

**HO TAI MOTOR COMPANY LIMITED
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REVIEW REPORT OF INDEPENDENT ACCOUNTANTS
SEPTEMBER 30, 2019 AND 2018**

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
SEPTEMBER 30, 2019 AND 2018
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REVIEW REPORT OF INDEPENDENT ACCOUNTANTS
(TRANSLATED FROM CHINESE)

PWCR190001646

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 September 30, 2019 and 2018, and the related consolidated statements of comprehensive income for the three months and nine months then ended, as well as the consolidated statements of changes in equity and of cash flows for the nine 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\$45,616,108 thousand and NT\$60,145,694 thousand, constituting 18% and 27% of the consolidated total assets, and total liabilities of NT\$11,071,779 thousand and NT\$26,012,366 thousand, constituting 6% and 16% of the consolidated total liabilities as at September 30, 2019 and 2018, and total comprehensive income of NT\$1,146,293 thousand, NT\$802,771 thousand,

NT\$3,032,039 thousand and NT\$2,845,863 thousand, constituting 29%, 32%, 27% and 33% of the consolidated total comprehensive income for the three months and nine 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 September 30, 2019 and 2018.

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 September 30, 2019 and 2018, and of its consolidated financial performance for the three months and nine months then ended, and its consolidated cash flows for the nine 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
November 12, 2019

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 review 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 review 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
SEPTEMBER 30, 2019 AND 2018 AND DECEMBER 31, 2018

(Expressed in thousands of New Taiwan dollars)

(The consolidated balance sheets as of September 30, 2019 and 2018 are reviewed, not audited)

Assets	Notes	September 30, 2019		December 31, 2018		September 30, 2018		
		Amount	%	Amount	%	Amount	%	
Current Assets								
1100	Cash and cash equivalents	6(1)	\$ 10,024,146	4	\$ 9,469,088	4	\$ 9,384,175	4
1120	Financial assets at fair value through profit or loss-current	6(2)	3,901,094	1	3,772,918	2	3,693,587	2
1125	Financial assets at fair value through other comprehensive income-current	6(3)	22,321	-	267,421	-	231,026	-
1150	Derivative financial assets for hedging-current	6(4)	180,761	-	70,038	-	49,036	-
1190	Other financial assets-current	6(1) and 8	1,748,549	1	2,219,628	1	2,352,999	1
1195	Contract assets-current	6(29)	20,306	-	18,780	-	17,484	-
1201	Notes receivable	6(5), 7 and 8	9,503,893	4	9,300,979	4	10,487,922	5
1202	Accounts receivable	6(5), 7 and 8	120,078,970	49	111,449,622	49	107,087,623	48
1203	Other receivables	7	1,632,653	1	1,911,161	1	1,504,453	1
1270	Inventories	6(7)	11,294,415	4	10,017,654	4	7,816,150	3
1280	Prepayments	6(8)	6,873,734	3	6,517,069	3	6,101,405	3
1290	Non-current assets held for sale (or disposal group), net		15,767	-	15,767	-	15,767	-
1310	Reinsurance contract assets, net	6(9)	1,340,487	-	1,225,913	-	951,526	-
	Total current assets		<u>166,637,096</u>	<u>67</u>	<u>156,256,038</u>	<u>68</u>	<u>149,693,153</u>	<u>67</u>
Non-current assets								
1410	Financial assets at fair value through profit or loss-non-current	6(2)	1,000,000	-	1,000,000	-	1,000,000	-
1415	Financial assets at fair value through other comprehensive income-non-current	6(3)	9,235,994	4	7,886,843	3	10,441,782	5
1470	Investments accounted for using equity method	6(10)	15,088,464	6	14,448,509	6	15,095,015	7
1480	Other financial assets-non-current	6(1)	122,482	-	60,657	-	28,266	-
1500	Property, plant and equipment, net	6(11)	44,268,025	18	41,852,407	18	38,468,367	17
1595	Right-of-use assets, net	6(12)	2,177,243	1	-	-	-	-
1600	Investment property, net	6(14)	1,846,971	1	1,846,459	1	1,850,712	1
1700	Intangible assets, net	6(15)	1,198,623	-	1,224,857	1	1,209,920	1
1800	Deferred income tax assets, net		1,369,558	1	1,170,731	1	1,090,194	-
1900	Other assets	6(5)(9)(16)	4,100,084	2	3,639,204	2	3,729,899	2
	Total non-current assets		<u>80,407,444</u>	<u>33</u>	<u>73,129,667</u>	<u>32</u>	<u>72,914,155</u>	<u>33</u>
1XXX	Total Assets		<u>\$ 247,044,540</u>	<u>100</u>	<u>\$ 229,385,705</u>	<u>100</u>	<u>\$ 222,607,308</u>	<u>100</u>

(Continued)

HO TAI MOTOR CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2019 AND 2018 AND DECEMBER 31, 2018

(Expressed in thousands of New Taiwan dollars)

(The consolidated balance sheets as of September 30, 2019 and 2018 are reviewed, not audited)

Liabilities and equity	Notes	September 30, 2019		December 31, 2018		September 30, 2018		
		Amount	%	Amount	%	Amount	%	
Current Liabilities								
2110	Short-term loans	6(17)	\$ 61,235,371	25	\$ 62,900,378	27	\$ 58,521,621	26
2120	Short-term notes and bills payable	6(18)	57,127,672	23	47,871,914	21	52,550,450	24
2140	Financial liabilities at fair value through profit or loss-current	6(2)	59,223	-	19,047	-	40,403	-
2150	Derivative financial liabilities for hedging-current	6(4)	-	-	52,424	-	91,204	-
2165	Contract liabilities-current	6(29)	1,063,561	1	994,964	-	985,720	1
2201	Notes payable		835,550	-	156,296	-	609,269	-
2202	Accounts payable	7	12,675,587	5	10,960,404	5	6,969,807	3
2203	Accrued expenses	6(21) and 7	4,361,241	2	4,844,381	2	4,841,344	2
2204	Other payables	6(22)	981,690	1	1,458,313	1	1,004,982	1
2250	Commissions payable	7	343,918	-	360,108	-	272,686	-
2260	Due to reinsurance and ceding companies		567,550	-	399,968	-	312,600	-
2270	Claims payable		33,442	-	13,080	-	10,258	-
2310	Current income tax liabilities		2,557,198	1	2,050,170	1	2,132,863	1
2320	Advance receipts		261,007	-	274,865	-	266,699	-
2330	Long-term liabilities-current portion	6(19)(20)	8,396,799	3	7,947,522	4	6,648,431	3
2335	Current lease liabilities		431,188	-	-	-	-	-
2350	Other current liabilities	6(9)(24)(25)	14,563,467	6	10,185,894	5	9,016,199	4
	Total current liabilities		<u>165,494,464</u>	<u>67</u>	<u>150,489,728</u>	<u>66</u>	<u>144,274,536</u>	<u>65</u>
Non-current liabilities								
2550	Long-term loans	6(20)	3,086,784	1	4,086,168	2	5,683,427	3
2600	Provisions	6(9)(24)	5,374,553	2	4,727,295	2	4,900,804	2
2620	Guarantee deposits received	6(25)	6,587,657	3	9,133,047	4	8,973,931	4
2625	Non-current lease liabilities		1,487,212	1	-	-	-	-
2630	Deferred income tax liabilities		2,765,298	1	2,581,556	1	2,530,654	1
2660	Other liabilities		105,146	-	131,953	-	159,763	-
	Total non-current liabilities		<u>19,406,650</u>	<u>8</u>	<u>20,660,019</u>	<u>9</u>	<u>22,248,579</u>	<u>10</u>
2XXX	Total liabilities		<u>184,901,114</u>	<u>75</u>	<u>171,149,747</u>	<u>75</u>	<u>166,523,115</u>	<u>75</u>
Equity attributable to shareholders of the parent								
Share capital								
3110	Common stock	6(26)	5,461,792	2	5,461,792	2	5,461,792	2
Capital surplus								
3200	Capital surplus	6(27)	292,143	-	292,159	-	263,060	-
Retained earnings								
3310	Legal reserve	6(28)	11,350,835	4	10,348,282	5	10,348,282	5
3320	Special reserve		381,843	-	381,843	-	381,843	-
3330	Unappropriated earnings		34,277,815	14	32,983,752	14	30,636,414	14
Other equity								
3400	Other equity		1,069,173	1	(132,102)	-	481,823	-
31XX	Total equity attributable to shareholders of the parent		<u>52,833,601</u>	<u>21</u>	<u>49,335,726</u>	<u>21</u>	<u>47,573,214</u>	<u>21</u>
32XX	Non-controlling interest		<u>9,309,825</u>	<u>4</u>	<u>8,900,232</u>	<u>4</u>	<u>8,510,979</u>	<u>4</u>
3XXX	Total equity		<u>62,143,426</u>	<u>25</u>	<u>58,235,958</u>	<u>25</u>	<u>56,084,193</u>	<u>25</u>
	Significant contingent liabilities and unrecognized contract commitments	9						
	Significant events after balance sheet date	11						
	Total liabilities and equity		<u>\$ 247,044,540</u>	<u>100</u>	<u>\$ 229,385,705</u>	<u>100</u>	<u>\$ 222,607,308</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 NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)
(Reviewed, not audited)

Items	Notes	Three months ended September 30,				Nine months ended September 30,				
		2019		2018		2019		2018		
		Amount	%	Amount	%	Amount	%	Amount	%	
Revenues										
4010	Interest income	6(3)(30) and 7	\$ 2,402,800	5	\$ 2,084,676	5	\$ 6,997,962	5	\$ 6,008,785	4
4020	Premiums revenue	6(31) and 7	1,589,576	3	1,221,779	3	4,280,724	3	3,398,617	3
4040	Reinsurance commission revenue		93,262	-	67,462	-	267,749	-	186,067	-
4050	Fee income		2,842	-	2,784	-	8,481	-	8,452	-
4060	Share of profit of associates and joint ventures accounted for using equity method	6(10)	312,067	1	188,891	1	824,745	1	830,679	1
4090	Gain on financial assets (liabilities) at fair value through profit or loss	6(2)	74,755	-	(268,664)	(1)	298,778	-	88,871	-
4105	Realized gains on financial assets at fair value through other comprehensive income		136,757	-	34,347	-	327,664	-	53,220	-
4160	Net sales revenue	6(29) and 7								
4161	Sales revenue		46,670,277	87	36,710,965	86	132,471,953	87	120,753,850	88
4162	Sales returns		(323,758)	(1)	(192,458)	-	(825,122)	(1)	(936,433)	(1)
4163	Sales discounts and allowances		(915,616)	(2)	(941,159)	(2)	(2,876,116)	(2)	(3,154,255)	(2)
4170	Rental revenue		3,060,401	6	2,889,585	7	9,087,818	6	8,541,819	6
4180	Service revenue	6(29) and 7	496,144	1	434,729	1	1,447,556	1	1,397,094	1
4210	Gains on disposals of property, plant and equipment		3,434	-	15,478	-	10,315	-	17,881	-
4230	Income from investment property	6(14) and 7	32,376	-	31,897	-	96,558	-	104,536	-
4260	Foreign exchange gains		12,981	-	-	-	145,834	-	-	-
4270	Other income		47,309	-	118,039	-	489,173	-	550,068	-
4256	Impairment loss and reversal gain on expected credit of investment		(55)	-	(127)	-	(156)	-	(14)	-
4245	Gains (Losses) on using overlay approach of investment	6(2)	(60,457)	-	(63,973)	-	(306,019)	-	(41,894)	-
4280	Unrealized profit from sales		(65,883)	-	(57,062)	-	(64,958)	-	(66,682)	-
4290	Realized profit from sales		58,873	-	72,738	-	58,873	-	72,738	-
	Total revenues		<u>53,628,085</u>	<u>100</u>	<u>42,477,873</u>	<u>100</u>	<u>152,741,812</u>	<u>100</u>	<u>137,897,215</u>	<u>100</u>
Expenses										
5010	Interest expense	7	(474,932)	(1)	(461,104)	(1)	(1,534,638)	(1)	(1,401,838)	(1)
5030	Underwriting expenses		(89)	-	(44)	-	(238)	-	(137)	-
5040	Commission expenses	7	(789,690)	(1)	(679,128)	(2)	(2,320,122)	(2)	(1,941,999)	(1)
5050	Claims payment	7	(678,078)	(1)	(541,498)	(1)	(1,901,891)	(1)	(1,513,774)	(1)
5070	Net changes in other insurance liabilities		(202,595)	-	(77,009)	-	(424,202)	-	(206,267)	-
5190	Cost of sales	6(7) and 7	(40,119,114)	(75)	(31,199,612)	(74)	(113,969,223)	(75)	(102,928,746)	(75)
5200	Cost of rental revenue		(2,447,482)	(5)	(2,256,677)	(5)	(7,171,671)	(5)	(6,928,366)	(5)
5210	Cost of services		(327,072)	(1)	(290,952)	(1)	(876,108)	(1)	(773,874)	(1)
5230	Operating expenses	6(32)(33) and 7								
5231	Selling expenses		(2,370,277)	(4)	(2,238,179)	(5)	(6,897,468)	(5)	(6,357,255)	(5)
5232	General and administrative expenses		(1,184,833)	(2)	(1,038,460)	(2)	(3,776,514)	(2)	(3,349,314)	(3)
5233	Research and development expenses		(16,433)	-	(17,853)	-	(63,269)	-	(44,797)	-
5287	Impairment loss on non-expected credit of investment	12(5)	2,767	-	2,890	-	569	-	289	-
5288	Expected credit impairment loss		(271,108)	(1)	(150,283)	-	(694,055)	-	(576,290)	-
5240	Loss on disposal of investments		(3,858)	-	(6,344)	-	(19,576)	-	(16,313)	-
5270	Expenses and losses from investment property	6(14)	(4,440)	-	(5,579)	-	(18,705)	-	(17,377)	-
5290	Foreign exchange loss		-	-	25,477	-	-	-	(79,871)	-
5320	Other expenses		(14,682)	-	(8,332)	-	(41,710)	-	(62,517)	-
	Total expenses		<u>(48,901,916)</u>	<u>(91)</u>	<u>(38,942,687)</u>	<u>(91)</u>	<u>(139,708,821)</u>	<u>(92)</u>	<u>(126,198,446)</u>	<u>(92)</u>
6100	Income before income tax from continuing operation		4,726,169	9	3,535,186	9	13,032,991	8	11,698,769	8
6200	Income tax expense	6(34)	(939,261)	(2)	(734,803)	(2)	(2,816,144)	(2)	(2,819,731)	(2)
6500	Profit for the period		<u>\$ 3,786,908</u>	<u>7</u>	<u>\$ 2,800,383</u>	<u>7</u>	<u>\$ 10,216,847</u>	<u>6</u>	<u>\$ 8,879,038</u>	<u>6</u>

(Continued)

HO TAI MOTOR CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)
(Reviewed, not audited)

Items	Notes	Three months ended September 30,				Nine months ended September 30,			
		2019		2018		2019		2018	
		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	\$ 444,806	1	\$ 24,491	-	\$ 1,046,671	1	\$ 83,471	-
6610									
	Total components of other comprehensive income that may not be reclassified to profit or loss	<u>444,806</u>	<u>1</u>	<u>24,491</u>	<u>-</u>	<u>1,046,671</u>	<u>1</u>	<u>83,471</u>	<u>-</u>
6650									
	Components of other comprehensive income (loss) that will be reclassified to profit or loss								
6651	Financial statement translation differences of foreign operations	(351,617)	(1)	(226,457)	(1)	(276,120)	-	(185,906)	-
6659	Unrealized losses from investments in debt instruments measured at fair value through other comprehensive income	7,373	-	(2,228)	-	41,411	-	(29,474)	-
6661	Gain on hedging instrument	624	-	(10,256)	-	90,049	-	(55,847)	-
6675	Other comprehensive income reclassified by using overlay approach	60,457	-	(63,973)	-	306,019	-	(41,894)	-
6665	Share of other comprehensive income of associates and joint ventures accounted for using equity method - components of other comprehensive income	10,827	-	(17,146)	-	15,152	-	(14,570)	-
6689	Income tax related to components of other comprehensive income	(2,483)	-	(2,349)	-	(29,680)	-	(15,835)	-
	Total components of other comprehensive income (loss) that will be reclassified to profit or loss	<u>(274,819)</u>	<u>(1)</u>	<u>(317,711)</u>	<u>(1)</u>	<u>146,831</u>	<u>-</u>	<u>(311,856)</u>	<u>-</u>
6600									
	Other comprehensive income (loss) for the period	<u>\$ 169,987</u>	<u>-</u>	<u>(\$ 293,220)</u>	<u>(1)</u>	<u>\$ 1,193,502</u>	<u>1</u>	<u>(\$ 228,385)</u>	<u>-</u>
6700									
	Total comprehensive income for the period	<u>\$ 3,956,895</u>	<u>7</u>	<u>\$ 2,507,163</u>	<u>6</u>	<u>\$ 11,410,349</u>	<u>7</u>	<u>\$ 8,650,653</u>	<u>6</u>
	Profit attributable to:								
6810	Owners of parent	\$ 3,301,010	6	\$ 2,395,343	6	\$ 8,850,766	6	\$ 7,662,305	5
6820	Non-controlling interests	485,898	1	405,040	1	1,366,081	1	1,216,733	1
		<u>\$ 3,786,908</u>	<u>7</u>	<u>\$ 2,800,383</u>	<u>7</u>	<u>\$ 10,216,847</u>	<u>7</u>	<u>\$ 8,879,038</u>	<u>6</u>
	Comprehensive income attributable to:								
6910	Owners of parent	\$ 3,521,998	6	\$ 2,141,271	5	\$ 10,052,041	6	\$ 7,472,063	5
6920	Non-controlling interests	434,897	1	365,892	1	1,358,308	1	1,178,590	1
		<u>\$ 3,956,895</u>	<u>7</u>	<u>\$ 2,507,163</u>	<u>6</u>	<u>\$ 11,410,349</u>	<u>7</u>	<u>\$ 8,650,653</u>	<u>6</u>
	Earnings per share (in dollars)								
	Basic earnings per share	6(35)	6.04	4.39	4.39	16.20	16.20	14.03	14.03
	Diluted earnings per share	6(35)	6.04	4.39	4.39	16.20	16.20	14.02	14.02

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
NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

(Expressed in thousands of New Taiwan dollars)

(Reviewed, not audited)

Notes	Equity attributable to shareholders of the parent												Total	Non-controlling interests	Total equity
	Retained earnings						Other equity								
	Share capital- common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Financial statement translation differences of foreign operations	Unrealized gain from available- for-sale financial assets	Unrealized gains on financial assets at fair value through other comprehensive income	Other compre- hensive income reclassified by using overlay approach	Loss on effective portion of cash flow hedges	Gain (loss) on hedging instruments				
For the nine months ended September 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	
Effect on modified retrospective adjustment	-	-	-	-	22,037	-	(909,962)	848,446	39,479	21,621	(21,621)	-	-	-	
Balance at January 1, 2018 after retrospective adjustment	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	
Profit for the period	-	-	-	-	7,662,305	-	-	-	-	-	-	7,662,305	1,216,733	8,879,038	
Other comprehensive income (loss) for the period	-	-	-	-	-	(177,493)	-	57,963	(41,810)	-	(28,902)	(190,242)	(38,143)	(228,385)	
Total comprehensive income (loss)	-	-	-	-	7,662,305	(177,493)	-	57,963	(41,810)	-	(28,902)	7,472,063	1,178,590	8,650,653	
Appropriation and distribution of retained earnings:															
Legal reserve	-	-	1,011,561	-	(1,011,561)	-	-	-	-	-	-	-	-	-	
Cash dividends	6(28)	-	-	-	(6,554,150)	-	-	-	-	-	-	(6,554,150)	(888,458)	(7,442,608)	
Balance at September 30, 2018	\$ 5,461,792	\$ 263,060	\$ 10,348,282	\$ 381,843	\$ 30,636,414	(\$ 371,732)	\$ -	\$ 906,409	(\$ 2,331)	\$ -	(\$ 50,523)	\$47,573,214	\$ 8,510,979	\$56,084,193	
For the nine months ended September 30, 2019															
Balance at January 1, 2019	\$ 5,461,792	\$ 292,159	\$ 10,348,282	\$ 381,843	\$ 32,983,752	(\$ 327,983)	\$ -	\$ 524,244	(\$ 288,026)	\$ -	(\$ 40,337)	\$49,335,726	\$ 8,900,232	\$58,235,958	
Profit for the period	-	-	-	-	8,850,766	-	-	-	-	-	-	8,850,766	1,366,081	10,216,847	
Other comprehensive income (loss) for the period	-	-	-	-	-	(227,778)	-	1,080,483	301,033	-	47,537	1,201,275	(7,773)	1,193,502	
Total comprehensive income (loss)	-	-	-	-	8,850,766	(227,778)	-	1,080,483	301,033	-	47,537	10,052,041	1,358,308	11,410,349	
Appropriation and distribution of retained earnings:															
Legal reserve	-	-	1,002,553	-	(1,002,553)	-	-	-	-	-	-	-	-	-	
Cash dividends	6(28)	-	-	-	(6,554,150)	-	-	-	-	-	-	(6,554,150)	(948,715)	(7,502,865)	
Changes in equity of associates and joint ventures accounted for using equity method	-	(16)	-	-	-	-	-	-	-	-	-	(16)	-	(16)	
Balance at September 30, 2019	\$ 5,461,792	\$ 292,143	\$ 11,350,835	\$ 381,843	\$ 34,277,815	(\$ 555,761)	\$ -	\$ 1,604,727	\$ 13,007	\$ -	\$ 7,200	\$52,833,601	\$ 9,309,825	\$62,143,426	

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

HO TAI MOTOR CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)
(Reviewed, not audited)

	Notes	Nine months ended September 30,	
		2019	2018
<u>Cash flows from operating activities</u>			
Consolidated profit before income tax		\$ 13,032,991	\$ 11,698,769
Adjustments to reconcile profit before tax to net cash provided by operating activities			
Income and expenses having no effect on cash flows			
Net gain on financial assets and liabilities at fair value through profit or loss	6(2)	(298,778)	(88,871)
Bad debts expense and financial guarantee expense		1,216,860	1,020,256
Expected credit impairment loss (gain on reversal) of investment		156	(14)
Expected credit impairment loss of non-investment		(569)	(289)
Depreciation	6(11)(12)(14)(32)	6,626,896	5,928,329
Amortization	6(32)	62,268	57,968
Impairment loss (gain on reversal) of rental assets	6(11)	56,253	(69,190)
Net gain on disposal of property, plant and equipment		(10,315)	(17,881)
Losses (gains) on using overlay approach of investment		306,019	(41,894)
Share of profit of associates accounted for using equity method	6(10)	(824,745)	(830,679)
Interest expense		1,534,638	1,401,839
Interest income	6(30)	(6,997,962)	(6,008,786)
Dividend income		(167,349)	(52,355)
Unrealized profit from sales		64,958	66,682
Realized profit from sales		(58,873)	(72,738)
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		170,602	(1,345,791)
Contract assets		(1,526)	3,907
Notes and accounts receivable		(10,048,554)	(11,078,050)
Other receivables		291,399	(25,145)
Inventories		2,966,446	2,841,160
Prepayments		(102,046)	(122,551)
Reinsurance contract assets		(160,839)	(132,543)
Net changes in liabilities relating to operating activities			
Financial liabilities at fair value through profit or loss		40,176	(55,600)
Contract liabilities		68,597	97,174
Notes and accounts payable		2,394,437	(3,124,441)
Accrued expenses		(473,373)	6,321
Other payables		(466,363)	(137,166)
Commission payable		(16,190)	(4,049)
Due to reinsurance and ceding companies		167,582	34,338
Claims payable		20,362	(29,932)
Advance receipts		(13,858)	(57,333)
Other current liabilities		1,483,522	198,476
Provisions		647,258	968,062
Other liabilities		(26,807)	50,673
Cash inflow generated from operations		11,483,273	1,078,656
Cash dividends received		433,439	259,332
Interest paid		(1,547,487)	(1,364,537)
Income tax paid		(2,605,418)	(2,222,600)
Interest received		6,985,071	5,996,705
Net cash provided by operating activities		14,748,878	3,747,556

(Continued)

HO TAI MOTOR CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)
(Reviewed, not audited)

	Notes	Nine months ended September 30,	
		2019	2018
<u>Cash flows from investing activities</u>			
Increase in financial assets at fair value through other comprehensive income		(\$ 16,125)	(\$ 5,873,730)
Decrease in other financial assets		409,254	579,381
Acquisition of investments accounted for using equity method	6(10)	(102,554)	-
Acquisition of property, plant and equipment	6(11)	(13,386,195)	(12,465,328)
Proceeds from disposal of property, plant and equipment		385,134	104,469
Acquisition of intangible assets	6(15)	(12,404)	(29,425)
Increase in other assets		(756,651)	(237,456)
Acquisition of investment property	6(14)	(7,389)	(5,703)
Net cash used in investing activities		(13,486,930)	(17,927,792)
<u>Cash flows from financing activities</u>			
Proceeds from issuing bonds	6(17)	-	2,400,000
(Decrease) increase in short-term loans	6(37)	(1,665,697)	12,195,020
Increase (decrease) in short-term notes and bills payable	6(37)	9,255,758	(2,540,825)
Proceeds from long-term loans	6(37)	604,236	5,042,544
Repayment of long-term loans	6(37)	(1,150,000)	(1,290,255)
Repayment of principal of lease liability	6(12)	(342,390)	-
Increase in guarantee deposits received		348,661	408,921
Cash dividends paid	6(25)	(6,554,150)	(6,554,150)
Cash dividends paid from subsidiaries to non-controlling interests		(948,715)	(888,458)
Net cash flows (used in) provided by financing activities		(452,297)	8,772,797
Net effect of changes in foreign currency exchange rates		(254,593)	(250,062)
Increase (decrease) in cash and cash equivalents		555,058	(5,657,501)
Cash and cash equivalents at beginning of period		9,469,088	15,041,676
Cash and cash equivalents at end of period		\$ 10,024,146	\$ 9,384,175

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
NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

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

(Reviewed, not audited)

1. History and Organization

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 Financial Statements and Procedures for Authorization

These consolidated financial statements were reported to the Board of Directors on November 12, 2019.

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 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.

IFRS 16, 'Leases'

- A. 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.
- B. The Group has elected to apply IFRS 16 by not restating the comparative information (referred herein as the 'modified retrospective approach') when applying "IFRSs" effective in 2019 as endorsed by the FSC. Accordingly, the Group increased 'right-of-use asset' by \$2,568,254, increased 'lease liability' by \$2,274,081 and decreased property, plant and equipment, other payables and other assets by \$10,100, \$10,142 and \$294,215, respectively, with respect to the lease contracts of lessees on January 1, 2019.
- C. The Group has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:
- (a) Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.
 - (b) The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
 - (c) The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- D. The Group calculated the present value of lease liabilities by using weighted average incremental borrowing interest rate range from 0.6% to 5%.
- E. The Group recognized lease liabilities which had previously been classified as 'operating leases' under the principles of IAS 17, 'Leases'. The reconciliation between operating lease commitments under IAS 17 measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate and lease liabilities recognized as of January 1, 2019 is as follows:

Operating lease commitments disclosed by applying IAS 17 as at December 31, 2018	\$	2,664,549
Less: Short-term leases	(	12,046)
Less: Low-value assets	(	23,282)
Add: Lease contracts previously identified as service agreements		20,760
Less: Contracts reassessed as service agreements	(	7,500)
Add/Less: Adjustments as a result of a different treatment of extension and termination options		<u>2,341</u>
Total lease contracts amount recognized as lease liabilities by applying IFRS 16 on January 1, 2019		2,644,822
Incremental borrowing interest rate at the date of initial application		<u>0.6%~5%</u>
Present value of lease contracts amount recognized as lease liabilities by applying IFRS 16 on January 1, 2019		2,263,939
Add: Lease payable recognized by applying IAS 17 as at December 31, 2018		<u>10,142</u>
Lease liabilities recognized as at January 1, 2019 by applying IFRS 16	\$	<u><u>2,274,081</u></u>

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

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendment to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

(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>
Amendments to IFRS 9, IAS 39 and IFRS 7, 'Interest rate benchmark reform'	January 1, 2020
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	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 disaggregate a portfolio into three groups of contracts at initial recognition: 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 modified 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 separately present 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.
- (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.

(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 nine months ended September 30, 2019, 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; and for the nine months ended September 30, 2018, the subsidiaries included in the consolidated financial statements except for Hozan Investment Co., Ltd., Hotai Finance Co., Ltd., Hotai Leasing Co., Ltd. and Hotai Insurance 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
			September 30, 2019	December 31, 2018	September 30, 2018	
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	

Investor	Investee	Main business activities	Ownership (%)			Note
			September 30, 2019	December 31, 2018	September 30, 2018	
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.	Tianjin 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 and financial management, information services, employee trainings and other services	100.00	100.00	100.00	
Tianjin 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	
Hotong Motor Investment Co., Ltd.	Shanghai Ho Mian Motor Technology Co., Ltd.	Trading of vehicle products / accessories and property management	100.00	100.00	100.00	
Hotong Motor Investment Co., Ltd.	Shanghai Hoxin Motor Service Consulting Co.,Ltd.	Consulting services	100.00	100.00	100.00	Note 4
Hotong Motor Investment Co., Ltd.	Shanghai HoChen Motor Technology Co.,Ltd.	Trading of vehicle products / accessories and property management	100.00	-	-	Note 9
Hotong Motor Investment Co., Ltd.	Shanghai Jiading Heling Lexus Motor Service Co., Ltd.	Sales and repairing of vehicles	100.00	-	-	Note 10
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	100.00	
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

Investor	Investee	Main business activities	Ownership (%)			Note
			September 30, 2019	December 31, 2018	September 30, 2018	
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	
Shanghai Heling Motor Service Co., Ltd.	Tianjin Heyi International Trading Co., Ltd.	Sales of imported cars	100.00	100.00	100.00	Note 3
Shanghai Heling Motor Service Co., Ltd.	Shanghai Howang Financial Leasing Co., Ltd	Leasing, wholesale, retail of and support service for vehicles	-	75.00	75.00	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 vehicles	66.04	66.04	66.04	
Hozan Investment Co., Ltd.	Hotai Finance Co., Ltd.	Installment trading and leasing of various vehicles	65.77	65.77	66.03	
Hozan Investment Co., Ltd.	Hotai Insurance Co., Ltd.	Property and casualty insurance services	99.80	99.80	99.80	
Hozan Investment Co., Ltd.	Ho Tai Cyber Connection Co., Ltd.	E-commerce platform services of used vehicles	100.00	100.00	100.00	
Hozan Investment Co., Ltd.	Hoati Innovation Marketing Co., Ltd.	Retail and wholesale of collections	100.00	100.00	100.00	Note 6
Hotai Finance Co., Ltd.	Hoyun International Limited	General investment	50.50	50.50	50.50	Note 7
Hotai Leasing Co., Ltd.	Hoyun International Limited	General investment	49.50	49.50	49.50	Note 1
Hotai Leasing Co., Ltd.	Hoing Mobility Service Co., Ltd.	Leasing of vehicles	100.00	100.00	100.00	Note 6
Hoyun International Limited	Hoyun International Lease Co., Ltd.	Leasing, wholesale, retail of and support service for vehicles	100.00	100.00	100.00	Note 8
Hoyun International Lease Co., Ltd.	Hoyun (Shanghai) Commercial Factoring Co., Ltd.	Factoring services	100.00	100.00	100.00	
Ho Tai Development Co., Ltd.	Ichiban International Co., Ltd.	General investment	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.	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	
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: The investee was newly established in the second quarter of 2018.

Note 4: The investee was newly established in the third quarter of 2018.

Note 5: In the third quarter of 2018, Shanghai Heling Motor Service Co., Ltd. acquired the shares of Shanghai Howang Financial Leasing Co., Ltd. (formerly Shanghai Huanshun Financial Leasing Co., Ltd.). Injection of capital had not been completed. In June 2019, Shanghai Howang Financial Leasing Co., Ltd. was liquidated.

Note 6: The investee was newly established in the fourth quarter of 2018.

Note 7: In October 2018, Hotai Finance Co., Ltd. increased capital in Hoyun International Limited amounting to USD 15.15 million, which did not change the shareholding ratio.

Note 8: In October 2018, Hoyun International Limited increased capital in Hoyun International Lease Co., Ltd. amounting to USD 30 million, which did not change the shareholding ratio.

Note 9: The investee was newly established in the first quarter of 2019.

Note 10: The investee was newly established in the second quarter of 2019.

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 September 30, 2019, December 31, 2018 and September 30, 2018, the non-controlling interest amounted to \$9,309,825, \$8,900,232 and \$8,510,979 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			
		September 30, 2019		December 31, 2018	
		Amount	Ownership (%)	Amount	Ownership (%)
Hotai Finance Co., Ltd.	Taiwan	\$ 3,697,250	34.233%	\$ 3,527,813	34.233%
Hotai Leasing Co., Ltd.	Taiwan	1,234,038	33.958%	1,130,729	33.958%

Name of subsidiary	Principal place of business	September 30, 2018	
		Amount	Ownership (%)
		Hotai Finance Co., Ltd.	Taiwan	$ 3,338,705	33.967%
Hotai Leasing Co., Ltd.	Taiwan	1,075,728	33.958%

Summarized financial information of the subsidiaries:

Balance sheets

	Hotai Finance Co., Ltd.		
	September 30, 2019	December 31, 2018	September 30, 2018
Current assets	\$ 123,689,886	\$ 118,680,518	\$ 115,359,237
Non-current assets	4,432,247	3,583,285	3,565,345
Current liabilities	(115,039,939)	(109,964,986)	(107,564,426)
Non-current liabilities	(665,893)	(441,569)	(463,621)
Total net assets	\$ 12,416,301	\$ 11,857,248	\$ 10,896,535

	Hotai Leasing Co., Ltd.		
	September 30, 2019	December 31, 2018	September 30, 2018
Current assets	\$ 2,930,641	\$ 2,584,181	\$ 2,409,516
Non-current assets	31,111,401	28,714,167	27,487,439
Current liabilities	(19,848,982)	(13,940,337)	(11,291,944)
Non-current liabilities	(10,559,047)	(14,028,225)	(15,437,192)
Total net assets	<u>\$ 3,634,013</u>	<u>\$ 3,329,786</u>	<u>\$ 3,167,819</u>

Statements of comprehensive income

	Hotai Finance Co., Ltd.	
	Three months ended September 30,	
	2019	2018
Revenue	\$ 3,034,750	\$ 2,836,542
Profit before income tax	771,826	625,492
Income tax expense	(166,576)	(139,328)
Profit for the period	<u>605,250</u>	<u>486,164</u>
Other comprehensive loss for the period, net of tax	(120,570)	(88,104)
Total comprehensive income for the period	<u>\$ 484,680</u>	<u>\$ 398,060</u>
Comprehensive income attributable to non-controlling interests	<u>\$ 176,285</u>	<u>\$ 135,209</u>

	Hotai Finance Co., Ltd.	
	Nine months ended September 30,	
	2019	2018
Revenue	\$ 8,994,535	\$ 8,189,771
Profit before income tax	2,331,067	1,795,924
Income tax expense	(516,328)	(420,852)
Profit for the period	<u>1,814,739</u>	<u>1,375,072</u>
Other comprehensive loss for the period, net of tax	(19,471)	(111,064)
Total comprehensive income for the period	<u>\$ 1,795,268</u>	<u>\$ 1,264,008</u>
Comprehensive income attributable to non-controlling interests	<u>\$ 592,630</u>	<u>\$ 429,345</u>

	Hotai Leasing Co., Ltd.	
	Three months ended September 30,	
	2019	2018
Revenue	\$ 4,300,725	\$ 3,790,022
Profit before income tax	224,238	182,562
Income tax expense	(39,498)	(39,887)
Profit for the period	<u>184,740</u>	<u>142,675</u>
Other comprehensive loss for the period, net of tax	(57,914)	(39,952)
Total comprehensive income for the period	<u>\$ 126,826</u>	<u>\$ 102,723</u>
Comprehensive income attributable to non-controlling interests	<u>\$ 43,067</u>	<u>\$ 34,883</u>

	<u>Hotai Leasing Co., Ltd.</u>	
	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Revenue	\$ 12,395,239	\$ 11,517,365
Profit before income tax	607,141	546,638
Income tax expense	(142,981)	(306,790)
Profit for the period	<u>464,160</u>	<u>239,848</u>
Other comprehensive loss for the period, net of tax	(44,815)	(33,091)
Total comprehensive income for the period	<u>\$ 419,345</u>	<u>\$ 206,757</u>
Comprehensive income attributable to non-controlling interests	<u>\$ 142,401</u>	<u>\$ 70,211</u>

Statements of cash flows

	<u>Hotai Finance Co., Ltd.</u>	
	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Net cash used in operating activities	(\$ 2,172,327)	(\$ 7,431,319)
Net cash used in investing activities	(603,612)	(538,473)
Net cash provided by financing activities	3,102,329	8,181,845
Net effect of changes in foreign currency exchange rates	(141,199)	(195,258)
Increase in cash and cash equivalents	185,191	16,795
Cash and cash equivalents, beginning of period	<u>464,836</u>	<u>763,737</u>
Cash and cash equivalents, end of period	<u>\$ 650,027</u>	<u>\$ 780,532</u>

	<u>Hotai Leasing Co., Ltd.</u>	
	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Net cash provided by operating activities	\$ 13,049,909	\$ 7,321,950
Net cash used in investing activities	(11,910,566)	(10,773,401)
Net cash (used in) provided by financing activities	(1,342,883)	<u>3,497,794</u>
(Decrease) increase in cash and cash equivalents	(203,540)	46,343
Cash and cash equivalents, beginning of period	<u>346,127</u>	<u>153,391</u>
Cash and cash equivalents, end of period	<u>\$ 142,587</u>	<u>\$ 199,734</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 IFRS 4.

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:

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.

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 financial assets 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

- A. The Group provisioned for the appropriate allowance loss under IFRS 9 for financial assets at fair value through other comprehensive income and long-term time deposits.
- B. The Group provisioned for the appropriate allowance loss under IFRS 9 and “Regulation Governing the Procedure for Asset Assessment and Collection of Overdue Debts in Insurance Industry” for financial assets at amortized cost such as receivables.
- C. The Group provisioned for the appropriate allowance loss under IFRS 4 and “Regulation Governing the Procedure for Asset Assessment and Collection of Overdue Debts in Insurance Industry” for reinsurance contract assets.

(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) Leasing arrangements (lessor) - lease receivables/operating leases

- 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	3 ~ 60 years
Utility equipment	5 ~ 10 years
Office equipment	2 ~ 20 years
Machinery and equipment	1 ~ 15 years
Leasehold improvements	1 ~ 35 years

(18) Leasing arrangements (lessee) - right-of-use assets/lease liabilities

Effective 2019

- A. Leases are recognized as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. For short-term leases or leases of low-value assets, lease payments are recognized as an expense on a straight-line basis over the lease term.
- B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate or the interest rate implicit in the lease. Lease payments are fixed payments, less any lease incentives receivable.

The Group subsequently measures the lease liability at amortised cost using the interest method and recognises interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognized as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.

- C. At the commencement date, the right-of-use asset is stated at cost comprising the amount of the initial measurement of lease liability

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognized as an adjustment to the right-of-use asset.

(19) Operating leases (lessee)

Prior to 2019

- 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’.

(20) 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 2~60 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.
- D. Investment property of the Group’s subsidiary-Hotai Insurance Co., Ltd. including the office building and land rented in the form of an operating lease are to generate rental income or capital increase or both. Investment property is recognized initially at cost plus transaction costs incurred and subsequently applies cost model measuring at cost net of accumulated depreciation and impairment. Part of the property may be held by the Group and another part generates rental income or capital increase. If the property held by the Group can be sold individually, then the accounting treatment should be made separately. IAS 16 as endorsed by FSC applies to the self-used property, and property used to generate rental income or capital increase or both is applicable for investment property set out in IAS 40 as endorsed by FSC. If

each part of the property cannot be sold individually and the self-used proportion is not material, then the property is deemed as investment property in its entirety.

(21) 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 2~5 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.

(22) 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.

(23) 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.

(24) 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.

(25) 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.

(26) 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.

(27) Ordinary corporate bonds

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.

(28) 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.

(29) 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.

(30) 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 item (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 item 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.

(31) 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(38).

(32) 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 since that time and for significant curtailments, settlements, or other significant one-off events. And, the related information is 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.

(33) 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.

(34) 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.

(35) 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.

(36) 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.

(37) 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.

(38) 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 Letter No. Tai-Cai-Bao-Zi-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.

(39) 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 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. Current income tax assets and liabilities are offset and the net amount reported 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. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.
- F. 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.
- G. 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.
- H. If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognises 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.

(40) 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.

(41) 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.

(42) 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.

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 Notes 4(34) and (35).
- (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.

(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. Please refer to Note 6(29) for the information of sales of goods.

B. Provisions for warranty

In order to enhance customer's confidence on the quality of products, the Company provides additional warranty services apart from the warranty offered by the original manufacturer. 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(24) "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(15) for details.

D. Evaluation of allowance for uncollectible accounts

The subsidiary, Hotai Finance Co., Ltd., provides loss allowance for uncollectible accounts based on the forecast factors such as past due days and future economic conditions to assess the default possibility of accounts receivable. The subsidiary recognizes loss allowance individually after the management assesses the customers' financial condition or payment situation which indicate that the accounts receivable may not be recovered. Given the evaluation process involves estimates and predictions of the past events, current conditions and

future overall economic situation, changes might arise due to the difference between the actual results and estimates. Please refer to Note 6(5) for the information of evaluation of allowance for uncollectible accounts.

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>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Cash on hand and revolving funds	\$ 13,497	\$ 13,847	\$ 13,988
Checking accounts and demand deposits	6,558,473	5,653,179	6,420,599
Cash equivalents			
Time deposits	1,135,943	1,215,085	1,247,616
Short-term notes and bills	<u>2,316,233</u>	<u>2,586,977</u>	<u>1,701,972</u>
	<u>\$ 10,024,146</u>	<u>\$ 9,469,088</u>	<u>\$ 9,384,175</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 September 30, 2019, December 31, 2018 and September 30, 2018, the Group presented its long-term time deposits of \$1,71,869, \$2,170,436 and \$2,306,643, 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>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 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			
Domestic and foreign beneficiary certificates	\$ 1,800,786	\$ 1,750,167	\$ 1,567,167
Derivative instruments	25,588	8,484	6,570
Financial instruments	190,543	95,943	95,943
Listed stocks	811,394	902,397	1,216,803
Listed preference share	59,980	59,980	59,980
Exchange Traded Funds	919,811	1,174,890	675,981
Valuation adjustment	<u>92,992</u>	<u>(218,943)</u>	<u>71,143</u>
	<u>\$ 3,901,094</u>	<u>\$ 3,772,918</u>	<u>\$ 3,693,587</u>
Non-current items:			
Financial assets mandatorily measured at fair value through profit or loss			
Corporate bonds	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Financial liabilities at fair value through profit or loss			
Current items:			
Financial liabilities held for trading			
Derivative instruments	<u>\$ 59,223</u>	<u>\$ 19,047</u>	<u>\$ 40,403</u>

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

<u>Items</u>	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Financial instruments mandatorily measured at fair value through profit or loss		
Derivative instruments	\$ 9,537	(\$ 226,783)
Domestic and foreign beneficiary certificates	24,963	(59,114)
Listed stocks	(7,997)	(41,779)
Listed preference share	580	623
Exchange Traded Funds	43,454	53,994
Corporate bonds	<u>4,218</u>	<u>4,395</u>
	<u>\$ 74,755</u>	<u>(\$ 268,664)</u>

<u>Items</u>	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Financial instruments mandatorily measured at fair value through profit or loss		
Derivative instruments	(\$ 23,070)	\$ 54,457
Domestic and foreign beneficiary certificates	134,857	(69,143)
Listed stocks	64,081	12,842
Listed preference share	1,799	2,609
Exchange Traded Funds	108,197	75,204
Corporate bonds	<u>12,914</u>	<u>12,902</u>
	<u>\$ 298,778</u>	<u>\$ 88,871</u>

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

<u>Derivative instruments</u>	<u>September 30, 2019</u>	
	<u>Contract amount (Notional principal) (in thousands)</u>	<u>Contract period</u>
Current items:		
Forward foreign exchange contracts	<u>USD 417,549</u>	2019.06.21~2020.03.13
Foreign exchange swap contracts	<u>USD 21,500</u>	2019.08.01~2019.12.02

	<u>December 31, 2018</u>	
<u>Derivative instruments</u>	<u>Contract amount (Notional principal) (in thousands)</u>	<u>Contract period</u>
Current items:		
Forward foreign exchange contracts	<u>USD 249,726</u>	2018.10.15~2019.03.14
Foreign exchange swap contracts	<u>USD 20,000</u>	2018.11.22~2019.02.27

	<u>September 30, 2018</u>	
<u>Derivative instruments</u>	<u>Contract amount (Notional principal) (in thousands)</u>	<u>Contract period</u>
Current items:		
Forward foreign exchange contracts	<u>USD 216,101</u>	2018.07.12~2018.12.14
Foreign exchange swap contracts	<u>USD 20,650</u>	2018.08.21~2018.12.26

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. On September 30, 2019, December 31, 2018 and September 30, 2018, such financial assets designated using overlay approach are as follows:

<u>Items</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Financial assets at fair value through profit or loss designated using overlay approach			
Listed stocks	\$ 811,394	\$ 902,397	\$ 1,216,803
Listed preference shares	59,980	59,980	59,980
Exchange Traded Funds	919,811	1,174,890	675,981
Domestic and foreign beneficiary certificates	1,035,838	961,300	961,300
Corporate bonds	500,000	500,000	500,000
Valuation adjustment	<u>82,090</u>	<u>(223,928)</u>	<u>66,840</u>
	<u>\$ 3,409,113</u>	<u>\$ 3,374,639</u>	<u>\$ 3,480,904</u>

For the three months and nine months ended September 30, 2019 and 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 September 30,</u>	
	<u>2019</u>	<u>2018</u>
Gains recognized in profit or loss under IFRS 9	\$ 161,544	(\$ 29,535)
Less: Gains recognized in profit or loss under IAS 39	(101,087)	(34,438)
Profit reclassified under overlay approach	<u>\$ 60,457</u>	<u>(\$ 63,973)</u>
Effect from change in tax	<u>\$ 49</u>	<u>\$ -</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Gains recognized in profit or loss under IFRS 9	\$ 480,589	\$ 42,231
Less: Gains recognized in profit or loss under IAS 39	(174,570)	(84,125)
Profit reclassified under overlay approach	<u>\$ 306,019</u>	<u>(\$ 41,894)</u>
Effect from change in tax	<u>\$ 4,390</u>	<u>\$ -</u>

F. 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 September 30, 2019</u>	<u>Description</u>
Infrastructure fund	<u>\$ 318,472</u>	Investment fund is set for raising capital, and investors acquire long-term capital gains through investing in restricted fund.
Real estate private placement fund	<u>\$ 24,749</u>	Investment fund is set for raising capital, and investors acquire long-term capital gains through investing in restricted fund.

<u>Type of structured entities</u>	<u>Book value at December 31, 2018</u>	<u>Description</u>
Infrastructure fund	<u>\$ 302,104</u>	Investment fund is set for raising capital, and investors acquire long-term capital gains through investing in restricted fund.

Type of structured entities	Book value at September 30, 2018	Description
Infrastructure fund	\$ <u>295,800</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.

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

Items	September 30, 2019	December 31, 2018	September 30, 2018
Current items:			
Debt instrument			
Government bonds	\$ -	\$ 99,952	\$ 99,886
Financial bonds	-	200,035	200,163
Foreign financial bonds	<u>21,956</u>	<u>64,605</u>	<u>27,530</u>
	21,956	364,592	327,579
Valuation adjustment (including loss allowance)	365	1,029	1,647
Less: Operation bonds	-	(98,200)	(98,200)
	<u>\$ 22,321</u>	<u>\$ 267,421</u>	<u>\$ 231,026</u>
Non-current items:			
Debt instrument			
Government bonds	\$ 374,727	\$ 267,585	\$ 2,077,468
Corporate bonds	307,450	308,854	380,012
Financial bonds	507,027	299,248	502,543
Foreign corporate and financial bonds	<u>658,353</u>	<u>613,323</u>	<u>645,990</u>
	1,847,557	1,489,010	3,606,013
Valuation adjustment (including loss allowance)	39,163	(2,937)	2,805
Less: Operation bonds	(300,300)	(202,100)	(202,100)
	<u>1,586,420</u>	<u>1,283,973</u>	<u>3,406,718</u>
Equity instruments			
Listed stocks and unlisted stocks	6,442,820	6,442,572	6,442,426
Valuation adjustment	<u>1,206,754</u>	<u>160,298</u>	<u>592,638</u>
	<u>7,649,574</u>	<u>6,602,870</u>	<u>7,035,064</u>
	<u>\$ 9,235,994</u>	<u>\$ 7,886,843</u>	<u>\$ 10,441,782</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 \$7,649,574, \$6,602,870 and \$7,035,064, respectively, as at September 30, 2019, December 31, 2018 and September 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 September 30,</u>	
	<u>2019</u>	<u>2018</u>
Debt instruments at fair value through other comprehensive income		
Fair value change recognized in other comprehensive income	\$ 7,535	(\$ 2,583)
Cumulative other comprehensive income reclassified to profit or loss		
Reclassified due to impairment recognition	(16)	(43)
Reclassified due to derecognition	(146)	398
	<u>\$ 7,373</u>	<u>(\$ 2,228)</u>
Interest income recognized in profit or loss	<u>\$ 9,389</u>	<u>\$ 13,694</u>

<u>Items</u>	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Debt instruments at fair value through other comprehensive income		
Fair value change recognized in other comprehensive income	\$ 40,014	(\$ 28,298)
Cumulative other comprehensive income reclassified to profit or loss		
Reclassified due to impairment recognition	(25)	(184)
Reclassified due to derecognition	1,422	(992)
	<u>\$ 41,411</u>	<u>(\$ 29,474)</u>
Interest income recognized in profit or loss	<u>\$ 29,112</u>	<u>\$ 43,703</u>

<u>Items</u>	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Equity instruments at fair value through other comprehensive income		
Fair value change recognized in other comprehensive income	<u>\$ 444,806</u>	<u>\$ 24,491</u>

<u>Items</u>	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Equity instruments at fair value through other comprehensive income		
Fair value change recognized in other comprehensive income	<u>\$ 1,046,671</u>	<u>\$ 83,471</u>

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 September 30, 2019, government bonds with par value 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).

(4) Hedging financial assets and liabilities

	<u>September 30, 2019</u>	
	<u>Current assets</u>	<u>Current liabilities</u>
Cash flow hedges		
<u>Exchange rate risk and interest rate risk</u>		
Cross currency swaps	<u>\$ 108,761</u>	<u>\$ -</u>

	<u>December 31, 2018</u>	
	<u>Current assets</u>	<u>Current liabilities</u>
Cash flow hedges		
<u>Exchange rate risk and interest rate risk</u>		
Cross currency swaps	<u>\$ 70,038</u>	<u>(\$ 52,424)</u>

	<u>September 30, 2018</u>	
	<u>Current assets</u>	<u>Current liabilities</u>
Cash flow hedges		
<u>Exchange rate risk and interest rate risk</u>		
Cross currency swaps	<u>\$ 49,036</u>	<u>(\$ 91,204)</u>

A. Hedge accounting is applied to remove the accounting inconsistency between the hedging instrument and the hedged item. As the Group's USD 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:

		September 30, 2019				Nine months ended September 30, 2019			
		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</u>									
<u>Interest rate risk</u>									
Cross currency swaps transactions	USD	18,000	2019/1/7 ~2021/6/18	\$ 16,050	\$ -	-	6.87~6.89	4.35~4.74	\$ -
	USD	200,000	2017/3/13 ~2021/9/17	164,711	-	-	29.20~30.85	0.92~1.29	-

Hedged items

Cash flow hedges

Exchange rates risk and interest rate risk

Short-term borrowings

September 30, 2019	
Liabilities carrying amount	Valuation on liabilities' carrying amount due to fair value hedges
\$ 6,593,060	\$ 167,167

		December 31, 2018				Year ended December 31, 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</u>									
<u>Interest rate risk</u>									
Cross currency swaps transactions	USD	5,000	2017/5/23 ~2019/5/10	\$ -	(\$ 1,486)	-	6.89	4.74	\$ -
	USD	200,000	2017/3/13 ~2021/9/17	70,038	(50,938)	-	29.20~30.85	0.92~1.29	-

Hedged items

Cash flow hedges

Exchange rates risk and interest rate risk

Short-term borrowings

December 31, 2018	
Liabilities carrying amount	Valuation on liabilities' carrying amount due to fair value hedges
\$ 6,208,749	\$ 94,041

	September 30, 2018					Nine months ended September 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	\$ -	(\$1,591)	\$ -	6.89	4.74	\$ -	-
	USD	200,000	2017/3/13 ~2021/9/17	49,036	(89,613)	-	29.20~30.85	0.92~1.29		-

	September 30, 2018	
	Liabilities carrying amount	Valuation on liabilities' carrying amount due to fair value hedges
Hedged items		
Cash flow hedges		
<u>Exchange rates risk and interest rate risk</u>		
Long-term and short-term borrowings	\$ 6,207,361	\$ 53,079

C. Cash flow hedges

	Nine months ended September 30	
	2019	2018
<u>Cash flow hedge reserve</u>		
At January 1	(\$ 61,330)	(\$ 32,741)
Add: Gains (losses) on hedge effectiveness-amount recognized in other comprehensive income	(984)	(93,141)
Less: Reclassified to profit or loss as the hedged item has affected profit or loss	91,033	36,872
Less: Income tax relating to the hedge effectiveness-amount recognized in other comprehensive income	(17,771)	12,500
At September 30	<u>\$ 10,948</u>	<u>(\$ 76,510)</u>

To hedge exposed exchange rate risk and interest rate risk arising from 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 gain or loss on foreign exchange and finance costs when the hedged items, principal and interest are subsequently paid.

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Notes receivable	\$ 2,646,084	\$ 2,014,292	\$ 2,583,944
Installment notes receivable	6,291,216	6,637,807	7,186,911
Accounts receivable	8,674,613	6,119,044	5,538,817
Installment accounts receivable	108,390,710	100,812,892	96,636,536
Lease payments and notes receivable	19,290,064	18,985,922	18,693,356
Premiums receivable	498,573	462,779	446,862
Overdue receivable	<u>97,937</u>	<u>62,553</u>	<u>82,190</u>
	145,889,197	135,095,289	131,168,616
Less: Unrealized interest income	(10,528,864)	(9,551,319)	(9,097,568)
Unearned finance income	(2,147,359)	(2,184,823)	(2,160,990)
Allowance for doubtful accounts	<u>(2,436,880)</u>	<u>(2,116,783)</u>	<u>(1,898,790)</u>
Notes and accounts receivable, net	<u>\$ 130,776,094</u>	<u>\$ 121,242,364</u>	<u>\$ 118,011,268</u>

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Current	<u>\$ 129,582,863</u>	<u>\$ 120,750,601</u>	<u>\$ 117,575,545</u>
Non-current (shown as other assets)	<u>\$ 1,193,231</u>	<u>\$ 491,763</u>	<u>\$ 435,723</u>

As of September 30, 2019, December 31, 2018 and September 30, 2018, the subsidiary - Hotai Finance Co., Ltd.'s notes receivable were pledged as collateral for loans and issuance of commercial papers to banks amounted to \$4,301,968, \$4,519,334 and \$5,043,673, respectively. Furthermore, the promissory note for installment accounts receivable pledged as collateral for loans to banks amounted to \$2,084,834, \$2,216,836 and \$2,075,339 as of September 30, 2019, December 31, 2018 and September 30, 2018, respectively. Information on the Group's notes and accounts receivable pledged as collateral is provided in Note 8.

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
	<u>Receivables</u>	<u>Receivables</u>	<u>Receivables</u>
Not past due	\$ 142,612,134	\$ 132,999,034	\$ 129,269,275
Up to 30 days	949,232	129,012	197,179
31 to ~ 90 days	1,111,479	577,721	585,077
91 to ~ 180 days	467,545	575,339	500,828
Over 180 days	<u>748,807</u>	<u>834,183</u>	<u>616,257</u>
	<u>\$ 145,889,197</u>	<u>\$ 135,095,289</u>	<u>\$ 131,168,616</u>

The above aging analysis was based on past due date.

B. As of September 30, 2019, December 31, 2018, September 30, 2018 and January 1, 2018, the balances of receivables (including notes receivable) from contracts with customers amounted to \$11,187,865, \$8,054,029, \$8,032,720 and \$7,652,703, respectively.

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Up to 12 months	\$ 44,599,826	\$ 43,019,601	\$ 41,795,582
Over 12 months	<u>70,082,100</u>	<u>64,431,098</u>	<u>62,027,865</u>
	<u>\$ 114,681,926</u>	<u>\$ 107,450,699</u>	<u>\$ 103,823,447</u>

D. Lease payments receivable

Prior to 2019

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 December 31, 2018 and September 30, 2018 were as follows:

	<u>December 31, 2018</u>		
	<u>Total lease payments receivable</u>	<u>Unearned finance income</u>	<u>Net lease payments receivable</u>
Not later than one year	\$ 4,099,515	(\$ 231,179)	\$ 3,868,336
Later than one year but not later than five years	14,886,329	(1,953,644)	12,932,685
Over five years	<u>78</u>	<u>-</u>	<u>78</u>
	<u>\$ 18,985,922</u>	<u>(\$ 2,184,823)</u>	<u>\$ 16,801,099</u>

	<u>September 30, 2018</u>		
	<u>Total lease payments receivable</u>	<u>Unearned finance income</u>	<u>Net lease payments receivable</u>
Not later than one year	\$ 10,941,927	(\$ 1,270,257)	\$ 9,671,670
Later than one year but not later than five years	<u>7,751,429</u>	<u>(890,733)</u>	<u>6,860,696</u>
	<u>\$ 18,693,356</u>	<u>(\$ 2,160,990)</u>	<u>\$ 16,532,366</u>

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:

September 30, 2019						
Financial assets						
Description	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off	Net amounts of financial assets presented in the balance sheet	Not set off in the balance sheets		Net amount (f)=(c)-(d)-(e)
	(a)	(b)	(c)=(a)-(b)	Financial instruments (d)	Collateral received (e)	
Reverse repurchase agreement	\$2,316,233	\$ -	\$ 2,316,233	\$ -	\$2,147,696	\$ 168,537
Derivative instruments	4,204	-	4,204	248	-	3,956
	<u>\$2,320,437</u>	<u>\$ -</u>	<u>\$ 2,320,437</u>	<u>\$ 248</u>	<u>\$2,147,696</u>	<u>\$ 172,493</u>

Financial Liabilities						
Description	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off	Net amounts of financial liabilities presented in the balance sheet	Not set off in the balance sheets		Net amount (f)=(c)-(d)-(e)
	(a)	(b)	(c)=(a)-(b)	Financial instruments (d)	Collateral received (e)	
Reverse repurchase agreement	\$ 248	\$ -	\$ 248	\$ 248	\$ -	\$ -

December 31, 2018						
Financial assets						
Description	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off	Net amounts of financial assets presented in the balance sheet	Not set off in the balance sheets		Net amount (f)=(c)-(d)-(e)
	(a)	(b)	(c)=(a)-(b)	Financial instruments (d)	Collateral received (e)	
Reverse repurchase agreement	\$2,586,977	\$ -	\$ 2,586,977	\$ -	\$2,586,977	\$ -

September 30, 2018						
Financial assets						
Description	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off	Net amounts of financial assets presented in the balance sheet	Not set off in the balance sheets		Net amount (f)=(c)-(d)-(e)
	(a)	(b)	(c)=(a)-(b)	Financial instruments (d)	Collateral received (e)	
Reverse repurchase agreement	\$1,701,972	\$ -	\$ 1,701,972	\$ -	\$1,701,972	\$ -

(7) Inventories

	<u>September 30, 2019</u>		
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Book value</u>
Vehicles and parts	\$ 5,867,073	(\$ 78,368)	\$ 5,788,705
Air conditioner and parts	2,953,328	(387,579)	2,565,752
Other goods	512,081	(5,116)	506,965
Inventory in transit	<u>2,432,993</u>	<u>-</u>	<u>2,432,993</u>
	<u>\$ 11,765,475</u>	<u>(\$ 471,060)</u>	<u>\$ 11,294,415</u>

	<u>December 31, 2018</u>		
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Book value</u>
Vehicles and parts	\$ 5,331,492	(\$ 71,952)	\$ 5,259,540
Air conditioner and parts	2,878,154	(388,524)	2,489,630
Other goods	92,128	(7,225)	84,903
Inventory in transit	<u>2,183,581</u>	<u>-</u>	<u>2,183,581</u>
	<u>\$ 10,485,355</u>	<u>(\$ 467,701)</u>	<u>\$ 10,017,654</u>

	<u>September 30, 2018</u>		
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Book value</u>
Vehicles and parts	\$ 3,651,660	(\$ 71,655)	\$ 3,580,005
Air conditioner and parts	2,499,773	(413,224)	2,086,549
Other goods	165,500	(7,225)	158,275
Inventory in transit	<u>1,991,321</u>	<u>-</u>	<u>1,991,321</u>
	<u>\$ 8,308,254</u>	<u>(\$ 492,104)</u>	<u>\$ 7,816,150</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 September 30,</u>	
	<u>2019</u>	<u>2018</u>
Cost of goods sold	\$ 40,116,947	\$ 31,163,280
Loss on market value decline of inventories	<u>2,167</u>	<u>36,332</u>
	<u>\$ 40,119,114</u>	<u>\$ 31,199,612</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Cost of goods sold	\$ 113,965,864	\$ 102,883,714
Loss on market value decline of inventories	<u>3,359</u>	<u>45,032</u>
	<u>\$ 113,969,223</u>	<u>\$ 102,928,746</u>

(8) Prepayments

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Prepayments to commissions	\$ 2,924,104	\$ 2,820,471	\$ 2,674,170
Prepayments to suppliers	1,606,822	1,891,184	1,470,235
Offset against business tax payable	811,554	1,047,110	890,956
Prepaid insurance premiums	397,781	442,283	471,152
Other prepayments	<u>1,133,473</u>	<u>316,021</u>	<u>594,892</u>
	<u>\$ 6,873,734</u>	<u>\$ 6,517,069</u>	<u>\$ 6,101,405</u>

(9) Reinsurance contract assets and insurance liabilities

A. Details of reinsurance contract assets are as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Claims recoverable from reinsurers	\$ 102,123	\$ 158,967	\$ 65,816
Due from reinsurance and ceding companies	130,837	115,112	131,589
Reinsurance reserve assets			
-Ceded unearned premium reserve	898,349	727,955	677,741
-Ceded claims reserve	668,294	634,445	724,260
Due from reinsurance and ceding companies - overdue	<u>16,232</u>	<u>17,981</u>	<u>10,622</u>
	1,815,835	1,654,460	1,610,028
Less: Loss allowance	<u>(12,134)</u>	<u>(11,598)</u>	<u>(9,045)</u>
	<u>\$ 1,803,701</u>	<u>\$ 1,642,862</u>	<u>\$ 1,600,983</u>

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Current	<u>\$ 1,340,487</u>	<u>\$ 1,225,913</u>	<u>\$ 951,526</u>
Non-current (shown as other assets)	<u>\$ 463,214</u>	<u>\$ 416,949</u>	<u>\$ 649,457</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>Nine months ended September 30, 2019</u>
At January 1	\$ 11,598
Reversals during the period	<u>536</u>
At September 30	<u>\$ 12,134</u>
	<u>Nine months ended September 30, 2018</u>
At January 1	\$ 8,681
Provisions during the period	<u>364</u>
At September 30	<u>\$ 9,045</u>

C. Details of insurance liabilities are as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Unearned premium reserve	\$ 4,317,753	\$ 3,567,154	\$ 3,432,797
Claims reserve	3,061,146	2,601,984	2,637,906
Special reserve	<u>1,913,775</u>	<u>1,914,888</u>	<u>1,902,703</u>
	<u>\$ 9,292,674</u>	<u>\$ 8,084,026</u>	<u>\$ 7,973,406</u>
	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Current (shown as other current liabilities)	<u>\$ 5,760,950</u>	<u>\$ 4,798,752</u>	<u>\$ 4,446,816</u>
Non-current (shown as provisions)	<u>\$ 3,531,724</u>	<u>\$ 3,285,274</u>	<u>\$ 3,526,590</u>

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

	<u>Nine months ended September 30, 2019</u>		
	<u>Gross amount</u>	<u>Ceded amount</u>	<u>Net amount</u>
At January 1	\$ 3,567,154	\$ 727,955	\$ 2,839,199
Provision during the period	4,317,753	898,349	3,419,404
Recovery during the period	(3,567,154)	(727,955)	(2,839,199)
At September 30	<u>\$ 4,317,753</u>	<u>\$ 898,349</u>	<u>\$ 3,419,404</u>

	<u>Nine months ended September 30, 2018</u>		
	<u>Gross amount</u>	<u>Ceded amount</u>	<u>Net amount</u>
At January 1	\$ 2,850,169	\$ 618,021	\$ 2,232,148
Provision during the period	3,432,797	677,741	2,755,056
Recovery during the period	(2,850,169)	(618,021)	(2,232,148)
At September 30	<u>\$ 3,432,797</u>	<u>\$ 677,741</u>	<u>\$ 2,755,056</u>

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

(a) As of September 30, 2019, December 31, 2018 and September 30, 2018, details of claims reserve and ceded claims reserve are as follows:

	<u>September 30, 2019</u>		
	<u>Gross amount</u>	<u>Ceded amount</u>	<u>Net amount</u>
Reported but not paid	\$ 1,688,954	\$ 279,797	\$ 1,409,157
Incurred but not reported	<u>1,372,192</u>	<u>388,497</u>	<u>983,695</u>
	<u>\$ 3,061,146</u>	<u>\$ 668,294</u>	<u>\$ 2,392,852</u>
	<u>December 31, 2018</u>		
	<u>Gross amount</u>	<u>Ceded amount</u>	<u>Net amount</u>
Reported but not paid	\$ 1,544,389	\$ 335,373	\$ 1,209,016
Incurred but not reported	<u>1,057,595</u>	<u>299,072</u>	<u>758,523</u>
	<u>\$ 2,601,984</u>	<u>\$ 634,445</u>	<u>\$ 1,967,539</u>

	<u>September 30, 2018</u>		
	<u>Gross amount</u>	<u>Ceded amount</u>	<u>Net amount</u>
Reported but not paid	\$ 1,529,113	\$ 411,148	\$ 1,117,965
Incurred but not reported	<u>1,108,793</u>	<u>313,112</u>	<u>795,681</u>
	<u>\$ 2,637,906</u>	<u>\$ 724,260</u>	<u>\$ 1,913,646</u>

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

	<u>Nine months ended September 30, 2019</u>		
	<u>Gross amount</u>	<u>Ceded amount</u>	<u>Net amount</u>
At January 1	\$ 2,601,984	\$ 634,445	\$ 1,967,539
Provision during the period	3,061,146	668,294	2,392,852
Recovery during the period	(2,601,984)	(634,445)	(1,967,539)
At September 30	<u>\$ 3,061,146</u>	<u>\$ 668,294</u>	<u>\$ 2,392,852</u>

	<u>Nine months ended September 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	2,637,906	724,260	1,913,646
Recovery during the period	(2,398,727)	(684,194)	(1,714,533)
At September 30	<u>\$ 2,637,906</u>	<u>\$ 724,260</u>	<u>\$ 1,913,646</u>

F. Movement of special reserve is as follows:

	<u>Nine months ended September 30, 2019</u>
At January 1	\$ 1,914,888
Provision during the period	82
Recovery during the period	(1,195)
At September 30	<u>\$ 1,913,775</u>
	<u>Nine months ended September 30, 2018</u>
At January 1	\$ 1,895,550
Provision during the period	8,348
Recovery during the period	(1,195)
At September 30	<u>\$ 1,902,703</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>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Decrease in special reserve under liability	\$ 382,975	\$ 384,169	\$ 384,567
Increase in special reserve under retained earnings	317,953	318,908	307,654

	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Increase in net loss (income) before tax	\$ 398	\$ 398
Increase in losses (earnings) per share before tax	0.02	0.02

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Increase in net loss (income) before tax	\$ 1,194	\$ 1,194
Increase in losses (earnings) per share before tax	0.06	0.06

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 nine months ended September 30, 2019, December 31, 2018 and September 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>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Decrease in special reserve under liability	\$ 233,894	\$ 223,894	\$ 223,894
Increase in special reserve under retained earnings	185,832	185,832	185,832

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 nine months ended September 30, 2019 and 2018.

(10) Investments accounted for using equity method

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Kuozui Motors, Ltd.	\$ 4,446,583	\$ 4,286,842	\$ 5,048,505
Central Motor Co., Ltd.	2,519,303	2,444,355	2,468,504
Tau Miau Motor Co., Ltd.	1,490,965	1,428,177	1,418,152
Kau Du Automobile Co., Ltd.	1,345,474	1,321,898	1,310,351
Kuotu Motor Co., Ltd.	1,094,600	1,018,969	1,001,019
Taipei Toyota Motor Co., Ltd.	1,062,334	980,767	965,839
Nan Du Motor Co., Ltd.	982,224	938,419	913,901
Lang Yang Toyota Motor Co., Ltd.	290,040	284,740	282,544
Formosa Flexible Packaging Corp.	355,459	272,434	250,148
Shi-Ho Screw Industrial Co., Ltd.	124,939	132,677	130,359
Yokohama Tire Taiwan Co., Ltd., etc.	<u>1,376,543</u>	<u>1,339,231</u>	<u>1,305,693</u>
	<u>\$ 15,088,464</u>	<u>\$ 14,448,509</u>	<u>\$ 15,095,015</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 September 30, 2019, December 31, 2018 and September 30, 2018, the carrying amount of the Group's individually immaterial associates amounted to \$15,088,464, \$14,448,509 and \$15,095,015, respectively.

	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Comprehensive income for the period	<u>\$ 292,590</u>	<u>\$ 171,745</u>
	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Comprehensive income for the period	<u>\$ 809,593</u>	<u>\$ 816,109</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 \$312,067, \$188,891, \$824,745, \$830,679 for the three months and nine months ended September 30, 2019, and 2018, respectively, and were valued based on the investees' financial statements that were not reviewed by independent accountants.

C. On July 31, 2019, the Group participated in the capital increase of Formosa Flexible Packaging Corporation by acquiring 287,499 shares amounting to \$81,963, and the shareholding would be 44.44% after the completion.

D. In March 2019 and May 2019, the Group proportionately participated in the capital increase of Chongqing Taikang Heling Lexus Motor Sales & Service Co., Ltd. for cash amounting to \$6,893 and \$13,698, respectively.

E. The Group's indirect subsidiary-Ho Tai Service & Marketing Co., Ltd. acquired 24.5% shares of Kashiwabara Hotai Taiwan Co., Ltd. for a cash consideration of \$8,820 in December 2018.

F. The Group invested \$2,244 in cash to establish Chongqing Taikang Heling Lexus Motor Sales & Service Co., Ltd. in December 2018 and acquired 50% shares of the investee.

(11) Property, plant and equipment

	2019											
	Land	Prepayment for real estate	Buildings and structures	Utility equipment		Office equipment		Machinery and equipment		Leasehold improvements	Construction in progress	Total
				Owner- occupied	Lease	Owner- occupied	Lease (Note)	Owner- occupied	Lease (Note)			
<u>At January 1, 2019</u>												
Cost	\$ 8,560,423	\$ 88,000	\$ 5,299,693	\$ 138,177	\$ 59,990	\$ 1,662,102	\$ 814,182	\$ 461,420	\$ 39,955,966	\$ 673,824	\$ 156,026	\$57,869,803
Revaluation gain	1,345,967	-	12,079	-	-	-	-	-	-	-	-	1,358,046
Accumulated depreciation and impairment	(26,850)	-	(1,871,293)	(134,220)	(59,673)	(1,078,795)	(404,363)	(238,800)	(13,116,130)	(445,318)	-	(17,375,442)
	<u>\$ 9,879,540</u>	<u>\$ 88,000</u>	<u>\$ 3,440,479</u>	<u>\$ 3,957</u>	<u>\$ 317</u>	<u>\$ 583,307</u>	<u>\$ 409,819</u>	<u>\$ 222,620</u>	<u>\$ 26,839,836</u>	<u>\$ 228,506</u>	<u>\$ 156,026</u>	<u>\$41,852,407</u>
<u>2019</u>												
Opening net book amount as of January 1	\$ 9,879,540	\$ 88,000	\$ 3,440,479	\$ 3,957	\$ 317	\$ 583,307	\$ 409,819	\$ 222,620	\$ 26,839,836	\$ 228,506	\$ 156,026	\$41,852,407
Additions	72,754	25,145	58,509	36	-	207,182	167,503	23,391	12,314,214	48,636	468,825	13,386,195
Disposals	-	-	(92)	-	-	(74,617)	(19,939)	(537)	(259,134)	(20,500)	-	(374,819)
Reclassifications	88,000	(88,000)	75,066	-	(33)	67,867	(9,159)	(66,219)	(4,234,048)	-	(62,626)	(4,229,152)
Depreciation	-	-	(12,341)	(728)	-	(155,203)	(151,305)	(27,042)	(5,731,070)	(45,849)	-	(6,232,538)
Impairment loss	-	-	-	-	-	-	10,528	-	(66,781)	-	-	(56,253)
Net exchange differences	-	-	(41,618)	(10)	-	(7,497)	(1,128)	(999)	(25,744)	(227)	(592)	(77,815)
Closing net book amount as of September 30	<u>\$ 10,040,294</u>	<u>\$ 25,145</u>	<u>\$ 3,411,003</u>	<u>\$ 3,255</u>	<u>\$ 284</u>	<u>\$ 621,039</u>	<u>\$ 406,319</u>	<u>\$ 151,214</u>	<u>\$ 28,837,273</u>	<u>\$ 210,566</u>	<u>\$ 561,633</u>	<u>\$44,268,025</u>
<u>At September 30, 2019</u>												
Cost	\$ 8,721,177	\$ 25,145	\$ 5,386,333	\$ 138,153	\$ 59,990	\$ 1,734,914	\$ 784,223	\$ 418,676	\$ 41,692,072	\$ 678,212	\$ 561,633	\$60,200,528
Revaluation gain	1,345,967	-	12,079	-	-	-	-	-	-	-	-	1,358,046
Accumulated depreciation and impairment	(26,850)	-	(1,987,409)	(134,898)	(59,706)	(1,113,875)	(377,904)	(267,462)	(12,854,799)	(467,646)	-	(17,290,549)
	<u>\$ 10,040,294</u>	<u>\$ 25,145</u>	<u>\$ 3,411,003</u>	<u>\$ 3,255</u>	<u>\$ 284</u>	<u>\$ 621,039</u>	<u>\$ 406,319</u>	<u>\$ 151,214</u>	<u>\$ 28,837,273</u>	<u>\$ 210,566</u>	<u>\$ 561,633</u>	<u>\$44,268,025</u>

Note: Rental assets are exclusively for leasing business by Hotai Leasing Co., Ltd., Hotai Finance Co., Ltd. and other subsidiaries. The rental assets for 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.

2018

	<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 as of January 1	\$ 5,947,131	\$ 2,604,204	\$ 4,861	\$ 475,013	\$ 132,161	\$ 25,509,998	\$ 242,958	\$ 77,433	\$ 34,993,759
Additions	1,176,013	30,436	66	249,376	15,739	10,040,244	25,474	927,980	12,465,328
Disposals	-	(4,401)	(1,076)	(79,140)	(1,971)	(3,417)	-	-	(90,005)
Reclassifications	184,191	924	454	16,031	(92)	(3,404,831)	188	251,114	(2,952,021)
Depreciation	-	(113,157)	(671)	(125,268)	(21,606)	(5,605,279)	(51,803)	-	(5,917,784)
Changes in provision for rental assets	-	-	-	-	-	69,190	-	-	69,190
Net exchange differences	-	(17,769)	(6)	(7,470)	(1,268)	(35,802)	(391)	(37,394)	(100,100)
Closing net book amount as of September 30	<u>\$ 7,307,335</u>	<u>\$ 2,500,237</u>	<u>\$ 3,628</u>	<u>\$ 528,542</u>	<u>\$ 122,963</u>	<u>\$ 26,570,103</u>	<u>\$ 216,426</u>	<u>\$ 1,219,133</u>	<u>\$ 38,468,367</u>
<u>At September 30, 2018</u>									
Cost	\$ 5,988,218	\$ 4,322,877	\$ 137,595	\$ 1,596,052	\$ 356,650	\$ 40,005,436	\$ 656,860	\$ 1,219,133	\$ 54,282,821
Revaluation gain	1,345,967	12,079	-	-	-	-	-	-	1,358,046
Accumulated depreciation and impairment	(26,850)	(1,834,719)	(133,967)	(1,067,510)	(233,687)	(13,435,333)	(440,434)	-	(17,172,500)
	<u>\$ 7,307,335</u>	<u>\$ 2,500,237</u>	<u>\$ 3,628</u>	<u>\$ 528,542</u>	<u>\$ 122,963</u>	<u>\$ 26,570,103</u>	<u>\$ 216,426</u>	<u>\$ 1,219,133</u>	<u>\$ 38,468,367</u>

Note : Rental assets are exclusively for leasing business by Hotai Leasing Co., Ltd., Hotai Finance Co., Ltd. and other subsidiaries. The rental assets for 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.

(12) Leasing arrangements - lessee

Effective 2019

A. The Group leases various assets including land, buildings and structures and office equipment. Rental contracts are typically made for periods of 1 to 17 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing purposes.

B. The carrying amount of right-of-use assets and the depreciation charge are as follows:

	<u>September 30, 2019</u>	<u>Three months ended September 30, 2019</u>	<u>Nine months ended September 30, 2019</u>
	<u>Carrying amount</u>	<u>Depreciation charge</u>	<u>Depreciation charge</u>
Land	\$ 694,923	\$ 27,572	\$ 80,301
Buildings and structures	1,477,255	93,914	286,814
Office equipment	<u>5,065</u>	<u>1,036</u>	<u>3,483</u>
	<u>\$ 2,177,243</u>	<u>\$ 122,522</u>	<u>\$ 370,598</u>

C. For the three months and nine months ended September 30, 2019, the additions to right-of-use assets amounted to \$17,795 and \$61,413, respectively.

D. The information on profit and loss accounts relating to lease contracts is as follows:

	<u>Three months ended September 30, 2019</u>	<u>Nine months ended September 30, 2019</u>
<u>Items affecting profit or loss</u>		
Interest expense on lease liabilities	\$ 12,290	38,786
Expense on short-term lease contracts and leases of low-value assets	86,795	175,996

E. For the nine months ended September 30, 2019, the Group's total cash outflow for lease (including short-term lease contracts and leases of low-value assets) amounted to \$557,172.

(13) Leasing arrangements - lessor

Effective 2019

A. The Group leases various assets including land, buildings, machinery and equipment, business vehicles and multifunction printers. Rental contracts are typically made for periods of 1 and 7 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

B. The Group leases machinery and equipment, business vehicles and so on under a finance lease. Based on the terms of the lease contract, the ownership of assets will be transferred to lessees when the leases expire. Information on profit or loss in relation to lease contracts is as follows:

	<u>Three months ended September 30, 2019</u>	<u>Nine months ended September 30, 2019</u>
Finance income from the net investment in the finance lease	\$ 621,664	\$ 1,856,246

C. The maturity analysis of the undiscounted lease payment receivable in the finance lease is as follows:

	<u>September 30, 2019</u>
Less than 1 year	\$ 12,306,256
Between 1 and 2 years	5,373,559
Between 2 and 3 years	1,389,911
Between 3 to 4 years	167,227
Between 4 to 5 years	<u>53,111</u>
	<u>\$ 19,290,064</u>

D. Reconciliation of the undiscounted lease payments receivable and the net investment in the finance lease is provided as follows:

	<u>2019</u>
	<u>Non-current</u>
Undiscounted lease payments	\$ 19,290,064
Unearned finance income	(<u>2,147,359</u>)
Net investment in the lease	<u>\$ 17,142,705</u>

E. For the three months and nine months ended September 30, 2019, the Group recognized rent income in the amount of \$4,170 and \$12,096, respectively, based on the operating lease agreement, which does not include variable lease payments.

F. The maturity analysis of the undiscounted lease payments receivable under the operating leases is as follows:

	<u>September 30, 2019</u>
Less than 1 year	\$ 9,369,596
Between 1 and 2 years	5,936,554
Between 2 and 3 years	2,527,250
Between 3 to 4 years	680,625
Between 4 to 5 years	217,486
More than 6 years	<u>7,201</u>
	<u>\$ 18,738,712</u>

(14) Investment property

	2019		
	Land	Buildings and structures	Total
<u>At January 1</u>			
Cost	\$ 1,212,157	\$ 590,202	\$ 1,802,359
Revaluation gain	327,794	-	327,794
Accumulated depreciation	-	(283,694)	(283,694)
	<u>\$ 1,539,951</u>	<u>\$ 306,508</u>	<u>\$ 1,846,459</u>
<u>2019</u>			
Opening net book amount as of January 1	\$ 1,539,951	\$ 306,508	\$ 1,846,459
Additions	-	7,389	7,389
Reclassifications	-	16,883	16,883
Depreciation	-	(23,760)	(23,760)
Closing net book amount as of September 30	<u>\$ 1,539,951</u>	<u>\$ 307,020</u>	<u>\$ 1,846,971</u>
<u>At September 30</u>			
Cost	\$ 1,212,157	\$ 594,130	\$ 1,806,287
Revaluation gain	327,794	-	327,794
Accumulated depreciation	-	(287,110)	(287,110)
	<u>\$ 1,539,951</u>	<u>\$ 307,020</u>	<u>\$ 1,846,971</u>
	2018		
	Land	Buildings and structures	Total
<u>At January 1</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 as of January 1	\$ 1,539,951	\$ 317,771	\$ 1,857,722
Additions	-	5,703	5,703
Reclassifications	-	(2,168)	(2,168)
Depreciation	-	(10,545)	(10,545)
Closing net book amount as of September 30	<u>\$ 1,539,951</u>	<u>\$ 310,761</u>	<u>\$ 1,850,712</u>
<u>At September 30</u>			
Cost	\$ 1,212,157	\$ 586,855	\$ 1,799,012
Revaluation gain	327,794	-	327,794
Accumulated depreciation	-	(276,094)	(276,094)
	<u>\$ 1,539,951</u>	<u>\$ 310,761</u>	<u>\$ 1,850,712</u>

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

	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Rental income from investment property	\$ 32,376	\$ 31,897
Direct operating expenses arising from the investment property that generated rental income during the period (including depreciation)	\$ 4,440	\$ 5,579
	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Rental income from investment property	\$ 96,558	\$ 104,536
Direct operating expenses arising from the investment property that generated rental income during the period (including depreciation)	\$ 18,705	\$ 17,377

B. The fair value of the investment property held by the Group was \$2,188,509, \$2,208,554 and \$2,189,438 as of September 30, 2019, December 31, 2018 and September 30, 2018, respectively, based on the market value method, except for Hotai Insurance Co., Ltd., who appoints external independent appraisers to calculate and estimate the price of investment property every three years using at least two appraisal techniques among income approach, comparison method and cost approach, basing on observable price in an active market as well as according to the nature, location and situation of individual asset under “Regulations on Real Estate Appraisal”. It also prepares an internal assessment every year, 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 take the result as the basis of the adjustments for financial statement disclosures. The valuations based on the aforementioned method were categorized within Level 3 in the fair value hierarchy as assessed and its main input was capitalization rate.

(15) Intangible assets

	<u>2019</u>			
	<u>Goodwill</u>	<u>Client relationship</u>	<u>Computer software</u>	<u>Total</u>
<u>At January 1</u>				
Cost	\$ 662,323	\$ 527,106	\$ 144,315	\$ 1,333,744
Accumulated amortization and impairment	-	(34,408)	(74,479)	(108,887)
	<u>\$ 662,323</u>	<u>\$ 492,698</u>	<u>\$ 69,836</u>	<u>\$ 1,224,857</u>
<u>2019</u>				
Opening net book amount as of January 1	\$ 662,323	\$ 492,698	\$ 69,836	\$ 1,224,857
Additions-acquired separately	-	-	12,404	12,404
Amortization	-	(13,178)	(25,424)	(38,602)
Net change differences	-	-	(36)	(36)
Closing net book amount as of September 30	<u>\$ 662,323</u>	<u>\$ 479,520</u>	<u>\$ 56,780</u>	<u>\$ 1,198,623</u>
<u>At September 30</u>				
Cost	\$ 662,323	\$ 527,106	\$ 162,355	\$ 1,351,764
Accumulated amortization and impairment	-	(47,586)	(105,555)	(153,141)
	<u>\$ 662,323</u>	<u>\$ 479,520</u>	<u>\$ 56,780</u>	<u>\$ 1,198,623</u>

	2018			
	<u>Goodwill</u>	<u>Client relationship</u>	<u>Computer software</u>	<u>Total</u>
<u>At January 1</u>				
Cost	\$ 662,323	\$ 527,106	\$ 100,141	\$ 1,289,570
Accumulated amortization and impairment	-	(16,838)	(63,740)	(80,578)
	<u>\$ 662,323</u>	<u>\$ 510,268</u>	<u>\$ 36,401</u>	<u>\$ 1,208,992</u>
<u>2018</u>				
Opening net book amount as of January 1	\$ 662,323	\$ 510,268	\$ 36,401	\$ 1,208,992
Additions-acquired separately	-	-	29,425	29,425
Amortization	-	(13,178)	(15,319)	(28,497)
Closing net book amount as of September 30	<u>\$ 662,323</u>	<u>\$ 497,090</u>	<u>\$ 50,507</u>	<u>\$ 1,209,920</u>
<u>At September 30</u>				
Cost	\$ 662,323	\$ 527,106	\$ 117,939	\$ 1,307,368
Accumulated amortization and impairment	-	(30,016)	(67,432)	(97,448)
	<u>\$ 662,323</u>	<u>\$ 497,090</u>	<u>\$ 50,507</u>	<u>\$ 1,209,920</u>

Details of amortization on intangible assets are as follows:

	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Administrative expenses	<u>\$ 13,331</u>	<u>\$ 9,887</u>
	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Administrative expenses	<u>\$ 38,602</u>	<u>\$ 28,497</u>

(16) Other assets

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Long-term accounts receivable (Including long-term notes and accounts receivable)	\$ 1,673,269	\$ 950,331	\$ 883,502
Reinsurance contract assets	463,214	416,949	649,457
Land use right	-	294,215	294,617
Operation bonds	300,300	300,300	300,000
Guarantee deposits paid	347,549	308,228	334,030
Prepayments for business facilities	35,789	29,839	5,335
Others	1,279,963	1,339,342	1,262,658
	<u>\$ 4,100,084</u>	<u>\$ 3,639,204</u>	<u>\$ 3,729,899</u>

(17) Short-term loans

<u>Type of loans</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Bank loans			
Unsecured loans	\$ 51,550,101	\$ 54,879,055	\$ 53,194,144
Mortgage loans	8,180,000	6,389,345	3,693,341
Mid-term syndicated loans for working capital	<u>1,505,270</u>	<u>1,631,978</u>	<u>1,634,136</u>
	<u>\$ 61,235,371</u>	<u>\$ 62,900,378</u>	<u>\$ 58,521,621</u>
Annual interest rate	<u>0.76%~5.3%</u>	<u>0.76%~5.49%</u>	<u>0.6%~6.53%</u>

As of September 30, 2019, December 31, 2018 and September 30, 2018, the details of loans are as follows:

- A. The subsidiary, Hoyun International Lease Co., Ltd., has entered into a mid-term syndicated contract for a credit line of RMB 380 million with 3 financial institutions including DBS Bank Ltd., in order to fulfil its working capital. The duration is 36 months (from November 9, 2017 to November 9, 2020). The loan can be drawn several times but is non-revolving. The payment term is to repay the drawn amounts in installments within the contract period.
- 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
- C. The subsidiary, Hoyun International Lease 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) Net assets: At least RMB 330 million.
 - (b) Debt/equity ratio: Lower than 800%.
 - (c) Interest coverage ratio: At least 115%.
 - (d) Non performing loans ratio: Lower than 3%.

(18) Short-term notes and bills payable

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Commercial paper payable	\$ 57,170,000	\$ 47,920,000	\$ 52,590,000
Less: Unamortized discount	(<u>42,328</u>)	(<u>48,086</u>)	(<u>39,550</u>)
	<u>\$ 57,127,672</u>	<u>\$ 47,871,914</u>	<u>\$ 52,550,450</u>
Annual interest rate	<u>0.71%~1.19%</u>	<u>0.67%~1.3%</u>	<u>0.63%~1.3%</u>

(19) Bonds payable (Recorded as ‘long-term liabilities current portion’)

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Bonds payable	<u>\$ 5,200,000</u>	<u>\$ 5,200,000</u>	<u>\$ 5,200,000</u>

The information on corporate bonds 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 2018. The total amount was \$2,400,000, the coupon rate was 0.73% with a 3-year period, the outstanding period was from July 6, 2018 to July 6, 2021, 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 2016. The total amount was \$2,800,000, the coupon rate was 0.93% with a 3-year period, 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.

(20) Long-term loans

<u>Type of borrowings</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate range</u>	<u>Collateral</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Long-term bank borrowings						
Unsecured borrowings	USD 3,000 thousand; borrowing period is from September 2018 to July 2021; interest is repayable seasonally	3.34%~4.20%	None.	\$ 92,365	\$ 91,722	\$ 91,494
	USD 3,500 thousand; borrowing period is from June 2019 to October 2021; interest is repayable seasonally	3.48%	None	107,760	-	-
	USD 1,300 thousand; borrowing period is from June 2019 to October 2021; interest is repayable seasonally	3.48%	None	40,025	-	-
Secured borrowings	From January 2019 to January 2022	1.18%	Notes receivable for lease payments (please refer to Note 8)	150,000	-	-
Commercial papers payable	From October 2015 to August 2021	0.92%~1.49%	"	-	-	7,050,000
	From January 2016 to August 2021	0.92%~1.22%		-	6,750,000	-
	From October 2016 to January 2022	0.92%~1.06%	"	5,900,000	-	-
Less: unamortized discounts				(6,567)	(8,032)	(9,636)
				6,283,583	6,833,690	7,131,858
Less: long-term liabilities, current portion				(3,196,799)	(2,747,522)	(1,448,431)
				<u>\$ 3,086,784</u>	<u>\$ 4,086,168</u>	<u>\$ 5,683,427</u>
Interest rate range				<u>0.92%~4.20%</u>	<u>0.92%~3.99%</u>	<u>0.92%~1.37%</u>

As of September 30, 2019, the maturities of long-term loans are as follows:

<u>Duration of maturity</u>	<u>Loans amount</u>
Up to 1 year	\$ 3,200,000
1 to 2 years	2,492,365
2 to 3 years	<u>597,785</u>
	<u>\$ 6,290,150</u>

(21) Accrued expenses

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Wages and salaries payable	\$ 1,447,332	\$ 1,697,687	\$ 1,305,118
Dealer bonus payable	243,988	486,265	1,280,550
Remuneration payable to employees	564,826	517,590	430,236
Remuneration payable to directors	213,747	246,033	189,020
Interest payable	184,202	193,969	197,467
Others	<u>1,707,146</u>	<u>1,702,837</u>	<u>1,438,953</u>
	<u>\$ 4,361,241</u>	<u>\$ 4,844,381</u>	<u>\$ 4,841,344</u>

(22) Other payables

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Dividends payable	\$ 7,338	\$ 7,456	\$ 7,456
Others	<u>974,352</u>	<u>1,450,857</u>	<u>997,526</u>
	<u>\$ 981,690</u>	<u>\$ 1,458,313</u>	<u>\$ 1,004,982</u>

(23) Pensions

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 and nine months ended September 30, 2019 and 2018, were \$66,105, \$78,775, \$212,287 and \$211,679, respectively.

(24) Provisions

	<u>Warranty</u>
At January 1, 2019	\$ 2,584,955
Additional provisions during the period	1,186,845
Used during the period	(765,927)
Unused amounts reversed	(13,741)
At September 30, 2019	<u>\$ 2,992,132</u>

	<u>Warranty</u>
At January 1, 2018	\$ 2,328,294
Additional provisions during the period	1,061,158
Used during the period	(880,861)
At September 30, 2018	<u>\$ 2,508,591</u>

Analysis of provision for warranty is as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Current (shown as other current liabilities)	\$ 1,149,303	\$ 1,142,934	\$ 1,134,377
Non-current	<u>\$ 1,842,829</u>	<u>\$ 1,442,021</u>	<u>\$ 1,374,214</u>

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.

(25) Guarantee deposits received

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Deposits received for car rentals	\$ 12,848,964	\$ 12,503,258	\$ 12,241,707
Others	<u>27,987</u>	<u>25,032</u>	<u>25,824</u>
	<u>\$ 12,876,951</u>	<u>\$ 12,528,290</u>	<u>\$ 12,267,531</u>

Analysis of guarantee deposits received for warranty is as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Current (shown as other current liabilities)	\$ 6,289,294	\$ 3,395,243	\$ 3,293,600
Non-current	<u>\$ 6,587,657</u>	<u>\$ 9,133,047</u>	<u>\$ 8,973,931</u>

(26) Share capital

As of September 30, 2019, 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, 2019 and September 30, 2019 was both 546,179,184 shares.

(27) 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.

(28) 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 20, 2019 and June 21, 2018, 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(33).

(29) 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 September 30,</u>	
	<u>2019</u>	<u>2018</u>
Goods category:		
Sales of goods	\$ 45,430,903	\$ 35,577,348
Others	<u>496,144</u>	<u>434,729</u>
	<u>\$ 45,927,047</u>	<u>\$ 36,012,077</u>
Timing of revenue recognition		
At a point in time	\$ 45,685,575	\$ 35,781,973
Over time	<u>241,472</u>	<u>230,104</u>
	<u>\$ 45,927,047</u>	<u>\$ 36,012,077</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Goods category:		
Sales of goods	\$ 128,770,715	\$ 116,663,162
Others	<u>1,447,556</u>	<u>1,397,094</u>
	<u>\$ 130,218,271</u>	<u>\$ 118,060,256</u>
Timing of revenue recognition		
At a point in time	\$ 129,467,543	\$ 117,300,354
Over time	<u>750,728</u>	<u>759,902</u>
	<u>\$ 130,218,271</u>	<u>\$ 118,060,256</u>

B. Contract assets and liabilities

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>	<u>January 1, 2018</u>
Contract assets:				
Contract assets- construction contracts	\$ <u>20,306</u>	\$ <u>18,780</u>	\$ <u>17,484</u>	\$ <u>23,787</u>
Contract liabilities:				
Contract liabilities- sales of goods	\$ 1,055,703	\$ 986,464	\$ 978,312	\$ 880,597
Contract liabilities-customer loyalty programmers	<u>7,858</u>	<u>8,500</u>	<u>7,408</u>	<u>7,950</u>
	<u>\$ 1,063,561</u>	<u>\$ 994,964</u>	<u>\$ 985,720</u>	<u>\$ 888,547</u>

For the nine months ended September 30, 2019 and 2018, revenue recognized that was included in the contract liability balance at the beginning of the period amounted to \$755,044 and \$659,067, respectively.

(30) Interest income

	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Installment revenue	\$ 1,676,709	\$ 1,461,930
Finance leasing revenue	621,664	535,394
Interest from deposits and short-term notes	85,701	67,158
Other interest income	<u>18,726</u>	<u>20,194</u>
	<u>\$ 2,402,800</u>	<u>\$ 2,084,676</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Installment revenue	\$ 4,918,478	\$ 4,234,288
Finance leasing revenue	1,856,246	1,590,045
Interest from deposits and short-term notes	165,764	115,242
Other interest income	<u>57,474</u>	<u>69,210</u>
	<u>\$ 6,997,962</u>	<u>\$ 6,008,785</u>

(31) Premium

Details of premium are as follows:

	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Written premium	\$ 2,005,416	\$ 1,501,946
Reinsurance premium	123,084	144,505
Less: Reinsurance expense	(406,570)	(316,450)
Net change in unearned premiums reserve	(132,454)	(108,222)
	<u>\$ 1,589,576</u>	<u>\$ 1,221,779</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Written premium	\$ 6,006,988	\$ 4,660,894
Reinsurance premium	274,812	310,096
Less: Reinsurance expense	(1,420,871)	(1,049,465)
Net change in unearned premiums reserve	(580,205)	(522,908)
	<u>\$ 4,280,724</u>	<u>\$ 3,398,617</u>

(32) Expenses by nature

	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Employee benefit expense	\$ 2,170,326	\$ 1,958,491
Depreciation	2,234,665	2,002,644
Amortization	17,187	22,972
	<u>\$ 4,422,178</u>	<u>\$ 3,984,107</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Employee benefit expense	\$ 6,235,252	\$ 5,725,334
Depreciation	6,626,896	5,928,329
Amortization	62,268	57,968
	<u>\$ 12,924,416</u>	<u>\$ 11,711,631</u>

(33) Employee benefit expense

	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Wages and salaries	\$ 1,856,110	\$ 1,642,652
Labor and health insurance fees	143,963	140,586
Pension costs	66,105	78,775
Other personnel expenses	104,148	96,478
	<u>\$ 2,170,326</u>	<u>\$ 1,958,491</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Wages and salaries	\$ 5,343,970	\$ 4,881,703
Labor and health insurance fees	383,846	359,893
Pension costs	212,287	211,679
Other personnel expenses	295,149	272,059
	<u>\$ 6,235,252</u>	<u>\$ 5,725,334</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 and nine months ended September 30, 2019 and 2018, employees' remuneration was accrued at \$39,165, \$28,319, \$106,873 and \$94,510 respectively; while directors' remuneration was accrued at \$78,332, \$56,638, \$213,747 and \$189,020, 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 nine months ended September 30, 2019.

Employees' compensation and directors' remuneration of 2018 as resolved by the Board of Directors were in agreement with those amounts recognized in the 2018 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.

(34) Income tax

A. Income tax expense

(a) Components of income tax expense:

	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Current tax:		
Current tax expense recognized in the current period	\$ 890,352	\$ 579,250
Tax on undistributed surplus earnings	(5,893)	57,888
Prior year income tax overestimation	5,753	(4,219)
Total current tax	<u>890,212</u>	<u>632,919</u>
Deferred tax:		
Origination and reversal of temporary differences	<u>49,049</u>	<u>101,884</u>
Total deferred tax	<u>49,049</u>	<u>101,884</u>
Income tax expense	<u>\$ 939,261</u>	<u>\$ 734,803</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Current tax:		
Current tax expense recognized in the current period	\$ 2,727,234	\$ 2,221,150
Tax on undistributed surplus earnings	144,367	312,878
Prior year income tax overestimation	(10,692)	(9,226)
Total current tax	<u>2,860,909</u>	<u>2,524,802</u>
Deferred tax:		
Origination and reversal of temporary differences	(44,765)	131,525
Impact of change in tax rate	<u>-</u>	<u>163,404</u>
Total deferred tax	(44,765)	294,929
Income tax expense	<u>\$ 2,816,144</u>	<u>\$ 2,819,731</u>

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

	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Cash flow hedges	(\$ 1,039)	(\$ 2,046)
Changes in fair value of financial assets at fair value through other comprehensive income	<u>\$ 3,473</u>	<u>(\$ 303)</u>
Changes in fair value of financial assets designated using overlay approach	<u>\$ 49</u>	<u>\$ -</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Cash flow hedges	<u>\$ 17,771</u>	<u>(\$ 12,077)</u>
Changes in fair value of financial assets at fair value through other comprehensive income	<u>\$ 7,519</u>	<u>(\$ 3,766)</u>
Changes in fair value of financial assets designated using overlay approach	<u>\$ 4,390</u>	<u>\$ -</u>
Impact of change in tax rate	<u>\$ -</u>	<u>\$ 8</u>

B. The Company's income tax returns through 2017 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 on 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.

(35) Earnings per share

	<u>Three months ended September 30, 2019</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	\$ 3,301,010	546,179	\$ 6.04
<u>Diluted earnings per share</u>			
Profit attributable to common shareholders of the parent	\$ 3,301,010	546,179	
Assumed conversion of all dilutive potential common shares			
Employees' compensation	-	40	
Profit attributable to common shareholders of the parent plus assumed conversion of all dilutive potential common shares	\$ 3,301,010	546,219	\$ 6.04
	<u>Three months ended September 30, 2018</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	\$ 2,395,343	546,179	\$ 4.39
<u>Diluted earnings per share</u>			
Profit attributable to common shareholders of the parent	\$ 2,395,343	546,179	
Assumed conversion of all dilutive potential common shares			
Employees' compensation	-	-	
Profit attributable to common shareholders of the parent plus assumed conversion of all dilutive potential common shares	\$ 2,395,343	546,179	\$ 4.39
	<u>Nine months ended September 30, 2019</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	\$ 8,850,766	546,179	\$ 16.20
<u>Diluted earnings per share</u>			
Profit attributable to common shareholders of the parent	\$ 8,850,766	546,179	
Assumed conversion of all dilutive potential common shares			
Employees' compensation	-	332	
Profit attributable to common shareholders of the parent plus assumed conversion of all dilutive potential common shares	\$ 8,850,766	546,511	\$ 16.20

	<u>Nine months ended September 30, 2018</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	\$ 7,662,305	546,179	\$ 14.03
<u>Diluted earnings per share</u>			
Profit attributable to common shareholders of the parent	\$ 7,662,305	546,179	
Assumed conversion of all dilutive potential common shares			
Employees' compensation	-	491	
Profit attributable to common shareholders of the parent plus assumed conversion of all dilutive potential common shares	\$ 7,662,305	546,670	\$ 14.02

(36) Operating leases

Prior to 2018

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 December 31, 2018 and September 30, 2018, the notes receivable collected in advance amounted to \$7,696,961 and \$8,025,681 respectively. The notes receivable and advance rents are presented at net amount and are not shown in the balance sheet. As of December 31, 2018 and September 30, 2018, the amounts of \$5,646,350 and \$5,873,221 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>December 31, 2018</u>	<u>September 30, 2018</u>
Up to 1 year	\$ 4,542,187	\$ 4,704,448
1 to 5 years	3,154,774	3,321,233
	<u>\$ 7,696,961</u>	<u>\$ 8,025,681</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>December 31, 2018</u>	<u>September 30, 2018</u>
Up to 1 year	\$ 122,816	\$ 113,874
1 to 5 years	130,806	128,279
Over 5 years	3,765	4,303
	<u>\$ 257,387</u>	<u>\$ 246,456</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 \$181,702 and \$515,061, respectively, for the three months and nine months ended September 30, 2018. The future aggregate minimum lease payments under non-cancellable operating leases agreements are as follows:

	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Up to 1 year	\$ 528,924	\$ 392,218
1 to 5 years	1,138,491	707,471
Over 5 years	997,134	233,719
	<u>\$ 2,664,549</u>	<u>\$ 1,333,408</u>

(37) 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	Lease liabilities	Dividend payable	Liabilities from financing activities-gross
January 1, 2019	\$ 62,900,378	\$ 47,871,914	\$ 7,947,522	\$ 4,086,168	\$12,528,290	\$2,274,081	\$ 7,456	\$ 137,615,809
Changes in cash flow from financing activities	(1,665,697)	9,255,758	-	(545,764)	348,661	(342,390)	(6,554,150)	496,418
Impact of changes in foreign exchange rate	-	-	-	(4,343)	-	13,711	-	9,368
Changes in other non-cash items	690	-	449,277	(449,277)	-	(27,002)	6,554,032	6,527,720
September 30, 2019	<u>\$ 61,235,371</u>	<u>\$ 57,127,672</u>	<u>\$ 8,396,799</u>	<u>\$ 3,086,784</u>	<u>\$12,876,951</u>	<u>\$1,918,400</u>	<u>\$ 7,338</u>	<u>\$ 144,649,315</u>

	Short-term loans	Short-term notes and bills payable	Long-term liabilities- current portion	Long-term loans	Guarantee deposits received	Dividend payable	Liabilities from financing activities-gross
January 1, 2018	\$ 43,509,601	\$ 55,084,146	\$ 3,899,034	\$ 4,844,412	\$ 11,858,610	\$ 9,753	\$ 119,205,556
Changes in cash flow from financing activities	12,195,020	(2,540,825)	2,400,000	3,752,289	408,921	(6,554,150)	9,661,255
Impact of changes in foreign exchange rate	-	-	-	(164,256)	-	-	(164,256)
Changes in other non-cash items	417,378	-	1,182,444	(1,182,444)	-	6,551,853	6,969,231
September 30, 2018	<u>\$ 56,121,999</u>	<u>\$ 52,543,321</u>	<u>\$ 7,481,378</u>	<u>\$ 7,250,001</u>	<u>\$ 12,267,531</u>	<u>\$ 7,456</u>	<u>\$ 135,671,786</u>

7. Related Party Transactions

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

<u>Names of related parties</u>	<u>Relationship with the Group</u>
Ho Yu Investment Co., Ltd. (Ho Yu)	Entities controlled by key management
Ho An Insurance Agency Co., Ltd. (Ho An)	Entities controlled by key management
Ho Chuang Insurance Agency Co., Ltd.	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
Toyota Motor (China) Investment Co., Ltd. (Toyota China)	Entities controlled by key management
Toyota Industries Corporation	Entities controlled by key management
Toyota Motor Manufacturing Turkey Inc.	Entities controlled by key management
Toyota Motor Philippines Corp. (Toyota Philippines)	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

<u>Names of related parties</u>	<u>Relationship with the Group</u>
Toyota Daihatsu Engineering & Manufacturing Co., Ltd.	Entities controlled by key management
Toyota South Africa Motors (Pty) Ltd.	Entities controlled by key management
Toyota New Zealand Ltd.	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 Miao Motor Co., Ltd. (Tau Miao)	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 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
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

<u>Names of related parties</u>	<u>Relationship with the Group</u>
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
Chang Guan Logistics Co., Ltd.	Associates
Jinzhong Central Toyota Motor Sale Service Co., Ltd.	Associates
Tung Tai Asset Management 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 September 30,</u>	
	<u>2019</u>	<u>2018</u>
(a) Interest income:		
-Associates	\$ 13,445	\$ 9,879
-Entities controlled by key management	<u>2</u>	<u>-</u>
	<u>\$ 13,447</u>	<u>\$ 9,879</u>
	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Interest income:		
-Associates	\$ 38,444	\$ 35,089
-Entities controlled by key management	<u>7</u>	<u>-</u>
	<u>\$ 38,451</u>	<u>\$ 35,089</u>

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 September 30,</u>	
	<u>2019</u>	<u>2018</u>
(b) Premium:		
-Associates	\$ 9,954	\$ 6,954
-Entities controlled by key management	<u>330</u>	<u>388</u>
	<u>\$ 10,284</u>	<u>\$ 7,342</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Premium:		
-Associates	\$ 36,577	\$ 34,264
-Entities controlled by key management	<u>1,178</u>	<u>1,401</u>
	<u>\$ 37,755</u>	<u>\$ 35,665</u>
	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
(c) Sales revenue:		
-Associates		
Central Motor	\$ 6,142,017	\$ 4,641,909
Tau Miao	5,565,799	4,135,029
Kuotu	4,998,403	2,878,973
Taipei Motor	4,626,519	3,321,986
Others	9,257,277	6,957,228
-Entities controlled by key management	<u>49,090</u>	<u>75,882</u>
	<u>\$ 30,639,105</u>	<u>\$ 22,011,007</u>
	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Sales revenue:		
-Associates		
Central Motor	\$ 17,397,013	\$ 16,203,684
Tau Miao	15,965,093	14,798,903
Kuotu	13,818,893	10,475,651
Taipei Motor	13,011,993	12,023,484
Others	26,366,608	24,478,934
-Entities controlled by key management	<u>210,660</u>	<u>109,232</u>
	<u>\$ 86,770,260</u>	<u>\$ 78,089,888</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 September 30,</u>	
	<u>2019</u>	<u>2018</u>
(d) Rental revenue:		
-Associates	\$ 25,877	\$ 26,475
-Entities controlled by key management	<u>1,785</u>	<u>1,743</u>
	<u>\$ 27,662</u>	<u>\$ 28,218</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Rental revenue:		
-Associates	\$ 80,083	\$ 90,037
-Entities controlled by key management	<u>5,284</u>	<u>5,220</u>
	<u>\$ 85,367</u>	<u>\$ 95,257</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 September 30,</u>	
	<u>2019</u>	<u>2018</u>
(e) Service revenue:		
Service sales:		
-Associates	\$ 10,961	\$ 9,914
-Entities controlled by key management	3,650	5,007
Contracted operating revenue:		
-Associates	<u>3,654</u>	<u>4,238</u>
	<u>\$ 18,265</u>	<u>\$ 19,159</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Service revenue:		
Service sales:		
-Associates	\$ 30,143	\$ 30,429
-Entities controlled by key management	13,479	16,207
Contracted operating revenue:		
-Associates	<u>11,486</u>	<u>15,300</u>
	<u>\$ 55,108</u>	<u>\$ 61,936</u>

	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
(f) Subsidy income for price difference from installments:		
-Associates	<u>\$ 61,814</u>	<u>\$ 73,539</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Subsidy income for price difference from installments:		
-Associates	<u>\$ 163,688</u>	<u>\$ 233,311</u>

	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
(g) Warranty revenue (shown as deductions to cost of sales):		
-Associates		
Kuozui	\$ 46,188	\$ 46,378
-Entities controlled by key management		
TMAP	133,914	177,048
Others	480	851
	<u>\$ 180,582</u>	<u>\$ 224,277</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Warranty revenue (shown as deductions to cost of sales):		
-Associates		
Kuozui	\$ 153,920	\$ 124,136
-Entities controlled by key management		
TMAP	497,585	552,873
Others	2,094	1,729
	<u>\$ 653,599</u>	<u>\$ 678,738</u>

	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
(h) Advertisement subsidy and sales promotion revenue (shown as deductions to advertisement expense):		
-Associates	\$ 28,368	\$ 21,287
-Entities controlled by key management	8,538	5,193
	<u>\$ 36,906</u>	<u>\$ 26,480</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Advertisement subsidy and sales promotion revenue (shown as deductions to advertisement expense):		
-Associates	\$ 113,152	\$ 91,537
-Entities controlled by key management	48,876	62,309
	<u>\$ 162,028</u>	<u>\$ 153,846</u>

	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
(i) Distribution income (shown as deductions to freight):		
-Associates	\$ 4,957	\$ 5,851
-Entities controlled by key management	<u>-</u>	<u>5</u>
	<u>\$ 4,957</u>	<u>\$ 5,856</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Distribution income (shown as deductions to freight):		
-Associates	\$ 15,563	\$ 20,526
-Entities controlled by key management	<u>45</u>	<u>15</u>
	<u>\$ 15,608</u>	<u>\$ 20,541</u>

	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
(j) Miscellaneous income:		
-Associates		
Kuotu	\$ 21,569	\$ 23,342
Kuozui	14,035	16,242
Others	27,786	22,724
-Entities controlled by key management	<u>26,023</u>	<u>16,131</u>
	<u>\$ 89,413</u>	<u>\$ 78,439</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Miscellaneous income:		
-Associates		
Kuotu	\$ 70,369	\$ 84,509
Kuozui	55,344	51,204
Others	67,668	62,384
-Entities controlled by key management	<u>82,008</u>	<u>53,553</u>
	<u>\$ 275,389</u>	<u>\$ 251,650</u>

B. Expenditures

	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
(a) Interest expense:		
-Associates	\$ 3,203	\$ 3,924
-Entities controlled by key management	<u>225</u>	<u>-</u>
	<u>\$ 3,428</u>	<u>\$ 3,924</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Interest expense:		
-Associates	\$ 12,059	\$ 12,409
-Entities controlled by key management	<u>688</u>	<u>-</u>
	<u>\$ 12,747</u>	<u>\$ 12,409</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 September 30,</u>	
	<u>2019</u>	<u>2018</u>
(b) Purchases of goods:		
-Associates		
Kuozui	\$ 9,088,293	\$ 10,113,927
Others	263,628	261,660
-Entities controlled by key management		
TMC	13,151,002	5,864,428
Others	<u>4,042,257</u>	<u>5,520,695</u>
	<u>\$ 26,545,180</u>	<u>\$ 21,760,710</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Purchases of goods:		
-Associates		
Kuozui	\$ 32,326,902	\$ 34,852,444
Others	729,791	781,475
-Entities controlled by key management		
TMC	33,885,422	24,012,727
Others	<u>12,948,393</u>	<u>13,241,297</u>
	<u>\$ 79,890,508</u>	<u>\$ 72,887,943</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. ("TMCI"), TMAP, TMS and TME. Payment terms are shown in table 6 of Note 13(1) Significant transactions information.

	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
(c) Warranty cost:		
-Associates		
Central Motor	\$ 34,923	\$ 40,861
Tau Miao	24,776	36,569
Kuotu	24,714	34,369
Nan Du	18,170	25,623
Kau Du	17,690	24,969
Taipei Motor	17,020	22,089
Others	3,390	3,552
-Entities controlled by key management	<u>83</u>	<u>245</u>
	<u>\$ 140,766</u>	<u>\$ 188,097</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Warranty cost:		
-Associates		
Central Motor	\$ 106,703	\$ 115,566
Tau Miao	87,911	108,789
Kuotu	78,103	96,242
Nan Du	62,330	72,741
Kau Du	60,699	73,793
Taipei Motor	54,763	63,452
Others	11,904	11,836
-Entities controlled by key management	<u>935</u>	<u>427</u>
	<u>\$ 463,348</u>	<u>\$ 542,846</u>

	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
(d) Advertisement expense:		
-Associates	\$ 5,978	\$ 6,639
-Entities controlled by key management	<u>1,371</u>	<u>971</u>
	<u>\$ 7,349</u>	<u>\$ 7,610</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Advertisement expense:		
-Associates	\$ 8,376	\$ 19,502
-Entities controlled by key management	<u>11,368</u>	<u>1,346</u>
	<u>\$ 19,744</u>	<u>\$ 20,848</u>

	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
(e) Freight:		
-Associates		
Fan Tai	\$ 49,796	\$ 37,521
Yi Tai	25,105	18,314
Others	<u>645</u>	<u>705</u>
	<u>\$ 75,546</u>	<u>\$ 56,540</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Freight:		
-Associates		
Fan Tai	\$ 137,383	\$ 117,630
Yi Tai	80,546	53,422
Others	<u>3,205</u>	<u>2,704</u>
	<u>\$ 221,134</u>	<u>\$ 173,756</u>

		<u>Three months ended September 30,</u>	
		<u>2019</u>	<u>2018</u>
(f) Insurance claim payment:			
-Associates		\$ 1,451	\$ 4,489
-Entities controlled by key management		<u>155</u>	<u>3</u>
		<u>\$ 1,606</u>	<u>\$ 4,492</u>
		<u>Nine months ended September 30,</u>	
		<u>2019</u>	<u>2018</u>
Insurance claim payment:			
-Associates		\$ 9,248	\$ 11,259
-Entities controlled by key management		<u>226</u>	<u>5</u>
		<u>\$ 9,474</u>	<u>\$ 11,264</u>
		<u>Three months ended September 30,</u>	
		<u>2019</u>	<u>2018</u>
(g) Commission expense:			
-Entities controlled by key management			
Ho An		<u>\$ 185,874</u>	<u>\$ 127,410</u>
		<u>Nine months ended September 30,</u>	
		<u>2019</u>	<u>2018</u>
Commission expense:			
-Entities controlled by key management			
Ho An		<u>\$ 516,645</u>	<u>\$ 366,183</u>
		<u>Three months ended September 30,</u>	
		<u>2019</u>	<u>2018</u>
(h) Others:			
-Associates			
Central Motor		\$ 1,431,315	\$ 1,556,651
Kau Du		1,282,864	1,200,907
Kuotu		1,360,462	1,129,286
Tau Miao		1,040,573	1,317,232
Nan Du		1,144,699	1,088,270
Taipei Motor		1,170,172	975,227
Others		<u>166,173</u>	<u>151,309</u>
		<u>\$ 7,596,798</u>	<u>\$ 7,418,882</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Others:		
-Associates		
Central Motor	\$ 4,206,331	\$ 4,963,989
Kau Du	3,745,094	3,700,183
Kuotu	3,729,699	3,615,507
Tau Miao	3,528,763	3,404,514
Nan Du	3,295,735	3,309,182
Taipei Motor	3,094,624	3,099,202
Others	475,135	533,789
	<u>\$ 22,075,381</u>	<u>\$ 22,626,366</u>

As described in Note 4(42), Hotai Finance Co., Ltd. receives only interest income rather than gross profit from the instalment sales with related parties. Therefore, sales revenue and cost of sales are presented in net amount and movable properties arising from the transaction are all pledged as collateral. 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.

C. Receivables from (payables to) related parties

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
(a) Receivables from related parties:			
-Associates	\$ 4,451,693	\$ 2,864,138	\$ 1,600,268
-Entities controlled by key management	<u>136,828</u>	<u>32,045</u>	<u>73,146</u>
	<u>\$ 4,588,521</u>	<u>\$ 2,896,183</u>	<u>\$ 1,673,414</u>
(b) Other receivables from related parties:			
-Associates	\$ 164,559	\$ 396,426	\$ 121,570
-Entities controlled by key management	<u>2,234</u>	<u>4,574</u>	<u>2,734</u>
	<u>\$ 166,793</u>	<u>\$ 401,000</u>	<u>\$ 124,304</u>
(c) Accounts payable:			
-Associates			
Kuozui	\$ 755,376	\$ 529,296	\$ 384,544
Others	742,198	624,089	484,341
-Entities controlled by key management			
TMC	5,829,719	3,942,992	2,145,576
Others	<u>254,899</u>	<u>1,007,277</u>	<u>594,292</u>
	<u>\$ 7,582,192</u>	<u>\$ 6,103,654</u>	<u>\$ 3,608,753</u>

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
(d) Accrued expenses:			
-Associates	\$ 199,662	\$ 561,794	\$ 223,678
-Entities controlled by key management	<u>691</u>	<u>2,098</u>	<u>51</u>
	<u>\$ 200,353</u>	<u>\$ 563,892</u>	<u>\$ 223,729</u>

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
(e) Commissions payable:			
-Entities controlled by key management			
Ho An	<u>\$ 40,613</u>	<u>\$ 40,590</u>	<u>\$ 28,208</u>

D. Prepayments to suppliers

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Entities controlled by key management	<u>\$ 276,735</u>	<u>\$ 170,967</u>	<u>224,617</u>

E. Property transactions

Acquisition of rental assets and equipment

	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
-Associates		
Kuotu	\$ 656,744	\$ 494,675
Taipei Motor	259,379	310,534
Central Motor	178,301	204,460
Tau Miao	188,576	147,614
Kau Du	135,818	135,095
Others	115,124	149,796
-Entities controlled by key management	<u>9,688</u>	<u>-</u>
	<u>\$ 1,543,630</u>	<u>\$ 1,442,174</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
-Associates		
Kuotu	\$ 1,936,659	\$ 1,647,709
Taipei Motor	868,127	1,009,110
Central Motor	676,275	638,648
Tau Miao	662,206	607,963
Kau Du	494,044	474,414
Others	484,208	494,628
-Entities controlled by key management	<u>16,389</u>	<u>-</u>
	<u>\$ 5,137,908</u>	<u>\$ 4,872,472</u>

F. Leasing arrangements - lessee

- (a) 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.
- (b) On January 1, 2019 (the date of initial application of IFRS 16), the Group increased right-of-use assets by \$138,034.

	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Rental expense:		
- Associates	\$ 1,742	\$ 1,691
- Entities controlled by key management	<u>3,775</u>	<u>2,118</u>
	<u>\$ 5,517</u>	<u>\$ 3,809</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Rental expense:		
- Associates	\$ 5,035	\$ 5,075
- Entities controlled by key management	<u>11,308</u>	<u>5,117</u>
	<u>\$ 16,343</u>	<u>\$ 10,192</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>September 30, 2019</u>
Lease liability:	
- Entities controlled by key management	
Ho Yu	\$ 109,427
- Associates	<u>9,499</u>
	<u>\$ 118,926</u>

(3) Key management remuneration

	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Salaries and other short-term employee benefits	\$ 91,704	\$ 45,396
Post-employment benefits	<u>-</u>	<u>-</u>
	<u>\$ 91,704</u>	<u>\$ 45,396</u>

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Salaries and other short-term employee benefits	\$ 275,918	\$ 238,888
Post-employment benefits	<u>2,700</u>	<u>-</u>
	<u>\$ 278,618</u>	<u>\$ 238,888</u>

8. Pledgde Assets

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

<u>Pledged asset</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>	<u>Purpose</u>
Notes and accounts receivable	\$ 6,386,802	\$ 6,736,170	\$ 7,119,012	Short-term borrowings and commercial papers payable
Financial assets at fair value through other comprehensive income (Note 1)	300,300	300,300	300,300	Operation bonds
Restricted assets (Note 2)				
-Demand and time deposits	<u>171,502</u>	<u>601,580</u>	<u>542,428</u>	Short-term borrowings, performance guarantee and issuance of L/C (Note 3)
	<u>\$ 6,858,604</u>	<u>\$ 7,638,050</u>	<u>\$ 7,961,740</u>	
Transactions not listed in the balance sheet				
-Notes receivable for rent	<u>\$ 5,058,416</u>	<u>\$ 5,646,350</u>	<u>\$ 5,873,221</u>	Long-term and short-term borrowings and commercial papers payable

Note 1: Shown as 'other assets'.

Note 2: Shown as 'other financial assets-current'.

Note 3: As of September 30, 2019, December 31, 2018 and September 30, 2018 the certificates of deposits amounting to \$6,321, \$6,147 and \$6,103, 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) In November 2018, the Company signed a contract with Guo Gong Construction Company which was commissioned to a \$519,761 project to build a pre-delivery inspection centre in Yangmei logistics centre on a owner-occupied land. As of November 12, 2019, the outstanding payments amounted to \$332,647.

(2) Details of operating lease agreements are shown in Notes 6(12) and (36)2.

(3) Significant contracts signed by the Group as of September 30, 2019 are summarized as follows:

<u>Type of contracts</u>	<u>Party involved</u>	<u>Contract period</u>	<u>Main contents</u>
<u>The Company</u>			
Distributor agreement	Toyota Motor Corporation	January 1, 2019 to December 31, 2021	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>
<u>The Company</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

On October 31, 2019, the Board of Directors of the subsidiary, Hotai Finance Co., Ltd. resolved to increase its capital by issuing 140,390 thousand shares for underwriting before initial public offering.

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>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</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	\$ 4,901,094	\$ 4,772,918	\$ 4,693,587
Financial assets at fair value through other comprehensive income			
Designation of equity instrument	7,649,574	6,602,870	7,035,064
Qualifying equity instrument	1,608,741	1,551,394	3,637,744
Financial assets at amortized cost/Loans and receivables			
Cash and cash equivalents	10,024,146	9,469,088	9,384,175
Notes receivable	9,503,893	9,300,979	10,487,922
Accounts receivable	120,078,970	111,449,622	107,087,623
Long-term notes and accounts receivable	1,193,231	491,763	435,723
Other receivables	1,632,653	1,911,161	1,504,453
Guarantee deposits paid	647,849	608,528	634,330
Other financial assets	1,871,031	2,280,285	2,381,265
Derivative financial assets for hedging	<u>180,761</u>	<u>70,038</u>	<u>49,036</u>
	<u>\$ 159,291,943</u>	<u>\$ 148,508,646</u>	<u>\$ 147,330,922</u>
	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
<u>Financial liabilities</u>			
Financial liabilities at fair value through profit or loss			
Financial liabilities held for trading	\$ 59,223	\$ 19,047	\$ 40,403
Financial liabilities at amortized cost			
Short-term loans	61,235,371	62,900,378	58,521,621
Short-term notes and bills payable	57,127,672	47,871,914	52,550,450
Notes payable	835,550	156,296	609,269
Accounts payable	12,675,587	10,960,404	6,969,807
Accrued expenses	4,361,241	4,844,381	4,841,344
Other payables	981,690	1,458,313	1,004,982
Commission payable	343,918	360,108	272,686
Corporate bonds payable (including current portion)	5,200,000	5,200,000	5,200,000
Long-term borrowings (including current portion)	6,283,583	6,833,690	7,131,858
Guarantee deposits received	12,876,951	12,528,290	12,267,531
Other financial liabilities	<u>81,373</u>	<u>81,738</u>	<u>79,906</u>
	<u>\$ 162,062,159</u>	<u>\$ 153,214,559</u>	<u>\$ 149,489,857</u>
Lease liabilities	<u>\$ 1,918,400</u>	<u>\$ -</u>	<u>\$ -</u>
Financial liabilities for hedging	<u>\$ -</u>	<u>\$ 52,424</u>	<u>\$ 91,204</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 cross currency swap contracts 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). Moreover, the Group enters into cross currency swap contracts to hedge the foreign exchange risk arising from foreign currency loan underwritten by financial institutions, shown as derivative financial assets and liabilities for hedging. The information is provided in Note 6(4).
- 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). After taking into consideration the use of cross currency swap contracts, the information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	September 30, 2019			December 31, 2018				
	Foreign currency amount	Exchange rate	Book value	Foreign currency amount	Exchange rate	Book value		
	(In thousands)			(In thousands)				
(Foreign currency: functional currency)								
<u>Financial assets</u>								
<u>Monetary items</u>								
USD:NTD	USD	61,773	31.0400	\$ 1,917,422	USD	23,463	30.7150	\$ 720,666
JPY:NTD	JPY	172,689	0.2878	40,752	JPY	216,215	0.2782	60,151
RMB:NTD	CNY	4,482	4.3530	19,510	CNY	11,446	4.4736	51,205
<u>Financial liabilities</u>								
<u>Monetary items</u>								
USD:NTD	USD	218,941	31.0400	\$ 6,795,931	USD	191,949	30.7150	\$ 5,895,714
JPY:NTD	JPY	115,171	0.2878	33,146	JPY	65,352	0.2782	18,181
USD:RMB	USD	137,750	7.1307	982,254	USD	134,950	6.8658	4,144,989

	September 30, 2018			
	Foreign currency amount	Exchange rate	Book value	
	(In thousands)			
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	USD	31,675	30.5250	\$ 966,879
JPY:NTD	JPY	299,207	0.2692	80,547
RMB:NTD	CNY	13,817	4.4334	61,256
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	USD	115,423	30.5250	\$ 3,523,287
JPY:NTD	JPY	21,167	0.2692	5,698
USD:RMB (Note)	USD	159,950	6.8853	4,882,474

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 gain (loss), including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the three months ended September 30, 2019 and 2018, and nine months ended September 30, 2019 and 2018 amounted to \$12,981, \$25,477, \$145,834 and (\$79,871), respectively.

vi. The Group took the use of cross currency swap contracts into account and analysis of foreign currency market risk arising from significant foreign exchange variation is as follows:

	<u>Nine months ended September 30, 2019</u>			<u>Nine months ended September 30, 2018</u>		
	<u>Sensitivity analysis</u>			<u>Sensitivity analysis</u>		
(Foreign currency: functional currency)	<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>
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	1%	\$ 19,174	\$ -	1%	\$ 9,669	\$ -
JPY:NTD	1%	408	-	1%	805	-
RMB:NTD	1%	195	-	1%	613	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	1%	67,959	-	1%	35,233	-
JPY:NTD	1%	331	-	1%	57	-
USD:RMB (Note)	1%	9,823	-	1%	48,825	-

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 subsidiary's, Hotai Finance Co., Ltd., main interest rate risk arises from borrowings with variable rates, which expose the Group to cash flow interest rate risk.
- iii. The subsidiary, Hotai Finance Co., Ltd., assessed the market risk of cross currency 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 subsidiary, Hotai Finance Co., Ltd., is not exposed to the risk arising from variations in the market interest rates as the debt products the subsidiary issued are all fixed rate liabilities.
- v. If the borrowing interest rate had increased/decreased by 1% with all other variables held constant and considering the use of cross currency swap contracts, profit after tax for the nine months ended September 30, 2019 and 2018 would have increased/decreased by \$79,416 and \$79,236, respectively. The main factor is that changes in interest expense result in floating-rate borrowings.

(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 September 30, 2019, December 31, 2018 and September 30, 2018, HFC has financial instruments with off-balance-sheet credit risk amounting to \$8,612,064, \$9,358,523 and \$9,244,511, respectively, and HFC has collected notes for installment payment on behalf of the banks amounting to \$290,438, \$367,181 and \$407,116, respectively. 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. For the subsidiaries, Hotai Finance Co., Ltd. and Hoyun International Lease Co., Ltd., the default occurs when the contract payments are past due over 150 days. Additionally, when the contract payments are not expected to be recovered and transferred to overdue receivables, the default has occurred.

- vi. The Group classifies customer's installment and lease payments accounts and notes receivable in accordance with default situation. The Group applies the simplified approach using provision matrix and 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. and Hoyun International Lease Co., Ltd. used forecastability such as historical experience and the prediction of future economic situation to establish loss rate for estimating loss allowance for instalment and lease payments accounts and notes receivable. On September 30, 2019, December 31, 2018 and September 30, 2018, the provision matrix is as follows:

September 30, 2019	Not past due	Later than 31 to 60 days	Later than 61 to 90 days	Later than 91 to 120 days	Later than 121 to 150 days	Over 151 days	Total
Total book value	\$ 132,219,314	\$ 387,155	\$ 232,358	\$ 138,851	\$ 128,707	\$ 799,793	\$ 133,906,178
Loss allowance	\$ 1,202,020	\$ 128,247	\$ 154,970	\$ 113,763	\$ 119,778	\$ 674,378	\$ 2,393,156

December 31, 2018	Not past due	Later than 31 to 60 days	Later than 61 to 90 days	Later than 91 to 120 days	Later than 121 to 150 days	Over 151 days	Total
Total book value	\$ 124,495,632	\$ 372,786	\$ 157,360	\$ 149,195	\$ 128,573	\$ 855,549	\$ 126,159,095
Loss allowance	\$ 900,231	\$ 100,816	\$ 98,606	\$ 128,111	\$ 120,222	\$ 730,036	\$ 2,078,022

September 30, 2018	Not past due	Later than 31 to 60 days	Later than 61 to 90 days	Later than 91 to 120 days	Later than 121 to 150 days	Over 151 days	Total
Total book value	\$ 120,821,903	\$ 392,187	\$ 150,353	\$ 139,936	\$ 117,748	\$ 826,845	\$ 122,448,972
Loss allowance	\$ 804,567	\$ 102,217	\$ 89,125	\$ 111,753	\$ 105,425	\$ 647,373	\$ 1,860,460

- ix. Credit risk information of subsidiary, Hotai Insurance Co., Ltd., on September 30, 2019, December 31, 2018 and September 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 are as follows:

	<u>Nine months ended September 30, 2019</u>	
	<u>Receivables</u>	
At January 1	\$	2,116,783
Provision for impairment		1,136,559
Write-offs	(	720,682)
Others	(	95,780)
At September 30	<u>\$</u>	<u>2,436,880</u>

	<u>Nine months ended September 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	965,669	2,396
Write-offs	(676,279)	-
Others	(49,279)	-
At September 30	<u>\$ 1,898,790</u>	<u>\$ 2,396</u>

For the nine months ended September 30, 2019 and 2018, gain on recoverable bad debts amounted to \$442,504 and \$392,064, respectively, presented as a deduction item to expected credit loss.

- xii. The Group used the forecastability to adjust historical and timely information to assess the default possibility of debt instrument on September 30, 2019, December 31, 2018, and September 30, 2018, and estimate expected credit loss.

(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 September 30, 2019, December 31, 2018 and September 30, 2018, the Group's unused credit line amounted to \$67,210,730, \$46,613,280 and \$54,681,481 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:

September 30, 2019

	<u>Up to 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>
Short-term loans	\$ 61,224,939	\$ 8,827	\$ 1,605
Short-term notes and bills payable	43,727,672	9,800,000	3,600,000
Notes payable	835,550	-	-
Accounts payable	12,675,587	-	-
Accrued expenses	4,361,241	-	-
Other payables	981,690	-	-
Commission payable	343,918		
Lease liabilities	424,057	356,760	1,466,340
Bonds payable	2,800,000	2,400,000	-
Long-term loans (including current portion)	3,200,000	2,492,365	597,785

Non-derivative financial liabilities:

December 31, 2018

	<u>Up to 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>
Short-term loans	\$ 50,142,853	\$ 5,709,428	\$ 7,048,097
Short-term notes and bills payable	36,639,726	4,844,098	6,388,090
Notes payable	156,296	-	-
Accounts payable	10,960,404	-	-
Accrued expenses	4,844,381	-	-
Other payables	1,458,313	-	-
Commission payable	360,108		
Bonds payable	-	2,800,00	2,400,000
Long-term loans (including current portion)	2,750,000	2,400,000	1,691,722

Non-derivative financial liabilities:

September 30, 2018

	<u>Up to 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>
Short-term loans	\$ 44,755,425	\$ 4,926,901	\$ 8,839,295
Short-term notes and bills payable	39,317,407	7,141,687	6,901,356
Notes payable	609,269	-	-
Accounts payable	6,969,807	-	-
Accrued expenses	4,841,344	-	-
Other payables	1,004,982	-	-
Commission payable	272,686	-	-
Bonds payable	-	2,800,000	2,400,000
Long-term loans (including current portion)	1,450,000	3,200,000	2,491,494

Derivative financial liabilities:

September 30, 2019

	<u>Up to 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>
Forward exchange contracts	\$ 59,223	\$ -	\$ -

Derivative financial liabilities:

December 31, 2018

	<u>Up to 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>
Cross currency swaps	\$ 1,486	\$ 16,262	\$ 34,676
Forward exchange contracts	19,047	-	-

Derivative financial liabilities:

September 30, 2018

	<u>Up to 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>
Cross currency swaps	\$ 1,590	\$ 24,856	\$ 64,758
Forward exchange contracts	40,403	-	-

(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 and infrastructure fund are included in Level 3.

B. Fair value information of investment property at cost is provided in Note 6(14).

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>September 30, 2019</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				
Domestic and foreign beneficiary certificates	\$ 1,475,727	\$ -	\$ 343,221	\$ 1,818,948
Forward exchange contracts	-	21,384	-	21,384
Bond investment	-	1,000,000	-	1,000,000
Foreign exchange swap contracts	-	4,204	-	4,204
Equity securities	859,392	-	-	859,392
Exchange traded funds	1,006,371	-	-	1,006,371
Financial instruments	-	190,795	-	190,795
Derivative financial assets for hedging	-	180,761	-	180,761
Financial assets at fair value through other comprehensive income				
Bond investment (Note)	-	1,608,741	-	1,608,741
Equity securities	<u>7,321,797</u>	<u>-</u>	<u>327,777</u>	<u>7,649,574</u>
	<u>\$ 10,663,287</u>	<u>\$ 3,005,885</u>	<u>\$ 670,998</u>	<u>\$ 14,340,170</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value				
through profit or loss				
Forward exchange contracts	\$ -	\$ 58,974	\$ -	\$ 58,974
Forward exchange swap contracts	-	249	-	249
Derivative financial liabilities for hedging	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 59,223</u>	<u>\$ -</u>	<u>\$ 59,223</u>

Note: Including operation bonds.

<u>December 31, 2018</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				
Domestic and foreign beneficiary certificates	\$ 1,328,515	\$ -	\$ 302,104	\$ 1,630,619
Forward exchange contracts	-	4,171	-	4,171
Foreign exchange swap contracts	-	4,313	-	4,313
Bond investment	-	1,000,000	-	1,000,000
Equity securities	884,515	-	-	884,515
Exchange traded funds	1,153,253	-	-	1,153,253
Financial instruments	-	96,047	-	96,047
Derivative financial assets for hedging	-	70,038	-	70,038
Financial assets at fair value through other comprehensive income				
Bond investment (Note)	-	1,551,394	-	1,551,394
Equity securities	<u>6,313,093</u>	<u>-</u>	<u>289,777</u>	<u>6,602,870</u>
	<u>\$ 9,679,376</u>	<u>\$ 2,725,963</u>	<u>\$ 591,881</u>	<u>\$ 12,997,220</u>
<u>Liabilities</u>				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Forward exchange contracts	\$ -	\$ 19,047	\$ -	\$ 19,047
Derivative financial liabilities for hedging	-	<u>52,424</u>	-	<u>52,424</u>
	<u>\$ -</u>	<u>\$ 71,471</u>	<u>\$ -</u>	<u>\$ 71,471</u>

Note: Including operation bonds.

<u>September 30, 2018</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	\$ 1,218,586	\$ -	\$ 295,800	\$ 1,514,386
Forward exchange contracts	-	1,197	-	1,197
Foreign exchange swap contracts	-	5,373	-	5,373
Bond investment	-	1,000,000	-	1,000,000
Equity securities	1,301,680	-	-	1,301,680
Exchange traded funds	774,748	-	-	774,748
Financial instruments	-	96,203	-	96,203
Derivative financial assets for hedging	-	49,036	-	49,036
Financial assets at fair value through other comprehensive income				
Bond investment (Note)	-	3,637,744	-	3,637,744
Equity securities	<u>6,764,257</u>	<u>-</u>	<u>270,807</u>	<u>7,035,064</u>
	<u>\$ 10,059,271</u>	<u>\$ 4,789,553</u>	<u>\$ 566,607</u>	<u>\$ 15,415,431</u>
<u>Liabilities</u>				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Forward exchange contracts	\$ -	\$ 40,403	\$ -	\$ 40,403
Derivative financial liabilities for hedging	<u>-</u>	<u>91,204</u>	<u>-</u>	<u>91,204</u>
	<u>\$ -</u>	<u>\$ 131,607</u>	<u>\$ -</u>	<u>\$ 131,607</u>

Note: Including operation bonds.

- (b) The methods and assumptions the Group used to measure fair value are as follows:
- 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>Beneficiary certificates</u>	<u>Open-end fund</u>	<u>Exchange traded funds</u>
Market quoted price	Closing price	Closing price	Net asset value	Closing price
 - Except for financial instruments with active markets, domestic investments of the Company's subsidiary, Hotai Insurance Co., Ltd., 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 aside from infrastructure fund and real estate private placement fund that are assessed by balance sheet approach. 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 nine months ended September 30, 2019 and 2018:

	<u>2019</u>	<u>2019</u>
	Beneficiary certificates	Equity securities
At January 1	\$ 302,104	\$ 289,777
Recorded as unrealized gains on valuation of investments in equity instruments measured at fair value through other comprehensive income	-	38,000
Recorded as gains on financial assets at fair value through profit or loss	11,151	-
Acquired during the period	<u>29,966</u>	<u>-</u>
At September 30	<u>\$ 343,221</u>	<u>\$ 327,777</u>
	<u>2018</u>	<u>2018</u>
	Beneficiary certificates	Equity securities
At January 1	\$ -	\$ 281,388
Acquisition of Level 3 financial assets	291,300	-
Recorded as unrealized losses on valuation of investments in equity instruments measured at fair value through other comprehensive income	-	(10,581)
Recorded as gains on financial assets at fair value through profit or loss	<u>4,500</u>	<u>-</u>
At September 30	<u>\$ 295,800</u>	<u>\$ 270,807</u>

F. For the nine months ended September 30, 2019 and 2018, 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 September 30, 2019</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	\$ 327,777	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 and real estate private placement fund	343,221	Net assets value	Not applicable	Not applicable	Not applicable

	<u>Fair value at December 31, 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	\$ 289,777	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	302,104	Net asset value	Not applicable	Not applicable	Not applicable

	<u>Fair value at September 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	\$ 270,807	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	295,800	Net asset value	Not applicable	Not applicable	Not applicable

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 September 30, 2019, December 31, 2018 and September 30, 2018.

(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>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</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	50,000	50,000
Fidelity insurance	60,000	60,000	60,000
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 subsidiary, Hotai Insurance Co., Ltd., 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 subsidiary, Hotai Insurance Co., Ltd., 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 September 30, 2019, December 31, 2018 and September 30, 2018, the subsidiary, Hotai Insurance Co., Ltd., included receivables (excluding interest receivables from bonds and interest receivables from time deposits) and other assets (excluding operating bonds) into the range whose impairment should be assessed and the expected loss rates are as follows:

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

	September 30, 2019		
	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	\$ 777,431	\$ -	\$ 160
Loss allowance	-	-	160

	December 31, 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
	0%	0%	100%
Expected loss rate	0%	0%	100%
Total book value	\$ 681,769	\$ -	\$ 160
Loss allowance	-	-	160

	September 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
	0%	0%	100%
Expected loss rate	0%	0%	100%
Total book value	\$ 768,437	\$ -	\$ 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 nine months ended September 30, 2019 and 2018, the movement of allowance for loss are as follows:

	2019				
	<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 “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	\$ 16,526	\$ 16,686
Provisions during the period	-	-	-	(569)	(569)
At September 30	\$ -	\$ -	\$ 160	\$ 15,957	\$ 16,117

	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 “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
Provisions during the period	-	-	-	(289)	(289)
At September 30	\$ -	\$ -	\$ 160	\$ 18,912	\$ 19,072

As of September 30, 2019, December 31, 2018 and September 30, 2018, the allowance for loss of abovementioned financial assets was \$16,117, \$16,686 and \$19,072, respectively,

and the maximum exposure to credit risk was \$761,474, \$665,244 and \$749,525, respectively.

- (f) As of September 30, 2019, December 31, 2018 and September 30, 2018, the subsidiary, Hotai Insurance Co., Ltd., has financial assets at fair value through other comprehensive income (including operating bonds), interest receivables from bonds, non-short term time deposits (excluding valuation adjustment) and interest receivables from time deposits amounting to \$3,515,132, \$3,426,852 and \$5,507,774, respectively, and are all classified as investment grade. The external credit risk rating are as follows:

<u>Credit risk rating</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
tw AAA	\$ 942,436	\$ 962,874	\$ 3,047,746
tw AA+	340,312	365,422	326,779
tw AA	301,047	598,326	682,333
tw AA-	1,000,935	828,788	572,907
tw A+	123,048	303,574	447,273
tw A	690,104	355,224	417,879
tw A-	<u>117,250</u>	<u>12,644</u>	<u>12,857</u>
	<u>\$ 3,515,132</u>	<u>\$ 3,426,852</u>	<u>\$ 5,507,774</u>

The probable expected loss rates of abovementioned financial assets within 12 months were 0%~0.07%, 0%~0.08% and 0%~0.06%, respectively, the amounts of allowance for loss were \$665, \$510 and \$492, respectively, and the maximum exposure amounts were \$3,514,467, \$3,426,342 and \$5,507,282, respectively. Aforementioned amounts of allowance for loss were using the forecastability of Standard & Poor's research report to adjust historical and timely information to assess the expected loss rate. For the nine months ended September 30, 2019 and 2018, the movements of allowance for loss are as follows:

	<u>2019</u>	<u>2018</u>
At January 1	\$ 510	\$ 506
Provisions (reversals) during the period	<u>156</u>	<u>(14)</u>
At September 30	<u>\$ 666</u>	<u>\$ 492</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 nine months ended September 30, 2019 and 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):

Nine months ended September 30, 2019

Credit rating levels (S&P)	Reinsurance premiums ceded	Percentage
AA+	\$ 1,388	-
AA	3,599	
AA-	386,419	32
A+	457,901	37
A	50,146	4
B+++	1,871	-
Unrated	335,814	27
Total	\$ 1,237,138	100

Nine months ended September 30, 2018

Credit rating levels (S&P)	Reinsurance premiums ceded	Percentage
AA+	\$ 1,450	-
AA	1,475	-
AA-	294,990	34
A+	309,403	35
A	28,310	3
A-	9,878	1
BBB+	1,211	-
Unrated	237,333	27
Total	\$ 884,050	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

	Contractual undiscounted cash flows			
	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Over 10 years
<u>September 30, 2019</u>				
Insurance liabilities	\$ 5,760,950	\$ 1,482,821	\$ 129,194	\$ 1,919,709
Payables	1,081,250	-	-	-
Deposits-in	2,588	1,713	490	-
Lease liabilities	55,527	118,247	-	-

	Contractual undiscounted cash flows			
	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Over 10 years
<u>December 31, 2018</u>				
Insurance liabilities	\$ 4,798,754	\$ 1,256,846	\$ 108,635	\$ 1,919,791
Payables	942,875	-	-	-
Deposits-in	2,733	1,607	390	-

	Contractual undiscounted cash flows			
	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Over 10 years
<u>September 30, 2018</u>				
Insurance liabilities	\$ 4,446,816	\$ 1,477,035	\$ 135,082	\$ 1,914,473
Payables	739,349	-	-	-
Deposits-in	2,585	1,607	390	-

ii. Derivatives

On September 30, 2019, 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:

	September 30, 2019			
	Change of variables				Change in other comprehensive income
Listed stocks, ETF and domestic and foreign beneficiary certificates	Increase in price	10%	\$	290,911
	Decrease in price	10%	(	290,911)
	September 30, 2018			
	Change of variables			Change in other comprehensive Income
Listed stocks, ETF and domestic and foreign beneficiary certificates	Increase in price	10%	\$	298,090
	Decrease in price	10%	(	298,090)

(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:

	September 30, 2019			
	Change of variables				Change in fair value
Fixed-income investments	Increase in interest rate	100 basis point	(\$	116,811)
	Decrease in interest rate	100 basis point		116,811

	<u>September 30, 2018</u>		
	<u>Change of variables</u>		<u>Change in fair value</u>
Fixed-income investments	Increase in interest rate	100 basis point	(\$ 173,139)
	Decrease in interest rate	100 basis point	173,139

(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>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Foreign exchange rate	31.04	30.74	30.52

The US dollar assets and liabilities are shown as below:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
USD Assets	USD41,256,120.16	USD33,885,907.42	USD32,839,887.08
USD Liabilities	USD 5,985,912.91	USD 638,757.49	USD 95,929.25

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>September 30, 2019</u>	
	<u>Change on variable</u>	<u>Impact on net (loss) income</u>
USD assets, net	Appreciate 5% against NTD	(\$ 20,131)
	Depreciate 5% against NTD	20,131
	<u>September 30, 2018</u>	
	<u>Change on variable</u>	<u>Impact on net (loss) income</u>
USD assets, net	Appreciate 5% against NTD	(\$ 19,392)
	Depreciate 5% against NTD	19,392

(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 nine months ended September 30, 2019 and 2018, 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>Nine months ended September 30, 2019</u>	
	<u>Premiums revenue</u>	<u>Retention premiums</u>
Fire insurance	\$ 1,028,177	\$ 478,540
Engineering insurance	53,292	18,695

<u>Line of Business</u>	<u>Nine months ended September 30, 2018</u>	
	<u>Premiums revenue</u>	<u>Retention premiums</u>
Fire insurance	\$ 943,600	\$ 493,200
Engineering insurance	34,439	8,888

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 the nine months ended September 30, 2019 and 2018 and the result is shown below:

Nine months ended September 30, 2019

<u>Line of Business</u>	<u>Expected loss ratio increased by 5%</u>		<u>Expected loss ratio decreased by 5%</u>	
	<u>Increase in claim reserve before reinsurance</u>	<u>Increase in claim reserve after reinsurance</u>	<u>Decrease in claim reserve before reinsurance</u>	<u>Decrease in claim reserve after reinsurance</u>
Automobile property damage insurance	\$ 97,580	\$ 85,033	\$ 97,580	\$ 85,033
Automobile third party liability insurance	45,649	40,622	45,649	40,622
Personal property insurance	4,895	3,328	4,895	3,328
Commercial property insurance	36,564	15,320	36,564	15,320
Liability insurance	24,505	17,656	24,505	17,656
Marine cargo insurance	7,300	5,582	7,300	5,582
Engineering insurance	2,623	613	2,623	613
Personal accident insurance	36,815	35,234	36,815	35,234
Health insurance	5,299	4,868	5,299	4,868
Foreign inward reinsurance	997	991	997	991

Nine months ended September 30, 2018

<u>Line of Business</u>	<u>Expected loss ratio increased by 5%</u>		<u>Expected loss ratio decreased by 5%</u>	
	<u>Increase in claim reserve before reinsurance</u>	<u>Increase in claim reserve after reinsurance</u>	<u>Decrease in claim reserve before reinsurance</u>	<u>Decrease in claim reserve after reinsurance</u>
Automobile property damage insurance	\$ 72,465	\$ 64,814	\$ 72,465	\$ 64,814
Automobile third party liability insurance	34,871	32,303	34,871	32,303
Personal property insurance	5,044	2,978	5,044	2,978
Commercial property insurance	30,240	11,573	30,240	11,573
Liability insurance	16,430	12,408	16,430	12,408
Marine cargo insurance	6,703	5,227	6,703	5,227
Engineering insurance	3,066	539	3,066	539
Personal accident insurance	31,942	30,090	31,942	30,090
Health insurance	5,014	4,310	5,014	4,310
Foreign inward reinsurance	959	942	959	942

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 nine months ended September 30, 2019 and 2018.

C. Loss development pattern

As of September 30, 2019, December 31, 2018 and September 30, 2018, the loss development pattern of the subsidiary, Hotai Insurance Co., Ltd., are as follows :

(a) Direct business

September 30, 2019	Accident Year					Total	Unit:NTD
	≤2015	2016	2017	2018	Nine months ended September 30, 2018		
<u>Development Year</u>							
End of underwriting year	\$21,235,766	\$ 2,644,742	\$ 1,788,662	\$ 2,584,648	\$ 2,692,100		
One year after underwriting year	21,303,252	2,344,556	1,806,176	2,601,046	-		
Two years after underwriting year	21,320,481	2,297,738	1,626,920	-	-		
Three years after underwriting year	21,192,337	2,264,986	-	-	-		
Four years after underwriting year	21,158,914	-	-	-	-		
Estimated ultimate losses	21,158,914	2,264,986	1,626,920	2,601,046	\$ 2,692,100		
Paid losses	(20,627,708)	(2,099,773)	(1,319,515)	(2,112,904)	(1,424,692)		
Total reserve	<u>\$ 531,206</u>	<u>\$ 165,213</u>	<u>\$ 307,405</u>	<u>\$ 488,142</u>	<u>\$ 1,267,408</u>	\$	2,759,374
Adjustment item (Note)							301,772
Realized amount in balance sheet							<u>\$ 3,061,146</u>
December 31, 2018	Accident Year					Total	Unit:NTD
Development Year	≤2014	2015	2016	2017	2018		
End of underwriting year	\$19,944,293	\$ 1,399,479	\$ 2,644,742	\$ 1,788,662	\$ 2,584,648		
One year after underwriting year	19,836,286	1,401,087	2,344,556	1,806,176	-		
Two years after underwriting year	19,902,165	1,395,084	2,297,738	-	-		
Three years after underwriting year	19,925,398	1,321,887	-	-	-		
Four years after underwriting year	19,870,450	-	-	-	-		
Estimated ultimate losses	19,870,450	1,321,887	2,297,738	1,806,176	2,584,648		
Paid losses	(19,484,893)	(1,130,314)	(2,070,451)	(1,263,860)	(1,574,267)		
Total reserve	<u>\$ 385,557</u>	<u>\$ 191,574</u>	<u>\$ 227,287</u>	<u>\$ 542,316</u>	<u>\$ 1,010,381</u>	\$	2,357,115
Adjustment item (Note)							244,869
Realized amount in balance sheet							<u>\$ 2,601,984</u>
September 30, 2018	Accident Year					Total	Unit:NTD
Development Year	≤2014	2015	2016	2017	Nine months ended September 30, 2018		
End of underwriting year	\$19,944,293	\$ 1,399,479	\$ 2,644,742	\$ 1,788,662	\$ 1,869,314		
One year after underwriting year	19,836,286	1,401,087	2,344,556	1,789,817	-		
Two years after underwriting year	19,902,165	1,395,084	2,308,255	-	-		
Three years after underwriting year	19,925,398	1,336,255	-	-	-		
Four years after underwriting year	19,899,279	-	-	-	-		
Estimated ultimate losses	19,899,279	1,336,255	2,308,255	1,789,817	1,869,314		
Paid losses	(19,479,482)	(1,129,992)	(2,054,443)	(1,151,204)	(1,002,099)		
Total reserve	<u>\$ 419,797</u>	<u>\$ 206,263</u>	<u>\$ 253,812</u>	<u>\$ 638,613</u>	<u>\$ 867,215</u>	\$	2,385,700
Adjustment item (Note)							252,206
Realized amount in balance sheet							<u>\$ 2,637,906</u>

(b) Retention business

Unit: NTD

September 30, 2019	Accident Year					Total
	≤2015	2016	2017	2018	Nine months ended September 30, 2019	
Development Year						
End of underwriting year	\$ 14,201,574	\$ 1,100,469	\$ 1,351,056	\$ 2,301,559	\$ 2,303,762	
One year after underwriting year	14,196,090	1,112,765	1,375,530	2,327,239	-	
Two years after underwriting year	14,231,405	1,069,063	1,304,576	-	-	
Three years after underwriting year	14,151,656	1,047,590	-	-	-	
Four years after underwriting year	14,130,423	-	-	-	-	
Estimated ultimate losses	14,130,423	1,047,590	1,304,576	2,327,239	2,303,762	
Paid losses	(13,720,391)	(950,248)	(1,095,963)	(1,921,230)	(1,255,214)	
Total reserve	<u>\$ 410,032</u>	<u>\$ 97,342</u>	<u>\$ 208,613</u>	<u>\$ 406,009</u>	<u>\$ 1,048,548</u>	\$ 2,170,544
Adjustment item (Note)						222,308
Realized amount in balance sheet						<u>\$ 2,392,852</u>

December 31, 2018	Accident Year					Total
	≤2014	2015	2016	2017	2018	
Development Year						
End of underwriting year	\$ 13,034,142	\$ 1,197,810	\$ 1,100,469	\$ 1,351,056	\$ 2,301,559	
One year after underwriting year	13,003,762	1,216,337	1,112,765	1,375,530	-	
Two years after underwriting year	12,979,752	1,225,395	1,069,063	-	-	
Three years after underwriting year	13,006,010	1,181,837	-	-	-	
Four years after underwriting year	12,969,819	-	-	-	-	
Estimated ultimate losses	12,969,819	1,181,837	1,069,063	1,375,530	2,301,559	
Paid losses	(12,692,504)	(1,015,999)	(923,829)	(1,051,392)	(1,436,083)	
Total reserve	<u>\$ 277,315</u>	<u>\$ 165,838</u>	<u>\$ 145,234</u>	<u>\$ 324,138</u>	<u>\$ 865,476</u>	\$ 1,778,001
Adjustment item (Note)						189,537
Realized amount in balance sheet						<u>\$ 1,967,538</u>

September 30, 2018	Accident Year					Total
	≤2014	2015	2016	2017	Nine months ended September 30, 2018	
Development Year						
End of underwriting year	\$ 13,034,142	\$ 1,197,810	\$ 1,100,469	\$ 1,351,056	\$ 1,664,800	
One year after underwriting year	13,003,762	1,216,337	1,112,765	1,369,481	-	
Two years after underwriting year	12,979,752	1,225,395	1,084,372	-	-	
Three years after underwriting year	13,006,010	1,185,074	-	-	-	
Four years after underwriting year	12,983,218	-	-	-	-	
Estimated ultimate losses	12,983,218	1,185,074	1,084,372	1,369,481	1,664,800	
Paid losses	(12,687,093)	(1,015,713)	(910,633)	(1,030,035)	(922,604)	
Total reserve	<u>\$ 296,125</u>	<u>\$ 169,361</u>	<u>\$ 173,739</u>	<u>\$ 339,446</u>	<u>\$ 742,196</u>	\$ 1,720,867
Adjustment item (Note)						192,779
Realized amount in balance sheet						<u>\$ 1,913,646</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>Book value</u>	<u>Within 12 months</u>	<u>Over 12 months</u>
<u>September 30, 2019</u>			
<u>Assets</u>			
Cash and cash equivalents	\$ 3,065,371	\$ 3,065,371	\$ -
Receivables	686,095	686,095	-
Current tax assets	7,633	-	7,633
Assets held for sale	15,767	15,767	-
Financial assets at fair value through profit or loss	3,413,317	2,913,317	500,000
Financial assets at fair value through other comprehensive income			
Other financial assets	1,608,742	22,321	1,586,421
Right-of-use assets	1,619,473	1,500,004	119,469
Investment property	169,678	-	169,678
Reinsurance contract assets	330,756	-	330,756
Property and equipment	1,803,701	1,340,487	463,214
Intangible assets	2,620,758	-	2,620,758
Other assets	50,102	-	50,102
	477,815	31,390	446,425
<u>Liabilities</u>			
Payables	\$ 1,081,250	\$ 1,081,250	\$ -
Current income tax liabilities	20,404	20,404	-
Financial liabilities at fair value through profit or loss	248	248	-
Insurance liabilities	9,292,674	5,760,950	3,531,724
Lease liabilities	170,909	55,527	115,382
Other liabilities	90,477	88,275	2,202
	<u>Book value</u>	<u>Within 12 months</u>	<u>Over 12 months</u>
<u>December 31, 2018</u>			
<u>Assets</u>			
Cash and cash equivalents	\$ 1,564,420	\$ 1,564,420	\$ -
Receivables	605,870	605,870	-
Current income tax assets	13,777	-	13,777
Assets held for sale	15,767	15,767	-
Financial assets at fair value through profit or loss	3,378,951	2,878,951	500,000
Financial assets at fair value through other comprehensive income	1,551,395	267,421	1,283,974
Other financial assets	1,550,442	1,493,201	57,241
Investment property	325,567	-	325,567
Reinsurance contract assets	1,642,862	1,225,913	416,949
Property and equipment	2,594,886	-	2,594,886
Intangible assets	66,412	-	66,412
Other assets	443,865	31,870	411,995

<u>December 31, 2018</u>	<u>Book value</u>	<u>Within 12 months</u>	<u>Over 12 months</u>
<u>Liabilities</u>			
Payables	\$ 942,875	\$ 942,875	\$ -
Insurance liabilities	8,084,026	4,798,752	3,285,274
Other liabilities	96,040	94,043	1,997
<u>September 30, 2018</u>	<u>Book value</u>	<u>Within 12 months</u>	<u>Over 12 months</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 1,490,875	\$ 1,490,875	\$ -
Receivables	700,221	700,221	-
Current tax assets	5,546	-	5,546
Financial assets at fair value through profit or loss	3,486,277	2,986,277	500,000
Assets held for sale	15,767	15,767	-
Financial assets at fair value through other comprehensive income	3,637,745	231,027	3,406,718
Other financial assets	1,540,921	1,512,655	28,266
Investment property	322,790	-	322,790
Reinsurance contract assets	1,600,983	951,527	649,457
Property and equipment	385,451	-	385,451
Intangible assets	47,824	-	47,824
Other assets	407,796	25,102	382,694
<u>Liabilities</u>			
Payables	\$ 739,349	\$ 739,349	\$ -
Insurance liabilities	7,973,406	4,446,816	3,526,590
Current income tax liabilities	6,914	6,914	-
Other liabilities	49,477	47,480	1,997

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

Beginning on December 12, 2018, the subsidiary, Hotai Insurance Co., Ltd., signed a discretionary investment management contract with Uni-President Assets Management Corp., to commission Uni-President Assets Management Corp. to manage the investment in domestic listed companies' stocks and short-term notes and bills totaling \$600,000.

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 listed companies' stocks and short-term notes and bills totaling \$500,000 and \$1,000,000, respectively. However, the Company adjusted the commissioned investment amounts in Yuanta Funds and FSITC to \$700,000 and \$800,000, respectively, in November 2018.

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 September 30, 2019						
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	\$ 38,353	\$ 37,408	\$ 33,978	\$ 41,783	\$ 4,285	\$ 37,498
Elective insurance	1,967,060	85,676	372,492	1,680,244	128,169	1,552,075
	2,005,413	123,084	406,470	1,722,027	132,454	1,589,573
Discount	3	-	-	3	-	3
	<u>\$ 2,005,416</u>	<u>\$ 123,084</u>	<u>\$ 406,470</u>	<u>\$ 1,722,030</u>	<u>\$ 132,454</u>	<u>\$ 1,589,576</u>

Nine months ended September 30, 2019						
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	\$ 108,817	\$ 106,436	\$ 100,596	\$ 114,657	\$ 11,616	\$ 103,041
Elective insurance	5,898,161	168,376	1,320,275	4,746,262	568,589	4,177,673
	6,006,978	274,812	1,420,871	4,860,919	580,205	4,280,714
Discount	10	-	-	10	-	10
	<u>\$ 6,006,988</u>	<u>\$ 274,812</u>	<u>\$ 1,420,871</u>	<u>\$ 4,860,929</u>	<u>\$ 580,205</u>	<u>\$ 4,280,724</u>

Three months ended September 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	\$ 51,907	\$ 33,317	\$ 26,900	\$ 58,324	\$ 1,806	\$ 56,518
Elective insurance	1,450,040	111,188	289,550	1,271,678	106,416	1,165,262
	1,501,947	144,505	316,450	1,330,002	108,222	1,221,780
Discount	(1)	-	-	(1)	-	(1)
	<u>\$ 1,501,946</u>	<u>\$ 144,505</u>	<u>\$ 316,450</u>	<u>\$ 1,330,001</u>	<u>\$ 108,222</u>	<u>\$ 1,221,779</u>

Nine months ended September 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	\$ 90,410	\$ 95,371	\$ 81,849	\$ 103,932	\$ 7,042	\$ 96,890
Elective insurance	4,570,484	214,725	967,616	3,817,593	515,866	3,301,727
	4,660,894	310,096	1,049,465	3,921,525	522,908	3,398,617
Discount	-	-	-	-	-	-
	<u>\$ 4,660,894</u>	<u>\$ 310,096</u>	<u>\$ 1,049,465</u>	<u>\$ 3,921,525</u>	<u>\$ 522,908</u>	<u>\$ 3,398,617</u>

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

Three months ended September 30, 2019				
Category of insurance	Claim expenditures (1)	Reinsurance claim expenditures (2)	Reinsurance claims recovery (3)	Retention claim expenditures (4)=(1)+(2)-(3)
Compulsory insurance	\$ 55,107	\$ 23,273	\$ 31,505	\$ 46,875
Elective insurance	743,232	1,083	88,230	656,085
	<u>\$ 798,339</u>	<u>\$ 24,356</u>	<u>\$ 119,735</u>	<u>\$ 702,960</u>

Nine months ended September 30, 2019				
Category of insurance	Claim expenditures (1)	Reinsurance claim expenditures (2)	Reinsurance claims recovery (3)	Retention claim expenditures (4)=(1)+(2)-(3)
Compulsory insurance	\$ 156,178	\$ 83,934	\$ 90,957	\$ 149,155
Elective insurance	2,015,553	34,724	229,093	1,821,184
	<u>\$ 2,171,731</u>	<u>\$ 118,658</u>	<u>\$ 320,050</u>	<u>\$ 1,970,339</u>

Three months ended September 30, 2018

Category of insurance	Claim expenditures (1)	Reinsurance claim expenditures (2)	Reinsurance claims recovery (3)	Retention claim expenditures (4)=(1)+(2)-(3)
Compulsory insurance	\$ 27,382	\$ 28,526	\$ 15,966	\$ 39,942
Elective insurance	<u>567,648</u>	<u>3,667</u>	<u>51,335</u>	<u>519,980</u>
	<u>\$ 595,030</u>	<u>\$ 32,193</u>	<u>\$ 67,301</u>	<u>\$ 559,922</u>

Nine months ended September 30, 2018

Category of insurance	Claim expenditures (1)	Reinsurance claim expenditures (2)	Reinsurance claims recovery (3)	Retention claim expenditures (4)=(1)+(2)-(3)
Compulsory insurance	\$ 92,713	\$ 86,637	\$ 55,536	\$ 123,814
Elective insurance	<u>1,532,181</u>	<u>33,510</u>	<u>141,581</u>	<u>1,424,110</u>
	<u>\$ 1,624,894</u>	<u>\$ 120,147</u>	<u>\$ 197,117</u>	<u>\$ 1,547,924</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>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Assets			
Cash and cash equivalents	\$ 1,578,063	\$ 1,548,083	\$ 1,524,083
Notes receivable	2,228	1,822	1,560
Premiums receivable	5,024	8,010	4,153
Claims recoverable from reinsurers	26,174	2,686	12,472
Due from reinsurance and ceding companies	22,530	20,830	20,563
Ceded unearned premium reserve	70,916	61,729	57,532
Ceded claim reserve	85,390	60,779	65,357
Temporary payments and suspense accounts	<u>185</u>	<u>423</u>	<u>371</u>
Total assets	<u>\$ 1,790,510</u>	<u>\$ 1,704,362</u>	<u>\$ 1,686,091</u>
Liabilities			
Claims payable	\$ 20,329	\$ 227	\$ 295
Due to reinsurance and ceding companies	19,321	21,617	16,953
Unearned premium reserve	196,282	175,478	167,631
Claims reserve	247,482	200,079	206,855
Special reserve	1,306,906	1,306,825	1,294,242
Temporary payments and suspense accounts	<u>190</u>	<u>136</u>	<u>115</u>
Total liabilities	<u>\$ 1,790,510</u>	<u>\$ 1,704,362</u>	<u>\$ 1,686,091</u>

As of September 30, 2019, December 31, 2018 and September 30, 2018, the subsidiary, Hotai Insurance Co., Ltd., has long-term time deposits amounting to \$1,489,013, \$1,420,263 and \$1,427,863, 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 September 30,</u>	
	<u>2019</u>	<u>2018</u>
Operating revenues		
Written premiums	\$ 56,631	\$ 44,832
Reinsurance premiums	37,408	33,316
Less: Reinsurance premiums ceded	(33,978)	(26,900)
Net change in unearned premium reserve	(4,285)	(1,806)
Retention earned premiums	55,776	49,442
Interest income	3,381	3,328
	<u>\$ 59,157</u>	<u>\$ 52,770</u>
Operating costs		
Claim expenditures	\$ 55,106	\$ 27,383
Reinsurance claim expenditures	23,273	28,526
Less: Reinsurance claims recovery	(31,504)	(15,967)
Retention claim expenditures	46,875	39,942
Net change in claims reserve	10,547	4,163
Net change in special reserve	1,735	8,665
	<u>\$ 59,157</u>	<u>\$ 52,770</u>
	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Operating revenues		
Written premiums	\$ 167,660	\$ 136,410
Reinsurance premiums	106,436	95,371
Less: Reinsurance premiums ceded	(100,596)	(81,849)
Net change in unearned premium reserve	(11,616)	(7,042)
Retention earned premiums	161,884	142,890
Interest income	10,144	9,982
	<u>\$ 172,028</u>	<u>\$ 152,872</u>
Operating costs		
Claim expenditures	\$ 156,178	\$ 92,714
Reinsurance claim expenditures	83,934	86,637
Less: Reinsurance claims recovery	(90,957)	(55,537)
Retention claim expenditures	149,155	123,814
Net change in claims reserve	22,791	20,709
Net change in special reserve	82	8,349
	<u>\$ 172,028</u>	<u>\$ 152,872</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 year 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) The total amount of current assets and liabilities of the subsidiary, Hotai Finance Co., Ltd., that are expected to be recovered and repaid within or over 12 months

<u>December 31, 2019</u>	<u>Book value</u>	<u>Within 12 months</u>	<u>Over 12 months</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 650,027	\$ 650,027	\$ -
Current financial assets for hedging	180,761	4,371	176,390
Accounts and notes receivable, net	111,788,871	50,051,407	67,737,464
Other receivables	178,190	178,190	-
Inventories	11,423	11,423	-
Prepayments	4,795,887	3,290,986	1,504,901
Other current financial assets	84,727	84,727	-
<u>Liabilities</u>			
Current borrowings	\$ 50,682,736	\$ 40,250,935	\$ 10,431,801
Short-term notes and bills payable	52,079,827	38,697,912	13,381,915
Accounts and notes payable (including related parties)	1,886,117	1,886,117	-
Other payables	1,185,376	1,185,376	-
Current income tax liabilities	520,036	520,036	-
Lease liabilities-current	60,968	60,968	-
Financial guarantee liabilities-current	81,373	81,373	-
Bonds payable	5,200,000	2,800,000	2,400,000
Guarantee deposits received - current	3,255,356	1,404,628	1,850,728
Other current liabilities, others	88,150	88,150	-

<u>December 31, 2018</u>	<u>Book value</u>	<u>Within 12 months</u>	<u>Over 12 months</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 464,836	\$ 464,836	\$ -
Current financial assets for hedging	70,038	-	70,038
Accounts and notes receivable, net	111,984,216	41,487,166	70,497,050
Other receivables	186,946	186,946	-
Inventories	13,029	13,029	-
Prepayments	5,407,985	3,977,144	1,430,841
Other current financial assets	553,468	553,468	-
<u>Liabilities</u>			
Current borrowings	\$ 53,911,741	\$ 41,120,217	\$ 12,791,524
Short-term notes and bills payable	44,424,835	33,192,647	11,232,188
Current financial liabilities for hedging	52,424	1,486	50,938
Accounts and notes payable	1,204,492	1,204,492	-
Other payables	1,216,024	1,216,024	-
Current tax liabilities	390,619	390,619	-
Financial guarantee liabilities-current	81,738	81,738	-
Bonds payable	5,200,000	-	5,200,000
Guarantee deposits received - current	3,392,510	1,539,177	1,853,333
Other current liabilities, others	90,603	90,603	-
<u>September 30, 2018</u>	<u>Book value</u>	<u>Within 12 months</u>	<u>Over 12 months</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 780,532	\$ 780,532	\$ -
Financial assets for hedging-current	49,036	-	49,036
Accounts and notes receivable, net	109,022,164	47,546,963	61,475,201
Other receivables	198,478	198,478	-
Inventories	13,029	13,029	-
Prepayments	4,799,705	3,454,229	1,345,476
Other current financial assets	496,293	496,293	-
<u>Liabilities</u>			
Short-term borrowings	\$ 48,461,119	\$ 34,694,923	\$ 13,766,196
Short-term notes and bills payable	47,894,498	34,661,456	13,233,042
Current financial liabilities for hedging	91,264	1,591	89,613
Accounts and notes payable	1,238,221	1,238,221	-
Other payables	1,000,065	1,000,065	-
Current tax liabilities	222,225	222,225	-
Financial guarantee liabilities-current	79,907	79,907	-
Bonds payable	5,200,000	-	5,200,000
Guarantee deposits received - current	3,291,015	1,503,660	1,787,355
Other current liabilities, others	86,172	86,172	-

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.):

(1) 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 September 30, 2019:

Company Name	Derivative Instruments	Contract Amount (in thousands)	Maturity Date	Book Value	Fair Value
Ho Tai Motor Co., Ltd.	Forward exchange contracts	USD 417,549	2019/10/14~2020/3/13	(\$ 37,590)	(\$ 37,590)
Hotai Insurance Co., Ltd.	Foreign exchange swap contracts	USD 21,500	2019/10/7~2019/12/2	3,955	3,955
Hotai Finance Co., Ltd.	Cross currency swaps	USD 200,000	2020/3/13~2021/9/17	164,711	164,711
Hoyun International Lease Co., Ltd.	Cross currency swaps	USD 18,000	2021/6/18	16,050	16,050

- (j) Significant inter-company transactions during the reporting periods: Please refer to table 7.

(2) Information on investees

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

(3) 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 September 30, 2019, the Company's self-owned capital ratio was 74%.
- 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	Nine months ended September 30, 2019					
	Distributor of Toyota and Hino products segments	Installment trading segments	Leasing segments	Other segments	Reconciliation and elimination	Total
Revenue from external customers	\$ 85,676,376	\$ 6,315,046	\$ 14,996,009	\$ 45,754,381	\$ -	\$ 152,714,812
Inter-segment revenue (Note)	8,846,388	105,880	393,194	6,150,517	(15,495,979)	-
Total segment revenue	<u>\$ 94,522,764</u>	<u>\$ 6,420,926</u>	<u>\$ 15,389,203</u>	<u>\$ 51,904,898</u>	<u>(\$ 15,495,979)</u>	<u>\$ 152,741,812</u>
Segment income (loss) (Note)	<u>\$ 10,366,708</u>	<u>\$ 2,148,512</u>	<u>\$ 880,788</u>	<u>\$ 6,584,683</u>	<u>(\$ 6,947,700)</u>	<u>\$ 13,032,991</u>
Segment assets	<u>\$ 71,065,319</u>	<u>\$109,710,792</u>	<u>\$ 53,834,883</u>	<u>\$ 81,269,416</u>	<u>(\$ 68,835,870)</u>	<u>\$ 247,044,540</u>

Nine months ended September 30, 2018

Items	Distributor of Toyota and Hino products segments	Installment trading segments	Leasing segments	Other segments	Reconciliation and elimination	Total
Revenue from external customers	\$ 77,230,863	\$ 5,553,499	\$ 14,048,900	\$ 41,063,953	\$ -	\$ 137,897,215
Inter-segment revenue (Note)	<u>7,038,756</u>	<u>256,137</u>	<u>235,922</u>	<u>6,174,953</u>	<u>(13,705,768)</u>	<u>-</u>
Total segment revenue	<u>\$ 84,269,619</u>	<u>\$ 5,809,636</u>	<u>\$ 14,284,822</u>	<u>\$ 47,238,906</u>	<u>(\$ 13,705,768)</u>	<u>\$ 137,897,215</u>
Segment income (loss) (Note)	<u>\$ 9,167,489</u>	<u>\$ 1,680,049</u>	<u>\$ 722,339</u>	<u>\$ 6,961,786</u>	<u>(\$ 6,832,894)</u>	<u>\$ 11,698,769</u>
Segment assets	<u>\$ 63,292,495</u>	<u>\$ 99,481,314</u>	<u>\$ 50,296,943</u>	<u>\$ 67,147,648</u>	<u>(\$ 57,611,092)</u>	<u>\$ 222,607,308</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
Nine months ended September 30, 2019
(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 nine months ended September 30, 2019	Balance at September 30, 2019	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	\$ 206,388	\$ 195,885	\$ -	2.15%	Short-term financing	-	Operations	\$ -	None	\$ -	\$ 254,583	\$ 254,583		
2	Shanghai Heling Motor Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	412,777	391,771	-	2.15%	"	-	"	-	"	-	500,185	500,185		
3	Shanghai Hozhan Motor Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	137,592	130,590	17,456	2.15%	"	-	"	-	"	-	165,458	165,458		
4	Shanghai Yangpu Heling Lexus Motor Sales & Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	169,697	161,061	116,704	2.15%	"	-	"	-	"	-	361,862	361,862		
5	Chongqing Heling Lexus Motor Sales & Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	299,185	282,946	192,751	2.15%	"	-	"	-	"	-	386,024	386,024		
6	Tianjin Ho-Yu Motor Sales & Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	91,728	87,600	21,417	2.15%	"	-	"	-	"	-	159,683	159,683		
7	Tangshan Heling Lexus Motor Sales & Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	238,493	226,356	106,649	2.15%	"	-	"	-	"	-	294,792	294,792		
8	Nanchang Heling Lexus Motor Sales & Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	238,493	226,356	40,483	2.15%	"	-	"	-	"	-	290,349	290,349		
9	Zaozhuang Ho-Yu Toyota Motor Sales & Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	115,071	108,825	21,765	2.15%	"	-	"	-	"	-	208,760	208,760		
10	Tianjin Hozhan Motor Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	137,592	130,590	87,060	2.15%	"	-	"	-	"	-	249,695	249,695		
11	Tianjin Heling Lexus Motor Sales & Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	206,388	195,885	-	2.15%	"	-	"	-	"	-	329,971	329,971		
12	Shanghai Ho-Mian Motor Technology Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	596,233	565,891	-	2.15%	"	-	"	-	"	-	994,081	994,081		
13	Shanghai Guangxin Cultural Media Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	5,984	5,224	-	2.15%	"	-	"	-	"	-	7,149	7,149		
14	Shanghai Ho-Qian Logistics Equipment Trading Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	91,728	87,060	-	2.15%	"	-	"	-	"	-	146,173	146,173		
15	Shanghai Hoxin Motor Service Consulting Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	3,669	3,482	-	2.15%	"	-	"	-	"	-	5,879	5,879		
16	Tianjin Heyi International Trading Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	22,015	20,894	-	2.15%	"	-	"	-	"	-	26,768	26,768		
17	ZaoZhuang Ho-Wan Motor Sales & Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	10,090	9,577	-	2.15%	"	-	"	-	"	-	17,196	17,196		
18	Hotong Motor Investment Co., Ltd.	Shanghai Hozhan Motor Service Co., Ltd.	"	"	128,419	121,884	-	3.35%	"	-	"	-	"	-	4,262,713	8,525,426		
18	Hotong Motor Investment Co., Ltd.	Nanchang Heling Lexus Motors Sales & Service Co., Ltd.	"	"	192,629	182,826	-	3.35%	"	-	"	-	"	-	4,262,713	8,525,426		
18	Hotong Motor Investment Co., Ltd.	Tianjin Ho-Yu Motor Sales & Service Co., Ltd.	"	"	160,524	152,355	-	3.35%	"	-	"	-	"	-	4,262,713	8,525,426		
18	Hotong Motor Investment Co., Ltd.	Tianjin Hozhan Motor Service Co., Ltd.	"	"	128,419	121,884	-	3.35%	"	-	"	-	"	-	4,262,713	8,525,426		
18	Hotong Motor Investment Co., Ltd.	Shanghai Hoyu Motor Service Co., Ltd.	"	"	146,765	139,296	17,412	3.35%	"	-	"	-	"	-	4,262,713	8,525,426		
18	Hotong Motor Investment Co., Ltd.	Shanghai Heling Motor Service Co., Ltd.	"	"	481,573	457,066	-	3.35%	"	-	"	-	"	-	4,262,713	8,525,426		
18	Hotong Motor Investment Co., Ltd.	Chongqing Heling Lexus Motor Sales & Service Co., Ltd.	"	"	399,017	378,712	-	3.35%	"	-	"	-	"	-	4,262,713	8,525,426		
18	Hotong Motor Investment Co., Ltd.	Tangshan Heling Lexus Motor Sales & Service Co., Ltd.	"	"	299,185	282,946	-	3.35%	"	-	"	-	"	-	4,262,713	8,525,426		
18	Hotong Motor Investment Co., Ltd.	Zaozhuang Ho-Yu Toyota Motor Sales & Service Co., Ltd.	"	"	128,419	121,884	-	3.35%	"	-	"	-	"	-	4,262,713	8,525,426		
18	Hotong Motor Investment Co., Ltd.	Tianjin Heling Lexus Motor Sales & Service Co., Ltd.	"	"	307,289	291,652	-	3.35%	"	-	"	-	"	-	4,262,713	8,525,426		
18	Hotong Motor Investment Co., Ltd.	Shanghai Ho-Qian Logistics Equipment Trading Co., Ltd.	"	"	23,014	21,765	-	3.35%	"	-	"	-	"	-	4,262,713	8,525,426		
18	Hotong Motor Investment Co., Ltd.	Shanghai Yangpu Heling Lexus Motor Sales & Service Co., Ltd.	"	"	197,216	187,179	-	3.35%	"	-	"	-	"	-	4,262,713	8,525,426		

Number	Creditor	Borrower	General ledger account	Related party	Maximum outstanding balance during the nine months ended September 30, 2019	Balance at September 30, 2019	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			
18	Hotong Motor Investment Co., Ltd.	Shanghai Ho-Mian Motor Technology Co., Ltd.	Other receivables	Y	\$ 138,085	\$ 130,590	\$ 33,431	3.35%	Short-term financing	-	Operations	\$ -	None	\$ -	\$ 4,262,713	\$ 8,525,426	
18	Hotong Motor Investment Co., Ltd.	Shanghai HoChen Motor Technology Co., Ltd.	"	"	268,763	255,086	133,202	3.35%	"	-	"	-	"	-	4,262,713	8,525,426	
18	Hotong Motor Investment Co., Ltd.	Shanghai Guangxin Cultural Media Co., Ltd.	"	"	4,586	4,353	-	3.35%	"	-	"	-	"	-	4,262,713	8,525,426	
18	Hotong Motor Investment Co., Ltd.	Shanghai Hoxin Motor Service Consulting Co.,Ltd.	"	"	4,586	4,353	-	3.35%	"	-	"	-	"	-	4,262,713	8,525,426	
18	Hotong Motor Investment Co., Ltd.	Tianjin Heyi International Trading Co., Ltd.	"	"	91,728	87,060	-	3.35%	"	-	"	-	"	-	4,262,713	8,525,426	
18	Hotong Motor Investment Co., Ltd.	ZaoZhuang Ho-Wan Motor Sales & Service Co.,Ltd	"	"	22,932	21,765	-	3.35%	"	-	"	-	"	-	4,262,713	8,525,426	

Ho Tai Motor Co., Ltd.
Provision of endorsements and guarantees to others
Nine months ended September 30, 2019

(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 September 30, 2019	Outstanding endorsement/ guarantee amount at September 30, 2019	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.	Shanghai Ho-Qian Logistics Equipment Trading Co., Ltd.	Note 5.b	\$ 15,850,080	\$ 47,400	\$ 46,560	\$ -	\$ -	0.09%	\$ 26,416,800	Y	N	Y	Note 1
1	Hotai Finance Co., Ltd.	Hoyun International Lease Co., Ltd.	"	10,800,251	3,682,274	3,482,407	1,505,270	-	32.24%	10,800,251	Y	N	Y	Note 2
1	Hotai Finance Co., Ltd.	Hoyun (Shanghai) Commerical Factoring Co., Ltd.	"	10,800,251	522,077	329,320	276,429	-	3.05%	10,800,251	Y	N	Y	"
2	Toyota Material Handling Taiwan Ltd.	Shanghai Ho-Quian Logistics Equipment Trading Co., Ltd.	"	254,751	31,600	31,040	-	-	3.66%	424,586	Y	N	Y	Note 3
3	Hotai Leasing Co., Ltd.	Hoing Mobility Service Corporation	"	2,497,340	1,600,000	1,600,000	755,000	-	48.05%	2,663,829	Y	N	N	Note 4

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 : For Hotai Leasing Co., Ltd., the limit on total endorsement is no more than 80% of the company's total equity; the limit on endorsement for any single entity is no more than 75% of the Company's total equity.

Note 5 : 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)
Nine months ended September 30, 2019
(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 September 30, 2019				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	\$ 592,743	0.15%	\$ 592,743	
	- Toyota Motor Corporation	-	"	3,191,200	6,627,372	0.10%	6,627,372	
	- Shihlin Electric & Engineering Corporation Etc.	None	"	-	100,655	0.00%~0.42%	100,655	
	Taian Insurance Co., Ltd. Etc.	-	"	-	289,284	0.42%~3.10%	289,284	
	Nan Shan Life Insurance Perpetual Subordinated Bonds	None	Financial assets at fair value through profit or loss - non-current	-	500,000	-	500,000	
			Valuation adjustment of financial assets		-		-	
			Total		\$ 500,000		\$ 500,000	
Hozan Investment Co., Ltd.	Ho An Insurance Agency Co., Ltd. Etc.	-	Financial assets at fair value through other comprehensive income - non-current	-	\$ 2,827	0.50%	\$ 2,827	
Toyota Material Handling Taiwan Ltd.	Beneficiary certificates			46,595,533	\$ 476,728	-	\$ 482,916	
	- Franklin Templeton Sinoam Money Market Fund	Not applicable	Financial assets at fair value through profit or loss - current					
			Valuation adjustment of financial assets		6,188		-	
			Total		\$ 482,916		\$ 482,916	
Carmax Co., Ltd.	Ho An Insurance Agency Co., Ltd. Etc.	-	Financial assets at fair value through other comprehensive income - non-current	-	\$ 3,130	0.01%~0.50%	\$ 3,130	
	Beneficiary certificates			11,642,842	120,000	-	120,666	
	- Franklin Templeton Sinoam Money Market Fund	Not applicable	Financial assets at fair value through profit or loss - current					
	- CTBC Hwa-win Money Market Fund	"	"	4,552,578	50,220	-	50,296	
			Valuation adjustment of financial assets		742		-	
			Total		\$ 170,962		\$ 170,962	
Ho Tai Development Co., Ltd.	Stock - First Financial Holding Co. Ltd. Etc.	-	Financial assets at fair value through other comprehensive income - non-current	-	\$ 1,027	-	\$ 1,027	
	Ho An Insurance Agency Co., Ltd. Etc.	-	"	-	3,130	0.01%~0.51%	3,130	
	President securites Corp-PGNW0085	Not applicable	Financial assets at fair value through profit or loss - current	-	190,543	-	190,794	
			Valuation adjustment of financial assets		251		-	
			Total		\$ 190,794		\$ 190,794	
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			2,527,891	30,000	-	30,339	
	- BOT Money Market Fund	Not applicable	Financial assets at fair value through profit or loss - current					
			Valuation adjustment of financial assets		339		-	
			Total		\$ 30,339		\$ 30,339	
Hotai Finance Co., Ltd.	Ho An Insurance Agency Co., Ltd. Etc.	-	Financial assets at fair value through other comprehensive income - non-current	-	\$ 2,827	0.50%	\$ 2,827	
Hotai Leasing Co., Ltd.	Ho An Insurance Agency Co., Ltd. Etc.	-	"	-	\$ 2,827	0.50%	\$ 2,827	
Ho Tai Cyber Connection Co., Ltd	Beneficiary certificates	Not applicable	Financial assets at fair value through profit or loss - current	5,147,045	\$ 50,000	-	\$ 53,344	
	- Franklin Templeton Sinoam Money Market Fund							
			Valuation adjustment of financial assets		3,344		-	
			Total		\$ 53,344		\$ 53,344	

Securities held by	Type and name of securities	Relationship with the securities issuer	General ledger account	As of September 30, 2019				Footnote
				Number of shares	Book value	Ownership (%)	Fair value	
Hotai Innovation marketing corporation	Beneficiary certificates - Franklin Templeton Sinoam Money Market Fund	Not applicable	Financial assets at fair value through profit or loss - non-current	3,670,067	\$ 38,000	-	\$ 38,037	
			Valuation adjustment of financial assets		37		-	
			Total		\$ 38,037		\$ 38,037	
Shanghai Ho-Yu (BVI) Investment Co., Ltd.	YU-TU (BVI) Finance Investment Corporation	None	Financial assets at fair value through other comprehensive income - non-current	-	\$ 23,752	10.48%	\$ 23,752	

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 exceeding \$300 million or 20% of the Company's paid-in capital
 Nine months ended September 30, 2019

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

Table 4

Investor	Marketable securities	General ledger account	Counterparty	Relationship with the investor	Balance as at January 1, 2019		Addition		Disposal			Balance as at September 30, 2019		
					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 Development Co., Ltd.	President Securities Corp.- PGNW0085	Financial assets at fair value through profit or loss - current	Not applicable	Not applicable	-	\$ 95,943	-	\$ 728,331	-	\$ 636,073	\$ 633,731	\$ 2,342	-	\$ 190,543
Ho Tai Motor Co., Ltd.	Shanghai Ho-Yu (BVI) Investment Co., Ltd.	Investments accounted for using equity method	Shanghai Ho-Yu (BVI) Investment Co., Ltd.	Subsidiary	-	\$ -	-	\$ -	-	\$ -	\$ -	\$ -	-	\$ -

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

Ho Tai Motor Co., Ltd.

Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more

Nine months ended September 30, 2019(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

(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 counterparty				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			
Ho Tai Service & Marketing Co., Ltd.	No. 24, 34 and 34-1, Peipo Section, Tucheng Dist., New Taipei City	2019.8.2	\$540,000	\$241,800	Three Shine Trading Co., Ltd.	The third party	-	-	-	-	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
Nine months ended September 30, 2019
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Table 6

Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)		Percentage of total purchases (sales)	Transaction	Differences in transaction terms		Notes/accounts receivable (payable)		Footnote
			Sales	Amount			Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
Ho Tai Motor Co., Ltd.	Central Motor Co., Ltd.	Associates	Sales	\$ 17,345,143	20%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	Normal	Normal	\$ 774,285	17%	
Ho Tai Motor Co., Ltd.	Tau Miau Motor Co., Ltd.	"	"	15,915,068	18%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	709,425	15%	
Ho Tai Motor Co., Ltd.	Kuotu Motor Co., Ltd.	"	"	13,744,298	16%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	740,330	16%	
Ho Tai Motor Co., Ltd.	Taipei Toyota Motor Co., Ltd.	"	"	12,975,754	15%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	660,263	14%	
Ho Tai Motor Co., Ltd.	Kau Du Automobile Co., Ltd.	"	"	11,520,230	13%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	543,005	12%	
Ho Tai Motor Co., Ltd.	Nan Du Motor Co., Ltd.	"	"	10,161,396	12%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	457,656	10%	
Ho Tai Motor Co., Ltd.	Lang Yang Toyota Motor Co., Ltd.	"	"	1,835,541	2%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	88,067	2%	
Ho Tai Motor Co., Ltd.	Chang Yuan Motor Co., Ltd.	"	"	1,698,095	2%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	Not applicable	"	277,786	6%	
Ho Tai Motor Co., Ltd.	Eastern Motor Co., Ltd.	Subsidiary	"	1,546,744	2%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	Normal	"	95,221	2%	
Ho Tai Motor Co., Ltd.	Hotai Leasing Co., Ltd.	"	"	689,900	1%	Collection at sight	"	"	200,664	4%	
Ho Tai Motor Co., Ltd.	Hoing Mobility Service Corporation	"	"	444,706	1%	Collection at sight	"	"	41,210	1%	
Ho Tai Motor Co., Ltd.	Toyota Motor Corporation	Entity controlled by the Company's key management	Purchases	33,885,422	43%	Closes its accounts 15 days after the end of each month	Not applicable	"	(5,829,719)	56%	
Ho Tai Motor Co., Ltd.	Kuozui Motors, Ltd.	Associates	"	22,851,888	29%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	Normal	"	(656,889)	6%	
Ho Tai Motor Co., Ltd.	Toyota Motor Asia Pacific Pte Ltd.	Entity controlled by the Company's key management	"	1,844,249	2%	Closes its accounts 15 days after the end of each month	Not applicable	"	(210,250)	2%	
Ho Tai Motor Co., Ltd.	Carmax Co., Ltd.	Subsidiary	"	1,431,577	2%	Closes its accounts 16 days after the end of each month	"	"	(346,943)	3%	
Ho Tai Motor Co., Ltd.	Toyota Motor Europe - NV/SA	Entity controlled by the Company's key management	"	1,396,531	2%	Closes its accounts 15 days after the end of each month	"	"	-	-	
Ho Tai Motor Co., Ltd.	Yokohama Tire Taiwan Co., Ltd.	Associates	"	586,378	1%	Closes its accounts 16 days after the end of each month	"	"	(135,208)	1%	
Ho Tai Motor Co., Ltd.	Hino Motors, Ltd.	Entity controlled by the Company's key management	"	234,441	-	Closes its accounts 15 days after the end of each month	"	"	(661)	-	
Ho Tai Motor Co., Ltd.	Toyota Motor Sales-USA	"	"	152,573	-	Closes its accounts 15 days after the end of each month	"	"	-	-	
Chang Yuan Motor Co., Ltd.	Kuozui Motors, Ltd.	Associates	"	9,475,003	82%	7 days after invoice date	"	Not applicable	(98,487)	15%	
Chang Yuan Motor Co., Ltd.	Ho Tai Motor Co., Ltd.	Ultimate parent company	"	1,698,095	15%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	(277,786)	42%	
Chang Yuan Motor Co., Ltd.	Hozao Enterprise Co., Ltd.	Associates	Sales	466,604	4%	14 days after invoice date	Normal	Normal	44,554	2%	
Chang Yuan Motor Co., Ltd.	Hotai Leasing Co., Ltd.	"	"	303,399	3%	Collection at sight	"	"	26	-	
Chang Yuan Motor Co., Ltd.	Lang Yang Toyota Motor Co., Ltd.	"	"	145,250	1%	7 days after invoice date	"	"	6,077	-	
Carmax Co., Ltd.	Ho Tai Motor Co., Ltd.	Ultimate parent company	"	1,431,577	31%	Closes its accounts 16 days after the end of each month	"	"	346,943	30%	
Carmax Co., Ltd.	Kuozui Motors, Ltd.	Associates	"	419,241	9%	Closes its accounts 10 days after the end of each month	"	"	91,488	8%	
Carmax Co., Ltd.	Zhongyang Motor Co., Ltd.	"	"	390,373	9%	Closes its accounts 35 days after the end of each month	"	"	77,108	7%	
Carmax Co., Ltd.	Wang Fu Co., Ltd.	"	"	354,351	8%	Closes its accounts 35 days after the end of each month	"	"	65,254	6%	
Carmax Co., Ltd.	Innovation AUTO Parts Co., Ltd.	"	"	309,505	7%	Closes its accounts 25 days after the end of each month	"	"	43,141	4%	
Carmax Co., Ltd.	Nan I Motor Co., Ltd.	"	"	236,129	5%	Closes its accounts 40 days after the end of each month	"	"	38,642	3%	
Carmax Co., Ltd.	Chang Guan Logistics Co., Ltd.	"	"	200,632	4%	Closes its accounts 40 days after the end of each month	"	"	25,729	2%	
Carmax Co., Ltd.	Toyota South Africa Motors (Pty) Ltd.	Entity controlled by the Company's key management	"	147,140	3%	Closes its accounts 15 days after the end of each month	"	"	120,603	10%	
Carmax Co., Ltd.	Tung Yu Motor Co., Ltd.	Associates	"	159,059	3%	Closes its accounts 40 days after the end of each month	"	"	25,160	2%	
Carmax Co., Ltd.	Smart Design Technology Co., Ltd.	Subsidiary	Purchases	318,731	9%	Closes its accounts 10 days after the end of each month	"	"	(47,750)	6%	
Hotai Finance Co., Ltd.	Central Motor Co., Ltd.	Associates	"	4,206,331	12%	Payment at sight	"	"	(67,470)	7%	Note 1
Hotai Finance Co., Ltd.	Kau Du Automobile Co., Ltd.	"	"	3,745,094	11%	Payment at sight	"	"	(135,094)	15%	"
Hotai Finance Co., Ltd.	Kuotu Motor Co., Ltd.	"	"	3,729,699	11%	Payment at sight	"	"	(95,350)	10%	"
Hotai Finance Co., Ltd.	Tau Miau Motor Co., Ltd.	"	"	3,528,763	10%	Payment at sight	"	"	(35,810)	4%	"
Hotai Finance Co., Ltd.	Nan Du Motor Co., Ltd.	"	"	3,295,735	9%	Payment at sight	"	"	(113,690)	12%	"
Hotai Finance Co., Ltd.	Taipei Toyota Motor Co., Ltd.	"	"	3,094,624	9%	Payment at sight	"	"	(129,860)	14%	"
Hotai Finance Co., Ltd.	Lang Yang Toyota Motor Co., Ltd.	"	"	475,136	1%	Payment at sight	"	"	(10,520)	1%	"
Hotai Finance Co., Ltd.	Eastern Motor Co., Ltd.	"	"	452,359	1%	Payment at sight	"	"	(11,870)	1%	"
Hotai Leasing Co., Ltd.	Hoing Mobility Service Corporation	Subsidiary	Sales	1,473,724	33%	Collection at sight	"	"	13,015	1%	Note 2

		Transaction			Differences in transaction terms	Notes/accounts receivable (payable)					
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote
Hotai Leasing Co., Ltd.	Kuotu Motor Co., Ltd.	Associates	Sales	\$ 128,358	4%	Collection at sight	Normal	Normal	\$ 71,191	4%	Note 2
Hotai Leasing Co., Ltd.	Kuotu Motor Co., Ltd.	"	Purchase	1,734,550	18%	Payment at sight	"	"	(4,620)	4%	"
Hotai Leasing Co., Ltd.	Taipei Toyota Motor Co., Ltd.	"	"	784,008	8%	Payment at sight	"	"	-	-	"
Hotai Leasing Co., Ltd.	Central Motor Co., Ltd.	"	"	618,564	7%	Payment at sight	"	"	-	-	"
Hotai Leasing Co., Ltd.	Ho Tai Motor Co., Ltd.	Ultimate parent company	"	680,900	7%	Payment at sight	"	"	(200,664)	100%	"
Hotai Leasing Co., Ltd.	Tau Miau Motor Co., Ltd.	Associates	"	606,765	6%	Payment at sight	"	"	-	-	"
Hotai Leasing Co., Ltd.	Kau Du Automobile Co., Ltd.	"	"	460,420	5%	Payment at sight	"	"	-	-	"
Hotai Leasing Co., Ltd.	Nan Du Motor Co., Ltd.	"	"	337,478	4%	Payment at sight	"	"	-	-	"
Hotai Leasing Co., Ltd.	Chang Yuan Motor Co., Ltd.	"	"	303,399	3%	Payment at sight	"	"	(26)	-	"
Hoing Mobility Service Corporation	Hotai Leasing Co., Ltd.	Parent company	"	1,473,724	60%	Payment at sight	"	"	(13,015)	25%	"
Hoing Mobility Service Corporation	Ho Tai Motor Co., Ltd.	Ultimate parent company	"	444,706	18%	Payment at sight	"	"	(41,210)	78%	"
Eastern Motor Co., Ltd.	Ho Tai Motor Co., Ltd.	"	"	1,546,744	91%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	(95,221)	90%	"
Eastern Motor Co., Ltd.	Hotai Finance Co., Ltd.	Associates	Sales	452,359	24%	Collection at sight	"	"	11,870	13%	"
Toyota Material Handling Taiwan Ltd.	Toyota Industries Corporation	Entity controlled by the Company's key management	Purchases	230,377	57%	Closes its accounts 15 days after the end of each month	Not applicable	"	(13,880)	20%	"
Smart Design Technology Co., Ltd.	Carmax Co., Ltd.	Parent company	Sales	318,731	98%	Closes its accounts 10 days after the end of each month	Normal	"	47,750	4%	"
Ho Tai Development Co., Ltd.	Ho Tai Service & Marketing Co., Ltd.	Subsidiary	Purchases	167,150	3%	Closes its accounts 60 days after the end of each month	"	"	(28,992)	20%	"
Ho Tai Service & Marketing Co., Ltd.	Ho Tai Development Co., Ltd.	Parent company	Sales	167,150	37%	Closes its accounts 60 days after the end of each month	"	"	28,992	50%	"
Shanghai Heling Motor Service Co., Ltd.	Toyota Motor (China) Investment Co., Ltd.	Entity controlled by the Company's key management	Purchases	2,197,489	83%	Payment in advance	Normal	Normal	-	-	"
Chongqing Heling Lexus Motor Sales & Service Co., Ltd.	Toyota Motor (China) Investment Co., Ltd.	"	"	1,474,090	82%	Payment in advance	"	"	-	-	"
Nanchang Heling Lexus Motors Sales & Service Co., Ltd.	Toyota Motor (China) Investment Co., Ltd.	"	"	1,603,860	90%	Payment in advance	"	"	-	-	"
Shanghai Yangpu Heling Lexus Motor Sale & Service Co., Ltd.	Toyota Motor (China) Investment Co., Ltd.	"	"	1,498,729	89%	Payment in advance	"	"	-	-	"
Tangshan Heling Lexus Motor Sales & Service Co., Ltd.	Toyota Motor (China) Investment Co., Ltd.	"	"	1,058,808	98%	Payment in advance	"	"	-	-	"
Tianjin Heling Lexus Motor Sales & Service Co., Ltd.	Toyota Motor (China) Investment Co., Ltd.	"	"	1,098,911	99%	Payment in advance	"	"	-	-	"

Note1: It was the installment sales to related party. Details are provided in Note 7(2)B(h).

Note2: Hotai Leasing Co., Ltd. and Hoing Mobility Service Corporation purchase 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
September 30, 2019

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

Table 7

Creditor	Counterparty	Relationship with the counterparty	Balance as at		Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
			September 30, 2019			Amount	Action taken		
Ho Tai Motor Co., Ltd.	Central Motor Co., Ltd.	Associates	Accounts receivable	\$ 774,285	38.12	-	-	774,285	-
			Other receivables	\$ 13,869		-	-	13,869	-
Ho Tai Motor Co., Ltd.	Tau Miau Motor Co., Ltd.	"	Accounts receivable	\$ 709,425	39.83	-	-	709,425	-
			Other receivables	\$ 24,065		-	-	24,065	-
Ho Tai Motor Co., Ltd.	Chang Yuan Motor Co., Ltd.	Subsidiary	Accounts receivable	\$ 277,786	8.53	-	-	277,786	-
			Other receivables	\$ 75,860		-	-	75,860	-
Ho Tai Motor Co., Ltd.	Taipei Toyota Motor Co., Ltd.	Associates	Accounts receivable	\$ 660,263	34.23	-	-	660,263	-
			Other receivables	\$ 9,276		-	-	9,276	-
Ho Tai Motor Co., Ltd.	Kau Du Automobile Co., Ltd.	"	Accounts receivable	\$ 543,005	36.72	-	-	543,005	-
			Other receivables	\$ 19,237		-	-	19,237	-
Ho Tai Motor Co., Ltd.	Kuotu Motor Co., Ltd.	"	Accounts receivable	\$ 740,330	29.81	-	-	740,330	-
			Other receivables	\$ 23,991		-	-	23,991	-
Ho Tai Motor Co., Ltd.	Nan Du Motor Co., Ltd.	"	Accounts receivable	\$ 457,656	38.22	-	-	457,656	-
			Other receivables	\$ 9,716		-	-	9,716	-
Ho Tai Motor Co., Ltd.	Hotai Leasing Co., Ltd.	Subsidiary	Accounts receivable	\$ 200,664	6.44	-	-	200,664	-
			Other receivables	\$ 2,811		-	-	2,811	-
Carmax Co., Ltd.	Ho Tai Motor Co., Ltd.	Ultimate parent company	Accounts receivable	\$ 346,943	5.96	-	-	346,943	-
Carmax Co., Ltd.	Toyota South Africa Motors (Pty) Ltd.	Entity controlled by the Company's key management	Accounts receivable	\$ 120,603	1.09	-	-	120,603	-

Ho Tai Motor Co., Ltd.
Significant inter-company transactions during the reporting periods
Nine months ended September 30, 2019
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Table 8

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of total operating revenues or total assets
				General ledger account	Amount	Transaction terms	
0	Ho Tai Motor Co., Ltd.	Chang Yuan Motor Co., Ltd.	1	Sales revenue	\$ 1,698,095	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	1%
0	Ho Tai Motor Co., Ltd.	Chang Yuan Motor Co., Ltd.	1	Service revenue	1,312,503	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	Compensation expense	126,061		-
0	Ho Tai Motor Co., Ltd.	Chang Yuan Motor Co., Ltd.	1	Accounts receivable	277,786	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	Other receivables	75,860		-
0	Ho Tai Motor Co., Ltd.	Chang Yuan Motor Co., Ltd.	1	External - rental income	52,968		-
0	Ho Tai Motor Co., Ltd.	Eastern Motor Co., Ltd.	1	Sales revenue	1,546,744	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	1%
0	Ho Tai Motor Co., Ltd.	Eastern Motor Co., Ltd.	1	Accounts receivable	95,221	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	-
0	Ho Tai Motor Co., Ltd.	Carmax Co., Ltd.	1	Accounts payable	346,943	Closes its accounts 16 days after the end of each month	-
0	Ho Tai Motor Co., Ltd.	Carmax Co., Ltd.	1	Sales revenue	79,041		-
0	Ho Tai Motor Co., Ltd.	Hotai Leasing Co., Ltd.	1	Sales revenue	689,900	Collection at sight	1%
0	Ho Tai Motor Co., Ltd.	Hotai Leasing Co., Ltd.	1	Accounts receivable	200,664		-
0	Ho Tai Motor Co., Ltd.	Hoing Mobility Service Co., Ltd.	1	Sales revenue	444,706	Collection at sight	-
0	Ho Tai Motor Co., Ltd.	Hoing Mobility Service Co., Ltd.	1	Accounts receivable	41,210	Collection at sight	-
0	Ho Tai Motor Co., Ltd.	Hotai Finance Co., Ltd.	1	Sales discounts and allowances	124,414	Closes its accounts 16 days after the end of each month	-
1	Chang Yuan Motor Co., Ltd.	Eastern Motor Co., Ltd.	3	Sales revenue	61,020		-
1	Chang Yuan Motor Co., Ltd.	Hotai Leasing Co., Ltd.	3	Sales revenue	303,399	Collection at sight	-
2	Eastern Motor Co., Ltd.	Hotai Leasing Co., Ltd.	3	Sales revenue	32,287	Collection at sight	-
2	Eastern Motor Co., Ltd.	Hotai Finance Co., Ltd.	3	"	452,359	Collection at sight	-
3	Carmax Co., Ltd.	Doroman Autoparts Co., Ltd.	3	Sales revenue	33,412		-
3	Carmax Co., Ltd.	Ho Tai Motor Co., Ltd.	2	"	1,431,577	Closes its accounts 16 days after the end of each month	1%
4	Carmax Autotech (Shanghai) Co., Ltd.	Hotong Motor Investment Co., Ltd.	3	Sales revenue	76,798		-

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of total operating revenues or total assets
				General ledger account	Amount	Transaction terms	
5	Smart Design Technology Co., Ltd.	Carmax Co., Ltd.	3	Sales revenue	318,731	Closes its accounts 10 days after the end of each month	-
5	Smart Design Technology Co., Ltd.	Carmax Co., Ltd.	3	Accounts receivable	47,750	Closes its accounts 10 days after the end of each month	-
6	Hotai Leasing Co., Ltd.	Hoing Mobility Service Co., Ltd.	3	Internal - rental income	59,714		-
6	Hotai Leasing Co., Ltd.	Hoing Mobility Service Co., Ltd.	3	Sales revenue	1,473,724	Collection at sight	1%
6	Hotai Leasing Co., Ltd.	Hoing Mobility Service Co., Ltd.	3	Other receivables	36,790		-
7	Hotong Motor Investment Co., Ltd.	Tangshan Heling Lexus Motor Sales & Service Co., Ltd.	3	Other payables	106,649		-
7	Hotong Motor Investment Co., Ltd.	Chongqing Heling Lexus Motor Sales & Service Co., Ltd.	3	"	192,751		-
7	Hotong Motor Investment Co., Ltd.	Tianjin Hozhan Motor Service Co., Ltd.	3	"	87,060		-
7	Hotong Motor Investment Co., Ltd.	Shanghai Heling Lexus Motor Sales & Service Co., Ltd.	3	Sales revenue	39,983		-
7	Hotong Motor Investment Co., Ltd.	Shanghai Yangpu Heling Lexus Motor Sales & Service Co., Ltd.	3	Other payables	116,704		-
7	Hotong Motor Investment Co., Ltd.	Nanchang Heling Lexus Motors Sales & Service Co., Ltd.	3	"	40,483		-
7	Hotong Motor Investment Co., Ltd.	Shanghai Ho-Mian Motor Technology Co., Ltd.	3	Other receivables	33,431		-
7	Hotong Motor Investment Co., Ltd.	Shanghai HoChen Motor Technology Co., Ltd.	3	"	133,202		-
8	Ho Tai Service & Marketing Co., Ltd.	Ho Tai Development Co., Ltd.	3	Sales revenue	167,150		-
8	Ho Tai Service & Marketing Co., Ltd.	Ho Tai Development Co., Ltd.	3	Accounts receivable	28,992	Closes its accounts 60 days after the end of each month	-
9	Hotai Insurance Co., Ltd	Hotai Leasing Co., Ltd.	3	Insurance premium	131,883		-

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)

Nine months ended September 30, 2019

(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 September 30, 2019			Net profit (loss) of the investee for the nine months ended September 30, 2019	Investment income (loss) recognized by the Company for the nine months ended September 30, 2019	Footnote
				Balance at September 30, 2019	Balance as at December 31, 2018	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	\$ 17,620,482	\$ 1,707,660	\$ 1,707,660	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	4,446,583	519,537	159,742	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	2,464,494	1,828,174	79,397,360	100.00	5,736,246	700,464	700,464	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	313,500,000	100.00	4,128,178	286,719	286,719	"
Ho Tai Motor Co., Ltd.	Central Motor Co., Ltd.	"	"	2,098,966	2,098,966	15,000,000	20.00	2,519,303	543,112	106,317	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	2,576,875	584,293	262,707	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	1,490,965	413,383	79,171	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	1,345,474	248,956	45,139	"
Ho Tai Motor Co., Ltd.	Carmax Co., Ltd.	"	Trading of vehicle products/accessories	153,030	153,030	22,950,000	51.00	1,161,844	605,549	308,830	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	1,062,227	303,498	105,648	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	1,094,600	435,350	87,288	"
Ho Tai Motor Co., Ltd.	Nan Du Motor Co., Ltd.	"	"	186,851	186,851	14,806,073	23.67	982,224	373,050	88,301	"
Ho Tai Motor Co., Ltd.	Toyota Material Handling Taiwan Ltd.	"	Sales of vehicles and parts for industry use	50,000	50,000	130,268,523	100.00	953,613	104,442	104,442	Subsidiary
Ho Tai Motor Co., Ltd.	Eastern Motor Co., Ltd.	"	Sales of vehicles and parts and repairing of vehicles	80,000	80,000	33,765,670	100.00	373,054	12,391	12,391	"
Ho Tai Motor Co., Ltd.	Lang Yang Toyota Motor Co., Ltd.	"	"	256,000	256,000	2,000,000	20.00	290,040	57,731	11,034	Investee company accounted for using the equity method
Ho Tai Motor Co., Ltd.	Formosa Flexible Packaging Corp.	"	Production and marketing of packaging products	87,520	5,557	1,295,108	44.44	355,459	2,388	1,078	"
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	124,939	24,406	5,159	"
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	104,703	67,426	16,856	"
Ho Tai Motor Co., Ltd.	Smart Design Technology Co., Ltd.	"	Electronic parts and components manufacturing	10,763	10,763	960,961	20.00	14,553	11,356	2,271	Subsidiary
Shanghai Ho-Yu (BVI) Investment Co., Ltd.	Tienjin Ho Yu Investment Co., Ltd.	British Virgin Islands	General investment	108,640	108,640	3,500,000	70.00	125,781	20,678	-	An indirect wholly-owned subsidiary

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at September 30, 2019			Net profit (loss) of the investee for the nine months ended September 30, 2019	Investment income (loss) recognized by the Company for the nine months ended September 30, 2019	Footnote
				Balance at September 30, 2019	Balance as at December 31, 2018	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	37,248	37,248	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	727,060	727,060	246,368,831	65.77	7,124,434	1,705,807	-	An indirect wholly-owned subsidiary
Hozan Investment Co., Ltd.	Hotai Leasing Co., Ltd.	"	Leasing of vehicles	181,907	181,907	76,026,689	66.04	2,420,554	464,160	-	"
Hozan Investment Co., Ltd.	Hozao Enterprise Co., Ltd.	"	Installment trading of various vehicles	34,756	34,756	3,823,128	18.29	324,076	57,183	-	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	107	303,498	-	"
Hozan Investment Co., Ltd.	Hotai Insurance Co., Ltd.	"	Property and casualty insurance services	6,831,887	6,831,887	19,960,531	99.80	7,275,285	231,744	-	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	314,335	82,770	-	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	58,399	(72,897)	-	An indirect wholly-owned subsidiary
Hozan Investment Co., Ltd.	Hotai Innovation Marketing Co., Ltd.	"	Retail and wholesale of collections	10,000	10,000	1,000,000	100.00	99,188	89,357	-	"
Hotai Finance Co., Ltd.	Hoyun International Limited	British Virgin Islands	General investment	1,254,016	1,254,016	40,400,000	50.50	1,649,325	220,064	-	"
Hotai Leasing Co., Ltd.	Hoyun International Limited	"	"	1,229,184	1,229,184	39,600,000	49.50	1,615,826	220,064	-	"
Hotai Leasing Co., Ltd.	Hoing Mobility Service Co., Ltd.	Taiwan	Leasing of vehicles	300,000	300,000	30,000,000	100.00	249,527	(18,420)	-	"
Ho Tai Development Co., Ltd.	Ichiban International Co., Ltd.	Samoa	General investment	93,120	93,120	3,000,000	100.00	105,620	(9,159)	-	"
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	520,361	90,824	-	"
Ho Tai Development Co., Ltd.	Interface Communications Ltd.	"	Advertisement making	-	2,400	-	-	-	-	-	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	24.50	7,409	-	-	"
Ho Tai Service & Marketing Co., Ltd.	Kashiwabara Hotai Taiwan Co., Ltd.	"	"	8,820	8,820	882,000	24.50	8,820	-	-	An indirect wholly-owned subsidiary
Carmax Co., Ltd.	Smart Design Technology Co., Ltd.	"	Electronic parts and components manufacturing	33,242	33,242	2,968,016	61.77	44,519	11,356	-	Subsidiary
Eastern Motor Co., Ltd.	Doroman Autoparts Co., Ltd.	"	Wholesale and retail of vehicles parts and accessories	500	500	138,718	100.00	14,847	8,765	-	An indirect wholly-owned subsidiary
Ichiban International Co., Ltd.	Air Master International Co., Ltd.	Samoa	General investment	93,120	93,120	3,000,000	100.00	105,620	(9,159)	-	"

Ho Tai Motor Co., Ltd.

Information on investments in Mainland China-Basic information

Nine months ended September 30, 2019

(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, 2019	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the nine months ended September 30, 2019		Accumulated amount of remittance from Taiwan to Mainland China as of September 30, 2019	Net income of investee for the nine months ended September 30, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the Nine months ended September 30, 2019	Book value of investment in Mainland China as of September 30, 2019	Accumulated amount of investment income remitted back to Taiwan as of September 30, 2019	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	3,058,837	Note 1.(2)	355,408	636,320	-	991,728	695,417	100.00	695,417	5,547,911	-	Note 2.(3)
Shanghai Hoyu Motor Service Co., Ltd.	Sales and repairing of vehicles	104,605	"	104,605	-	-	104,605	76,026	100.00	76,026	270,136	-	"
ChongQing Yuou Toyota Automobile Sales & Service Co., Ltd.	"	130,590	"	11,407	-	-	11,407	-	10.48	-	11,407	-	"
Beijing Hoyu Toyota Motor Sales & Service Co., Ltd.	"	93,120	"	31,040	-	-	31,040	-	40.00	-	-	-	"
Chongqing Heling Lexus Motor Sales & Service Co., Ltd.	"	186,240	"	186,240	-	-	186,240	93,550	100.00	93,550	374,100	-	"
Shanghai Hozhan Motor Service Co., Ltd.	"	93,120	"	93,120	-	-	93,120	41,599	100.00	41,599	161,297	-	"
Tianjin Ho-Yu Motor Sales & Service Co., Ltd.	"	155,200	"	108,640	-	-	108,640	20,678	70.00	14,475	125,781	-	"
Shanghai Heling Motor Service Co., Ltd.	"	108,640	Note 1.(3)	81,480	-	-	81,480	237,805	100.00	237,805	534,581	-	"
ChongQing Yurun Toyota Automobile Service Co., Ltd.	"	130,590	Note 1.(2)	12,222	-	-	12,222	-	10.48	-	12,222	26,106	"
Shanghai Ho-Qian Logistics Equipment Trading Co., Ltd.	Sales of vehicles and parts for industry use	186,240	"	186,240	-	-	186,240	6,521	100.00	6,521	156,744	-	"
Zaozhuang Ho-Yu Toyota Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	423,696	"	288,672	-	-	288,672	2,043	100.00	2,043	210,736	-	"
Zaozhong Ho-Wan Motor Sales & Service Co., Ltd.	"	30,471	Note 1.(3)	-	-	-	-	205	100.00	205	30,454	-	"
Tangshan Heling Lexus Motor Sales & Service Co., Ltd.	"	180,032	Note 1.(2)	180,032	-	-	180,032	93,502	100.00	93,502	307,654	-	"
Nanchang Heling Lexus Motors Sales & Service Co., Ltd.	"	201,760	"	201,760	-	-	201,760	114,370	100.00	114,370	327,576	-	"
Hoyun International Lease Co., Ltd.	Leasing, wholesale, retail of and support service for vehicles	2,483,200	"	2,483,200	-	-	2,483,200	22,064	65.90	145,029	2,151,836	-	"
Hoyun (Shanghai) Commercial Factoring Co., Ltd.	Factoring services	217,650	Note 1.(3)	-	-	-	(88)	65.90 (88)	(58)	(58)	157,836	-	"
He Zhan Development Co., Ltd.	Trading of air conditioning equipment	93,120	Note 1.(2)	93,120	-	-	93,120 (9,159)	45.01 (9,159)	(4,122)	(4,122)	47,538	-	"
Tianjin Heling Lexus Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	372,480	Note 1.(3)	-	-	-	-	65,357	100.00	65,357	393,196	-	"
Tianjin Hozhan Motor Service Co., Ltd.	"	298,616	"	-	-	-	-	17,379	100.00	17,379	266,507	-	"
Linyi Hoyu Toyota Motor Sales & Service Co., Ltd.	"	372,480	"	-	-	-	(3,276)	35.00 (3,276)	(1,147)	(1,147)	58,401	-	"
Carmax Autotech (Shanghai) Co., Ltd.	Trading of vehicle products/accessories	41,283	Note 1.(1)	41,283	-	-	41,283	23,858	51.00	12,169	200,850	-	"
Guangzhou Gac Changho Autotech Corporation	"	99,121	"	44,604	-	-	44,604	97,894	22.95	22,467	93,305	91,074	"
Linyi Heling Lexus Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	310,400	Note 1.(3)	-	-	-	-	35,230	35.00	12,330	90,124	-	"

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the nine months ended September 30, 2019			Accumulated amount of remittance from Taiwan to Mainland China as of September 30, 2019	Net income of investee for the nine months ended September 30, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the Nine months ended September 30, 2019	Book value of investment in Mainland China as of September 30, 2019	Accumulated amount of investment income remitted back to Taiwan as of September 30, 2019	Footnote
				Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2019	Remitted to Mainland China	Remitted back to Taiwan							
Taizhou Zhongdu Lexus Motor Sales & Service Co.,Ltd.	Sales and repairing of vehicles	465,600	Note 1.(3)	-	-	-	-	32,696	35.00	11,444	150,404	-	Note 2.(3)
Beijing Heling Lexus Motor Sales & Service Co., Ltd.	"	372,480	"	-	-	-	-	65,912	35.00	23,069	143,108	-	"
Jinzhong Central Toyota Motor Sales & Service Co., Ltd.	"	434,560	"	-	-	-	(	24,917)	35.00	(8,721)	61,651	-	"
Shanghai Hede Used Vehicle Co., Ltd.	Trading of used vehicles	13,059	"	-	-	-	-	10,178	60.00	6,107	21,653	-	"
Shanghai Guangxin Cultural Media Co., Ltd.	Design and production of advertisements	4,353	"	-	-	-	-	873	100.00	873	7,993	-	"
Shanghai Yangpu Heling Lexus Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	465,339	"	-	-	-	-	70,536	100.00	67,337	427,001	-	"
Shanghai Ho-Mian Motor Technology Co., Ltd.	Trading of vehicle products/accessories and property management	1,001,190	"	-	-	-	(	4,440)	100.00	(4,440)	989,786	-	"
Shanghai Hoxin Motor Service Consulting Co.,Ltd.	Consulting service and property management	8,706	"	-	-	-	-	95	100.00	95	5,971	-	"
Tianjin Heyi International Trading Co., Ltd.	Sales of imported vehicles	65,295	"	-	-	-	-	1,072	100.00	1,072	36,511	-	"
Chongqing Taikang Heling Lexus Motor Sales & Service Co.,Ltd.	Sales and repairing of vehicles	43,530	"	-	-	-	(	4,182)	50.00	(2,091)	19,209	-	"
Shanghai HoChen Motor Technology Co., Ltd.	Trading of vehicle products/accessories and property management	310,400	"	-	-	-	(	230)	100.00	(230)	305,847	-	Note 3
Shanghai Jiading Heling Lexus Motor Service Co., Ltd.	Sales and repairing of vehicles	325,920	"	-	-	-	-	-	100.00	-	325,920	-	Note 4

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 Nine months ended September 30, 2019 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.

Note 3: It was established in the first quarter of 2019.

Note 4: It was established in the second quarter of 2019.

Note 5: Related amounts in the following table are expressed in NTS.

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of September 30, 2019	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.	\$ 2,307,044	\$ 5,623,938	\$ 37,286,055