on the subsidiary, Hotai Insurance Co., Ltd.'s financial statements due to changes in financial markets. Major risk factors are as follows:

- Equity market prices
- Interest rate and credit spreads
- Currency exchange rates

The subsidiary, Hotai Insurance Co., Ltd., defines its risk tolerance and regularly measures and reviews this risk by adoption of "assets allocation strategy". In compliance with the subsidiary's "Risk Management Policy", the subsidiary's "Investment Policy Statement", and regulations of the competent authority, the subsidiary imposes investment limit on individual investment targets, restricts investments in assets with low liquidity, and manages the difference between the interest rate sensitive assets and the interest rate sensitive liabilities. To ensure effective market risk management, the subsidiary, Hotai Insurance Co., Ltd. also implements relevant stress tests in compliance with requirement by the competent authority. The table below further describes the subsidiary, Hotai Insurance Co., Ltd.'s current risk management mechanism in terms of individual risk factor:

(a) Price risk

The price risk is arising from the uncertainty of the prices of beneficiary certificates. However, the subsidiary Hotai Insurance Co., Ltd. has appropriately spread the price risk

through diversified portfolio to decrease the risk of investments centralised in any specific industry or issuance institution.

With other conditions unchanged, the reasonable sensitivity analysis on stock price change is shown below:

	June 30, 2018		
	Change of variables		Change in other comprehensive income
Listed stocks, ETF and beneficiary certificates	Increase in price	10%	\$ 282,416
	Decrease in price	10%	(282,416)
	June 30, 2017		
	Change of variables		Change in equity
ETF investment	Increase in price	10%	\$ 73,781
	Decrease in price	10%	(73,781)

(b) Interest rate risk

Interest rate risk refers to the risk from market interest rate change which results in change of fair value of financial instruments. The major investment for the subsidiary, Hotai Insurance Co., Ltd., is fixed interest rate debt investment. Increase in interest rate will result in decrease in fair value. However, due to focus on long-term stability and predictable income, the short-term interest rate change would have insignificant impact to the subsidiary. Thus, no major interest rate risk is expected.

With other conditions unchanged, the reasonable sensitivity analysis on interest rate change is shown below:

	June 30, 2018		
	Change of variables		Change in fair value
Fixed-income investments	Increase in interest rate	100 basis point	(\$ 179,881)
	Decrease in interest rate	100 basis point	179,881
	June 30, 2017		
	Change of variables		Change in fair value
Fixed-income investments	Increase in interest rate	100 basis point	(\$ 228,472)
	Decrease in interest rate	100 basis point	228,472

(c) Foreign exchange risk

Foreign exchange risk refers to the risk from fluctuations in fair value of assets or future cash flow due to foreign exchange volatility.

The major foreign exchange risk of the subsidiary, Hotai Insurance Co., Ltd., results from US dollar position. The US dollar foreign exchange rate is shown below:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Foreign exchange rate	30.58	29.68	30.42

The US dollar assets and liabilities are shown as below:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
USD Assets	USD 32,487,674.32	USD 32,924,845.49	USD 32,374,397.33
USD Liabilities	USD 551,455.57	USD 6,785.00	USD 557,090.14

Foreign exchange risk will affect the subsidiary, Hotai Insurance Co., Ltd.'s foreign currency denominated assets and liabilities. All foreign currency denominated investment assets held by the subsidiary has been commissioned by investors for hedging, using the foreign exchange swap contracts to effectively control the risk.

Under the circumstance that other variables remain unchanged and after deducting the nominal principal of hedge items, the sensitivity analysis for reasonable fluctuations in exchange rates is as follows:

	<u>June 30, 2018</u>	
	<u>Change on variable</u>	<u>Impact on net (loss) income</u>
USD assets, net	Appreciate 5% against NTD	(\$ 16,972)
	Depreciate 5% against NTD	16,972
	<u>June 30, 2017</u>	
	<u>Change on variable</u>	<u>Impact on net (loss) income</u>
USD assets, net	Appreciate 5% against NTD	(\$ 8,826)
	Depreciate 5% against NTD	8,826

(6) Insurance risk information

A. Insurance risk concentration

Insurance businesses undertaken by the subsidiary, Hotai Insurance Co., Ltd., comprise fire insurance, engineering insurance, accident insurance, transportation insurance, automobile insurance, and personal accident insurance.

Among them, as the subject matters of transportation insurance, automobile insurance, and personal accident insurance have mobility, the level of risk is deemed relatively dispersed. The subject matter of accident insurance has legality, and the risks in relation to accident insurance and aforesaid insurances are all dispersed through coverage limit control.

Besides, as the subject matters of fire insurance and engineering insurance do not have mobility, the level of risk is deemed relatively concentrated. The subsidiary, Hotai Insurance Co., Ltd., disperses the risks mainly through reinsurance ceding. For the six months ended June 30, 2018, and 2017, the insurance risk concentration degree of premiums income and self-retained premiums from effective insurance contracts of fire insurance and engineering insurance are listed below:

<u>Line of Business</u>	<u>Six months ended June 30, 2018</u>	
	<u>Premiums revenue</u>	<u>Retention premiums</u>
Fire insurance	\$ 695,501	\$ 345,094
Engineering insurance	26,883	6,681

<u>Line of Business</u>	<u>For the period from January 17, 2017 to June 30, 2017</u>	
	<u>Premiums revenue</u>	<u>Retention premiums</u>
Fire insurance	\$ 664,616	\$ 273,581
Engineering insurance	44,094	4,072

The subsidiary, Hotai Insurance Co., Ltd., has established catastrophe claims system to record losses of various line of insurance businesses and risks assumed by the subsidiary, including earthquake, typhoon, fire accident, air crash, and man-made catastrophes. The system also provides information for reinsurance brokers to implement catastrophe measurement models and perform analysis on expected occurrence years such as 10 years, 50 years, 100 years, and 250 years. The model covers fire insurance, engineering insurance, marine insurance, automobile insurance, as well as earthquake and typhoon risks. The model provides monthly report of cumulative risk assessment for the purpose of monitoring the risk. With strict reinsurance strategies and arrangements, as well as system monitoring cumulative risk, the subsidiary, Hotai Insurance Co., Ltd., can appropriately and effectively prevent high risk concentration to achieve a goal of risk dispersion.

B. Analysis of insurance risk sensitivity

The subsidiary, Hotai Insurance Co., Ltd., estimates claims reserve fund mainly through a series of development modules and various estimated loss ratios. With concern of unexpected factors, such as external environmental change (change of regulation or judicial order), trend or different ways of claims paid, these could change the loss development and expected loss ratio and therefore influence the estimated result of claims reserve. Therefore, the subsidiary, Hotai Insurance Co., Ltd., conducted a sensitivity test for six months ended June 30, 2018 and 2017 the result is shown below:

Six months ended June 30, 2018					
<u>Line of Business</u>	<u>Expected loss ratio increased by 5%</u>		<u>Expected loss ratio decreased by 5%</u>		
	Increase in claim reserve before reinsurance	Increase in claim reserve after reinsurance	Decrease in claim reserve before reinsurance	Decrease in claim reserve after reinsurance	
Automobile property damage insurance	\$ 24,747	\$ 22,146	\$ 24,747	\$ 22,146	
Automobile third party liability insurance	11,706	10,820	11,706	10,820	
Personal property insurance	1,688	898	1,688	898	
Commercial property insurance	9,487	3,026	9,487	3,026	
Liability insurance	5,347	4,120	5,347	4,120	
Marine cargo insurance	2,069	1,669	2,069	1,669	
Engineering insurance	1,065	160	1,065	160	
Personal accident insurance	10,396	10,346	10,936	10,346	
Health insurance	1,641	1,490	1,641	1,490	
Foreign inward reinsurance	538	526	538	526	

Six months ended June 30, 2017					
<u>Line of Business</u>	<u>Expected loss ratio increased by 5%</u>		<u>Expected loss ratio decreased by 5%</u>		
	Increase in claim reserve before reinsurance	Increase in claim reserve after reinsurance	Decrease in claim reserve before reinsurance	Decrease in claim reserve after reinsurance	
Automobile property damage insurance	\$ 10,537	\$ 10,140	\$ 10,537	\$ 10,140	
Automobile third party liability insurance	12,505	12,207	12,505	12,207	
Personal property insurance	3,625	1,800	3,625	1,800	
Commercial property insurance	18,897	7,428	18,897	7,428	
Liability insurance	10,560	8,369	10,560	8,369	
Marine cargo insurance	3,522	3,086	3,522	3,086	
Engineering insurance	3,110	461	3,110	461	
Personal accident insurance	20,315	19,511	20,315	19,511	
Health insurance	2,535	2,368	2,535	2,368	
Foreign inward reinsurance	404	389	404	389	

Sensitivity test determines the impact on profit and loss based on before-reinsurance and after-reinsurance calculation from the increase or decrease by 5% in the expected loss ratio for the six months ended June 30, 2018 and 2017.

C. Loss development pattern

As of June 30, 2018, December 31, 2017 and June 30, 2017, the loss development pattern of the subsidiary, Hotai Insurance Co., Ltd., are as follows :

(a) Direct business

Unit: NTD						
June 30, 2018	Accident Year					
Development Year	≤2014	2015	2016	2017	Six months ended June 30, 2018	Total
End of underwriting year	\$ 19,944,293	\$ 1,399,479	\$ 2,644,742	\$ 1,788,662	\$ 1,208,376	
One year after underwriting year	19,836,286	1,401,087	2,344,556	1,811,040	-	
Two years after underwriting year	19,902,165	1,395,084	2,316,430	-	-	
Three years after underwriting year	19,925,398	1,341,567	-	-	-	
Four years after underwriting year	19,903,157	-	-	-	-	
Estimated ultimate losses	19,903,157	1,341,567	2,316,430	1,811,040	1,208,376	
Paid losses	(19,439,969)	(1,129,066)	(2,040,657)	(1,115,950)	(524,751)	
Total reserve	<u>\$ 463,188</u>	<u>\$ 212,501</u>	<u>\$ 275,773</u>	<u>\$ 695,090</u>	<u>\$ 683,625</u>	\$ 2,330,177
Adjustment item (Note)						241,311
Realized amount in balance sheet						<u>\$ 2,571,488</u>
December 31, 2017	Accident Year					
Development Year	≤2013	2014	2015	2016	2017	Total
End of underwriting year	\$ 18,709,422	\$ 1,254,746	\$ 1,399,479	\$ 2,644,742	\$ 1,788,662	
One year after underwriting year	18,689,547	1,246,203	1,401,087	2,344,556	-	
Two years after underwriting year	18,590,082	1,169,059	1,395,084	-	-	
Three years after underwriting year	18,733,106	1,162,810	-	-	-	
Four years after underwriting year	18,762,587	-	-	-	-	
Estimated ultimate losses	18,762,587	1,162,810	1,395,084	2,344,556	1,788,662	
Paid losses	(18,389,897)	(1,006,023)	(1,085,570)	(1,958,340)	(824,644)	
Total reserve	<u>\$ 372,690</u>	<u>\$ 156,787</u>	<u>\$ 309,514</u>	<u>\$ 386,216</u>	<u>\$ 964,018</u>	\$ 2,189,225
Adjustment item (Note)						209,502
Realized amount in balance sheet						<u>\$ 2,398,727</u>
June 30, 2017	Accident Year					
Development Year	≤2013	2014	2015	2016	Six months ended June 30, 2017	Total
End of underwriting year	\$ 18,709,422	\$ 1,254,746	\$ 1,399,479	\$ 2,644,742	\$ 894,157	
One year after underwriting year	18,689,547	1,246,204	1,401,087	2,372,341	-	
Two years after underwriting year	18,590,082	1,169,059	1,369,076	-	-	
Three years after underwriting year	18,733,106	1,151,266	-	-	-	
Four years after underwriting year	18,747,220	-	-	-	-	
Estimated ultimate losses	18,747,220	1,151,266	1,369,076	2,372,341	894,157	
Paid losses	(18,358,966)	(999,202)	(1,060,948)	(1,793,404)	(189,058)	
Total reserve	<u>\$ 388,254</u>	<u>\$ 152,064</u>	<u>\$ 308,128</u>	<u>\$ 578,937</u>	<u>\$ 705,099</u>	\$ 2,132,482
Adjustment item (Note)						247,738
Realized amount in balance sheet						<u>\$ 2,380,220</u>

(b) Retention business

Unit: NTD

June 30, 2018	Accident Year					Six months ended June 30, 2018	Total
	≤2014	2015	2016	2017	2018		
Development Year							
End of underwriting year	\$ 13,034,142	\$ 1,197,810	\$ 1,100,469	\$ 1,351,056	\$ 1,059,563		
One year after underwriting year	13,003,762	1,216,337	1,112,765	1,367,110	-		
Two years after underwriting year	12,979,752	1,225,395	1,102,464	-	-		
Three years after underwriting year	13,006,010	1,189,563	-	-	-		
Four years after underwriting year	12,986,576	-	-	-	-		
Estimated ultimate losses	12,986,576	1,189,563	1,102,464	1,367,110	1,059,563		
Paid losses	(12,647,815)	(1,013,897)	(896,905)	(997,059)	(491,836)		
Total reserve	<u>\$ 338,761</u>	<u>\$ 175,666</u>	<u>\$ 205,559</u>	<u>\$ 370,051</u>	<u>\$ 567,727</u>		\$ 1,657,764
Adjustment item (Note)							187,138
Realized amount in balance sheet							<u>\$ 1,844,902</u>
December 31, 2017							
Development Year							
End of underwriting year	\$ 11,969,736	\$ 1,106,407	\$ 1,197,810	\$ 1,100,469	\$ 1,351,056		
One year after underwriting year	11,927,734	1,127,656	1,216,337	1,112,765	-		
Two years after underwriting year	11,876,106	1,055,804	1,225,395	-	-		
Three years after underwriting year	11,923,948	1,063,895	-	-	-		
Four years after underwriting year	11,942,115	-	-	-	-		
Estimated ultimate losses	11,942,115	1,063,895	1,225,395	1,112,765	1,351,056		
Paid losses	(11,669,947)	(938,031)	(972,872)	(843,369)	(723,981)		
Total reserve	<u>\$ 272,168</u>	<u>\$ 125,864</u>	<u>\$ 252,523</u>	<u>\$ 269,396</u>	<u>\$ 627,075</u>		\$ 1,547,026
Adjustment item (Note)							167,507
Realized amount in balance sheet							<u>\$ 1,714,533</u>
June 30, 2017							
Development Year							
End of underwriting year	\$ 11,969,736	\$ 1,106,407	\$ 1,197,810	\$ 1,100,469	\$ 537,752		
One year after underwriting year	11,927,734	1,127,656	1,216,337	1,097,617	-		
Two years after underwriting year	11,876,106	1,055,804	1,188,375	-	-		
Three years after underwriting year	11,923,948	1,054,772	-	-	-		
Four years after underwriting year	11,915,221	-	-	-	-		
Estimated ultimate losses	11,915,221	1,054,772	1,188,375	1,097,617	537,752		
Paid losses	(11,643,881)	(931,195)	(956,983)	(770,517)	(185,057)		
Total reserve	<u>\$ 271,340</u>	<u>\$ 123,577</u>	<u>\$ 231,392</u>	<u>\$ 327,100</u>	<u>\$ 352,695</u>		\$ 1,306,104
Adjustment item (Note)							186,494
Realized amount in balance sheet							<u>\$ 1,492,598</u>

Note: Adjustment items include estimated claims for earthquake insurance, compulsory automobile insurance, nuclear insurance, and the total sum of non-distributable claim reserve fund.

Based on the table above, the estimated cumulative loss amount of each accident year is estimated based on the current available information, however, the actual amounts may be deviated from the estimation due to the loss development in the following years.

(7) The subsidiary-Hotai Insurance Co., Ltd. assets and liabilities recoverable or payable within or over 12 months after the balance sheet date are as follows:

<u>June 30, 2018</u>	<u>Book value</u>	<u>Within 12 months</u>	<u>Over 12 months</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 1,574,749	\$ 1,574,749	\$ -
Receivables	686,985	686,985	-
Current tax assets	5,546	-	5,546
Financial assets at fair value through profit or loss	3,324,165	2,824,165	500,000
Assets held for sale	31,534	31,534	-
Financial assets at fair value through other comprehensive income	3,662,720	20,648	3,642,072
Other financial assets	1,510,616	1,474,237	36,379
Investment property	323,056	-	323,056
Reinsurance contract assets	1,618,874	959,023	659,851
Property and equipment	376,474	-	376,474
Intangible assets	50,766	-	50,766
Other assets	423,373	54,779	368,594
<u>Liabilities</u>			
Payables	\$ 791,770	\$ 791,770	\$ -
Insurance liabilities	7,821,139	4,342,972	3,478,167
Financial liabilities at fair value through profit or loss	3,720	3,720	-
Current income tax liabilities	11,925	11,925	-
Other liabilities	53,749	51,752	1,997
<u>December 31, 2017</u>	<u>Book value</u>	<u>Within 12 months</u>	<u>Over 12 months</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 2,226,345	\$ 2,226,345	\$ -
Receivables	495,316	495,316	-
Current income tax assets	5,546	-	5,546
Financial assets at fair value through profit or loss	7,714	7,714	-
Available-for-sale financial assets	5,774,272	1,521,010	4,253,262
Other financial assets	1,552,988	1,358,660	194,328
Investment property	318,958	-	318,958
Reinsurance contract assets	1,468,440	861,401	607,039
Property and equipment	410,179	-	410,179
Intangible assets	38,916	-	38,916
Other assets	424,680	57,925	366,755
<u>Liabilities</u>			
Payables	\$ 770,876	\$ 770,876	\$ -
Insurance liabilities	7,144,446	3,794,594	3,349,852
Other liabilities	61,588	59,649	1,939

<u>June 30, 2017</u>	<u>Book value</u>	<u>Within 12 months</u>	<u>Over 12 months</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 550,641	\$ 550,641	\$ -
Receivables	628,665	628,665	-
Current income tax assets	1,371	-	1,371
Financial assets at fair value through profit or loss	31	31	-
Available-for-sale financial assets	6,628,217	895,496	5,732,721
Other financial assets	1,470,829	1,365,929	104,900
Investment property	330,203	-	330,203
Reinsurance contract assets	1,784,077	1,214,176	569,901
Property and equipment	418,826	-	418,826
Intangible assets	42,415	-	42,415
Other assets	358,774	30,694	328,080
<u>Liabilities</u>			
Payables	\$ 571,969	\$ 571,969	\$ -
Financial liabilities at fair value through profit or loss	3,131	3,131	-
Insurance liabilities	6,772,828	3,295,768	3,477,060
Provisions	22,423	-	22,423
Other liabilities	50,853	47,085	3,768

(8) The subsidiary-Hotai Insurance Co., Ltd.'s related information on commissioned investments

Beginning on July 31, 2017, the subsidiary, Hotai Insurance Co., Ltd., signed a discretionary investment management contract with Yuanta Securities Investment Trust Company Limited (“Yuanta Funds”) and First Securities Investment Trust Company Limited (“FSITC”), to commission Yuanta Funds and FSITC to manage the investment in domestic and foreign listed companies’ stocks and short-term notes and bills totaling \$500,000 and \$1,000,000, respectively.

In 2015, the subsidiary, Hotai Insurance Co., Ltd., signed a discretionary commission investment contract with JPMorgan Asset Management (Taiwan) Limited (“JPMorgan”), commissioning JPMorgan to conduct and manage domestic and foreign investments in various bonds on behalf of the subsidiary. The ceiling of this commissioned contract is based on the limit stipulated in the regulations.

(9) The subsidiary-Hotai Insurance Co., Ltd.'s calculation of retention earned premiums is shown below:

Three months ended June 30, 2018						
Category of insurance	Written premiums (1)	Reinsurance premiums (2)	Reinsurance premiums ceded (3)	Retention premiums (4)=(1)+(2)-(3)	Net change in unearned premium (5)	Retention earned premiums (6)=(4)-(5)
Compulsory insurance	\$ 25,151	\$ 30,301	\$ 28,614	\$ 26,838	\$ 2,229	\$ 24,609
Elective insurance	1,552,279	39,829	250,479	1,341,629	242,106	1,099,523
	1,577,430	70,130	279,093	1,368,467	244,335	1,124,132
Discount	-	-	-	-	-	-
	<u>\$ 1,577,430</u>	<u>\$ 70,130</u>	<u>\$ 279,093</u>	<u>\$ 1,368,467</u>	<u>\$ 244,335</u>	<u>\$ 1,124,132</u>

Six months ended June 30, 2018						
Category of Insurance	Written premiums (1)	Reinsurance premiums (2)	Reinsurance premiums ceded (3)	Retention premiums (4)=(1)+(2)-(3)	Net change in unearned premium (5)	Retention earned premiums (6)=(4)-(5)
Compulsory insurance	\$ 38,502	\$ 62,055	\$ 54,949	\$ 45,608	\$ 5,236	\$ 40,372
Elective insurance	3,120,444	103,537	678,066	2,545,915	409,450	2,136,465
	3,158,946	165,592	733,015	2,591,523	414,686	2,176,837
Discount	1	-	-	1	-	1
	<u>\$ 3,158,947</u>	<u>\$ 165,592</u>	<u>\$ 733,015</u>	<u>\$ 2,591,524</u>	<u>\$ 414,686</u>	<u>\$ 2,176,838</u>

Three months ended June 30, 2017						
Category of Insurance	Written premiums (1)	Reinsurance premiums (2)	Reinsurance premiums ceded (3)	Retention premiums (4)=(1)+(2)-(3)	Net change in unearned premium (5)	Retention earned premiums (6)=(4)-(5)
Compulsory insurance	\$ 55,644	\$ 28,729	\$ 23,533	\$ 60,840	\$ 2,455	\$ 58,385
Elective insurance	1,222,199	48,026	189,361	1,080,864	375,801	705,063
	1,277,843	76,755	212,894	1,141,704	378,256	763,448
Discount	4	-	-	4	-	4
	<u>\$ 1,277,847</u>	<u>\$ 76,755</u>	<u>\$ 212,894</u>	<u>\$ 1,141,708</u>	<u>\$ 378,256</u>	<u>\$ 763,452</u>

For the period from January 17, 2017 to June 30, 2017						
Category of Insurance	Written premiums (1)	Reinsurance premiums (2)	Reinsurance premiums ceded (3)	Retention premiums (4)=(1)+(2)-(3)	Net change in unearned premium (5)	Retention earned premiums (6)=(4)-(5)
Compulsory insurance	\$ 101,789	\$ 48,589	\$ 38,795	\$ 111,583	\$ 3,254	\$ 108,329
Elective insurance	2,068,848	117,366	505,717	1,680,497	483,984	1,196,513
	2,170,637	165,955	544,512	1,792,080	487,238	1,304,842
Discount	8	-	-	8	-	8
	<u>\$ 2,170,645</u>	<u>\$ 165,955</u>	<u>\$ 544,512</u>	<u>\$ 1,792,088</u>	<u>\$ 487,238</u>	<u>\$ 1,304,850</u>

(10) The subsidiary-Hotai Insurance Co., Ltd.'s calculation of retention claim expenditures is shown below:

<u>Three months ended June 30, 2018</u>				
<u>Category of insurance</u>	<u>Claim expenditures (1)</u>	<u>Reinsurance claim expenditures (2)</u>	<u>Reinsurance claims recovery (3)</u>	<u>Retention claim expenditures (4)=(1)+(2)-(3)</u>
Compulsory insurance	\$ 34,767	\$ 16,849	\$ 21,009	\$ 30,607
Elective insurance	<u>528,280</u>	<u>4,059</u>	<u>36,727</u>	<u>495,612</u>
	<u>\$ 563,047</u>	<u>\$ 20,908</u>	<u>\$ 57,736</u>	<u>\$ 526,219</u>
<u>Six months ended June 30, 2018</u>				
<u>Category of insurance</u>	<u>Claim expenditures (1)</u>	<u>Reinsurance claim expenditures (2)</u>	<u>Reinsurance claims recovery (3)</u>	<u>Retention claim expenditures (4)=(1)+(2)-(3)</u>
Compulsory insurance	\$ 65,331	\$ 58,111	\$ 39,570	\$ 83,872
Elective insurance	<u>964,533</u>	<u>29,843</u>	<u>90,246</u>	<u>904,130</u>
	<u>\$ 1,029,864</u>	<u>\$ 87,954</u>	<u>\$ 129,816</u>	<u>\$ 988,002</u>

Three months ended June 30, 2017

Category of insurance	Claim expenditures (1)	Reinsurance claim expenditures (2)	Reinsurance claims recovery (3)	Retention claim expenditures (4)=(1)+(2)-(3)
Compulsory insurance	\$ 37,915	\$ 28,087	\$ 21,313	\$ 44,689
Elective insurance	<u>584,808</u>	<u>451</u>	<u>274,116</u>	<u>311,143</u>
	<u>\$ 622,723</u>	<u>\$ 28,538</u>	<u>\$ 295,429</u>	<u>\$ 355,832</u>

For the period from January 17, 2017 to June 30, 2017

Category of insurance	Claim expenditures (1)	Reinsurance claim expenditures (2)	Reinsurance claims recovery (3)	Retention claim expenditures (4)=(1)+(2)-(3)
Compulsory insurance	\$ 57,853	\$ 45,456	\$ 29,777	\$ 73,532
Elective insurance	<u>773,778</u>	<u>2,963</u>	<u>281,193</u>	<u>495,548</u>
	<u>\$ 831,631</u>	<u>\$ 48,419</u>	<u>\$ 310,970</u>	<u>\$ 569,080</u>

(11) Financial information of compulsory automobile insurance:

The subsidiary, Hotai Insurance Co., Ltd., sets independent accounting for its compulsory automobile liability insurance in accordance with Compulsory Automobile Liability Insurance Act, recording the insurance' business and financial condition.

A. Balance sheets for compulsory automobile liability insurance are as follows:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Assets			
Cash and cash equivalents	\$ 1,509,602	\$ 1,511,891	\$ 1,474,310
Notes receivable	2,127	1,708	-
Premiums receivable	5,464	4,589	4,328
Claims recoverable from reinsurers	13,908	21,230	8,834
Due from reinsurance and ceding companies	20,236	9,857	9,677
Ceded unearned premium reserve	56,403	50,872	44,568
Ceded claim reserve	60,109	47,888	67,263
Temporary payments and suspense accounts	<u>40</u>	<u>161</u>	<u>4,274</u>
Total assets	<u>\$ 1,667,889</u>	<u>\$ 1,648,196</u>	<u>\$ 1,613,254</u>
Liabilities			
Claims payable	\$ 602	\$ 28,328	\$ 219
Due to reinsurance and ceding companies	19,443	10,364	9,676
Unearned premium reserve	164,697	153,930	142,580
Claims reserve	197,443	168,675	203,024
Special reserve	1,285,578	1,285,893	1,257,580
Temporary payments and suspense accounts	<u>126</u>	<u>1,006</u>	<u>175</u>
Total liabilities	<u>\$ 1,667,889</u>	<u>\$ 1,648,196</u>	<u>\$ 1,613,254</u>

As of June 30, 2018, December 31, 2017, June 30, 2017, the subsidiary, Hotai Insurance Co., Ltd., has long-term time deposits amounting to \$1,385,913, \$1,461,763 and \$1,375,563, respectively, shown as other financial assets in the balance sheets.

B. Details of revenues and costs for compulsory automobile liability insurance are as follows:

	<u>Three months ended June 30, 2018</u>	<u>Three months ended June 30, 2017</u>
Operating revenues		
Written premiums	\$ 47,690	\$ 39,230
Reinsurance premiums	30,301	28,729
Less: Reinsurance premiums ceded	(28,615)	(23,533)
Net change in unearned premium reserve	<u>(2,228)</u>	<u>(2,455)</u>
Retention earned premiums	47,148	41,971
Interest income	<u>3,327</u>	<u>3,211</u>
	<u>\$ 50,475</u>	<u>\$ 45,182</u>
Operating costs		
Claim expenditures	\$ 34,767	\$ 37,916
Reinsurance claim expenditures	16,849	28,087
Less: Reinsurance claims recovery	<u>(21,009)</u>	<u>(21,313)</u>
Retention claim expenditures	30,607	44,690
Net change in claims reserve	9,755	(3,170)
Net change in special reserve	<u>10,113</u>	<u>3,662</u>
	<u>\$ 50,475</u>	<u>\$ 45,182</u>
	<u>Six months ended June 30, 2018</u>	<u>For the period from January 17, 2017 to June 30, 2017</u>
Operating revenues		
Written premiums	\$ 91,578	\$ 72,357
Reinsurance premiums	62,055	48,589
Less: Reinsurance premiums ceded	(54,949)	(38,795)
Net change in unearned premium reserve	<u>(5,236)</u>	<u>(1,069)</u>
Retention earned premiums	93,448	81,082
Interest income	<u>6,654</u>	<u>5,869</u>
	<u>\$ 100,102</u>	<u>\$ 86,951</u>
Operating costs		
Claim expenditures	\$ 65,331	\$ 57,853
Reinsurance claim expenditures	58,111	45,456
Less: Reinsurance claims recovery	<u>(39,570)</u>	<u>(29,777)</u>
Retention claim expenditures	83,872	73,532
Net change in claims reserve	16,546	(1,758)
Net change in special reserve	<u>(316)</u>	<u>15,177</u>
	<u>\$ 100,102</u>	<u>\$ 86,951</u>

(12) Capital management- Hotai Insurance Co., Ltd.

The primary objectives of the subsidiary, Hotai Insurance Co., Ltd., when managing capital are to safeguard capital adequacy and solvency of the subsidiary in order to support the subsidiary's sustainable development and continuously create interests for shareholder.

Taiwan insurance enterprises usually measure whether the capital is adequate in accordance with the capital adequacy ratio. Pursuant to Article 143-4 of Insurance Act, an insurance enterprise's ratio of self-owned capital to risk-based capital may not be lower than 200%. The subsidiary, Hotai Insurance Co., Ltd. calculates the capital adequacy ratio once every six months in accordance with "Regulations Governing Capital Adequacy of Insurance Enterprises" to ensure that it can continuously meet the statutory capital requirement.

Capital adequacy ratio is calculated as self-owned capital divided by risk-based capital. Self-owned capital is the total capital approved by the competent authority, which includes recognized owners' equity and other adjustment items as regulated by the competent authority; risk-based capital is the total capital calculated based on the extent of risk that an insurance enterprise assumes in its actual operations. The subsidiary, Hotai Insurance Co., Ltd. calculates capital adequacy ratio in accordance with "Regulations Governing Capital Adequacy of Insurance Companies", the capital adequacy ratio were exceed 300% within the last two years and compliant with regulations.

(13) Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017

A. Summary of adopting significant accounting policies adopted in 2017 and the second quarter of 2017:

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

- i. Financial assets at fair value through profit or loss are financial assets held for trading. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges.
- ii. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.
- iii. Financial assets at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss.

(b) Available-for-sale financial assets

- i. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- ii. On a regular way purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.
- iii. Available-for-sale financial assets are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income. When derecognizing the financial assets, the accumulated gains or losses should be reclassified from equity into profits or losses.

- iv. The realized gains or losses on available-for-sale financial assets recognized in the statement of comprehensive income includes profit and losses and dividends arising from transactions except interest income.

(c) Accounts receivable

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(d) Impairment of financial assets

- i. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- ii. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:
 - (i) Significant financial difficulty of the issuer or debtor;
 - (ii) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (iii) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
 - (iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
 - (v) The disappearance of an active market for that financial asset because of financial difficulties;
 - (vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
 - (vii) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
 - (viii) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- iii. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(i) Financial assets measured at amortized cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost that would have been at the date of reversal had the impairment loss not been recognized previously. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(ii) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(iii) Other financial assets

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted, and is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost that would have been at the date of reversal had the impairment loss not been recognized previously. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(e) Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract is initially recognized at its fair value adjusted for transaction costs on the trade date and subsequently measured at the higher of the initial fair value less cumulative amortization and the best estimate of the amount required to settle the present obligation on each balance sheet date.

(f) Derivative financial instruments and hedging activities

i. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Any changes in the fair value are recognized in profit or loss.

- ii. The Group designates certain derivatives as hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).
- iii. The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.
- iv. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as current assets or liabilities.
- v. Cash flow hedge
 - (i) The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the statement of comprehensive income within 'other gains and losses'.
 - (ii) Amounts accumulated in other comprehensive income are reclassified into profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the statement of comprehensive income within 'finance costs'.
 - (iii) When a hedging instrument expires, or is sold, cancelled or executed, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income. When a forecast transaction occurs or is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is transferred to profit or loss in the periods when the hedged forecast cash flow affects profit or loss.

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B. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, 2018, IFRS 9, were as follows:

	Measured at fair value through profit or loss	Available-for-sale	Available-for-sale	Total	Effects	
		-equity	-liability		Retained earnings	Other equity
		Measured at fair value through other comprehensive income-equity	Measured at fair value through other comprehensive income-liability			
December 31, 2017 (IAS 39)	\$ 764,921	\$ 2,362,859	\$ 4,876,212	\$ 8,003,992	\$ -	\$ -
Transferred into and measured at fair value through profit or loss	2,494,004	(1,494,004)	(1,000,000)	-	-	-
Fair value adjustment	-	(22,037)	-	(22,037)	-	(22,037)
Impairment loss adjustment	-	22,037	-	22,037	22,037	-
January 1, 2018 (IFRS 9)	<u>\$ 3,258,925</u>	<u>\$ 868,855</u>	<u>\$ 3,876,212</u>	<u>\$ 8,003,992</u>	<u>\$ 22,037</u>	<u>(\$ 22,037)</u>

- (a) Under IAS 39, because the cash flows of debt instruments, which were classified as: available-for-sale financial assets, amounting to \$1,000,000, do not meet the condition that it is intended to settle the principal and interest on the outstanding principal balance, they were reclassified as "financial assets at fair value through profit or loss on initial application of IFRS 9".
- (b) Under IAS 39, because the cash flows of debt instruments, which were classified as: available-for-sale financial assets, amounting to \$3,876,211, met the condition that it is intended to settle the principal and interest on the outstanding principal balance, and the Group holds these assets for the purpose of cash inflow and sale, they were reclassified as "financial assets at fair value through other comprehensive income (debt instruments) on initial application of IFRS 9".
- (c) Under IAS 39, because the equity instruments, which were classified as: available-for-sale financial assets, amounting to \$868,855, were not held for the purpose of trading, they were reclassified as "financial assets at fair value through other comprehensive income (equity instruments)", increased retained earnings and decreased other equity interest in the amounts of \$22,037 and \$22,037 on initial application of IFRS 9.
- (d) Under IAS 39, the equity instruments, which were classified as: available-for-sale financial assets, amounting to \$1,494,004, were reclassified as "financial assets at fair value through profit or loss (equity instruments) on IFRS 9".

C. The significant accounts as of December 31, 2017 and June 30, 2017, are as follows:

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

	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Current items:		
Financial assets held for trading		
Domestic open-ended quasi money market fund	\$ 753,692	\$ 2,850,566
Non-hedging derivative instruments	7,714	53,147
Valuation adjustment	<u>3,515</u>	<u>4,158</u>
	<u>\$ 764,921</u>	<u>\$ 2,907,871</u>

Financial liabilities held for trading

Non-hedging derivative instruments

Current items: (\$ 96,003) (\$ 4,264)

- i. The Group recognized net gain (loss) of \$154,308 and (\$46,776) on financial assets held for trading for the three months ended June 30, 2017, and six months ended June 30, 2017.
- ii. The Group's counterparties of investments in debt instrument have good credit quality.
- iii. The non-hedging derivative instruments transaction and contract information are as follows:

	<u>December 31, 2017</u>		<u>June 30, 2017</u>	
	Contract amount (Notional principal)		Contract amount (Notional principal)	
	<u>(in thousands)</u>	<u>Contract period</u>	<u>(in thousands)</u>	<u>Contract period</u>
Derivative financial instruments				
Current items:				
Forward foreign exchange contracts	<u>USD 286,300</u>	2017/10/6~ 2018/3/14	<u>USD 226,500</u>	2017/4/7~ 2017/9/15
Foreign exchange swap contracts	<u>USD 26,800</u>	2017/11/16~ 2018/2/27	<u>USD 25,850</u>	2017/6/29~ 2017/8/31

The Group entered into forward foreign exchange contracts and foreign exchange swap contracts to buy USD to hedge exchange rate risk of import proceeds and foreign investments. However, these forward foreign exchange contracts and foreign exchange swap contracts are not accounted for under hedge accounting. In addition, Hotai Insurance Co., Ltd. considers the maximum exposure amount after master netting arrangements as the net amount after offsetting. Please refer to Note 6(6) of 2017 financial statements.

- iv. The Group has no financial assets at fair value through profit or loss pledged to others.

(b) Available-for-sale financial assets

	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Current items:		
Exchange traded funds	\$ 793,621	\$ 646,006
Listed stocks	500,207	-
Government bonds	200,256	301,071
Financial products	95,943	95,943
Financial bills	50,169	50,036
Foreign corporate and financial bonds	<u>23,834</u>	<u>56,405</u>
	1,664,030	1,149,461
Valuation adjustment of available-for-sale financial assets	105,024	94,142
Less: Operation bonds	(<u>152,100</u>)	(<u>252,100</u>)
	<u>\$ 1,616,954</u>	<u>\$ 991,503</u>
Non-current items:		
Government bonds	\$ 1,954,278	\$ 3,358,973
Domestic corporate bonds	1,381,828	1,311,648
Foreign corporate and financial bonds	882,883	862,419
Financial bills	649,522	701,072
Listed stocks and unlisted stocks	<u>336,620</u>	<u>337,006</u>
	5,205,131	6,571,118
Valuation adjustment of available-for-sale financial assets	565,186	598,668
Less: Operation bonds	(<u>148,200</u>)	(<u>48,200</u>)
	<u>\$ 5,622,117</u>	<u>\$ 7,121,586</u>

- i. The Group recognized gain of \$41,751 and \$95,115 in other comprehensive income for fair value change for the three months ended June 30, 2017, and six months ended June 30, 2017, respectively.
- ii. Hotai Insurance Co., Ltd. recognized interest income of \$20,608 and \$37,285 on available-for-sale financial assets for the three months ended June 30, 2017 and the period from January 17, 2017 to June 30, 2017, respectively.
- iii. Under the Insurance Law of the Republic of China, the subsidiary, Hotai Insurance Co., Ltd. is required to deposit 15% of its registered operating capital with the Central Bank of Republic of China. As of December 31 and June 30, 2017, government bonds with par value both of \$300,300 were deposited and shown as “other assets”. Please refer to Note 6(14) of 2017 financial statements.

(c) Hedge accounting

December 31, 2017 June 30, 2017

Current items:

Derivative financial assets for hedging -
current

Cross currency swaps-cash flow hedges \$ - \$ -

Derivative financial liabilities for hedging -
current

Cross currency swaps-cash flow hedges (\$ 403,699) (\$ 290,835)

i. The Group entered into derivative financial instruments contracts with a variety of financial institutions all with high credit quality to disperse credit risk.

ii. Cash flow hedges

Designated as hedging instruments				
Hedged items	Derivative instruments designated as hedges	Fair value December 31, 2017	Period of anticipated cash flow	Period of gain (loss) expected to be recognized in profit or loss
Short-term loans	Cross currency swaps	(\$ <u> 403,699</u>)	2015.04~2020.03	2015~2020

Designated as hedging instruments				
Hedged items	Derivative instruments designated as hedges	Fair value June 30, 2017	Period of anticipated cash flow	Period of gain (loss) expected to be recognized in profit or loss
Short-term loans	Cross currency swaps	(\$ <u> 290,835</u>)	2015.04~2020.03	2015~2020

(i) The Group is exposed to cash flow risk of floating-rate liabilities assumed arising from variations in the market interest rates. The Group assessed that the risk might be significant, and therefore entered into interest rate swap contracts to hedge such risk.

(ii) Information about gain or loss arising from cash flow hedges recognized in profit or loss and other comprehensive income:

Items	Six months ended June 30, 2017
Amount of gain or loss adjusted in other comprehensive income	(\$ 36,188)
Amount of gain or loss transferred from other comprehensive income to profit or loss	(\$ 10,500)

D. Credit risk information for the year ended December 2017 and for the second quarter of 2017 are as follows :

(a) Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and

delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers by taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored. Major credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables. For banks and financial institutions, only independently rated parties with optimal rating are accepted.

- (b) For the six months ended June 30, 2017, no credit limits were exceeded during the reporting period and management does not expect any significant losses from non-performance by these counterparties.
- (c) Movements of the Group's provision for impairment of accounts receivable are as follows:

As of June 30, 2017, the Group's movements in the provision for impairment of accounts receivable wherein impairment has been recognized are as follows:

	<u>Six months ended June 30, 2017</u>
At January 1	\$ 1,302,284
Acquired from business combinations	23,479
Provisions during the period	548,671
Write-offs during the period	(436,323)
Others	(5,280)
At June 30	<u>\$ 1,432,831</u>

- (d) Credit risk information of subsidiary, Hotai Insurance Co., Ltd., are as follows:

Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations. The exposure to credit risk is derived from the following main categories of assets:

- A. Cash and cash equivalent
- B. Debt securities
- C. Receivables

The exposure across sources of credit risk is aggregated to include investments, reinsurance assets, insurance brokers, and receivables:

- i. Investments credit risk

Apart from investments in government bonds, the Group uses the ratings assigned by the domestic and foreign credit rating agencies, to monitor the credit risk limit of underlying investments or counterparties and periodically assesses the investment limit and counterparties concentration of individual issuing institutions to control the credit risk of the underlying investment, issuing institution, and counterparties, in order to effectively mitigating the credit risks.

- (i) Cash and cash equivalents

The subsidiary, Hotai Insurance Co., Ltd. deposits cash and cash equivalents in

the banks/other financial institutions in accordance with relevant regulations of the competent authority. The subsidiary, Hotai Insurance Co., Ltd. also has stringent control over the banks/other financial institutions where assets are deposited. The subsidiary reviews the amounts deposited in banks/other financial institutions with different credit ratings on a regular basis so that the credit risk can be mitigated effectively.

(ii) Debt securities

Fixed-income debt securities held by the subsidiary, Hotai Insurance Co., Ltd. (such as investments in government bonds, corporate bonds and financial bonds) are all fixed-income investments, which are restricted through relevant laws or regular review on the amounts of issuers with different credit ratings.

As of December 31 and June 30, 2017, except for government bonds, investments in fixed income assets shown by issuer's credit rating level are as follows:

December 31, 2017

Credit rating levels (Taiwan Ratings)	Book Value	Percentage
tw AAA	\$ 433,685	17
tw AA+	147,845	6
tw AA	301,776	12
tw AA-	928,850	37
tw A+	476,092	19
tw A	192,956	8
tw A-	18,847	1
Total	\$ 2,500,051	100

June 30, 2017

Credit rating levels (Taiwan Ratings)	Book Value	Percentage
tw AAA	\$ 362,746	15
tw AA+	104,539	4
tw AA	381,728	15
tw AA-	1,051,631	42
tw A+	396,068	16
tw A	173,896	7
tw BBB+	25,961	1
Total	\$ 2,496,569	100

ii. Credit risk from insurance brokers/agents

The subsidiary, Hotai Insurance Co., Ltd. handles credit risk from insurance brokers/agents in accordance with "Regulations Governing Insurance Brokers/Agents". In choosing insurance brokers/agents, the marketing/business

units first confirm that the insurance brokers/agents meet the subsidiary, Hotai Insurance Co., Ltd.'s requirements in order to mitigate the credit risk and carry out subsequent collections and tracking in accordance with "Regulations Governing Fees and Charges" set by the subsidiary, Hotai Insurance Co., Ltd.

iii. Reinsurance Credit Risk

Six months ended June 30, 2017

Credit rating levels (S&P)	Reinsurance premiums ceded	Percentage
AA+	\$ 432	-
AA	3,212	1
AA-	329,290	69
A+	2,959	1
A	1,801	-
A-	2,920	1
BBB+	1,587	-
Unrated	132,440	28
Total	\$ 474,641	100

Note: Compulsory automobile insurance and residential earthquake insurance are excluded.

iv. Credit risk related to receivables

The credit of Hotai Insurance Co., Ltd.'s trading partners are all superior and Hotai Insurance Co., Ltd. deals with multiple trading partners to diversify the credit risk. The possibility of default is considered very low. The subsidiary, Hotai Insurance Co., Ltd.'s receivables are assessed in accordance with "Regulation of the Procedure for Asset Assessment and Collection of Overdue Debts".

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The tables below show the credit risk of assets, and the overdue but non-impaired assets classified by aging:

December 31, 2017

Financial assets and reinsurance contract assets	Neither past due nor impaired	Past due but not impaired			Impairment reserves and allowance for bad debts	Total
		Ageing analysis				
		Between 0 and 3 months	Between 3 and 6 months	Over 6 months		
Cash and cash equivalents	\$ 2,226,345	\$ -	\$ -	\$ -	\$ -	\$ 2,226,345
Receivables	492,197	-	19,182	3,298	19,361	495,316
Financial assets at fair value through profit or loss	7,714	-	-	-	-	7,714
Available-for-sale financial assets (Note)	6,074,572	-	-	-	-	6,074,572
Other financial assets	1,552,988	-	-	-	-	1,552,988
Reinsurance contract assets	1,469,210	-	-	7,910	8,681	1,468,439
Refundable deposits	53,688	-	-	-	-	53,688
Total	\$ 11,876,714	\$ -	\$ 19,182	\$ 11,208	\$ 28,042	\$ 11,879,062

June 30, 2017

Financial assets and reinsurance contract assets	Neither past due nor impaired	Past due but not impaired			Impairment reserves and allowance for bad debts	Total
		Ageing analysis				
		Between 0 and 3 months	Between 3 and 6 months	Over 6 months		
Cash and cash equivalents	\$ 550,641	\$ -	\$ -	\$ -	\$ -	\$ 550,641
Receivables	629,403	18	9,084	6,403	16,243	628,665
Financial assets at fair value through profit or loss	31	-	-	-	-	31
Available-for-sale financial assets (Note)	6,928,517	-	-	-	-	6,928,517
Other financial assets	1,470,829	-	-	-	-	1,470,829
Reinsurance contract assets	1,783,351	-	-	12,845	12,119	1,784,077
Refundable deposits	14,898	-	-	-	-	14,898
Total	\$ 11,377,670	\$ 18	\$ 9,084	\$ 19,248	\$ 28,362	\$ 11,377,658

Note: Operation bonds are included.

The credit information of neither past due nor impaired assets on above tables is shown in the aforementioned credit rating analysis.

(14) Effects of initial application of IFRS 15 and information on application of IAS 18 in 2017

A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 and for the second quarter of 2017 are set out below.

(a) Sales of goods

- i. The Group sells vehicles and related products. Revenue is measured at the fair value of the consideration received or receivable taking into account business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods is recognized when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.
- ii. The Group has customer loyalty programmes where the Group grants loyalty award credits (such as 'points'; the award credits can be used to exchange for free or discounted goods) to customers as part of a sales transaction. The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the initial sale of goods and the award credits. The amount of proceeds allocated to the award credits is measured by reference to the fair value of goods that can be redeemed by using the award credits and the proportion of award credits that are expected to be redeemed by customers. The Group recognizes the deferred portion of the proceeds allocated to the award credits as revenue only when it has fulfilled its obligations in respect of the award credits.
- iii. Engagement of installment payments for vehicles - the subsidiary, Hotai Finance Co., Ltd. engages in installment sales which mainly aims to receive interest income rather gross profit. There is no gross profit from such transactions. The accounting treatment is to recognize future proceeds from loans receivable and not to recognize sales revenue and cost of sales when the transaction occurs. When the amount of installment payment exceeds the price of cash sale, the difference is recognized as unrealized interest income and listed as a deduction to installment notes and accounts receivable, and interest is recognized using interest method annually over the installment period. Furthermore, the commission expense related to installment payments is deferred (shown under 'prepayments') and amortized over the term of the installment payments. Other related cost is recognized as current expenses when incurred.

(b) Sales of services

The Group provides services related to vehicles and air conditioner for vehicles. Revenue from delivering services is recognized under the percentage-of-completion method when the outcome of services provided can be estimated reliably. The stage of completion of a service contract is measured by the proportion of contract costs incurred for services performed as of the financial reporting date to the estimated total costs for the service contract. If the outcome of a service contract cannot be estimated reliably, contract revenue is recognized only to the extent that contract costs incurred are likely to be recoverable.

(c) A sale agreement comprising of multiple components

A sale agreement offered by the Group might comprise of multiple components, including sale of goods and subsequent repair services, etc. If a sale agreement comprises of multiple identifiable components, the fair value of the consideration received or receivable in respect of the sale agreement shall be allocated between those components based on the relative fair value of each component. The amount of proceeds allocated to each component is recognized as revenue in profit or loss following the revenue recognition criteria applied to each component. The fair value of each component is determined by its market value when it is sold separately.

(d) Recognition of insurance revenue and deferred acquisition cost

The insurance business of Hotai Insurance Co., Ltd. were as follows:

- i. For the revenue recognition policies on insurance and reinsurance contract, please refer to Note 4(32) and (33) of 2017 financial statements, respectively.
- ii. Commission revenue is recognized on the accrual basis of the service period.

B. The revenue recognized by using above accounting policies for the second quarter of 2017 are as follows:

(a) Interest income

	Three months ended <u>June 30, 2017</u>	Six months ended <u>June 30, 2017</u>
Installment revenue	\$ 1,174,131	\$ 2,323,361
Interest from deposits and short-term notes	33,983	60,027
Investment income	<u>20,608</u>	<u>37,285</u>
	<u>\$ 1,228,722</u>	<u>\$ 2,420,673</u>

(b) Premium

	Three months ended <u>June 30, 2017</u>	Six months ended <u>June 30, 2017</u>
Written premium	\$ 1,277,847	\$ 2,170,645
Reinsurance premium	76,755	165,955
Less: Reinsurance expense	(212,894)	(544,512)
Net change in unearned premiums reserve	<u>(378,256)</u>	<u>(487,238)</u>
	<u>\$ 763,452</u>	<u>\$ 1,304,850</u>

C. The effects and description of current balance sheets and comprehensive income statements if the Group continues adopting above accounting policies are as follows:

<u>Balance sheet items</u>	<u>June 30, 2018</u>		
	<u>Balance by using IFRS 15</u>	<u>Balance by using previous accounting policies</u>	<u>Effects from changes in accounting policy</u>
Accounts receivable	\$ 107,038,287	\$ 107,056,257	(\$ 17,970)
Contract assets	17,970	-	17,970
Contract liabilities	716,540	-	716,540
Other payables	8,061,531	8,141,651	(80,120)
Advance receipts	275,438	911,858	(636,420)

Under IFRS 15, the Group reclassified construction contract receivable of \$17,970, other payables of \$80,120 and advance sales receipts of \$636,420 as contract assets and contract liabilities amounting to \$17,970 and \$716,540, respectively.

13. SUPPLEMENTARY DISCLOSURES

Related information of significant transactions are as follows (For the information on investees, except for the financial statements of Hozan Investment Co., Ltd., Hotai Finance Co., Ltd., Hotai Leasing Co., Ltd., Hotai Insurance Co., Ltd., Hoyun International Limited, Hoyun International Lease Co., Ltd. and HOYUN(Shanghai) Commercial Factoring Co., Ltd., which were reviewed by independent accountants, other investees were based solely on the unreviewed financial statements.):

A. Significant transactions information

- (a) Loans to others: Please refer to table 1.
- (b) Provision of endorsements and guarantees to others: Please refer to table 2.
- (c) Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.
- (d) Acquisition or sale of the same security with the accumulated cost reaching \$300 million or 20% of the Company's paid-in capital: Please refer to table 4.
- (e) Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: Please refer to table 5.
- (f) Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- (g) Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 6.
- (h) Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 7.

(i) Trading in derivative instruments undertaken during the reporting periods:

The table below listed the derivative instruments undertaken but not yet expired as of June 30, 2018:

Company Name	Derivative Instruments	Contract Amount (in thousands)	Maturity Date	Book Value	Fair Value
Ho Tai Motor Co., Ltd.	Forward exchange contracts	USD 241,790	2018.7.13~2018.9.17	\$ 196,670	\$ 196,670
Hotai Insurance Co., Ltd.	Foreign exchange swap contracts	USD 21,400	2018.8.31	(3,720)	(3,720)
Hotai Finance Co., Ltd.	Cross currency swaps	USD 175,000	2018.9.18~2021.4.16	(174,513)	(174,513)
Hotai Finance Co., Ltd.	Cross currency swaps	JPY 3,100,000	2018.9.18	(854)	(854)
Hoyun International Lease Co., Ltd.	Cross currency swaps	USD 5,000	2019.5.10	(7,649)	(7,649)

(j) Significant inter-company transactions during the reporting periods: Please refer to table 8.

B. Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 9.

C. Information on investments in Mainland China

(a) Basic information: Please refer to table 10.

(b) Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area:

- i. The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period: None.
- ii. The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period: None.
- iii. The amount of property transactions and the amount of the resulting gains or losses: None.
- iv. The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes: Please refer to table 2.
- v. The highest balance, end of period balance, interest rate range, and total current period interest with respect to financing of funds: Please refer to table 1.
- vi. Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services: None.

14. SEGMENT INFORMATION

(1) General information

Management has determined the reportable operating segments based on the reports reviewed by the Chief Operating Decision-Maker that are used to make strategic decisions. The Company considers the business from operating perspective, and the reportable operating segments are as follows:

A. Distributor of Toyota and Hino products segments: distributor for sale of Toyota and Hino vehicles, parts and other products to dealers. This segment refers to Ho Tai Motor Co., Ltd. As of June 30, 2018, the Company's self-owned capital ratio was 68%.

B. Installment trading segments: trading various vehicles in installments.

C. Leasing segments: leasing of various vehicles in installments.

D. Other segments: business activities and operating segments not included above.

(2) Measurement of segment information

A. The accounting policies of operating segments are in agreement with the significant accounting policies summarized in Note 4.

B. The pre-tax net income is used to measure the Company's operating segment profit (loss) and performance of the operating segments.

(3) Information about segment profit or loss, assets and liabilities

The segment information provided to the Chief Operating Decision-Maker for the reportable segments is as follows:

Items	Six months ended June 30, 2018					
	Distributor of Toyota and Hino products segments	Installment trading segments	Leasing segments	Other segments	Reconciliation and elimination	Total
Revenue from external customers	\$ 55,743,111	\$ 3,677,109	\$ 9,403,586	\$ 26,613,141	\$ -	\$ 95,436,947
Inter-segment revenue (Note)	4,901,383	177,987	168,148	3,793,616	(9,041,134)	-
Total segment revenue	<u>\$ 60,644,494</u>	<u>\$ 3,855,096</u>	<u>\$ 9,571,734</u>	<u>\$ 30,406,757</u>	<u>(\$ 9,041,134)</u>	<u>\$ 95,436,947</u>
Segment income (loss) (Note)	<u>\$ 6,405,751</u>	<u>\$ 1,090,020</u>	<u>\$ 488,611</u>	<u>\$ 3,740,832</u>	<u>(\$ 3,561,631)</u>	<u>\$ 8,163,583</u>
Segment assets	<u>\$ 66,532,934</u>	<u>\$ 97,396,979</u>	<u>\$ 49,685,021</u>	<u>\$ 70,407,951</u>	<u>(\$ 60,932,593)</u>	<u>\$ 223,090,292</u>

Items	Six months ended June 30, 2017					
	Distributor of Toyota and Hino products segments	Installment trading segments	Leasing segments	Other segments	Reconciliation and elimination	Total
Revenue from external customers	\$ 57,130,834	\$ 3,308,278	\$ 9,055,909	\$ 22,001,024	\$ -	\$ 91,496,045
Inter-segment revenue (Note)	4,088,382	159,947	120,177	3,079,379	(7,447,885)	-
Total segment revenue	<u>\$ 61,219,216</u>	<u>\$ 3,468,225</u>	<u>\$ 9,176,086</u>	<u>\$ 25,080,403</u>	<u>(\$ 7,447,885)</u>	<u>\$ 91,496,045</u>
Segment income (loss) (Note)	<u>\$ 6,416,790</u>	<u>\$ 872,132</u>	<u>\$ 395,329</u>	<u>\$ 2,750,191</u>	<u>(\$ 2,777,405)</u>	<u>\$ 7,657,037</u>
Segment assets	<u>\$ 62,442,300</u>	<u>\$ 85,569,571</u>	<u>\$ 41,135,234</u>	<u>\$ 58,402,961</u>	<u>(\$ 52,294,572)</u>	<u>\$ 195,255,494</u>

Note: Inter-segment revenue is revenue from goods sold and services rendered between segments. Sales and transfers between consolidated entities are deemed as transactions with third parties and are measured at present market price.

(4) Reconciliation for segment income (loss)

A. The Company's Chief Operating Decision-Maker assesses performance of operating segments and allocates resources based on pre-tax net income, thus, reconciliation is not needed.

B. The total assets reported to the Chief Operating Decision-Maker are measured in a manner consistent with that in the Company's financial statements.

Ho Tai Motor Co., Ltd.
Loans to others
Six months ended June 30, 2018
Expressed in thousands of New Taiwan dollars, except as otherwise indicated

Table 1

Number	Creditor	Borrower	General ledger account	Related party	Maximum outstanding balance during the six months ended June 30, 2018	Balance at June 30, 2018	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party	Ceiling on total loans granted	Footnote
													Item	Value			
1	Shanghai Hoyu Motor Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	Other receivables	Y	\$ 163,168	\$ 160,930	\$ -	2.15%	Short-term financing	-	Operations	\$ -	None	\$ -	\$ 233,711	\$ 233,711	
2	Shanghai Heling Motor Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	303,862	298,871	2,069	2.15%	"	-	"	-	"	-	366,674	366,674	
3	Shanghai Hozhan Motor Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	116,870	114,950	65,016	2.15%	"	-	"	-	"	-	156,880	156,880	
4	Shanghai Yangpu Heling Lexus Motor Sales & Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	116,870	114,950	-	2.15%	"	-	"	-	"	-	287,987	287,987	
5	Chongqing Heling Lexus Motor Sales & Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	303,862	298,871	116,376	2.15%	"	-	"	-	"	-	377,460	377,460	
6	Tianjin Ho-Yu Motor Sales & Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	70,122	68,970	-	2.15%	"	-	"	-	"	-	144,865	144,865	
7	Tangshan Heling Lexus Motor Sales & Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	210,366	206,911	129,296	2.15%	"	-	"	-	"	-	252,166	252,166	
8	Nanchang Heling Lexus Motor Sales & Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	210,366	206,911	89,477	2.15%	"	-	"	-	"	-	251,820	251,820	
9	Zaozhuang Ho-Yu Toyota Motor Sales & Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	116,870	114,950	46,624	2.15%	"	-	"	-	"	-	219,673	219,673	
10	Tianjin Hozhan Motor Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	116,870	114,950	93,294	2.15%	"	-	"	-	"	-	212,985	212,985	
11	Tianjin Heling Lexus Motor Sales & Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	140,244	137,940	-	2.15%	"	-	"	-	"	-	280,782	280,782	
12	Shanghai Ho-Mian Motor Technology Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	560,975	551,762	-	2.15%	"	-	"	-	"	-	283,926	283,926	
13	Hotong Motor Investment Co., Ltd.	Shanghai Hozhan Motor Service Co., Ltd.	"	"	116,870	114,950	-	3.35%	"	-	"	-	"	-	3,775,215	7,550,430	
13	Hotong Motor Investment Co., Ltd.	Nanchang Heling Lexus Motors Sales & Service Co., Ltd.	"	"	185,515	160,930	-	3.35%	"	-	"	-	"	-	3,775,215	7,550,430	
13	Hotong Motor Investment Co., Ltd.	Tianjin Ho-Yu Motor Sales & Service Co., Ltd.	"	"	116,870	114,950	-	3.35%	"	-	"	-	"	-	3,775,215	7,550,430	
13	Hotong Motor Investment Co., Ltd.	Tianjin Hozhan Motor Service Co., Ltd.	"	"	116,870	114,950	-	3.35%	"	-	"	-	"	-	3,775,215	7,550,430	
13	Hotong Motor Investment Co., Ltd.	Shanghai Hoyu Motor Service Co., Ltd.	"	"	116,870	114,950	-	3.35%	"	-	"	-	"	-	3,775,215	7,550,430	
13	Hotong Motor Investment Co., Ltd.	Shanghai Heling Motor Service Co., Ltd.	"	"	373,983	367,841	-	3.35%	"	-	"	-	"	-	3,775,215	7,550,430	
13	Hotong Motor Investment Co., Ltd.	Chongqing Heling Lexus Motor Sales & Service Co., Ltd.	"	"	303,862	298,871	-	3.35%	"	-	"	-	"	-	3,775,215	7,550,430	
13	Hotong Motor Investment Co., Ltd.	Tangshan Heling Lexus Motor Sales & Service Co., Ltd.	"	"	303,862	298,871	-	3.35%	"	-	"	-	"	-	3,775,215	7,550,430	
13	Hotong Motor Investment Co., Ltd.	Zaozhuang Ho-Yu Toyota Motor Sales & Service Co., Ltd.	"	"	116,870	114,950	-	3.35%	"	-	"	-	"	-	3,775,215	7,550,430	
13	Hotong Motor Investment Co., Ltd.	Tianjin Heling Lexus Motor Sales & Service Co., Ltd.	"	"	163,618	160,930	-	3.35%	"	-	"	-	"	-	3,775,215	7,550,430	
13	Hotong Motor Investment Co., Ltd.	Shanghai Ho-Qian Logistics Equipment Trading Co., Ltd.	"	"	23,374	22,990	-	3.35%	"	-	"	-	"	-	3,775,215	7,550,430	
13	Hotong Motor Investment Co., Ltd.	Shanghai Yangpu Heling Lexus Motor Sales & Service Co., Ltd.	"	"	140,244	137,940	-	3.35%	"	-	"	-	"	-	3,775,215	7,550,430	
13	Hotong Motor Investment Co., Ltd.	Hoyun International Lease Co., Ltd.	"	"	233,740	229,901	-	3.85%	"	-	"	-	"	-	3,775,215	7,550,430	
13	Hotong Motor Investment Co., Ltd.	Shanghai Ho-Mian Motor Technology Co., Ltd.	"	"	140,244	137,940	21,013	3.35%	"	-	"	-	"	-	3,775,215	7,550,430	
14	Hoyun International Lease Co., Ltd.	Hoyun (Shanghai) Commerical Factoring Co., Ltd.	"	"	233,740	229,901	-	5.44%	"	-	"	-	"	-	2,202,883	4,405,766	

Ho Tai Motor Co., Ltd.
Provision of endorsements and guarantees to others
Six months ended June 30, 2018

Expressed in thousands of New Taiwan dollars, except as otherwise indicated

Table 2

Number	Endorser/ guarantor	Party being endorsed/guaranteed Company name	Relationship with the endorser/guarantor	Limit on endorsements/ guarantees provided for a single party	Maximum outstanding endorsement/ guarantee amount as of June 30, 2018	Outstanding endorsement/ guarantee amount at June 30, 2018	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in Mainland China	Footnote
0	Ho Tai Motor Co., Ltd.	Hozan Investment Co., Ltd.	Note (4.b)	\$ 13,624,666	\$ 921,674	\$ 921,674	\$ -	\$ -	2.03%	\$ 22,715,972	Y	N	N	Note 1
0	Ho Tai Motor Co., Ltd.	Tianjin Ho-Yu Motor Sales & Service Co., Ltd.	"	13,624,666	182,760	182,760	-	-	0.40%	22,715,972	Y	N	Y	"
0	Ho Tai Motor Co., Ltd.	Shanghai Heling Motor Service Co., Ltd.	"	13,624,666	697,534	697,534	111,889	-	1.54%	22,715,972	Y	N	Y	"
0	Ho Tai Motor Co., Ltd.	Shanghai Hoyu Motor Service Co., Ltd.	"	13,624,666	167,530	167,530	-	-	0.37%	22,715,972	Y	N	Y	"
0	Ho Tai Motor Co., Ltd.	Chongqing Heling Lexus Motor Sales & Service Co., Ltd.	"	13,624,666	563,510	-	-	-	1.24%	22,715,972	Y	N	Y	"
0	Ho Tai Motor Co., Ltd.	Shanghai Hozhan Motor Service Co., Ltd.	"	13,624,666	137,070	137,070	-	-	0.30%	22,715,972	Y	N	Y	"
0	Ho Tai Motor Co., Ltd.	Tangshan Heling Lexus Motor Sales & Service Co., Ltd.	"	13,624,666	563,510	563,510	-	-	1.24%	22,715,972	Y	N	Y	"
0	Ho Tai Motor Co., Ltd.	Zaozhuang Ho-Yu Toyota Motor Sales & Service Co., Ltd.	"	13,624,666	137,070	137,070	-	-	0.30%	22,715,972	Y	N	Y	"
0	Ho Tai Motor Co., Ltd.	Nanchang Heling Lexus Motors Sales & Service Co., Ltd.	"	13,624,666	228,450	228,450	44,433	-	0.50%	22,715,972	Y	N	Y	"
0	Ho Tai Motor Co., Ltd.	Shanghai Ho-Qian Logistics Equipment Trading Co., Ltd.	"	13,624,666	45,690	45,690	-	-	0.10%	22,715,972	Y	N	Y	"
0	Ho Tai Motor Co., Ltd.	Tianjin Heling Lexus Motor Sales & Service Co., Ltd.	"	13,624,666	258,910	258,910	-	-	0.57%	22,715,972	Y	N	Y	"
0	Ho Tai Motor Co., Ltd.	Tianjin Hozhan Motor Service Co., Ltd.	"	13,624,666	137,070	137,070	-	-	0.30%	22,715,972	Y	N	Y	"
0	Ho Tai Motor Co., Ltd.	Shanghai Yangpu Heling Lexus Motor Sales & Service Co., Ltd.	"	13,624,666	243,680	243,680	-	-	0.54%	22,715,972	Y	N	Y	"
1	Hotai Finance Co., Ltd.	Hoyun International Lease Co., Ltd.	Note (4.a)	9,408,048	3,994,963	3,678,411	1,747,245	-	39.10%	9,408,048	Y	N	Y	Note 2
1	Hotai Finance Co., Ltd.	Hoyun (Shanghai) Commerical Factoring Co., Ltd.	"	9,408,048	336,742	336,221	91,960	-	3.57%	9,408,048	Y	N	Y	"
2	Toyota Material Handling Taiwan Ltd.	Shanghai Ho-Quian Logistics Equipment Trading Co., Ltd.	Note (4.b)	219,501	30,460	30,460	-	-	4.16%	365,834	Y	N	Y	Note 3

Note 1 : The limit on total endorsement is no more than 50% of the Company's total equity; the limit on endorsement for any single entity is no more than 30% of the Company's total equity.

Note 2 : For Hotai Financial Co., Ltd. the limit on total endorsement is no more than 100% of its total equity; the limit on endorsement for any single entity is no more than 100% of the Company's total equity. Net assets value is based on the amount included in the latest filing of financial statements and report of independent accounts.

Note 3 : For Toyota Material Handling Taiwan Ltd., the limited on total endorsement is no more than 50% of its total equity; the limit on endorsement for any single entity is no more than 30% of the Company's total equity.

Note 4 : Relationship between the endorser/guarantor:

- a. The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/guaranteed company.
- b. The endorser/guarantor parent company owns directly and indirectly more than 90% voting shares of the endorsed/guaranteed company.

Ho Tai Motor Co., Ltd.
Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)
Six months ended June 30, 2018
Expressed in thousands of New Taiwan dollars, except as otherwise indicated

Table 3

Securities held by	Type and name of securities	Relationship with the securities issuer	General ledger account	As of June 30, 2018				Footnote
				Number of shares	Book value	Ownership (%)	Fair value	
Ho Tai Motor Co., Ltd.	Stock - Mega Financial Holding Company	None	Financial assets at fair value through other comprehensive income - non-current	20,617,157	\$ 554,602	0.15%	\$ 554,602	
	- Shihlin Electric & Engineering Corporation Etc.	None	"	-	90,481	0.00%~0.42%	90,481	
	Taian Insurance Co., Ltd. Etc.	-	"	-	241,331	0.42%~3.62%	241,331	
	Nan Shan Life Insurance Perpetual Subordinated Bonds	None	Financial assets at fair value through profit or loss-non-current	-	500,000	-	500,000	
	Beneficiary certificates							
	- Franklin Templeton Sinoam Money Market Fund	Not applicable	Financial assets at fair value through profit or loss - current	9,724,032	100,000	-	100,121	
	- FSITC Taiwan Money Market Fund	"	"	39,427,127	600,000	-	600,893	
	- Mega Diamond Money Market Fund	"	"	56,083,790	700,000	-	700,694	
	- Jih Sun Money Market Fund	"	"	27,149,383	400,000	-	400,703	
	- CTBC Hwa-win Money Market Fund	"	"	54,728,304	600,093	-	600,840	
	- Union Money Market Fund	"	"	7,604,274	100,000	-	100,033	
			Valuation adjustment of financial assets		3,191		-	
			Total		\$ 3,003,284		\$ 3,003,284	
	Hozan Investment Co., Ltd.	Ho An Insurance Agency Co., Ltd. Etc.	-	Financial assets at fair value through other comprehensive income - non-current	-	\$ 3,458	0.50%	\$ 3,458
Beneficiary certificates								
- Franklin Templeton Sinoam Money Market Fund		Not applicable	Financial assets at fair value through profit or loss - current	404,367	4,140	-	4,164	
			Valuation adjustment of financial assets		24		-	
		Total		\$ 4,164		\$ 4,164		
Toyota Material Handling Taiwan Ltd.	Beneficiary certificates							
	- Franklin Templeton Sinoam Money Market Fund	Not applicable	Financial assets at fair value through profit or loss - current	35,451,220	\$ 361,728	-	\$ 365,013	
			Valuation adjustment of financial assets		3,285		-	
		Total		\$ 365,013		\$ 365,013		
Carmax Co., Ltd.	Ho An Insurance Agency Co., Ltd. Etc.	-	Financial assets at fair value through other comprehensive income - non-current	-	\$ 3,854	0.01%~0.50%	\$ 3,854	
	Beneficiary certificates							
	- Franklin Templeton Sinoam Money Market Fund	Not applicable	Financial assets at fair value through profit or loss - current	29,223,240	300,000	-	300,888	
	- CTBC Hwa-win Money Market Fund	"	"	17,330,556	190,000	-	190,265	
		Valuation adjustment of financial assets		1,153		-		
		Total		\$ 491,153		\$ 491,153		
Ho Tai Development Co., Ltd.	Stock - First Financial Holding Co. Ltd.	-	Financial assets at fair value through other comprehensive income - non-current	-	\$ 1,227	-	\$ 1,227	
	Ho An Insurance Agency Co., Ltd. Etc.	-	"	-	3,854	0.01%~0.51%	3,854	
	President securites Corp-PGNW0085	Not applicable	Financial assets at fair value through profit or loss - current	-	95,943	-	96,178	
			Valuation adjustment of financial assets		235		-	
		Total		\$ 96,178		\$ 96,178		
Ho Tai Service & Marketing Co., Ltd	Bestaiwan Co., Ltd.	None	Financial assets at fair value through other comprehensive income - non-current	11,974	\$ -	0.11%	\$ -	
	Beneficiary certificates							
	- BOT Money Market Fund	Not applicable	Financial assets at fair value through profit or loss - current	2,527,891	30,000	-	30,157	
			Valuation adjustment of financial assets		157		-	
		Total		\$ 30,157		\$ 30,157		

Securities held by	Type and name of securities	Relationship with the securities issuer	General ledger account	As of June 30, 2018				Footnote
				Number of shares	Book value	Ownership (%)	Fair value	
Hotai Finance Co., Ltd.	Ho An Insurance Agency Co., Ltd. Etc.	-	Financial assets at fair value through other comprehensive income- non-current	-	\$ 3,458	0.50%	\$ 3,458	
Hotai Leasing Co., Ltd.	Ho An Insurance Agency Co., Ltd. Etc.	-	"	-	\$ 3,458	0.50%	\$ 3,458	
Shanghai Ho-Yu (BVI) Investment Co., Ltd.	YU-TU (BVI) Finance Investment Corporation	None	"	-	\$ 23,307	10.48%	\$ 23,307	

Note: Hotai Insurance Co., Ltd. does not need to be disclosed as it is an insurance company.

Ho Tai Motor Co., Ltd.

Acquisition or sale of the same security with the accumulated cost reaching \$300 million or 20% of the Company's paid-in capital

Six months ended June 30, 2018

Expressed in thousands of New Taiwan dollars, except as otherwise indicated

Table 4

Investor	Type and name of securities	General ledger account	Counterparty	Relationship with the investee	Balance as at January 1, 2018		Addition		Disposal			Balance as at June 30, 2018		
					Number of shares	Amount	Number of shares	Amount	Number of shares	Selling price	Book value	Gain (loss) on disposal	Number of shares	Amount
Ho Tai Motor Co., Ltd.	CTBC Hwa-win Money Market Fund	Financial assets at fair value through profit or loss- current	Not applicable	Not applicable	-	\$ -	82,092,826	\$ 900,000	27,364,522	\$ 300,000	\$ 299,907	\$ 93	54,728,304	\$ 600,840
Ho Tai Motor Co., Ltd.	Jih Sun Money Market Fund	"	"	"	-	-	27,149,383	400,000	-	-	-	-	27,149,383	400,703
Ho Tai Motor Co., Ltd.	Mega Diamond Money Market Fund	"	"	"	-	-	56,083,790	700,000	-	-	-	-	56,083,790	700,694
Ho Tai Motor Co., Ltd.	FSITC Money Market Fund	"	"	"	-	-	39,427,127	600,000	-	-	-	-	39,427,127	600,893
Ho Tai Development Co., Ltd.	President securities Corp.- PGN0085	"	"	"	-	95,943	-	686,309	-	686,333	686,309	24	-	96,178

Note : Hotai Insurance Co., Ltd. does not need to be disclosed as it is an insurance company.

Ho Tai Motor Co., Ltd.
Acquisition of individual real estate reaching NT\$300 million or 20% of paid-in capital or more
Six months ended June 30, 2018
Expressed in thousands of New Taiwan dollars, except as otherwise indicated

Table 5

Real estate acquired by	Real estate acquired	Date of the event	Transaction amount	Status of payment	Counterparty	Relationship with the counterparty	Prior transaction of related conterparty				Basis or reference used in setting the price	Reason for acquisition of real estate and status of the real estate	Other commitments
							Owner	Relationship	Transfer date	Amount			
Hotai Leasing Co., Ltd.	Land and building located in No.60~69 Chengtai Section, Wugu Dist., New Taipei City	2017.12.21	\$ 1,380,000	1,380,000	Lion Chemical Industry (Taiwan) Co., Ltd.	None	-	-	-	-	Evaluated by professional appraisal institute and active market price	Operation purpose	None
Shanghai Ho-Mian Motor Technology Co., Ltd.	4-storey building and 70 phase II parking spaces located in Luding Road, Putuo District, Shanghai city, China	2017.12.21	992,457	992,457	Greentown Property Service Group Co., Ltd. Shanghai Branch.	None	-	-	-	-	Evaluated by professional appraisal institute and active market price	Operation purpose	None

Ho Tai Motor Co., Ltd.

Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more

Six months ended June 30, 2018

Expressed in thousands of New Taiwan dollars, except as otherwise indicated

Table 6

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		Footnote
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
Ho Tai Motor Co., Ltd.	Central Motor Co., Ltd.	Associates	Sales	\$ 11,561,686	20%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	Normal	Normal	\$ 629,848	18%	
Ho Tai Motor Co., Ltd.	Tau Miau Motor Co., Ltd.	"	"	10,662,692	19%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	538,765	16%	
Ho Tai Motor Co., Ltd.	Taipei Toyota Motor Co., Ltd.	"	"	8,689,670	15%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	428,638	13%	
Ho Tai Motor Co., Ltd.	Kau Du Automobile Co., Ltd.	"	"	7,789,393	14%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	434,920	13%	
Ho Tai Motor Co., Ltd.	Kuotu Motor Co., Ltd.	"	"	7,588,134	13%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	452,301	13%	
Ho Tai Motor Co., Ltd.	Nan Du Motor Co., Ltd.	"	"	6,794,596	12%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	375,104	11%	
Ho Tai Motor Co., Ltd.	Lang Yang Toyota Motor Co., Ltd.	"	"	1,202,467	2%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	71,511	2%	
Ho Tai Motor Co., Ltd.	Eastern Motor Co., Ltd.	Subsidiary	"	952,658	2%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	64,665	2%	
Ho Tai Motor Co., Ltd.	Chang Yuan Motor Co., Ltd.	"	"	792,725	1%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	Not applicable	"	307,147	9%	
Ho Tai Motor Co., Ltd.	Hotai Leasing Co., Ltd.	"	"	665,795	1%	Collection at sight	Normal	"	53,467	2%	
Ho Tai Motor Co., Ltd.	Kuozui Motors, Ltd.	Associates	Purchases	20,026,762	38%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	Not applicable	"	(994,568)	12%	
Ho Tai Motor Co., Ltd.	Toyota Motor Corporation	Entity controlled by the Company's key management	"	18,148,299	34%	Closes its accounts 15 days after the end of each month	"	"	(3,616,200)	45%	
Ho Tai Motor Co., Ltd.	Toyota Motor Europe - NV/SA	"	"	1,205,083	2%	Closes its accounts 15 days after the end of each month	"	"	(129,240)	2%	
Ho Tai Motor Co., Ltd.	Toyota Motor Asia Pacific PTE	"	"	1,001,375	2%	Closes its accounts 15 days after the end of each month	"	"	(180,729)	2%	
Ho Tai Motor Co., Ltd.	Carmax Co., Ltd.	Subsidiary	"	761,461	1%	Closes its accounts 16 days after the end of each month	"	"	(293,890)	4%	
Ho Tai Motor Co., Ltd.	Yokohama Tire Taiwan Co., Ltd.	Associates	"	338,083	1%	Closes its accounts 16 days after the end of each month	"	"	(120,881)	2%	
Ho Tai Motor Co., Ltd.	Toyota Motor Sales-USA	Entity controlled by the Company's key management	"	160,349	-	Closes its accounts 15 days after the end of each month	"	"	(34,854)	-	
Ho Tai Motor Co., Ltd.	Hino Motors, Ltd.	"	"	134,820	-	Closes its accounts 15 days after the end of each month	"	"	(5,545)	-	
Chang Yuan Motor Co., Ltd.	Ho Tai Motor Co., Ltd.	Parent company	"	792,725	13%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	Not applicable	(307,147)	42%	
Chang Yuan Motor Co., Ltd.	Kuozui Motors, Ltd.	Associates	"	4,711,634	79%	7 days after invoice date	"	"	(240,816)	33%	
Chang Yuan Motor Co., Ltd.	Hozao Enterprise Co., Ltd.	"	Sales	313,121	5%	14 days after invoice date	Normal	Normal	32,777	1%	
Chang Yuan Motor Co., Ltd.	Hotai Leasing Co., Ltd.	"	"	209,377	3%	Collection at sight	"	"	-	-	
Toyota Material Handling Taiwan Ltd.	Toyota Industries Corporation	Entity controlled by the Company's key management	Purchases	163,130	77%	Closes its accounts 15 days after the end of each month	Not applicable	"	(26,920)	45%	
Carmax Co., Ltd.	Ho Tai Motor Co., Ltd.	Parent company	Sales	761,461	28%	Closes its accounts 16 days after the end of each month	Normal	"	293,890	26%	
Carmax Co., Ltd.	Zhongyang Motor Co., Ltd.	Associates	"	271,112	10%	Closes its accounts 35 days after the end of each month	"	"	116,381	10%	
Carmax Co., Ltd.	Wang Fu Co., Ltd.	"	"	216,098	8%	Closes its accounts 35 days after the end of each month	"	"	97,535	9%	
Carmax Co., Ltd.	Innovation Auto Parts Co., Ltd.	"	"	207,468	8%	Closes its accounts 25 days after the end of each month	"	"	38,986	3%	
Carmax Co., Ltd.	Kuozui Motors, Ltd.	"	"	172,821	6%	Closes its accounts 10 days after the end of each month	"	"	124,015	11%	
Carmax Co., Ltd.	Nan I Motor Co., Ltd.	"	"	149,251	6%	Closes its accounts 40 days after the end of each month	"	"	56,223	5%	
Carmax Co., Ltd.	Chang Guan Logistics Co., Ltd.	"	"	145,231	5%	Closes its accounts 40 days after the end of each month	"	"	59,142	5%	
Carmax Co., Ltd.	Tung Yu Motor Co., Ltd.	"	"	106,366	4%	Closes its accounts 40 days after the end of each month	"	"	41,504	4%	

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction			Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		Footnote	
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance		Percentage of total notes/accounts receivable (payable)
Carmax Co., Ltd.	Taipei Toyota Motor Co., Ltd.	Associates	Purchases	\$ 125,395	6%	Closes its accounts 21 days after the end of each month	Normal	Normal	(\$ 27,276)	4%	
Hotai Finance Co., Ltd.	Central Motor Co., Ltd.	"	"	3,407,338	15%	Payment at sight	"	"	(51,260)	8%	
Hotai Finance Co., Ltd.	Kuotu Motor Co., Ltd.	"	"	2,486,221	11%	Payment at sight	"	"	(103,850)	16%	
Hotai Finance Co., Ltd.	Kau Du Automobile Co., Ltd.	"	"	2,499,276	11%	Payment at sight	"	"	(136,502)	22%	
Hotai Finance Co., Ltd.	Nan Du Motor Co., Ltd.	"	"	2,220,912	10%	Payment at sight	"	"	(82,150)	13%	
Hotai Finance Co., Ltd.	Taipei Toyota Motor Co., Ltd.	"	"	2,123,975	9%	Payment at sight	"	"	(135,835)	21%	
Hotai Finance Co., Ltd.	Tau Miau Motor Co., Ltd.	"	"	2,087,282	9%	Payment at sight	"	"	(2,700)	-	
Hotai Finance Co., Ltd.	Lang Yang Toyota Motor Co., Ltd.	"	"	382,480	2%	Payment at sight	"	"	(6,880)	1%	
Hotai Finance Co., Ltd.	Eastern Motor Co., Ltd.	"	"	373,619	2%	Payment at sight	"	"	(15,770)	2%	
Hotai Leasing Co., Ltd.	Ho Tai Motor Co., Ltd.	Parent company	"	665,795	20%	Payment at sight	"	"	(53,467)	15%	Note
Hotai Leasing Co., Ltd.	Kuotu Motor Co., Ltd.	Associates	"	1,153,002	34%	Payment at sight	"	"	(55,061)	15%	"
Hotai Leasing Co., Ltd.	Taipei Toyota Motor Co., Ltd.	"	"	698,576	21%	Payment at sight	"	"	(20,276)	6%	"
Hotai Leasing Co., Ltd.	Tau Miau Motor Co., Ltd.	"	"	460,349	14%	Payment at sight	"	"	(18,297)	5%	"
Hotai Leasing Co., Ltd.	Central Motor Co., Ltd.	"	"	434,188	13%	Payment at sight	"	"	(30,784)	8%	"
Hotai Leasing Co., Ltd.	Kau Du Automobile Co., Ltd.	"	"	339,319	10%	Payment at sight	"	"	(26,971)	7%	"
Hotai Leasing Co., Ltd.	Nan Du Motor Co., Ltd.	"	"	263,971	8%	Payment at sight	"	"	(17,721)	5%	"
Hotai Leasing Co., Ltd.	Chang Yuan Motor Co., Ltd.	"	"	209,377	6%	Payment at sight	"	"	-	-	"
Ho Tai Service & Marketing Co., Ltd.	Ho Tai Development Co., Ltd.	"	Sales	103,910	42%	Closes its accounts 60 days after the end of each month	"	"	36,605	46%	
Ho Tai Development Co., Ltd.	Ho Tai Service & Marketing Co., Ltd.	"	Purchases	103,910	2%	Closes its accounts 60 days after the end of each month	"	"	(36,605)	13%	
Eastern Motor Co., Ltd.	Ho Tai Motor Co., Ltd.	Parent company	Purchases	952,658	90%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	(64,665)	89%	
Eastern Motor Co., Ltd.	Hotai Finance Co., Ltd.	Associates	Sales	373,619	32%	Collection at sight	"	"	15,770	12%	
Shanghai Heling Motor Service Co., Ltd.	Toyota Motor (China)Investment Co., Ltd.	Entity controlled by the Company's key management	Purchases	1,353,481	90%	Payment in advance	"	"	-	-	
Chongqing Heling Lexus Motor Sales & Service Co., Ltd.	Toyota Motor (China) Investment Co., Ltd.	"	"	847,103	82%	Payment in advance	"	"	-	-	
Shanghai Yangpu Heling Lexus Motor Sale & Service Co., Ltd.	Toyota Motor (China) Investment Co., Ltd.	"	"	762,293	90%	Payment in advance	"	"	-	-	
Nanchang Heling Lexus Motors Sales & Service Co., Ltd.	Toyota Motor (China) Investment Co., Ltd.	"	"	714,405	90%	Payment in advance	"	"	-	-	
Tianjin Heling Lexus Motor Sales & Service Co., Ltd.	Toyota Motor (China) Investment Co., Ltd.	"	"	679,497	97%	Payment in advance	"	"	-	-	
Tangshan Heling Lexus Motor Sales & Service Co., Ltd.	Toyota Motor (China) Investment Co., Ltd.	"	"	637,135	89%	Payment in advance	"	"	-	-	

Note: Hotai Leasing Co., Ltd. purchases vehicles for renting services, the related assets are reported under property, plant, and equipment.

Ho Tai Motor Co., Ltd.
Receivables from related parties reaching \$100 million or 20% of paid-in capital or more
June 30, 2018
Expressed in thousands of New Taiwan dollars, except as otherwise indicated

Table 7

Creditor	Counterparty	Relationship with the counterparty	Balance as at June 30, 2018	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts	
					Amount	Action taken			
Ho Tai Motor Co., Ltd.	Central Motor Co., Ltd.	Associates	Accounts receivable	\$ 629,848	42.59	\$ -	None	629,848	\$ -
			Other receivables	\$ 32,784				32,784	
Ho Tai Motor Co., Ltd.	Tau Miau Motor Co., Ltd.	"	Accounts receivable	\$ 538,765	44.67	-	"	538,765	-
			Other receivables	\$ 28,719				28,719	
Ho Tai Motor Co., Ltd.	Kuotu Motor Co., Ltd.	"	Accounts receivable	\$ 452,301	31.00	-	"	452,301	-
			Other receivables	\$ 44,103				44,103	
Ho Tai Motor Co., Ltd.	Kau Du Automobile Co., Ltd.	"	Accounts receivable	\$ 434,920	41.47	-	"	434,920	-
			Other receivables	\$ 21,654				21,654	
Ho Tai Motor Co., Ltd.	Taipei Toyota Motor Co., Ltd.	"	Accounts receivable	\$ 428,638	41.87	-	"	428,638	-
			Other receivables	\$ 17,082				17,082	
Ho Tai Motor Co., Ltd.	Nan Du Motor Co., Ltd.	"	Accounts receivable	\$ 375,104	44.19	-	"	375,104	-
			Other receivables	\$ 21,975				21,975	
Ho Tai Motor Co., Ltd.	Chang Yuan Motor Co., Ltd.	Subsidiary	Accounts receivable	\$ 307,147	7.49	-	"	307,147	-
			Other receivables	\$ 19,832				19,832	
Carmax Co., Ltd.	Ho Tai Motor Co., Ltd.	Parent Company	Accounts receivable	\$ 293,890	6.57	-	"	293,890	-
Carmax Co., Ltd.	Kuozui Motirs, Ltd.	Associates	Accounts receivable	\$ 124,015	80.46	-	"	124,015	-
Carmax Co., Ltd.	Zhongyang Motors Co., Ltd.	"	Accounts receivable	\$ 116,381	43.56	-	"	116,381	-

Ho Tai Motor Co., Ltd.
Significant inter-company transactions during the reporting periods
Six months ended June 30, 2018
Expressed in thousands of New Taiwan dollars, except as otherwise indicated

Table 8

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			
				General ledger account	Amount	Transaction terms	Percentage of total operating revenues or total assets
0	Ho Tai Motor Co., Ltd.	Chang Yuan Motor Co., Ltd.	1	Sales revenue	\$ 792,725	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	-
0	Ho Tai Motor Co., Ltd.	Chang Yuan Motor Co., Ltd.	1	Service revenue	628,105	Closes its accounts 16 days after the end of following two months	1%
0	Ho Tai Motor Co., Ltd.	Chang Yuan Motor Co., Ltd.	1	Accounts receivable	307,147	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	-
0	Ho Tai Motor Co., Ltd.	Hotai Leasing Co., Ltd.	1	Sales revenue	665,795	Collection at sight	-
0	Ho Tai Motor Co., Ltd.	Hotai Finance Co., Ltd.	1	Sales discount	125,361	Closes its accounts 16 days after the end of each month	-
0	Ho Tai Motor Co., Ltd.	Carmax Co., Ltd.	1	Accounts payable	293,890	Closes its accounts 16 days after the end of each month	-
0	Ho Tai Motor Co., Ltd.	Eastern Motor Co., Ltd.	1	Sales revenue	952,658	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	-
1	Chang Yuan Motor Co., Ltd.	Hotai Leasing Co., Ltd.	3	//	209,377	Collection at sight	-
2	Eastern Motor Co., Ltd.	Hotai Finance Co., Ltd.	3	//	373,619	Collection at sight	-
3	Carmax Co., Ltd.	Ho Tai Motor Co., Ltd.	2	//	761,461	Closes its accounts 16 days after the end of each month	-
4	Hotai Insurance Co., Ltd.	Hotai Leasing Co., Ltd.	3	Insurance premium	96,751		-
5	Smart Design Technology Co., Ltd.	Carmax Co., Ltd.	3	Sales revenue	99,014	Closes its accounts 10 days after the end of each month	-
6	Ho Tai Service & Marketing Co., Ltd.	Ho Tai Development Co., Ltd.	3	//	103,910	Closes its accounts 60 days after the end of each month	-
7	Hotong Motor Investment Co., Ltd.	Chongqing Heling Lexus Motor Sales & Service Co., Ltd.	3	Other payables	116,376		-
7	Hotong Motor Investment Co., Ltd.	Tianjin Hozan Motor Service Co., Ltd.	3	//	93,294		-
7	Hotong Motor Investment Co., Ltd.	Tangshan Heling Lexus Motor Sales & Service Co., Ltd.	3	//	129,296		-
7	Hotong Motor Investment Co., Ltd.	Nanchang Heling Lexus Motors Sales & Service Co., Ltd.	3	//	89,477		-

Note 1 : The numbers filled for inter-company transactions are as follows:

- 1.The parent company is numbered "0".
- 2.The subsidiaries are numbered starting from "1".

Note 2 : The relationships among the transaction parties are as follows:

- 1.The parent company to the subsidiary.
- 2.The subsidiary to the parent company.
- 3.The subsidiary to another subsidiary.

Note 3 : The percentage of transaction amount over consolidated total revenues or total assets is as follows:

Assets and liabilities are calculated using the ending balance over the consolidated total assets at eneding period;
Sales is calculated using the amount of the period over the consolidated total revenue of the period.

Ho Tai Motor Co., Ltd.

Names, locations and other information of investee companies (not including investees in Mainland China)

Six months ended June 30, 2018

Expressed in thousands of New Taiwan dollars, except as otherwise indicated

Table 9

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at June 30, 2018			of the investee for the six months ended June 30, 2018	(loss) recognized by the Company for the six months ended	Footnote
				Balance at June 30, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value			
Ho Tai Motor Co., Ltd.	Hozan Investment Co., Ltd.	Taiwan	General investment	\$ 7,780,182	\$ 7,780,182	-	100.00	\$ 16,936,669	\$ 762,024	\$ 762,024	Subsidiary
Ho Tai Motor Co., Ltd.	Kuozui Motors, Ltd.	"	Sales of vehicles and parts and manufacturing of vehicles	4,390,907	4,390,907	103,800,000	30.00	4,971,474	1,213,141	362,256	Investee company accounted for using the equity method
Ho Tai Motor Co., Ltd.	Shanghai Ho-Yu (BVI) Investment Co., Ltd.	British Virgin Islands	General investment	1,794,014	1,794,014	58,897,360	100.00	4,212,766	350,540	350,540	Subsidiary
Ho Tai Motor Co., Ltd.	Chang Yuan Motor Co., Ltd.	Taiwan	Sales of vehicles and parts and repairing of vehicles	326,463	326,463	291,320,000	100.00	3,962,048	199,356	199,356	"
Ho Tai Motor Co., Ltd.	Central Motor Co., Ltd.	"	"	2,098,966	2,098,966	15,000,000	20.00	2,487,628	215,912	41,645	Investee company accounted for using the equity method
Ho Tai Motor Co., Ltd.	Ho Tai Development Co., Ltd.	"	Agent for sales of air conditioning system and contracting of air conditioning construction	73,787	73,787	24,710,856	45.01	2,427,022	555,766	249,958	Subsidiary
Ho Tai Motor Co., Ltd.	Tau Miao Motor Co., Ltd.	"	Sales of vehicles and parts and repairing of vehicles	1,324,655	1,324,655	15,153,573	20.00	1,413,592	155,320	28,727	Investee company accounted for using the equity method
Ho Tai Motor Co., Ltd.	Kau Du Automobile Co., Ltd.	"	"	1,236,592	1,236,592	22,161,150	20.00	1,300,515	65,984	10,095	"
Ho Tai Motor Co., Ltd.	Carmax Co., Ltd.	"	Trading of vehicle products/accessories	153,030	153,030	22,950,000	51.00	1,365,459	375,672	191,593	Subsidiary
Ho Tai Motor Co., Ltd.	Taipei Toyota Motor Co., Ltd.	"	Sales of vehicles and parts and repairing of vehicles	201,700	201,700	25,438,987	34.81	966,602	143,067	49,801	Investee company accounted for using the equity method
Ho Tai Motor Co., Ltd.	Kuotu Motor Co., Ltd.	"	"	1,010,667	1,010,667	17,553,761	20.05	985,556	193,380	38,773	"
Ho Tai Motor Co., Ltd.	Nan Du Motor Co., Ltd.	"	"	186,851	186,851	14,806,073	23.67	894,684	171,029	40,483	"
Ho Tai Motor Co., Ltd.	Toyota Material Handling Taiwan Ltd.	"	Sales of vehicles and parts for industry use	50,000	50,000	48,816,929	100.00	770,823	51,237	51,237	Subsidiary
Ho Tai Motor Co., Ltd.	Eastern Motor Co., Ltd.	"	Sales of vehicles and parts and repairing of vehicles	80,000	80,000	32,136,201	100.00	356,877 (	832) (	832)	"
Ho Tai Motor Co., Ltd.	Lang Yang Toyota Motor Co., Ltd.	"	"	256,000	256,000	2,000,000	20.00	280,297	22,371	4,133	Investee company accounted for using the equity method
Ho Tai Motor Co., Ltd.	Formosa Flexible Packaging Corp.	"	Production and marketing of packaging products	5,557	5,557	1,007,609	45.54	259,766 (	30,722) (	13,991)	"
Ho Tai Motor Co., Ltd.	Shi-Ho Screw Industrial Co., Ltd.	"	Manufacturing and sales of precision screws	7,400	7,400	211,433	21.14	125,348	31,328	6,623	"
Ho Tai Motor Co., Ltd.	Yokohama Tire Taiwan Co., Ltd.	"	Import and export of all kinds of tires and inner tubes	3,000	3,000	3,000	25.00	115,573	39,783	9,946	"
Ho Tai Motor Co., Ltd.	Smart Design Technology Co., Ltd.	"	Electronic parts and components manufacturing	10,763	10,763	960,961	20.00	11,682	1,370	274	Subsidiary
Shanghai Ho-Yu (BVI) Investment Co., Ltd.	Tienjin Ho Yu Investment Co., Ltd.	British Virgin Islands	General investment	106,610	106,610	3,500,000	70.00	106,735	7,682	-	An indirect wholly-owned subsidiary

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at June 30, 2018			of the investee for the six months ended June 30, 2018	(loss) recognized by the Company for the six months ended	Footnote
				Balance at June 30, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value			
Shanghai Ho-Yu (BVI) Investment Co., Ltd.	Beijing Ho-Yu (BVI) Investment Co., Ltd.	British Virgin Islands	General investment	\$ 36,552	\$ 36,552	1,200,000	40.00	\$ -	\$ -	-	Subsidiary's investee company accounted for using the equity method
Hozan Investment Co., Ltd.	Hotai Finance Co., Ltd.	Taiwan	Installment trading and leasing of various vehicles	779,742	779,742	247,365,831	66.03	6,234,007	842,676	-	An indirect wholly-owned subsidiary
Hozan Investment Co., Ltd.	Hotai Leasing Co., Ltd.	"	Leasing of light passenger vehicles	181,907	181,907	76,026,689	66.04	2,044,830	97,174	-	"
Hozan Investment Co., Ltd.	Hozao Enterprise Co., Ltd.	"	Installment trading of various vehicles	34,756	34,756	3,475,571	18.29	298,944	39,528	-	Subsidiary's investee company accounted for using the equity method
Hozan Investment Co., Ltd.	Taipei Toyota Motor Co., Ltd.	"	Sales of vehicles and parts and repairing of vehicles	77	77	2,000	0.00	100	143,067	-	"
Hozan Investment Co., Ltd.	Hotai Insurance Co., Ltd.	"	Property and casualty insurance services	6,831,887	6,831,887	19,960,531	99.80	7,026,483	172,355	-	An indirect wholly-owned subsidiary
Hozan Investment Co., Ltd.	Heng Yun Investment Co., Ltd.	"	General investment	298,864	298,864	20,470,156	40.00	342,428	46,198	-	Subsidiary's investee company accounted for using the equity method
Hozan Investment Co., Ltd.	Ho Tai Cyber Connection Co., Ltd.	"	E-commerce platform services of used vehicles	230,000	230,000	23,000,000	100.00	177,277	(43,398)	-	An indirect wholly-owned subsidiary
Hotai Finance Co., Ltd.	Hoyun International Limited	British Virgin Islands	General investment	769,115	769,115	25,250,000	50.50	1,113,083	93,401	-	"
Hotai Leasing Co., Ltd.	Hoyun International Limited	"	"	753,885	753,885	24,750,000	49.50	1,090,203	93,401	-	"
Ho Tai Development Co., Ltd.	Ichiban International Co., Ltd.	Samoa	"	91,380	91,380	3,000,000	100.00	126,395	2,413	-	"
Ho Tai Development Co., Ltd.	Ho Tai Service & Marketing Co., Ltd.	Taiwan	Repairing of air conditioning equipment and trading of their parts	50,000	50,000	12,652,898	100.00	383,292	59,726	-	"
Ho Tai Development Co., Ltd.	Interface Communications Ltd.	"	Advertisement making	2,400	2,400	240,000	30.00	574	-	-	Subsidiary's investee company accounted for using the equity method
Ho Tai Development Co., Ltd.	Kashiwabara Hotai Taiwan Co., Ltd.	"	Wholesale and retail of paints and coating	8,820	8,820	882,000	49.00	6,435	-	-	"
Carmax Co., Ltd.	Smart Design Technology Co., Ltd.	"	Electronic parts and components manufacturing	33,242	33,242	2,968,016	61.77	35,653	1,370	-	Subsidiary
Eastern Motor Co., Ltd.	Doroman Autoparts Co., Ltd.	"	Wholesale and retail of vehicles parts and accessories	500	500	138,718	100.00	9,363	4,090	-	An indirect wholly-owned subsidiary
Ichiban International Co., Ltd.	Air Master International Co., Ltd.	Samoa	General investment	91,380	91,380	3,000,000	100.00	126,395	2,413	-	"

Ho Tai Motor Co., Ltd.
Information on investments in Mainland China-Basic information
Six months ended June 30, 2018
Expressed in thousands of New Taiwan dollars, except as otherwise indicated

Table 10

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the six months ended June 30, 2018		Accumulated amount of remittance from Taiwan to Mainland China as of June 30, 2018	Net income of investee for the six months ended June 30, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the six months ended June 30, 2018	Book value of investment in Mainland China as of June 30, 2018	Accumulated amount of investment income remitted back to Taiwan as of June 30, 2018	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
Hotong Motor Investment Co., Ltd.	Operation decision making, capital using and financial management, information services, employee trainings and other services	\$ 2,377,251	Note 1.2	\$ 348,767	\$ -	\$ -	\$ 348,767	\$ 345,266	100.00	\$ 345,266	\$ 4,053,531	-	Note 2.3
Shanghai Hoyu Motor Service Co., Ltd.	Sales and repairing of vehicles	102,650	"	102,650	-	-	102,650	33,105	100.00	33,105	266,518	-	"
ChongQing Yuou Toyota Automobile Sales & Service Co., Ltd.	"	137,940	"	11,194	-	-	11,194	-	10.48	-	11,194	-	"
Beijing Hoyu Toyota Motor Sales & Service Co., Ltd.	"	91,380	"	30,460	-	-	30,460	-	40.00	-	-	-	"
Chongqing Heling Lexus Motor Sales & Service Co., Ltd.	"	182,760	"	182,760	-	-	182,760	48,193	100.00	48,193	425,220	-	"
Shanghai Hozhan Motor Service Co., Ltd.	"	91,380	"	91,380	-	-	91,380	31,787	100.00	31,787	188,381	-	"
Tianjin Ho-Yu Motor Sales & Service Co., Ltd.	"	152,300	"	106,610	-	-	106,610	7,682	70.00	5,378	106,735	-	"
Shanghai Heling Motor Service Co., Ltd.	"	106,610	Note 1.3	79,958	-	-	79,958	96,841	100.00	96,841	462,644	-	"
ChongQing Yurun Toyota Automobile Service Co., Ltd.	"	137,940	Note 1.2	11,994	-	-	11,994	-	10.48	-	11,994	26,106	"
Shanghai Ho-Qian Logistics Equipment Trading Co., Ltd.	Sales of vehicles and parts for industry use	182,760	"	134,024	48,736	-	182,760	(1,853)	100.00	(1,853)	151,390	-	"
Zaozhuang Ho-Yu Toyota Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	415,779	"	283,278	-	-	283,278	1,022	100.00	1,022	220,687	-	"
Zaozhong Ho-Wan Motor Sales & Service Co., Ltd.	"	18,392	Note 1.3	-	-	-	-	(2)	100.00	(2)	18,417	-	"
Tangshan Heling Lexus Motor Sales & Service Co., Ltd.	"	176,668	Note 1.2	176,668	-	-	176,668	45,755	100.00	45,755	297,510	-	"
Nanchang Heling Lexus Motors Sales & Service Co., Ltd.	"	197,990	"	197,990	-	-	197,990	29,927	100.00	29,927	281,478	-	"
Hoyun International Lease Co., Ltd.	Leasing, wholesale, retail of and support service for vehicles	1,523,000	"	1,523,000	-	-	1,523,000	93,401	66.03	61,679	1,454,994	-	"
Hoyun (Shanghai) Commercial Factoring Co., Ltd.	Factoring services	229,901	Note 1.3	-	-	-	-	9,137	66.03	6,034	163,026	-	"
He Zhan Development Co., Ltd.	Trading of air conditioning equipment	91,380	Note 1.2	91,380	-	-	91,380	2,413	45.01	1,086	56,888	-	"
Tianjin Heling Lexus Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	365,520	Note 1.3	-	-	-	-	38,138	100.00	38,138	318,578	-	"
Tianjin Hozhan Motor Service Co., Ltd.	"	315,424	"	-	-	-	-	29,154	100.00	29,154	241,877	-	"
Linyi Hoyu Toyota Motor Sales & Service Co., Ltd.	"	365,520	"	-	-	-	(1,220)	(1,220)	35.00	(427)	66,699	-	"
Carmax Autotech (Shanghai) Co., Ltd.	Trading of vehicle products/accessories	40,512	Note 1.1	40,512	-	-	40,512	9,855	51.00	5,026	165,541	-	"
Guangzhou Gac Changho Autotech Corporation	"	97,269	"	43,771	-	-	43,771	44,156	22.95	10,134	90,655	36,401	"
Linyi Heling Lexus Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	304,600	Note 1.3	-	-	-	-	19,940	35.00	6,979	74,238	-	"
Taizhou Zhongdu Lexus Motor Sales & Service Co., Ltd.	"	456,900	"	-	-	-	-	17,871	35.00	6,255	137,710	-	"

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the six months ended June 30, 2018		Accumulated amount of remittance from Taiwan to Mainland China as of June 30, 2018	Net income of investee for the six months ended June 30, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the six months ended June 30, 2018	Book value of investment in Mainland China as of June 30, 2018	Accumulated amount of investment income remitted back to Taiwan as of June 30, 2018	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
Beijing Heling Lexus Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	\$ 365,520	Note 1.3	\$ -	\$ -	\$ -	\$ -	\$ 29,919	35.00	\$ 10,472	\$ 114,513	-	Note 2.3
Jinzhong Central Toyota Motor Sales & Service Co., Ltd.	"	426,440	"	-	-	-	(9,229)	35.00	(3,230)	79,545	-	"	
Shanghai Hede Used Vehicle Co., Ltd.	Trading of used vehicles	13,794	"	-	-	-	(344)	60.00	(207)	13,014	-	"	
Shanghai Guangxin Cultural Media Co., Ltd	Design and production of advertisements	4,598	"	-	-	-	1,278	100.00	1,278	7,787	-	"	
Shanghai Yangpu Heling Lexus Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	491,531	"	-	-	-	27,763	100.00	25,564	313,322	-	"	
Shanghai Ho-Mian Motor Technology Co., Ltd.	Trading of vehicle products/accessories	1,057,543	"	-	-	-	(3,702)	100.00	(3,702)	1,053,873	-	"	
Tianjin Heyi International Trading Co., Ltd.	Sales of imported vehicles	-	"	-	-	-	-	100.00	-	-	-	-	Note 3
Chongqing Taikang Heling Lexus Motor Sales & Service Co.,Ltd.	Sales and repairing of vehicles	-	"	-	-	-	-	50.00	-	-	-	-	"

Note 1: The investmets are classified as follows:

- 1.Direct investment in Mainland China.
- 2.Investment in Mainland China companies through a company invested and established in a third region.
- 3.Others.

Note 2 : The amount of investment income (loss) recognized for the six months ended June 30, 2018 is based on:

- 1.The financial statements were reviewed by R.O.C parent company's CPA.
- 2.The financial statements were reviewed by other independent accountants in PricewaterhouseCoopers, Taiwan.
- 3.Others-Based on the valuation and disclosure of financial statements that were not reviewed by independent auditors.

Note 3: It was established in the second quarter of 2018. However, capital injection from Hotong Motor Investment Co.,Ltd has not been completed.

Note 4: Related amounts in the following table are expressed in NT\$.

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of June 30, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
Ho Tai Motor Co., Ltd.	\$ 1,639,505	\$ 3,995,851	\$ 32,432,733