

**HO TAI MOTOR COMPANY LIMITED
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REVIEW REPORT OF INDEPENDENT ACCOUNTANTS
MARCH 31, 2020 AND 2019**

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
MARCH 31, 2020 AND 2019
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REVIEW REPORT OF INDEPENDENT ACCOUNTANTS
(TRANSLATED FROM CHINESE)

PWCR20000030

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 March 31, 2020 and 2019, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the three 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 the equity method were not reviewed by independent accountants. Those statements reflect total assets of NT\$51,661,268 thousand and NT\$44,546,124 thousand, constituting 20% and 19% of the consolidated total assets, and total liabilities of NT\$14,630,288 thousand and NT\$11,109,311 thousand,

constituting 8% and 6% of the consolidated total liabilities as at March 31, 2020 and 2019, and total comprehensive income of NT\$830,135 thousand and NT\$786,948 thousand, constituting 32% and 22% of the consolidated total comprehensive income for the three 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 March 31, 2020 and 2019.

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 March 31, 2020 and 2019, and of its consolidated financial performance and its consolidated cash flows for the three 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.

Yu-Lung, Wu

Fang-Yu, Wang

For and on behalf of PricewaterhouseCoopers, Taiwan
May 13, 2020

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
MARCH 31, 2020, DECEMBER 31, 2019 AND MARCH 31, 2019

(Expressed in thousands of New Taiwan dollars)

(The consolidated balance sheets as of March 31, 2020 and 2019 are reviewed, not audited)

| | Assets | Notes | March 31, 2020 | | December 31, 2019 | | March 31, 2019 | |
|---------------------------|---|---------------|-----------------------|------------|-----------------------|------------|-----------------------|------------|
| | | | Amount | % | Amount | % | Amount | % |
| Current Assets | | | | | | | | |
| 1100 | Cash and cash equivalents | 6(1) | \$ 16,616,572 | 6 | \$ 12,023,739 | 5 | \$ 8,298,540 | 3 |
| 1120 | Financial assets at fair value through profit or loss-current | 6(2) | 4,074,720 | 1 | 4,679,120 | 2 | 3,695,259 | 2 |
| 1125 | Financial assets at fair value through other comprehensive income-current | 6(3) | 6,193 | - | 27,531 | - | 171,848 | - |
| 1150 | Derivative financial assets for hedging-current | 6(4) | 106,689 | - | 81,131 | - | 124,538 | - |
| 1190 | Other financial assets-current | 6(1) and 8 | 1,798,546 | 1 | 1,771,190 | 1 | 2,051,492 | 1 |
| 1195 | Contract assets-current | 6(28) | 9,767 | - | 19,643 | - | 18,378 | - |
| 1201 | Notes receivable | 6(5), 7 and 8 | 8,501,027 | 3 | 8,307,202 | 3 | 9,288,306 | 4 |
| 1202 | Accounts receivable | 6(5), 7 and 8 | 126,281,442 | 49 | 123,348,962 | 48 | 113,745,059 | 48 |
| 1203 | Other receivables | 7 | 940,710 | - | 881,921 | - | 1,285,360 | 1 |
| 1270 | Inventories | 6(7) | 10,132,401 | 4 | 13,025,026 | 5 | 11,596,378 | 5 |
| 1280 | Prepayments | 6(8) | 6,876,453 | 3 | 7,141,104 | 3 | 6,605,185 | 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) | 1,488,345 | 1 | 1,286,604 | 1 | 1,198,219 | - |
| | Total current assets | | <u>176,848,632</u> | <u>68</u> | <u>172,608,940</u> | <u>68</u> | <u>158,094,329</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) | 8,431,520 | 3 | 9,419,496 | 4 | 8,107,110 | 3 |
| 1470 | Investments accounted for using the equity method | 6(10) | 15,462,370 | 6 | 15,118,829 | 6 | 14,532,166 | 6 |
| 1480 | Other financial assets-non-current | 6(1) | 97,064 | - | 118,925 | - | 43,415 | - |
| 1500 | Property, plant and equipment, net | 6(11) | 45,932,873 | 18 | 45,743,695 | 18 | 42,592,032 | 18 |
| 1595 | Right-of-use assets, net | 6(12) | 2,234,577 | 1 | 2,300,394 | 1 | 2,462,099 | 1 |
| 1600 | Investment property, net | 6(14) | 1,841,988 | 1 | 1,845,315 | 1 | 1,854,589 | 1 |
| 1700 | Intangible assets, net | 6(15) | 1,231,515 | - | 1,232,870 | - | 1,219,130 | 1 |
| 1800 | Deferred income tax assets, net | 6(33) | 1,502,370 | 1 | 1,460,004 | - | 1,235,069 | 1 |
| 1900 | Other assets | 6(5)(9)(16) | 4,697,734 | 2 | 4,685,587 | 2 | 3,508,381 | 2 |
| | Total non-current assets | | <u>82,432,011</u> | <u>32</u> | <u>82,925,115</u> | <u>32</u> | <u>76,553,991</u> | <u>33</u> |
| 1XXX | Total Assets | | <u>\$ 259,280,643</u> | <u>100</u> | <u>\$ 255,534,055</u> | <u>100</u> | <u>\$ 234,648,320</u> | <u>100</u> |

(Continued)

HO TAI MOTOR CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2020, DECEMBER 31, 2019 AND MARCH 31, 2019
(Expressed in thousands of New Taiwan dollars)

(The consolidated balance sheets as of March 31, 2020 and 2019 are reviewed, not audited)

| | Notes | March 31, 2020 | | December 31, 2019 | | March 31, 2019 | | |
|---|--|----------------|-----------------------|-------------------|-----------------------|----------------|-----------------------|------------|
| | | Amount | % | Amount | % | Amount | % | |
| Liabilities and equity | | | | | | | | |
| Current Liabilities | | | | | | | | |
| 2110 | Short-term loans | 6(17) | \$ 63,211,830 | 24 | \$ 61,183,045 | 24 | \$ 59,544,449 | 25 |
| 2120 | Short-term notes and bills payable | 6(18) | 54,769,891 | 21 | 53,735,476 | 21 | 51,112,812 | 22 |
| 2140 | Financial liabilities at fair value through profit or loss-current | 6(2) | 9,117 | - | 149,572 | - | 3,074 | - |
| 2150 | Derivative financial liabilities for hedging-current | 6(4) | 96,434 | - | 112,291 | - | 24,441 | - |
| 2165 | Contract liabilities-current | 6(28) | 1,265,322 | 1 | 1,202,758 | - | 1,188,653 | 1 |
| 2201 | Notes payable | | 526,620 | - | 708,449 | - | 581,734 | - |
| 2202 | Accounts payable | 7 | 10,589,335 | 4 | 10,447,079 | 4 | 8,764,049 | 4 |
| 2203 | Accrued expenses | 6(21) and 7 | 4,881,460 | 2 | 5,041,474 | 2 | 4,444,245 | 2 |
| 2204 | Other payables | 7 | 1,003,852 | 1 | 1,501,372 | 1 | 1,074,991 | 1 |
| 2250 | Commissions payable | 7 | 419,010 | - | 440,989 | - | 291,694 | - |
| 2260 | Due to reinsurance and ceding companies | | 723,593 | - | 478,159 | - | 593,533 | - |
| | Claims payable | | 26,385 | - | 12,231 | - | 49,298 | - |
| 2310 | Current income tax liabilities | | 3,136,755 | 1 | 2,187,265 | 1 | 2,809,324 | 1 |
| 2320 | Advance receipts | | 248,936 | - | 233,269 | - | 295,114 | - |
| 2330 | Long-term liabilities-current portion | 6(19)(20) | 5,026,339 | 2 | 7,626,749 | 3 | 8,746,558 | 4 |
| 2335 | Current lease liabilities | 7 | 423,686 | - | 430,478 | - | 466,047 | - |
| 2350 | Other current liabilities | 6(9)(23)(24) | 14,904,009 | 6 | 14,331,959 | 6 | 13,828,012 | 6 |
| | Total current liabilities | | <u>161,262,574</u> | <u>62</u> | <u>159,822,615</u> | <u>62</u> | <u>153,818,028</u> | <u>66</u> |
| Non-current liabilities | | | | | | | | |
| 2550 | Long-term loans | 6(20) | 2,995,749 | 1 | 3,500,851 | 1 | 3,637,619 | 1 |
| 2600 | Provisions | 6(9)(23) | 6,099,588 | 2 | 5,956,311 | 2 | 5,087,443 | 2 |
| 2620 | Guarantee deposits received | 6(24) | 6,374,540 | 3 | 6,274,655 | 3 | 5,985,275 | 3 |
| 2625 | Non-current lease liabilities | 7 | 1,456,932 | 1 | 1,492,840 | 1 | 1,706,886 | 1 |
| 2630 | Deferred income tax liabilities | 6(33) | 2,911,017 | 1 | 2,854,911 | 1 | 2,616,610 | 1 |
| 2660 | Other liabilities | | 132 | - | 23,245 | - | 47,084 | - |
| | Total non-current liabilities | | <u>19,837,958</u> | <u>8</u> | <u>20,102,813</u> | <u>8</u> | <u>19,080,917</u> | <u>8</u> |
| 2XXX | Total liabilities | | <u>181,100,532</u> | <u>70</u> | <u>179,925,428</u> | <u>70</u> | <u>172,898,945</u> | <u>74</u> |
| Equity attributable to shareholders of the parent | | | | | | | | |
| Share capital | | | | | | | | |
| 3110 | Common stock | 6(25) | 5,461,792 | 2 | 5,461,792 | 2 | 5,461,792 | 2 |
| Capital surplus | | | | | | | | |
| 3200 | Capital surplus | 6(26) | 2,818,004 | 1 | 2,816,734 | 1 | 292,159 | - |
| Retained earnings | | | | | | | | |
| 3310 | Legal reserve | 6(27) | 11,350,835 | 4 | 11,350,835 | 4 | 10,348,282 | 5 |
| 3320 | Special reserve | | 381,843 | - | 381,843 | - | 381,843 | - |
| 3330 | Unappropriated earnings | | 40,828,952 | 16 | 37,362,029 | 15 | 35,487,316 | 15 |
| Other equity | | | | | | | | |
| 3400 | Other equity | | (284,816) | - | 1,213,203 | 1 | 409,791 | - |
| 31XX | Total equity attributable to shareholders of the parent | | <u>60,556,610</u> | <u>23</u> | <u>58,586,436</u> | <u>23</u> | <u>52,381,183</u> | <u>22</u> |
| 32XX | Non-controlling interest | | <u>17,623,501</u> | <u>7</u> | <u>17,022,191</u> | <u>7</u> | <u>9,368,192</u> | <u>4</u> |
| 3XXX | Total equity | | <u>78,180,111</u> | <u>30</u> | <u>75,608,627</u> | <u>30</u> | <u>61,749,375</u> | <u>26</u> |
| Significant contingent liabilities and unrecognized contract commitments | | | | | | | | |
| Significant events after balance sheet date | | | | | | | | |
| | Total liabilities and equity | | <u>\$ 259,280,643</u> | <u>100</u> | <u>\$ 255,534,055</u> | <u>100</u> | <u>\$ 234,648,320</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 ENDED MARCH 31, 2020 AND 2019

(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)
(Reviewed, not audited)

| Items | Notes | Three months ended March 31, | | | | |
|-----------------|--|------------------------------|----------------------|--------------|---------------------|--------------|
| | | 2020 | | 2019 | | |
| | | Amount | % | Amount | % | |
| Revenues | | | | | | |
| 4010 | Interest income | 6(3)(29) and 7 | \$ 2,409,719 | 4 | \$ 2,200,557 | 5 |
| 4020 | Premiums revenue | 6(30) and 7 | 1,667,361 | 3 | 1,277,037 | 3 |
| 4040 | Reinsurance commission revenue | | 97,090 | - | 83,815 | - |
| 4050 | Fee income | | 2,397 | - | 2,596 | - |
| 4060 | Share of profit of associates and joint ventures accounted for using the equity method | 6(10) | 218,875 | - | 62,081 | - |
| 4090 | Gain on financial assets (liabilities) at fair value through profit or loss | 6(2) | - | - | 307,374 | 1 |
| 4160 | Net sales revenue | 6(28) and 7 | | | | |
| 4161 | Sales revenue | | 49,949,753 | 87 | 36,584,876 | 85 |
| 4162 | Sales returns | (| 239,884) | - | 246,646) | (1) |
| 4163 | Sales discounts and allowances | (| 959,715) | (2) | 901,868) | (2) |
| 4170 | Rental revenue | | 3,223,271 | 6 | 2,988,396 | 7 |
| 4180 | Service revenue | 6(28) and 7 | 460,929 | 1 | 460,891 | 1 |
| 4200 | Gains on disposals of investments | 6(2) | 1,635 | - | - | - |
| 4210 | Gains on disposals of property, plant and equipment | | 8,603 | - | 3,680 | - |
| 4230 | Income from investment property | 6(14) | 32,930 | - | 32,812 | - |
| 4260 | Foreign exchange gains | | - | - | 130,039 | - |
| 4270 | Other income | | 210,238 | - | 204,577 | 1 |
| 4256 | Reversal gain on expected credit of investment and impairment loss | | 1 | - | 31) | - |
| 4245 | Gains (losses) on using overlay approach of investment | 6(2) | 405,661 | 1 | 233,201) | - |
| 4280 | Unrealized profit from sales | (| 99,785) | - | 55,335) | - |
| 4290 | Realized profit from sales | | 48,845 | - | 58,873 | - |
| | Total revenues | | <u>57,437,924</u> | <u>100</u> | <u>42,960,523</u> | <u>100</u> |
| Expenses | | | | | | |
| 5010 | Interest expense | 7 | (409,534) | (1) | 427,967) | (1) |
| 5030 | Underwriting expenses | | (49) | - | 64) | - |
| 5040 | Commission expenses | 7 | (850,187) | (2) | 737,594) | (2) |
| 5050 | Claims payment | 7 | (867,854) | (2) | 601,872) | (1) |
| 5070 | Net changes in other insurance liabilities | | 58,419 | - | 67,211) | - |
| 5110 | Loss on financial assets (liabilities) at fair value through profit or loss | 6(2) | (194,434) | - | - | - |
| 5125 | Loss from sale of fair value through other comprehensive income financial assets | | (71,509) | - | 987) | - |
| 5190 | Cost of sales | 6(7) and 7 | (43,274,925) | (75) | 31,041,904) | (72) |
| 5200 | Cost of rental revenue | | (2,603,759) | (5) | 2,470,657) | (6) |
| 5210 | Cost of services | | (267,874) | - | 246,157) | - |
| 5230 | Operating expenses | 6(31)(32) and 7 | | | | |
| 5231 | Selling expenses | | (1,945,870) | (3) | 2,124,498) | (5) |
| 5232 | General and administrative expenses | | (1,342,031) | (2) | 1,187,536) | (3) |
| 5233 | Research and development expenses | | (16,833) | - | 21,789) | - |
| 5287 | Impairment loss on non-expected credit of investment and reversal gain | 12(5) | (435) | - | 1,483 | - |
| 5288 | Expected credit impairment loss | | (370,472) | (1) | 265,551) | (1) |
| 5240 | Loss on disposal of investments | | - | - | 4,456) | - |
| 5270 | Expenses and losses from investment property | 6(14) | (5,826) | - | 5,909) | - |
| 5290 | Foreign exchange loss | | (65,841) | - | - | - |
| 5320 | Other expenses | | (30,477) | - | 21,491) | - |
| | Total expenses | | <u>(52,259,491)</u> | <u>(91)</u> | <u>39,224,160)</u> | <u>(91)</u> |
| 6100 | Income before income tax from continuing operation | | <u>5,178,433</u> | <u>9</u> | <u>3,736,363</u> | <u>9</u> |
| 6200 | Income tax expense | 6(33) | (1,101,018) | (2) | 826,188) | (2) |
| 6500 | Profit for the period | | <u>\$ 4,077,415</u> | <u>7</u> | <u>\$ 2,910,175</u> | <u>7</u> |

(Continued)

HO TAI MOTOR CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)
(Reviewed, not audited)

| Items | Notes | Three months ended March 31, | | | | |
|---|---|------------------------------|----------------|--------|--------------|---|
| | | 2020 | | 2019 | | |
| | | 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 | 6(3) | (\$ 1,012,041) | (2) | \$ 103,546 | - |
| 6610 | Total components of other comprehensive income that may not be reclassified to profit or loss | | (1,012,041) | (2) | 103,546 | - |
| Components of other comprehensive income (loss) that will be reclassified to profit or loss | | | | | | |
| 6651 | Financial statement translation differences of foreign operations | | (80,044) | - | 180,378 | - |
| 6659 | Unrealized gains (loss) from investments in debt instruments measured at fair value through other comprehensive income | 6(3) | (8,498) | - | 16,441 | - |
| 6661 | Gain (loss) on hedging instrument | 6(4) | (26,675) | - | 79,105 | - |
| 6675 | Other comprehensive income reclassified by using overlay approach | 6(2) | (405,661) | (1) | 233,201 | 1 |
| 6665 | Share of other comprehensive income of associates and joint ventures accounted for using the equity method - components of other comprehensive income | | 7,894 | - | 11,146 | - |
| 6689 | Income tax related to components of other comprehensive income | 6(33) | 6,154 | - | (20,575) | - |
| | Total components of other comprehensive income (loss) that will be reclassified to profit or loss | | (506,830) | (1) | 499,696 | 1 |
| 6600 | Other comprehensive income (loss) for the period | | (\$ 1,518,871) | (3) | \$ 603,242 | 1 |
| 6700 | Total comprehensive income for the period | | \$ 2,558,544 | 4 | \$ 3,513,417 | 8 |
| Profit attributable to: | | | | | | |
| 6810 | Owners of parent | | \$ 3,466,923 | 6 | \$ 2,503,564 | 6 |
| 6820 | Non-controlling interests | | 610,492 | 1 | 406,611 | 1 |
| | | | \$ 4,077,415 | 7 | \$ 2,910,175 | 7 |
| Comprehensive income attributable to: | | | | | | |
| 6910 | Owners of parent | | \$ 1,968,904 | 3 | \$ 3,045,457 | 7 |
| 6920 | Non-controlling interests | | 589,640 | 1 | 467,960 | 1 |
| | | | \$ 2,558,544 | 4 | \$ 3,513,417 | 8 |
| Earnings per share (in dollars) | | | | | | |
| | Basic earnings per share | 6(34) | \$ 6.35 | | \$ 4.58 | |
| | Diluted earnings per share | 6(34) | \$ 6.34 | | \$ 4.58 | |

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
THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(Expressed in thousands of New Taiwan dollars)
(Reviewed, not audited)

| Notes | Equity attributable to shareholders of the parent | | | | | | | | | | | Total equity | |
|--|---|-----------------|---------------|-----------------|-------------------------|---|---|---|------------------------------------|---------------|--------------|---------------|---------------------------|
| | Retained earnings | | | | | Other equity | | | | | Total | | Non-controlling interests |
| | Share capital-common stock | Capital surplus | Legal reserve | Special reserve | Unappropriated earnings | Financial statement translation differences of foreign operations | Unrealized gains on financial assets at fair value through other comprehensive income | Other comprehensive income reclassified by using overlay approach | Gain (loss) on hedging instruments | | | | |
| <u>For the three months ended March 31, 2019</u> | | | | | | | | | | | | | |
| 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 | - | - | - | - | 2,503,564 | - | - | - | - | 2,503,564 | 406,611 | 2,910,175 | |
| Other comprehensive income for the period | - | - | - | - | - | 152,352 | 115,681 | 232,741 | 41,119 | 541,893 | 61,349 | 603,242 | |
| Total comprehensive income | - | - | - | - | 2,503,564 | 152,352 | 115,681 | 232,741 | 41,119 | 3,045,457 | 467,960 | 3,513,417 | |
| Balance at March 31, 2019 | \$ 5,461,792 | \$ 292,159 | \$ 10,348,282 | \$ 381,843 | \$ 35,487,316 | (\$ 175,631) | \$ 639,925 | (\$ 55,285) | \$ 782 | \$ 52,381,183 | \$ 9,368,192 | \$ 61,749,375 | |
| <u>For the three months ended March 31, 2020</u> | | | | | | | | | | | | | |
| Balance at January 1, 2020 | \$ 5,461,792 | \$ 2,816,734 | \$ 11,350,835 | \$ 381,843 | \$ 37,362,029 | (\$ 687,128) | \$ 1,791,411 | \$ 102,052 | \$ 6,868 | \$ 58,586,436 | \$17,022,191 | \$ 75,608,627 | |
| Profit for the period | - | - | - | - | 3,466,923 | - | - | - | - | 3,466,923 | 610,492 | 4,077,415 | |
| Other comprehensive loss for the period | - | - | - | - | - | (62,695) | (1,014,973) | (406,927) | (13,424) | (1,498,019) | (20,852) | (1,518,871) | |
| Total comprehensive income (loss) | - | - | - | - | 3,466,923 | (62,695) | (1,014,973) | (406,927) | (13,424) | 1,968,904 | 589,640 | 2,558,544 | |
| Changes in non-controlling interests | 6(10) | - | - | - | - | - | - | - | - | - | 12,940 | 12,940 | |
| Changes in ownership interests in subsidiaries | 6(35) | - | 1,270 | - | - | - | - | - | - | 1,270 | (1,270) | - | |
| Balance at March 31, 2020 | \$ 5,461,792 | \$ 2,818,004 | \$ 11,350,835 | \$ 381,843 | \$ 40,828,952 | (\$ 749,823) | \$ 776,438 | (\$ 304,875) | (\$ 6,556) | \$ 60,556,610 | \$17,623,501 | \$ 78,180,111 | |

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

HO TAI MOTOR CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(Expressed in thousands of New Taiwan dollars)
(Reviewed, not audited)

| | Notes | Three months ended March 31, | |
|--|-------------------|------------------------------|---------------|
| | | 2020 | 2019 |
| <u>Cash flows from operating activities</u> | | | |
| Consolidated profit before income tax | | \$ 5,178,433 | \$ 3,736,363 |
| Adjustments to reconcile profit before tax to net cash provided by operating activities | | | |
| Income and expenses having no effect on cash flows | | | |
| Net loss (gain) on financial assets and liabilities at fair value through profit or loss | 6(2) | 194,434 | (307,374) |
| Expected credit loss and financial guarantee expense | | 243,417 | 481,333 |
| Expected credit impairment loss of investment | | (1) | 31 |
| Expected credit impairment loss (gain on reversal) of non-investment | | 435 | (1,483) |
| Depreciation | 6(11)(12)(14)(31) | 2,328,351 | 2,215,057 |
| Amortization | 6(31) | 19,895 | 24,711 |
| Impairment loss of rental assets | 6(11) | 57,732 | 19,995 |
| Net gain on disposal of property, plant and equipment | | (8,603) | (3,680) |
| Share of profit of associates accounted for using the equity method | 6(10) | (218,875) | (62,081) |
| Interest expense | | 498,252 | 509,742 |
| Interest income | 6(29) | (2,409,719) | (2,200,557) |
| Unrealized profit from sales | | 99,785 | 55,335 |
| Realized profit from sales | | (48,845) | (58,873) |
| 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 | | 4,305 | 618,234 |
| Contract assets | | 9,876 | 402 |
| Notes and accounts receivable | | (3,370,157) | (2,253,288) |
| Other receivables | | (42,376) | 140,125 |
| Inventories | | 3,932,034 | 772,815 |
| Prepayments | | 264,800 | (83,181) |
| Reinsurance contract assets | | (259,544) | 30,329 |
| Net changes in liabilities relating to operating activities | | | |
| Financial liabilities at fair value through profit or loss | | (140,455) | (15,973) |
| Contract liabilities | | 62,564 | 113,480 |
| Notes and accounts payable | | (39,573) | (1,770,917) |
| Accrued expenses | | (155,939) | (414,802) |
| Other payables | | (497,520) | (373,180) |
| Commission payable | | (21,979) | (68,414) |
| Due to reinsurance and ceding companies | | 245,434 | 193,565 |
| Claims payable | | 14,154 | 36,218 |
| Advance receipts | | 15,667 | 20,249 |
| Other current liabilities | | 696,265 | 565,637 |
| Provisions | | 143,277 | 88,844 |
| Other liabilities | | (23,113) | (4,660) |
| Cash inflow generated from operations | | 6,772,411 | 2,004,002 |
| Income tax paid | | (131,190) | (117,075) |
| Interest received | | 2,393,306 | 2,176,906 |
| Interest paid | | (502,920) | (499,829) |
| Net cash provided by operating activities | | 8,531,607 | 3,564,004 |

(Continued)

HO TAI MOTOR CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(Expressed in thousands of New Taiwan dollars)
(Reviewed, not audited)

| | Notes | Three months ended March 31, | |
|---|-------|------------------------------|---------------|
| | | 2020 | 2019 |
| <u>Cash flows from investing activities</u> | | | |
| Increase in financial assets at fair value through other comprehensive income | | (\$ 11,225) | (\$ 4,738) |
| (Increase) decrease in other financial assets | | (5,495) | 185,378 |
| Acquisition of investments accounted for using the equity method | 6(10) | (183,500) | (6,893) |
| Acquisition of property, plant and equipment | 6(11) | (3,574,988) | (5,151,879) |
| Proceeds from disposal of property, plant and equipment | | 87,620 | 32,279 |
| Acquisition of intangible assets | 6(15) | (16,002) | (6,641) |
| Decrease (increase) in other assets | | 49,129 | (202,047) |
| Acquisition of investment property | 6(14) | - | (6,862) |
| Acquisition of right-of-use assets | | (11,928) | - |
| Net cash used in investing activities | | (3,666,389) | (5,161,403) |
| <u>Cash flows from financing activities</u> | | | |
| Increase (decrease) in short-term loans | 6(36) | 1,965,884 | (3,456,564) |
| Increase in short-term notes and bills payable | 6(36) | 1,034,415 | 3,240,898 |
| Proceeds from long-term loans | 6(36) | 600,203 | 449,749 |
| Repayment of long-term loans | 6(36) | (907,500) | (100,000) |
| Changes in non-controlling interests | | 12,940 | - |
| Repayments of bonds | 6(36) | (2,800,000) | - |
| Repayment of principal portion of lease liability | 6(12) | (109,744) | (113,152) |
| (Decrease) increase in guarantee deposits received | 6(36) | (24,330) | 200,013 |
| Net cash (used in) provided by financing activities | | (228,132) | 220,944 |
| Net effect of changes in foreign currency exchange rates | | (44,253) | 205,907 |
| Increase (decrease) in cash and cash equivalents | | 4,592,833 | (1,170,548) |
| Cash and cash equivalents at beginning of period | | 12,023,739 | 9,469,088 |
| Cash and cash equivalents at end of period | | \$ 16,616,572 | \$ 8,298,540 |

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
THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(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 May 13, 2020.

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 standards, interpretations and amendments endorsed by the FSC effective from 2020 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 |
| Amendments to IFRS 9, IAS 39 and IFRS 7, ‘Interest rate benchmark reform’ | 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.

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

None.

(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 as 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 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 (Note) |
| Amendments to IAS 1, 'Classification of liabilities as current or non-current' | January 1, 2022 |

Note: IASB at its meeting on March 17, 2020 tentatively decided to defer the effective date of IFRS 17 to January 1, 2023. However, the formal announcement has not yet been issued by the IASB.

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 three months ended March 31, 2020, 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 and Hoyun International Lease 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. For the three months ended March 31, 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.

B. Subsidiaries included in the consolidated financial statements:

| Investor | Investee | Main business activities | Ownership (%) | | | Note |
|---|--|--|----------------|-------------------|----------------|--------|
| | | | March 31, 2020 | December 31, 2019 | March 31, 2019 | |
| Ho Tai Motor Co., Ltd. | Shanghai Ho-Yu (BVI) Investment Co., Ltd. | Equity investments in Mainland China (trading and repairing of vehicles and their parts) | 100.00 | 100.00 | 100.00 | |
| Ho Tai Motor Co., Ltd. | Hozan Investment Co., Ltd. | General investment | 100.00 | 100.00 | 100.00 | |
| Ho Tai Motor Co., Ltd. | Chang Yuan Motor Co., Ltd. | Sales of vehicles and parts and repairing of vehicles | 100.00 | 100.00 | 100.00 | |
| Ho Tai Motor Co., Ltd. | Toyota Material Handling Taiwan Ltd. | Sales of vehicles and parts for industry use | 100.00 | 100.00 | 100.00 | |
| Ho Tai Motor Co., Ltd. | Ho Tai Development Co., Ltd. | Agent for sales of air conditioning system and contracting of air conditioning construction | 45.01 | 45.01 | 45.01 | Note 2 |
| Ho Tai Motor Co., Ltd. | Carmax Co., Ltd. | Trading of vehicle products/accessories | 51.00 | 51.00 | 51.00 | |
| Ho Tai Motor Co., Ltd. | Eastern Motor Co., Ltd. | Sales of vehicles and parts and repairing of vehicles | 100.00 | 100.00 | 100.00 | |
| Ho Tai Motor Co., Ltd. | Smart Design Technology Co., Ltd. | Electronic parts and components manufacturing | 20.00 | 20.00 | 20.00 | Note 1 |
| Shanghai Ho-Yu (BVI) Investment Co., Ltd. | 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 | |

| Investor | Investee | Main business activities | Ownership (%) | | | Note |
|--|--|---|----------------|-------------------|----------------|-----------|
| | | | March 31, 2020 | December 31, 2019 | March 31, 2019 | |
| 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 | |
| Hotong Motor Investment Co., Ltd. | Shanghai HoChen Motor Technology Co.,Ltd. | Trading of vehicle products / accessories and property management | 100.00 | 100.00 | 100.00 | Note 4 |
| Hotong Motor Investment Co., Ltd. | Shanghai Jiading Heling Lexus Motor Service Co., Ltd. | Sales and repairing of vehicles | 100.00 | 100.00 | - | Note 5 |
| Hotong Motor Investment Co., Ltd. | Nanjing HoZhan Motor Sales and Service Co.,LTD. | Sales and repairing of vehicles | 70.00 | - | - | Note 8 |
| 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 |
| 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 | |
| Shanghai Heling Motor Service Co., Ltd. | Shanghai Howang Financial Leasing Co., Ltd | Leasing, wholesale, retail of and support service for vehicles | - | - | 75.00 | Note 3 |
| 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 | 45.39 | 45.39 | 45.39 | Note 2, 6 |
| Hozan Investment Co., Ltd. | Hotai Insurance Co., Ltd. | Property and casualty insurance services | 99.80 | 99.80 | 99.80 | |

| Investor | Investee | Main business activities | Ownership (%) | | | Note |
|--------------------------------------|--|--|----------------|-------------------|----------------|--------|
| | | | March 31, 2020 | December 31, 2019 | March 31, 2019 | |
| 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 | |
| Hotai Finance Co., Ltd. | Hoyun International Limited | General investment | 50.50 | 50.50 | 50.50 | |
| Hotai Leasing Co., Ltd. | Hoyun International Limited | General investment | 49.50 | 49.50 | 49.50 | Note 1 |
| Hotai Leasing Co., Ltd. | Hoing Mobility Service Co., Ltd. | Leasing of vehicles | 49.18 | 100.00 | 100.00 | Note 7 |
| Hotai Finance Co., Ltd. | Hoing Mobility Service Co., Ltd. | Leasing of vehicles | 50.82 | - | - | Note 7 |
| Hoyun International Limited | Hoyun International Lease Co., Ltd. | Leasing, wholesale, retail of and support service for vehicles | 100.00 | 100.00 | 100.00 | |
| Hoyun International Lease Co., Ltd. | Hoyun (Shanghai) Commercial Factoring Co., Ltd. | Factoring services | 100.00 | 100.00 | 100.00 | |
| 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 | |
| Ho Tai Development Co., Ltd. | Ho Tai Parts & Accessories Co., Ltd. | Trading of air conditioning equipment and their peripherals | 100.00 | - | - | Note 9 |
| 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: 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 4: The investee was newly established in the first quarter of 2019.

Note 5: The investee was newly established in the second quarter of 2019.

Note 6: On December 5, 2019, Hozan Investment Co., Ltd. did not participate in the capital increase raised by Hotai Finance Co., Ltd.. As a result, the shareholding ratio decreased to 47.84%. On December 9, 2019, Hozan Investment Co., Ltd., sold shares of Hotai Finance Co., Ltd., and the shareholding ratio further decreased to 45.39%.

Note 7: On March 9, 2020, the Board of Directors of the Company's subsidiary, Hoing Mobility Service Corporation, resolved to increase its capital. The subsidiary, Hotai Leasing Co., Ltd., did not acquire shares proportionally to its interest; as a result, its shareholding ratio decreased to 49.18% from 100%. However, the subsidiary, Hotai Finance Co., Ltd. invested \$310 million in Hoing Mobility Service Corporation and its shareholding ratio increased to 50.82%.

Note 8: In February 2020, Hotong Motor Investment Co., Ltd. invested RMB 7 million to establish Nanjing HoZhan Motor Sales and Service Co.,LTD. and acquired a shareholding of 70%.

Note 9: The investee was newly established in the first quarter of 2020.

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 March 31, 2020, December 31, 2019 and March 31, 2019, the non-controlling interest amounted to \$17,623,501, \$17,022,191 and \$9,368,192 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 | | | |
|-------------------------|-----------------------------|--------------------------|---------------|-------------------|---------------|
| | | March 31, 2020 | | December 31, 2019 | |
| | | Amount | Ownership (%) | Amount | Ownership (%) |
| Hotai Finance Co., Ltd. | Taiwan | \$ 11,493,143 | 54.610% | \$ 11,179,015 | 54.610% |
| Hotai Leasing Co., Ltd. | Taiwan | 1,356,447 | 33.958% | 1,289,539 | 33.958% |

| Name of subsidiary | Principal place of business | Non-controlling interest | |
|-------------------------|-----------------------------|--------------------------|---------------|
| | | March 31, 2019 | |
| | | Amount | Ownership (%) |
| Hotai Finance Co., Ltd. | Taiwan | \$ 3,751,674 | 34.233% |
| Hotai Leasing Co., Ltd. | Taiwan | 1,194,983 | 33.958% |

Summarized financial information of the subsidiaries:

Balance sheets

| | Hotai Finance Co., Ltd. | | |
|-------------------------|-------------------------|----------------------|----------------------|
| | March 31, 2020 | December 31, 2019 | March 31, 2019 |
| Current assets | \$ 130,214,835 | \$ 128,573,629 | \$ 119,368,920 |
| Non-current assets | 7,817,266 | 4,772,046 | 4,004,878 |
| Current liabilities | (114,277,680) | (110,584,126) | (110,205,527) |
| Non-current liabilities | (762,114) | (667,286) | (575,947) |
| Total net assets | <u>\$ 22,992,307</u> | <u>\$ 22,094,263</u> | <u>\$ 12,592,324</u> |

| | Hotai Leasing Co., Ltd. | | |
|-------------------------|-------------------------|---------------------|---------------------|
| | March 31, 2020 | December 31, 2019 | March 31, 2019 |
| Current assets | \$ 2,756,664 | \$ 2,945,095 | \$ 2,351,240 |
| Non-current assets | 29,915,187 | 32,444,164 | 27,903,404 |
| Current liabilities | (18,726,524) | (21,174,848) | (16,274,167) |
| Non-current liabilities | (9,950,843) | (10,416,959) | (10,461,474) |
| Total net assets | <u>\$ 3,994,484</u> | <u>\$ 3,797,452</u> | <u>\$ 3,519,003</u> |

Statements of comprehensive income

| | Hotai Finance Co., Ltd. | |
|--|------------------------------|-------------------|
| | Three months ended March 31, | |
| | 2020 | 2019 |
| Revenue | \$ 3,481,222 | \$ 2,919,049 |
| Profit before income tax | 834,338 | 771,591 |
| Income tax expense | (188,345) | (172,110) |
| Profit for the period | <u>645,993</u> | <u>599,481</u> |
| Other comprehensive (loss) income for the period, net of tax | (47,952) | 135,595 |
| Total comprehensive income for the period | <u>\$ 598,041</u> | <u>\$ 735,076</u> |
| Comprehensive income attributable to non-controlling interests | <u>\$ 317,484</u> | <u>\$ 223,861</u> |
| Dividends paid to non-controlling interest | <u>\$ -</u> | <u>\$ -</u> |

| | Hotai Leasing Co., Ltd. | |
|--|------------------------------|-------------------|
| | Three months ended March 31, | |
| | 2020 | 2019 |
| Revenue | \$ 4,108,358 | \$ 3,704,027 |
| Profit before income tax | 262,240 | 201,170 |
| Income tax expense | (54,752) | (46,462) |
| Profit for the period | <u>207,488</u> | <u>154,708</u> |
| Other comprehensive (loss) income for the period, net of tax | (16,605) | 34,509 |
| Total comprehensive income for the period | <u>\$ 190,883</u> | <u>\$ 189,217</u> |
| Comprehensive income attributable to non-controlling interests | <u>\$ 64,820</u> | <u>\$ 64,254</u> |
| Dividends paid to non-controlling interest | <u>\$ -</u> | <u>\$ -</u> |

Statements of cash flows

| | Hotai Finance Co., Ltd. | |
|--|------------------------------|-------------------|
| | Three months ended March 31, | |
| | 2020 | 2019 |
| Net cash (used in) provided by operating activities | (\$ 562,810) | \$ 268,962 |
| Net cash used in investing activities | (239,413) | (251,314) |
| Net cash provided by financing activities | 1,065,887 | 305,884 |
| Net effect of changes in foreign currency exchange rates | (19,505) | 144,304 |
| (Decrease) increase in cash and cash equivalents | 244,159 | 467,836 |
| Cash and cash equivalents, beginning of period | 373,909 | 464,836 |
| Cash and cash equivalents, end of period | <u>\$ 618,068</u> | <u>\$ 932,672</u> |

| | Hotai Leasing Co., Ltd. | |
|--|------------------------------|------------------|
| | Three months ended March 31, | |
| | 2020 | 2019 |
| Net cash provided by operating activities | \$ 3,168,935 | \$ 4,104,074 |
| Net cash used in investing activities | (3,027,381) | (2,874,094) |
| Net cash provided by financing activities | (177,325) | (1,212,421) |
| (Decrease) increase in cash and cash equivalents | (35,771) | 17,559 |
| Cash and cash equivalents, beginning of period | 190,323 | 70,799 |
| Cash and cash equivalents, end of period | <u>\$ 154,552</u> | <u>\$ 88,358</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

- 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.
- 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.
- 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 and short-term notes and bills 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's subsidiary, Hotai Insurance Co., Ltd., 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 an 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 of the subsidiary, Hotai Insurance Co., Ltd.

The Company's subsidiary, Hotai Insurance Co., Ltd., provisioned for an appropriate allowance loss under IFRS 9 and IFRS 4 for receivables, financial assets measured at amortized cost and 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 the 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 | 1 ~ 20 years |
| Machinery and equipment | 1 ~ 15 years |
| Leasehold improvements | 1 ~ 35 years |

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

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) 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.

(20) Intangible assets

A. Computer software

Intangible assets held by the Group pertain to computer software which are stated at cost and subsequently measured using the cost model. The computer software has a finite useful life and is amortized on a straight-line basis over its estimated economic useful life of 2~5 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.

(21) Impairment of non-financial assets

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

(22) Borrowings

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

(23) Notes and accounts payable

A. Liabilities for purchases of raw materials, goods or services and notes payables resulting from operating and non-operating activities.

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

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

A. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges.

B. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognized in profit or loss. The Group subsequently measures the financial liabilities at fair value with any gain or loss recognized in profit or loss.

(25) Derecognition of financial liabilities

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

(26) 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.

(27) Financial guarantee contracts

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

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

(28) Non-hedging and embedded derivatives

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

B. Under the financial assets, the hybrid contracts embedded with derivatives are initially recognized as financial assets at fair value through profit or loss, financial assets at fair value

through other comprehensive income and financial assets at amortized cost based on the contract terms.

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

(29) Hedge accounting

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

- B. The Group designates the hedging relationship as follows:

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

- C. Cash flow hedges

- (a) The cash flow hedge reserve associated with the hedged item is adjusted to the lower of the following (in absolute amounts):

- i. The cumulative gain or loss on the hedging instrument from inception of the hedge; and
- ii. The cumulative change in fair value of the hedged item from inception of the hedge.

- (b) The effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income. The gain or loss on the hedging instrument relating to the ineffective portion is recognized in profit or loss.

- (c) The amount that has been accumulated in the cash flow hedge reserve in accordance with 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.

(30) Provisions

Provisions (provision for warranties) are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognized as interest expense. Provisions are not recognized for future operating losses. For details of provisions for other insurance liabilities, please refer to Note 4(38).

(31) Employee benefits

A. Short-term employee benefits

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

B. Pensions

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.

C. Termination benefits

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

D. Employees' compensation and directors' remuneration

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

(32) Classification of insurance contracts

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

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

(33) Direct insurance income and expenses

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

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

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

(34) Reinsurance contract

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

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

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

(35) Salvage and subrogation

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

(36) Underwriting pools and coinsurance

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

(37) Insurance liabilities

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

Except for the reserves for one-year group accident insurance which is provided based on the higher of actual insurance premium or insurance premium calculated in accordance with the 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.

(38) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 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.

(39) Share capital

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

(40) Dividends

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

(41) Revenue recognition

A. Sales of goods

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

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

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.

(42) 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(28) 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(23) "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 and

expected loss ratio. 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 recoverable from reinsurers for reported but not paid claims are estimated by each insurance case, and the amounts recoverable from reinsurers for incurred but not reported claims are estimated based on the difference between the reserve for incurred but not reported claims and the reserve for incurred but not reported claims for retention business.

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>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|---------------------------------------|-----------------------|--------------------------|-----------------------|
| Cash on hand and revolving funds | \$ 13,400 | \$ 13,248 | \$ 14,097 |
| Checking accounts and demand deposits | 7,018,120 | 7,863,543 | 5,655,654 |
| Cash equivalents | | | |
| Time deposits | 1,355,192 | 1,220,947 | 1,356,685 |
| Short-term notes and bills | <u>8,229,860</u> | <u>2,926,001</u> | <u>1,272,104</u> |
| | <u>\$ 16,616,572</u> | <u>\$ 12,023,739</u> | <u>\$ 8,298,540</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 March 31, 2020, December 31, 2019 and March 31, 2019, the Group presented its long-term time deposits of \$1,675,125, \$1,783,125 and \$1,982,174, respectively, under other financial assets-current and non-current.
- C. Of the short-term notes held by the Company's subsidiary, Hotai Insurance Co., Ltd., 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>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</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 | \$ 2,076,659 | \$ 2,376,442 | \$ 1,880,167 |
| Derivative instruments | 68,745 | 9,346 | 18,271 |
| Financial instruments | 190,543 | 190,543 | 95,943 |
| Listed stocks | 550,729 | 703,896 | 832,284 |
| Listed preference share | 59,980 | 59,980 | 59,980 |
| Exchange Traded Funds | 1,354,732 | 1,160,929 | 792,913 |
| Valuation adjustment | (226,668) | 177,984 | 15,701 |
| | <u>\$ 4,074,720</u> | <u>\$ 4,679,120</u> | <u>\$ 3,659,259</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>\$ 9,117</u> | <u>\$ 149,572</u> | <u>\$ 3,074</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 March 31,</u> | |
|---|-------------------------------------|-------------------|
| | <u>2020</u> | <u>2019</u> |
| Financial instruments mandatorily measured at fair value through profit or loss | | |
| Derivative instruments | \$ 201,652 | \$ 25,761 |
| Domestic and foreign beneficiary certificates | (127,430) | 102,595 |
| Listed stocks | (37,351) | 78,910 |
| Listed preference share | (2,693) | 1,070 |
| Exchange Traded Funds | (237,178) | 90,519 |
| Corporate bonds | <u>8,566</u> | <u>8,519</u> |
| | <u>(\$ 194,434)</u> | <u>\$ 307,374</u> |

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

| | <u>March 31, 2020</u> | |
|------------------------------------|---|-----------------------|
| | Contract amount (Notional principal) (in thousands) | Contract period |
| <u>Derivative instruments</u> | | |
| Current items: | | |
| Forward foreign exchange contracts | <u>USD 334,286</u> | 2019.11.25~2020.06.12 |
| Foreign exchange swap contracts | <u>USD 22,600</u> | 2020.02.06~2020.06.08 |

| | <u>December 31, 2019</u> | |
|------------------------------------|---|-----------------------|
| | Contract amount (Notional principal) (in thousands) | Contract period |
| <u>Derivative instruments</u> | | |
| Current items: | | |
| Forward foreign exchange contracts | <u>USD 404,846</u> | 2019.07.25~2020.05.14 |
| Foreign exchange swap contracts | <u>USD 21,950</u> | 2019.11.04~2019.03.02 |

| | <u>March 31, 2019</u> | |
|------------------------------------|---|-----------------------|
| | Contract amount (Notional principal) (in thousands) | Contract period |
| <u>Derivative instruments</u> | | |
| Current items: | | |
| Forward foreign exchange contracts | <u>USD 272,980</u> | 2019.01.15~2019.06.14 |
| Foreign exchange swap contracts | <u>USD 20,300</u> | 2019.02.25~2019.05.31 |

The Group entered into forward foreign exchange 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.

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 March 31, 2020, December 31, 2019 and March 31, 2019, such financial assets designated using overlay approach are as follows:

| <u>Items</u> | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|---|-----------------------|--------------------------|-----------------------|
| Financial assets at fair value through profit or loss designated using overlay approach | | | |
| Listed stocks | \$ 550,729 | \$ 703,896 | \$ 832,284 |
| Listed preference shares | 59,980 | 59,980 | 59,980 |

| Items | March 31, 2020 | December 31, 2019 | March 31, 2019 |
|---|---------------------|---------------------|---------------------|
| Exchange Traded Funds | 1,354,732 | 1,160,929 | 792,913 |
| Domestic and foreign beneficiary certificates | 1,134,846 | 906,494 | 1,011,300 |
| Corporate bonds | 500,000 | 500,000 | 500,000 |
| Valuation adjustment | (236,978) | 168,683 | 9,273 |
| | <u>\$ 3,363,309</u> | <u>\$ 3,499,982</u> | <u>\$ 3,205,750</u> |

For the three months ended March 31, 2020 and 2019, the reclassifications between profit or loss and other comprehensive income of such financial assets designated using overlay approach are as follows:

| | Three months ended March 31, | |
|--|------------------------------|-------------|
| | 2020 | 2019 |
| (Losses) gains recognized in profit or loss under IFRS 9 | (\$ 476,021) | \$ 275,859 |
| Less: Losses recognized in profit or loss under IAS 39 | (70,360) | 42,658 |
| (Loss) profit reclassified under overlay approach | (\$ 405,661) | \$ 233,201 |
| Effect from change in tax | <u>\$ 2,071</u> | <u>\$ -</u> |

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

(a)

| Type of structured entities | Book value at March 31, 2020 | Description |
|------------------------------------|---------------------------------|---|
| Infrastructure fund | <u>\$ 316,500</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>\$ 40,113</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 December 31, 2019 | Description |
| Infrastructure fund | <u>\$ 305,540</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>\$ 32,367</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 March 31, 2019 | Description |
|-----------------------------|------------------------------|---|
| Infrastructure fund | \$ <u>306,490</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 | March 31, 2020 | December 31, 2019 | March 31, 2019 |
|---|---------------------|---------------------|---------------------|
| Current items: | | | |
| Debt instrument | | | |
| Financial bonds | \$ - | \$ - | \$ 100,009 |
| Foreign financial bonds | <u>6,113</u> | <u>27,197</u> | <u>71,387</u> |
| | 6,113 | 27,197 | 171,396 |
| Valuation adjustment (including loss allowance) | <u>80</u> | <u>334</u> | <u>452</u> |
| | <u>\$ 6,193</u> | <u>\$ 27,531</u> | <u>\$ 171,848</u> |
| Non-current items: | | | |
| Debt instrument | | | |
| Government bonds | \$ 373,323 | \$ 373,497 | \$ 377,138 |
| Corporate bonds | 306,506 | 306,976 | 308,392 |
| Financial bonds | 508,200 | 506,614 | 405,092 |
| Foreign corporate and financial bonds | <u>682,360</u> | <u>651,189</u> | <u>595,305</u> |
| | 1,869,389 | 1,838,276 | 1,685,927 |
| Valuation adjustment (including loss allowance) | 28,986 | 37,239 | 14,078 |
| Less: Operation bonds | (<u>300,300</u>) | (<u>300,300</u>) | (<u>300,300</u>) |
| | <u>1,598,075</u> | <u>1,575,215</u> | <u>1,399,705</u> |
| Equity instruments | | | |
| Listed stocks and unlisted stocks | 6,442,197 | 6,442,009 | 6,442,652 |
| Valuation adjustment | <u>391,248</u> | <u>1,402,272</u> | <u>264,753</u> |
| | <u>6,833,445</u> | <u>7,844,281</u> | <u>6,707,405</u> |
| | <u>\$ 8,431,520</u> | <u>\$ 9,419,496</u> | <u>\$ 8,107,110</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 \$6,833,445, \$7,844,281 and \$6,707,405, respectively, as at March 31, 2020, December 31, 2019 and March 31, 2019.

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 March 31,</u> | |
|--|-------------------------------------|------------------|
| | <u>2020</u> | <u>2019</u> |
| Debt instruments at fair value through other comprehensive income | | |
| Fair value change recognized in other comprehensive income | (\$ 5,432) | \$ 15,451 |
| Cumulative other comprehensive income reclassified to profit or loss | | |
| Reclassified due to impairment recognition | 10 | 4 |
| Reclassified due to derecognition | (3,076) | 986 |
| | <u>(\$ 8,498)</u> | <u>\$ 16,441</u> |
| Interest income recognized in profit or loss | <u>\$ 10,031</u> | <u>\$ 10,242</u> |

| <u>Items</u> | <u>Three months ended March 31,</u> | |
|---|-------------------------------------|-------------|
| | <u>2020</u> | <u>2019</u> |
| Equity instruments at fair value through other comprehensive income | | |
| Fair value change recognized in other comprehensive income | (\$ 1,012,041) | \$ 103,546 |

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 March 31, 2020, 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>March 31, 2020</u> | | <u>December 31, 2019</u> | | <u>March 31, 2019</u> | |
|--|-----------------------|----------------------------|--------------------------|----------------------------|-----------------------|----------------------------|
| | <u>Current assets</u> | <u>Current liabilities</u> | <u>Current assets</u> | <u>Current liabilities</u> | <u>Current assets</u> | <u>Current liabilities</u> |
| Cash flow hedges | | | | | | |
| <u>Exchange rate risk and interest rate risk</u> | | | | | | |
| Cross currency swaps | \$ 106,689 | (\$ 96,434) | \$ 81,131 | (\$ 112,291) | \$ 124,538 | (\$ 24,441) |

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:

| | March 31, 2020 | | | | Three months ended March 31, 2020 | | | |
|-----------------------------------|--|----------------------|------------------------|-----------------------------|--|------------------------|-----------------------|---|
| | 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 | \$ 6,135 | \$ - | - | 6.87 | 4.35 | \$ - |
| | USD 165,000 | 2018/4/16 ~2021/9/17 | 100,554 | (96,434) | - | 29.20~30.85 | 0.92~1.29 | - |

Hedged items

Cash flow hedges

Exchange rates risk and interest rate risk

Short-term borrowings

| March 31, 2020 | |
|-----------------------------|--|
| Liabilities carrying amount | Valuation on liabilities' carrying amount due to fair value hedges |
| \$ 5,501,898 | \$ 22,689 |

| | December 31, 2019 | | | | Year ended December 31, 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 | \$ 5,349 | \$ - | - | 6.87~6.89 | 4.35~4.74 | \$ - |
| | USD 200,000 | 2017/3/13 ~2021/9/17 | 75,782 | (112,291) | - | 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, 2019 | |
|-----------------------------|--|
| Liabilities carrying amount | Valuation on liabilities' carrying amount due to fair value hedges |
| \$ 6,585,672 | (\$ 43,680) |

| | March 31, 2019 | | | | Three months ended March 31, 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 | 23,000 | 2017/5/23~2021/6/18 | \$ - | (\$ 19,673) | \$ - | 6.87~6.89 | 4.35~4.74 | \$ - |
| | USD | 200,000 | 2017/3/13~2021/9/17 | 124,538 | (4,768) | - | 29.20~30.85 | 0.92~1.29 | - |

| | March 31, 2019 | |
|--|------------------------------|--|
| | 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> | | |
| Short-term borrowings | \$ 6,778,485 | \$ 97,441 |
| C. Cash flow hedges | | |
| | Three months ended March 31, | |
| | 2020 | 2019 |
| <u>Other equity - cash flow hedge reserve</u> | | |
| At January 1 | \$ 9,376 | (\$ 61,330) |
| Add: Gains (losses) on hedge effectiveness-amount recognized in other comprehensive income | (39,296) | 54,595 |
| Reclassified to profit or loss as the hedged item has affected profit or loss | 14,315 | 24,510 |
| Income tax relating to the hedge effectiveness-amount recognized in other comprehensive income | 3,490 | (16,575) |
| At March 31 | (\$ 12,115) | \$ 1,200 |

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>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|-------------------------------------|-----------------------|--------------------------|-----------------------|
| Notes receivable | \$ 1,876,417 | \$ 1,581,989 | \$ 2,246,565 |
| Installment notes receivable | 6,168,997 | 6,219,543 | 6,472,185 |
| Accounts receivable | 7,572,589 | 6,566,835 | 6,616,642 |
| Installment accounts receivable | 119,073,160 | 115,005,470 | 102,566,950 |
| Lease payments and notes receivable | 17,672,564 | 19,567,803 | 19,315,853 |
| Premiums receivable | 614,581 | 458,737 | 611,823 |
| Overdue receivable | <u>45,506</u> | <u>62,418</u> | <u>35,097</u> |
| | 153,023,814 | 149,462,795 | 137,865,115 |
| Less: Unrealized interest income | (11,848,208) | (11,362,192) | (9,689,387) |
| Unearned finance income | (1,892,579) | (2,232,584) | (2,129,686) |
| Allowance for doubtful accounts | <u>(2,754,789)</u> | <u>(2,677,141)</u> | <u>(2,366,435)</u> |
| Notes and accounts receivable, net | <u>\$ 136,528,238</u> | <u>\$ 133,190,878</u> | <u>\$ 123,679,607</u> |

| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2020</u> |
|-------------------------------------|-----------------------|--------------------------|-----------------------|
| Current | <u>\$ 134,782,469</u> | <u>\$ 131,656,164</u> | <u>\$ 123,033,365</u> |
| Non-current (shown as other assets) | <u>\$ 1,745,769</u> | <u>\$ 1,534,714</u> | <u>\$ 646,242</u> |

As of March 31, 2020, December 31, 2019 and March 31, 2019, the subsidiary - Hotai Finance Co., Ltd.'s notes receivable were pledged as collateral for loans and issuance of commercial papers to banks amounted to \$3,678,331, \$4,092,545 and \$4,462,631, respectively. Furthermore, the promissory note for installment accounts receivable pledged as collateral for loans to banks amounted to \$2,139,582, \$1,850,785 and \$2,010,011 as of March 31, 2020, December 31, 2019 and March 31, 2019, 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>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|------------------|-----------------------|--------------------------|-----------------------|
| | <u>Receivables</u> | <u>Receivables</u> | <u>Receivables</u> |
| Not past due | \$ 150,397,362 | \$ 147,712,605 | \$ 135,897,052 |
| Up to 30 days | 276,123 | 46,189 | 95,944 |
| 31 to ~ 90 days | 1,162,000 | 589,259 | 567,910 |
| 91 to ~ 180 days | 594,192 | 411,053 | 355,042 |
| Over 180 days | <u>594,137</u> | <u>703,689</u> | <u>949,167</u> |
| | <u>\$ 153,023,814</u> | <u>\$ 149,462,795</u> | <u>\$ 137,865,115</u> |

The above aging analysis was based on past due date.

B. As of March 31, 2020, December 31, 2019 and March 31, 2019, the balances of receivables (including notes receivable) from contracts with customers amounted to \$9,263,705, \$7,999,700 and \$8,825,662, respectively.

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

| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|-----------------|-----------------------|--------------------------|-----------------------|
| Up to 12 months | \$ 46,997,978 | \$ 46,216,840 | \$ 43,392,221 |
| Over 12 months | <u>78,244,179</u> | <u>75,008,173</u> | <u>65,646,914</u> |
| | <u>\$ 125,242,157</u> | <u>\$ 121,225,013</u> | <u>\$ 109,039,135</u> |

D. Lease payments receivable

Refer to Note 6(13) for more details.

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:

| | <u>March 31, 2020</u> | | | | | |
|------------------------------|---|--|---|--|--------------------|-------------------------------|
| | <u>Financial assets</u> | | | | | |
| | Gross amounts of recognized financial assets (a) | Gross amounts of recognized financial liabilities set off (b) | Net amounts of financial assets presented in the balance sheet (c)=(a)-(b) | <u>Not set off in the balance sheets</u> | | Net amount (f)=(c)-(d)-(e) |
| <u>Description</u> | | | Financial instruments (d) | Collateral received (e) | | |
| Derivative instruments | \$ 223 | \$ - | \$ 223 | \$ 223 | \$ - | \$ - |
| Reverse repurchase agreement | <u>\$2,382,726</u> | <u>\$ -</u> | <u>\$ 2,382,726</u> | <u>\$ -</u> | <u>\$2,382,726</u> | <u>\$ -</u> |
| | <u>\$2,382,949</u> | <u>\$ -</u> | <u>\$ 2,382,949</u> | <u>\$ 223</u> | <u>\$2,382,726</u> | <u>\$ -</u> |

| | <u>March 31, 2020</u> | | | | | |
|------------------------|--|---|--|--|-------------|-------------------------------|
| | <u>Financial liabilities</u> | | | | | |
| | Gross amounts of recognized financial liabilities (a) | Gross amounts of recognized financial assets set off (b) | Net amounts of financial liabilities presented in the balance sheet (c)=(a)-(b) | <u>Not set off in the balance sheets</u> | | Net amount (f)=(c)-(d)-(e) |
| <u>Description</u> | | | Financial instruments (d) | Collateral received (e) | | |
| Derivative instruments | <u>\$ 2,906</u> | <u>\$ -</u> | <u>\$ 2,906</u> | <u>\$ 223</u> | <u>\$ -</u> | <u>\$ 2,683</u> |

| December 31, 2019 | | | | | | |
|------------------------------|---|--|---|-----------------------------------|----------------------------|-------------------------------|
| Financial assets | | | | | | |
| Description | Gross amounts of recognized financial assets (a) | Gross amounts of recognized financial liabilities set off (b) | Net amounts of financial assets presented in the balance sheet (c)=(a)-(b) | Not set off in the balance sheets | | Net amount (f)=(c)-(d)-(e) |
| | | | | Financial instruments (d) | Collateral received (e) | |
| Reverse repurchase agreement | \$1,897,937 | \$ - | \$ 1,897,937 | \$ - | \$1,897,937 | \$ - |
| March 31, 2019 | | | | | | |
| Financial assets | | | | | | |
| Description | Gross amounts of recognized financial assets (a) | Gross amounts of recognized financial liabilities set off (b) | Net amounts of financial assets presented in the balance sheet (c)=(a)-(b) | Not set off in the balance sheets | | Net amount (f)=(c)-(d)-(e) |
| | | | | Financial instruments (d) | Collateral received (e) | |
| Reverse repurchase agreement | \$1,128,754 | \$ - | \$ 1,128,754 | \$ - | \$1,128,754 | \$ - |

(7) Inventories

| March 31, 2020 | | | |
|---------------------------|----------------------|------------------------------|----------------------|
| | Cost | Allowance for valuation loss | Book value |
| Vehicles and parts | \$ 5,581,449 | (\$ 96,793) | \$ 5,484,656 |
| Air conditioner and parts | 3,062,914 | (340,033) | 2,722,881 |
| Other goods | 275,062 | (5,116) | 269,946 |
| Inventory in transit | 1,654,918 | - | 1,654,918 |
| | <u>\$ 10,574,343</u> | <u>(\$ 441,942)</u> | <u>\$ 10,132,401</u> |
| December 31, 2019 | | | |
| | Cost | Allowance for valuation loss | Book value |
| Vehicles and parts | \$ 8,117,585 | (\$ 89,066) | \$ 8,028,519 |
| Air conditioner and parts | 2,453,390 | (340,093) | 2,113,297 |
| Other goods | 246,432 | (8,897) | 237,535 |
| Inventory in transit | 2,645,675 | - | 2,645,675 |
| | <u>\$ 13,463,082</u> | <u>(\$ 438,056)</u> | <u>\$ 13,025,026</u> |

| | <u>March 31, 2019</u> | | |
|---------------------------|-----------------------|---|----------------------|
| | <u>Cost</u> | <u>Allowance for valuation loss</u> | <u>Book value</u> |
| Vehicles and parts | \$ 5,790,346 | (\$ 73,882) | \$ 5,716,464 |
| Air conditioner and parts | 3,310,389 | (388,525) | 2,921,864 |
| Other goods | 395,224 | (7,225) | 387,999 |
| Inventory in transit | <u>2,570,051</u> | <u>-</u> | <u>2,570,051</u> |
| | <u>\$ 12,066,010</u> | <u>(\$ 469,632)</u> | <u>\$ 11,596,378</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 March 31,</u> | |
|---|-------------------------------------|----------------------|
| | <u>2020</u> | <u>2019</u> |
| Cost of goods sold | \$ 43,271,039 | \$ 31,039,973 |
| Loss on market value decline of inventories | <u>3,886</u> | <u>1,931</u> |
| | <u>\$ 43,274,925</u> | <u>\$ 31,041,904</u> |

(8) Prepayments

| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|-------------------------------------|-----------------------|--------------------------|-----------------------|
| Prepayments to commissions | \$ 3,108,443 | \$ 3,060,537 | \$ 2,816,645 |
| Prepayments to suppliers | 1,772,551 | 2,108,374 | 1,639,934 |
| Offset against business tax payable | 651,505 | 853,909 | 1,065,463 |
| Prepaid insurance premiums | 405,157 | 391,733 | 451,731 |
| Other prepayments | <u>938,797</u> | <u>726,551</u> | <u>631,412</u> |
| | <u>\$ 6,876,453</u> | <u>\$ 7,141,104</u> | <u>\$ 6,605,185</u> |

(9) Reinsurance contract assets and insurance liabilities

A. Details of reinsurance contract assets are as follows:

| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|---|-----------------------|--------------------------|-----------------------|
| Claims recoverable from reinsurers | \$ 108,154 | \$ 99,868 | \$ 80,364 |
| Due from reinsurance and ceding companies | 105,848 | 77,019 | 82,419 |
| Reinsurance reserve assets | | | |
| -Ceded unearned premium reserve | 1,080,315 | 899,632 | 886,065 |
| -Ceded claims reserve | 757,155 | 707,719 | 564,079 |
| Due from reinsurance and ceding companies-overdue | <u>17,542</u> | <u>24,155</u> | <u>14,224</u> |
| | 2,069,014 | 1,808,393 | 1,627,151 |
| Less: Loss allowance | (<u>15,335</u>) | (<u>14,258</u>) | (<u>14,617</u>) |
| | <u>\$ 2,053,679</u> | <u>\$ 1,794,135</u> | <u>\$ 1,612,534</u> |

| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|-------------------------------------|-----------------------|--------------------------|-----------------------|
| Current | <u>\$ 1,488,345</u> | <u>\$ 1,286,604</u> | <u>\$ 1,198,219</u> |
| Non-current (shown as other assets) | <u>\$ 565,334</u> | <u>\$ 507,531</u> | <u>\$ 414,315</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>2020</u> | <u>2019</u> |
|-----------------------------|------------------|------------------|
| At January 1 | \$ 14,258 | \$ 11,598 |
| Provision during the period | <u>1,077</u> | <u>3,019</u> |
| At March 31 | <u>\$ 15,335</u> | <u>\$ 14,617</u> |

C. Details of insurance liabilities are as follows:

| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|--|-----------------------|--------------------------|-----------------------|
| Unearned premium reserve | \$ 4,789,695 | \$ 4,393,809 | \$ 3,880,525 |
| Claims reserve | 3,092,418 | 3,091,211 | 2,607,207 |
| Special reserve | <u>1,903,002</u> | <u>1,913,192</u> | <u>1,906,509</u> |
| | <u>\$ 9,785,115</u> | <u>\$ 9,398,212</u> | <u>\$ 8,394,241</u> |
| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
| Current (shown as other current liabilities) | <u>\$ 6,341,219</u> | <u>\$ 5,966,415</u> | <u>\$ 5,100,089</u> |
| Non-current (shown as provisions) | <u>\$ 3,443,896</u> | <u>\$ 3,431,797</u> | <u>\$ 3,294,152</u> |

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

| | <u>2020</u> | | |
|-----------------------------|---------------------|---------------------|---------------------|
| | <u>Gross amount</u> | <u>Ceded amount</u> | <u>Net amount</u> |
| At January 1 | \$ 4,393,809 | \$ 899,632 | \$ 3,494,177 |
| Provision during the period | 4,789,695 | 1,080,315 | 3,709,380 |
| Recovery during the period | (4,393,809) | (899,632) | (3,494,177) |
| At March 31 | <u>\$ 4,789,695</u> | <u>\$ 1,080,315</u> | <u>\$ 3,709,380</u> |

| | <u>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 | 3,880,525 | 886,065 | 2,994,460 |
| Recovery during the period | (3,567,154) | (727,955) | (2,839,199) |
| At March 31 | <u>\$ 3,880,525</u> | <u>\$ 886,065</u> | <u>\$ 2,994,460</u> |

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

(a) As of March 31, 2020, December 31, 2019 and March 31, 2019, details of claims reserve and ceded claims reserve are as follows:

| | <u>March 31, 2020</u> | | |
|---------------------------|-----------------------|---------------------|---------------------|
| | <u>Gross amount</u> | <u>Ceded amount</u> | <u>Net amount</u> |
| Reported but not paid | \$ 1,582,224 | \$ 283,199 | \$ 1,299,025 |
| Incurred but not reported | <u>1,510,194</u> | <u>473,956</u> | <u>1,036,238</u> |
| | <u>\$ 3,092,418</u> | <u>\$ 757,155</u> | <u>\$ 2,335,263</u> |

| | <u>December 31, 2019</u> | | |
|---------------------------|--------------------------|---------------------|---------------------|
| | <u>Gross amount</u> | <u>Ceded amount</u> | <u>Net amount</u> |
| Reported but not paid | \$ 1,741,618 | \$ 298,444 | \$ 1,443,174 |
| Incurred but not reported | <u>1,349,593</u> | <u>409,275</u> | <u>940,318</u> |
| | <u>\$ 3,091,211</u> | <u>\$ 707,719</u> | <u>\$ 2,383,492</u> |

| | <u>March 31, 2019</u> | | |
|---------------------------|-----------------------|---------------------|---------------------|
| | <u>Gross amount</u> | <u>Ceded amount</u> | <u>Net amount</u> |
| Reported but not paid | \$ 1,501,559 | \$ 240,526 | \$ 1,261,033 |
| Incurred but not reported | <u>1,105,648</u> | <u>323,553</u> | <u>782,095</u> |
| | <u>\$ 2,607,207</u> | <u>\$ 564,079</u> | <u>\$ 2,043,128</u> |

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

| | 2020 | | |
|-----------------------------|---------------------|---------------------|---------------------|
| | <u>Gross amount</u> | <u>Ceded amount</u> | <u>Net amount</u> |
| At January 1 | \$ 3,091,211 | \$ 707,719 | \$ 2,383,492 |
| Provision during the period | 3,092,418 | 757,155 | 2,335,263 |
| Recovery during the period | (3,091,211) | (707,719) | (2,383,492) |
| At March 31 | <u>\$ 3,092,418</u> | <u>\$ 757,155</u> | <u>\$ 2,335,263</u> |

| | 2019 | | |
|-----------------------------|---------------------|---------------------|---------------------|
| | <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 | 2,607,207 | 564,079 | 2,043,128 |
| Recovery during the period | (2,601,984) | (634,445) | (1,967,539) |
| At March 31 | <u>\$ 2,607,207</u> | <u>\$ 564,079</u> | <u>\$ 2,043,128</u> |

F. Movement of special reserve is as follows:

| | <u>2020</u> | <u>2019</u> |
|----------------------------|---------------------|---------------------|
| At January 1 | \$ 1,913,192 | \$ 1,914,888 |
| Recovery during the period | (10,190) | (8,379) |
| At March 31 | <u>\$ 1,903,002</u> | <u>\$ 1,906,509</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>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|---|-----------------------|--------------------------|-----------------------|
| Decrease in special reserve under liability | \$ 382,178 | \$ 382,576 | \$ 383,771 |
| Increase in special reserve under retained earnings | 317,316 | 317,634 | 321,775 |

| | <u>Three months ended March 31,</u> | |
|--|-------------------------------------|-------------|
| | <u>2020</u> | <u>2019</u> |
| Increase in net loss (income) before tax | \$ 398 | \$ 398 |
| Increase in losses (earnings) per share before tax | 0.02 | 0.02 |

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 as of March 31, 2020, December 31, 2019 and March 31, 2019.

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

| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|---|-----------------------|--------------------------|-----------------------|
| Decrease in special reserve under liability | \$ 223,894 | \$ 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 three months ended March 31, 2020 and 2019.

(10) Investments accounted for using the equity method

| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|--------------------------------------|-----------------------|--------------------------|-----------------------|
| Kuozui Motors, Ltd. | \$ 4,244,797 | \$ 4,315,317 | \$ 4,191,853 |
| Central Motor Co., Ltd. | 2,580,193 | 2,528,177 | 2,466,662 |
| Tau Miau Motor Co., Ltd. | 1,531,263 | 1,501,798 | 1,445,733 |
| Kau Du Automobile Co., Ltd. | 1,377,526 | 1,361,522 | 1,331,807 |
| Kuotu Motor Co., Ltd. | 1,159,171 | 1,124,145 | 1,035,815 |
| Taipei Toyota Motor Co., Ltd. | 1,101,208 | 1,078,783 | 1,005,868 |
| Nan Du Motor Co., Ltd. | 1,045,525 | 1,009,110 | 959,797 |
| Lang Yang Toyota Motor Co., Ltd. | 297,410 | 293,845 | 287,562 |
| Formosa Flexible Packaging Corp. | 360,005 | 357,798 | 269,929 |
| Shi-Ho Screw Industrial Co., Ltd. | 125,532 | 124,467 | 133,773 |
| Yokohama Tire Taiwan Co., Ltd., etc. | 1,639,740 | 1,423,867 | 1,403,367 |
| | <u>\$ 15,462,370</u> | <u>\$ 15,118,829</u> | <u>\$ 14,532,166</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 March 31, 2020, December 31, 2019 and March 31, 2019, the carrying amount of the Group’s individually immaterial associates amounted to \$15,462,370, \$15,118,929 and \$14,532,166, respectively.

| | <u>Three months ended March 31,</u> | |
|-------------------------------------|-------------------------------------|------------------|
| | <u>2020</u> | <u>2019</u> |
| Comprehensive income for the period | <u>\$ 210,979</u> | <u>\$ 73,227</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 \$218,875 and \$62,081 for the three months ended March 31, 2020, and 2019, respectively, and were valued based on the investees' financial statements that were not reviewed by independent accountants.
- C. In the first quarter of 2020, the Group acquired 35% equity interest in Tianjin Yongda Communication Technology Co., Ltd. for a cash consideration of \$153,079.
- D. In March 2020, the Group acquired 35% equity interest in Tianjin Binhai New Area Heling LEXUS Motor Service Co., Ltd. for a cash consideration of \$30,421.
- E. 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.
- F. 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.

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(11) Property, plant and equipment

| | 2020 | | | | | | | | | | | |
|---|----------------------|-------------------------------|-----------------------------|--------------------|---------------|--------------------|-------------------|-------------------------|----------------------|---------------------------|-----------------------------|----------------------|
| | 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 1,2020</u> | | | | | | | | | | | | |
| Cost | \$ 9,264,310 | \$ 26,165 | \$ 5,273,598 | \$ 138,715 | \$ 59,990 | \$ 1,743,954 | \$ 840,370 | \$ 543,681 | \$ 42,579,797 | \$ 687,803 | \$ 473,146 | \$ 61,631,529 |
| Revaluation gain | 1,345,967 | - | 12,079 | - | - | - | - | - | - | - | - | 1,358,046 |
| Accumulated depreciation and impairment | (26,850) | - | (2,018,166) | (135,119) | (59,717) | (1,087,640) | (422,696) | (282,413) | (12,731,451) | (481,828) | - | (17,245,880) |
| | <u>\$ 10,583,427</u> | <u>\$ 26,165</u> | <u>\$ 3,267,511</u> | <u>\$ 3,596</u> | <u>\$ 273</u> | <u>\$ 656,314</u> | <u>\$ 417,674</u> | <u>\$ 261,268</u> | <u>\$ 29,848,346</u> | <u>\$ 205,975</u> | <u>\$ 473,146</u> | <u>\$ 45,743,695</u> |
| <u>2020</u> | | | | | | | | | | | | |
| Opening net book amount as of January 1 | \$ 10,583,427 | \$ 26,165 | \$ 3,267,511 | \$ 3,596 | \$ 273 | \$ 656,314 | \$ 417,674 | \$ 261,268 | \$ 29,848,346 | \$ 205,975 | \$ 473,146 | \$ 45,743,695 |
| Additions | - | 94,032 | 1,528 | - | - | 94,173 | 62,182 | 6,092 | 3,232,075 | 2,324 | 82,582 | 3,574,988 |
| Disposals | - | - | - | - | - | (17,240) | (2,170) | (345) | (59,262) | - | - | (79,017) |
| Reclassifications | - | - | 10,622 | - | - | 6,952 | (619) | (2,235) | (1,038,790) | 120 | (21,470) | (1,045,420) |
| Depreciation | - | - | (38,607) | (222) | (11) | (47,130) | (54,592) | (13,541) | (2,014,347) | (14,544) | - | (2,182,994) |
| Impairment loss | - | - | - | - | - | - | 149 | - | (57,881) | - | - | (57,732) |
| Net exchange differences | - | - | (10,794) | (4) | - | (2,173) | (324) | (1,078) | (6,225) | (55) | 6 | 20,647 |
| Closing net book amount as of March 31 | <u>\$ 10,583,427</u> | <u>\$ 120,197</u> | <u>\$ 3,230,260</u> | <u>\$ 3,370</u> | <u>\$ 262</u> | <u>\$ 690,896</u> | <u>\$ 422,300</u> | <u>\$ 250,161</u> | <u>\$ 29,903,916</u> | <u>\$ 193,820</u> | <u>\$ 534,264</u> | <u>\$ 45,932,873</u> |
| <u>At March 31,2020</u> | | | | | | | | | | | | |
| Cost | \$ 9,264,310 | \$ 120,197 | \$ 5,274,354 | \$ 138,697 | \$ 59,990 | \$ 1,805,618 | \$ 831,971 | \$ 556,001 | \$ 43,271,291 | \$ 690,067 | \$ 534,264 | \$ 62,546,760 |
| Revaluation gain | 1,345,967 | - | 12,079 | - | - | - | - | (19,626) | - | - | - | 1,338,420 |
| Accumulated depreciation and impairment | (26,850) | - | (2,056,173) | (135,327) | (59,728) | (1,114,722) | (409,671) | (286,214) | (13,367,375) | (496,247) | - | (17,952,307) |
| | <u>\$ 10,583,427</u> | <u>\$ 120,197</u> | <u>\$ 3,230,260</u> | <u>\$ 3,370</u> | <u>\$ 262</u> | <u>\$ 690,896</u> | <u>\$ 422,300</u> | <u>\$ 250,161</u> | <u>\$ 29,903,916</u> | <u>\$ 193,820</u> | <u>\$ 534,264</u> | <u>\$ 45,932,873</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.

| | 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 | 24,043 | 340 | 21,083 | - | - | 43,855 | 39,720 | 6,904 | 4,937,554 | 34,502 | 43,878 | 5,151,879 |
| Disposals | - | - | (92) | - | - | (5,498) | (32) | (419) | (1,319) | (21,239) | - | (28,599) |
| Reclassifications | 88,000 | (88,000) | 116,017 | - | - | 33,296 | (16,040) | (81,568) | (2,335,499) | - | (58,764) | (2,342,558) |
| Depreciation | - | - | (66,017) | (246) | (11) | (45,070) | (46,632) | (9,338) | (1,908,798) | (15,091) | - | (2,091,203) |
| Impairment loss | - | - | - | - | - | - | 2,768 | - | (22,763) | - | - | (19,995) |
| Net exchange differences | - | - | 34,574 | 9 | - | 5,670 | 942 | 3,116 | 25,162 | 270 | 358 | 70,101 |
| Closing net book amount as of March 31 | <u>\$ 9,991,583</u> | <u>\$ 340</u> | <u>\$ 3,546,044</u> | <u>\$ 3,720</u> | <u>\$ 306</u> | <u>\$ 615,560</u> | <u>\$ 390,545</u> | <u>\$ 141,315</u> | <u>\$27,534,173</u> | <u>\$ 226,948</u> | <u>\$ 141,498</u> | <u>\$42,592,032</u> |
| <u>At March 31, 2019</u> | | | | | | | | | | | | |
| Cost | \$ 8,672,466 | \$ 340 | \$ 5,465,532 | \$ 138,228 | \$ 59,990 | \$ 1,719,528 | \$ 774,692 | \$ 388,027 | \$40,045,920 | \$ 671,402 | \$ 141,498 | \$58,077,623 |
| Revaluation gain | 1,345,967 | - | 12,079 | - | - | - | - | - | - | - | - | 1,358,046 |
| Accumulated depreciation and impairment | (26,850) | - | (1,931,567) | (134,508) | (59,684) | (1,103,968) | (384,147) | (246,712) | (12,511,747) | (444,454) | - | (16,843,637) |
| | <u>\$ 9,991,583</u> | <u>\$ 340</u> | <u>\$ 3,546,044</u> | <u>\$ 3,720</u> | <u>\$ 306</u> | <u>\$ 615,560</u> | <u>\$ 390,545</u> | <u>\$ 141,315</u> | <u>\$27,534,173</u> | <u>\$ 226,948</u> | <u>\$ 141,498</u> | <u>\$42,592,032</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

A. The Group leases various assets including land, buildings and structures and office equipment. Rental contracts are typically made for periods of 1 to 15 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>Carrying Amount</u> | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|--------------------------|-----------------------|--------------------------|-----------------------|
| Land | \$ 769,523 | \$ 797,637 | \$ 771,797 |
| Buildings and structures | 1,456,366 | 1,498,544 | 1,684,120 |
| Machinery and equipment | 5,206 | - | - |
| Office equipment | <u>3,482</u> | <u>4,213</u> | <u>6,182</u> |
| | <u>\$ 2,234,577</u> | <u>\$ 2,300,394</u> | <u>\$ 2,462,099</u> |

| | <u>Three months ended March 31, 2020</u> | <u>Three months ended March 31, 2019</u> |
|----------------------------|--|--|
| <u>Depreciation charge</u> | | |
| Land | \$ 46,163 | \$ 22,346 |
| Buildings and structures | 94,953 | 96,971 |
| Machinery and equipment | 183 | - |
| Office equipment | <u>731</u> | <u>1,208</u> |
| | <u>\$ 142,030</u> | <u>\$ 120,525</u> |

C. For the three months ended March 31, 2020 and 2019, the additions to right-of-use assets amounted to \$86,608 and \$32,514, respectively.

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

| | <u>Three months ended March 31, 2020</u> | <u>Three months ended March 31, 2019</u> |
|--|--|--|
| <u>Items affecting profit or loss</u> | | |
| Interest expense on lease liabilities | \$ 11,738 | \$ 13,533 |
| Expense on short-term lease contracts and leases of low-value assets | 11,290 | 13,501 |

E. For the three months ended March 31, 2020 and 2019, the Group's total cash outflow for lease (including short-term lease contracts and leases of low-value assets) amounted to \$132,772 and \$140,186, respectively.

(13) Leasing arrangements - lessor

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</u> <u>March 31, 2020</u> | <u>Three months ended</u> <u>March 31, 2019</u> |
|---|--|--|
| Finance income from the net investment in the finance lease | \$ <u>570,779</u> | \$ <u>573,760</u> |

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

| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|-----------------------|-----------------------|--------------------------|-----------------------|
| Less than 1 year | \$ 11,797,472 | \$ 12,766,789 | \$ 12,883,490 |
| Between 1 and 2 years | 4,585,677 | 5,256,626 | 4,930,115 |
| Between 2 and 3 years | 1,064,684 | 1,325,712 | 1,226,661 |
| Between 3 to 4 years | 153,443 | 169,648 | 160,551 |
| Between 4 to 5 years | 26,327 | 37,795 | 50,130 |
| More than 6 years | <u>-</u> | <u>124</u> | <u>-</u> |
| | <u>\$ 17,627,603</u> | <u>\$ 19,556,694</u> | <u>\$ 19,250,947</u> |

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

| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|-----------------------------|-----------------------|--------------------------|-----------------------|
| | <u>Non-current</u> | <u>Non-current</u> | <u>Non-current</u> |
| Undiscounted lease payments | \$ 17,627,603 | \$ 19,556,694 | \$ 19,250,947 |
| Unearned finance income | <u>(1,892,579)</u> | <u>(2,232,584)</u> | <u>(2,129,686)</u> |
| Net investment in the lease | <u>\$ 15,735,024</u> | <u>\$ 17,324,110</u> | <u>\$ 17,121,261</u> |

E. For the three months ended March 31, 2020 and 2019, the Group recognized rent income in the amount of \$5,026 and \$3,845, 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>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|-----------------------|-----------------------|--------------------------|-----------------------|
| Less than 1 year | \$ 9,684,458 | \$ 9,505,592 | \$ 4,190,955 |
| Between 1 and 2 years | 6,005,478 | 5,899,366 | 3,104,643 |
| Between 2 and 3 years | 2,695,502 | 2,670,459 | 1,166,724 |
| Between 3 to 4 years | 764,011 | 725,099 | 192,070 |
| More than 5 years | <u>272,881</u> | <u>255,479</u> | <u>66,361</u> |
| | <u>\$ 19,422,330</u> | <u>\$ 19,059,995</u> | <u>\$ 8,720,753</u> |

(14) Investment property

| | <u>2020</u> | | |
|---|---------------------|-------------------------------------|---------------------|
| | <u>Land</u> | <u>Buildings and structures</u> | <u>Total</u> |
| <u>At January 1, 2020</u> | | | |
| Cost | \$ 1,212,157 | \$ 600,882 | \$ 1,813,039 |
| Revaluation gain | 327,794 | - | 327,794 |
| Accumulated depreciation | <u>-</u> | <u>(295,518)</u> | <u>(295,518)</u> |
| | <u>\$ 1,539,951</u> | <u>\$ 305,364</u> | <u>\$ 1,845,315</u> |
| <u>2020</u> | | | |
| Opening net book amount as of January 1 | \$ 1,539,951 | \$ 305,364 | \$ 1,845,315 |
| Depreciation | <u>-</u> | <u>(3,327)</u> | <u>(3,327)</u> |
| Closing net book amount as of March 31 | <u>\$ 1,539,951</u> | <u>\$ 302,037</u> | <u>\$ 1,841,988</u> |
| <u>At March 31, 2020</u> | | | |
| Cost | \$ 1,212,157 | \$ 600,882 | \$ 1,813,039 |
| Revaluation gain | 327,794 | - | 327,794 |
| Accumulated depreciation | <u>-</u> | <u>(298,845)</u> | <u>(298,845)</u> |
| | <u>\$ 1,539,951</u> | <u>\$ 302,037</u> | <u>\$ 1,841,988</u> |

| | 2019 | | |
|---|---------------------|-----------------------------|---------------------|
| | Land | Buildings and structures | Total |
| <u>At January 1, 2019</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 | - | 6,862 | 6,862 |
| Reclassifications | - | 4,597 | 4,597 |
| Depreciation | - | (3,329) | (3,329) |
| Closing net book amount as of March 31 | <u>\$ 1,539,951</u> | <u>\$ 314,638</u> | <u>\$ 1,854,589</u> |
| <u>At March 31, 2019</u> | | | |
| Cost | \$ 1,212,157 | \$ 597,274 | \$ 1,809,431 |
| Revaluation gain | 327,794 | - | 327,794 |
| Accumulated depreciation | - | (282,636) | (282,636) |
| | <u>\$ 1,539,951</u> | <u>\$ 314,638</u> | <u>\$ 1,854,589</u> |

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

| | Three months ended March 31, | |
|--|------------------------------|------------------|
| | 2020 | 2019 |
| Rental income from investment property | <u>\$ 32,930</u> | <u>\$ 32,812</u> |
| Direct operating expenses arising from the investment property that generated rental income during the period (including depreciation) | <u>\$ 5,826</u> | <u>\$ 5,909</u> |

B. The fair value of the investment property held by the Group was \$2,172,837, \$2,249,864 and \$3,426,208 as of March 31, 2020, December 31, 2019 and March 31, 2019, 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

| | 2020 | | | |
|---|-------------------|----------------------------|--------------------------|---------------------|
| | <u>Goodwill</u> | <u>Client relationship</u> | <u>Computer software</u> | <u>Total</u> |
| <u>At January 1, 2020</u> | | | | |
| Cost | \$ 662,323 | \$ 527,106 | \$ 213,693 | \$ 1,403,122 |
| Accumulated amortization and impairment | - | (51,979) | (118,273) | (170,252) |
| | <u>\$ 662,323</u> | <u>\$ 475,127</u> | <u>\$ 95,420</u> | <u>\$ 1,232,870</u> |
| <u>2020</u> | | | | |
| Opening net book amount as of January 1 | \$ 662,323 | \$ 475,127 | \$ 95,420 | \$ 1,232,870 |
| Additions-acquired separately | - | - | 16,002 | 16,002 |
| Amortization | - | (4,393) | (12,964) | (17,357) |
| Closing net book amount as of March 31 | <u>\$ 662,323</u> | <u>\$ 470,734</u> | <u>\$ 98,458</u> | <u>\$ 1,231,515</u> |
| <u>At March 31, 2020</u> | | | | |
| Cost | \$ 662,323 | \$ 527,106 | \$ 229,868 | \$ 1,419,297 |
| Accumulated amortization and impairment | - | (56,372) | (131,410) | (187,782) |
| | <u>\$ 662,323</u> | <u>\$ 470,734</u> | <u>\$ 98,458</u> | <u>\$ 1,231,515</u> |
| | 2019 | | | |
| | <u>Goodwill</u> | <u>Client relationship</u> | <u>Computer software</u> | <u>Total</u> |
| <u>At January 1, 2019</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 | - | - | 6,641 | 6,641 |
| Amortization | - | (4,393) | (7,975) | (12,368) |
| Closing net book amount as of March 31 | <u>\$ 662,323</u> | <u>\$ 488,305</u> | <u>\$ 68,502</u> | <u>\$ 1,219,130</u> |
| <u>At March 31, 2019</u> | | | | |
| Cost | \$ 662,323 | \$ 527,106 | \$ 151,701 | \$ 1,341,130 |
| Accumulated amortization and impairment | - | (38,801) | (83,199) | (122,000) |
| | <u>\$ 662,323</u> | <u>\$ 488,305</u> | <u>\$ 68,502</u> | <u>\$ 1,219,130</u> |

Details of amortization on intangible assets are as follows:

| | Three months ended March 31, | |
|-------------------------|------------------------------|------------------|
| | 2020 | 2019 |
| Administrative expenses | <u>\$ 17,357</u> | <u>\$ 12,368</u> |

(16) Other assets

| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|---|-----------------------|--------------------------|-----------------------|
| Long-term accounts receivable (Including long-term notes and accounts receivable) | \$ 2,245,330 | \$ 2,044,790 | \$ 1,087,217 |
| Reinsurance contract assets | 565,334 | 507,531 | 414,314 |
| Operation bonds | 300,300 | 300,300 | 300,300 |
| Guarantee deposits paid | 367,652 | 358,442 | 324,431 |
| Prepayments for business facilities | 16,317 | 58,471 | 83,740 |
| Others | <u>1,202,801</u> | <u>1,416,053</u> | <u>1,298,379</u> |
| | <u>\$ 4,697,734</u> | <u>\$ 4,685,587</u> | <u>\$ 3,508,381</u> |

(17) Short-term loans

| <u>Type of loans</u> | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|--|-----------------------|--------------------------|-----------------------|
| Bank loans | | | |
| Unsecured loans | \$ 55,584,532 | \$ 56,245,258 | \$ 52,824,717 |
| Mortgage loans | 6,300,000 | 3,600,000 | 5,050,000 |
| Mid-term syndicated loans for working capital | <u>1,327,298</u> | <u>1,337,787</u> | <u>1,669,732</u> |
| | <u>\$ 63,211,830</u> | <u>\$ 61,183,045</u> | <u>\$ 59,544,449</u> |
| Annual interest rate | <u>0.75%~5.30%</u> | <u>0.78%~5.30%</u> | <u>0.75%~5.44%</u> |

As of March 31, 2020, December 31, 2019 and March 31, 2019, 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>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|----------------------------|-----------------------|--------------------------|-----------------------|
| Commercial paper payable | \$ 54,820,000 | \$ 53,770,000 | \$ 51,150,000 |
| Less: Unamortized discount | (50,109) | (34,524) | (37,188) |
| | <u>\$ 54,769,891</u> | <u>\$ 53,735,476</u> | <u>\$ 51,112,812</u> |
| Annual interest rate | <u>0.69%~1.19%</u> | <u>0.68%~1.19%</u> | <u>0.65%~1.19%</u> |

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

| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|---------------|-----------------------|--------------------------|-----------------------|
| Bonds payable | <u>\$ 2,400,000</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. The bonds payable were fully repaid at maturity 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>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|--|---|----------------------------|--|-----------------------|--------------------------|-----------------------|
| Long-term bank borrowings | | | | | | |
| US dollar denominated borrowings | USD 3,000 thousand; borrowing period is from September 2018 to July 2021; interest is repayable quarterly | 2.04%~3.81% | None | \$ 90,540 | \$ 89,852 | \$ 92,460 |
| | USD 3,500 thousand; borrowing period is from June 2019 to October 2021; interest is repayable quarterly | 2.20%~3.33% | None | 105,629 | 104,828 | - |
| | USD 1,300 thousand; borrowing period is from June 2019 to October 2021; interest is repayable quarterly | 2.20%~3.33% | None | 39,234 | 38,936 | - |
| Secured borrowings | From December 2019 to December 2024 | 1.20% | Land (please refer to Note 8) | 242,500 | 250,000 | - |
| | From January 2019 to January 2022 | 1.18% | Notes receivable for lease payments (please refer to Note 8) | 150,000 | 150,000 | 150,000 |
| Commercial papers payable | From May 2017 to January 2022 | 0.96%~1.06% | Notes receivable for lease payments (please refer to Note 8) | 5,000,000 | - | - |
| | From January 2017 to January 2022 | 0.96%~1.06% | Notes receivable for lease payments (please refer to Note 8) | - | 5,300,000 | - |
| | From April 2016 to January 2021 | 0.92%~1.09% | Notes receivable for lease payments (please refer to Note 8) | - | - | 6,950,000 |
| Less: unamortized discounts | | | | (5,815) | (6,016) | (8,283) |
| | | | | 5,622,088 | 5,927,600 | 7,184,177 |
| Less: long-term liabilities, current portion | | | | (2,626,339) | (2,426,749) | (3,546,558) |
| | | | | <u>\$ 2,995,749</u> | <u>\$ 3,500,851</u> | <u>\$ 3,637,619</u> |
| Interest rate range | | | | <u>0.96%~3.33%</u> | <u>0.96%~3.33%</u> | <u>0.92%~3.81%</u> |

As of March 31, 2020, the maturities of long-term loans are as follows:

| <u>Duration of maturity</u> | <u>Loans amount</u> |
|-----------------------------|---------------------|
| Up to 1 year | \$ 2,630,000 |
| 1 to 2 years | 2,415,403 |
| 2 to 3 years | 430,000 |
| 3 to 4 years | 30,000 |
| 4 to 5 years | <u>122,500</u> |
| | <u>\$ 5,627,903</u> |

(21) Accrued expenses

| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|-----------------------------------|-----------------------|--------------------------|-----------------------|
| Wages and salaries payable | \$ 1,705,732 | \$ 1,898,455 | \$ 1,443,032 |
| Dealer bonus payable | 377,504 | 578,644 | 302,625 |
| Remuneration payable to employees | 712,449 | 641,497 | 568,649 |
| Remuneration payable to directors | 367,510 | 283,244 | 306,216 |
| Interest payable | 148,573 | 152,648 | 208,635 |
| Others | <u>1,569,692</u> | <u>1,486,986</u> | <u>1,615,088</u> |
| | <u>\$ 4,881,460</u> | <u>\$ 5,041,474</u> | <u>\$ 4,444,245</u> |

(22) 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 ended March 31, 2020 and 2019, were \$76,324 and \$71,648, respectively.

(23) Provisions

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| At January 1 | \$ 3,393,367 | \$ 2,584,955 |
| Additional provisions during the period | 317,365 | 377,512 |
| Used during the period | (136,623) | (227,502) |
| Unused amounts reversed | (25,093) | (19,615) |
| At March 31 | <u>\$ 3,548,716</u> | <u>\$ 2,715,350</u> |

Analysis of provision for warranty is as follows:

| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|--|-----------------------|--------------------------|-----------------------|
| Current (shown as other current liabilities) | \$ 893,206 | \$ 868,555 | \$ 922,060 |
| Non-current | <u>\$ 2,655,690</u> | <u>\$ 2,524,512</u> | <u>\$ 1,793,290</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.

(24) Guarantee deposits received

| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|-----------------------------------|-----------------------|--------------------------|-----------------------|
| Deposits received for car rentals | \$ 12,985,528 | \$ 13,036,277 | \$ 12,701,814 |
| Others | <u>50,106</u> | <u>23,687</u> | <u>26,490</u> |
| | <u>\$ 13,035,634</u> | <u>\$ 13,059,964</u> | <u>\$ 12,728,304</u> |

Analysis of Guarantee deposits received for warranty is as follows:

| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|--|-----------------------|--------------------------|-----------------------|
| Current (shown as other current liabilities) | <u>\$ 6,661,094</u> | <u>\$ 6,785,309</u> | <u>\$ 6,743,029</u> |
| Non-current | <u>\$ 6,374,540</u> | <u>\$ 6,274,655</u> | <u>\$ 5,985,275</u> |

(25) Share capital

As of March 31, 2020, 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, 2020 and March 31, 2020 was both 546,179,184 shares.

(26) 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.

(27) 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. The Company recognized dividends distributed to shareholders amounting to \$6,554,150 (\$12.0 per share) for both the years of 2019 and 2018. On March 26, 2020, the Board of Directors resolved that total dividends for the distribution of earnings for the year of 2019 was \$7,646,509 with \$14 (in dollars) per share.

E. For the information relating to employees' compensation and directors' remuneration, please refer to Note 6(32).

(28) 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 March 31,</u> | |
|-------------------------------|-------------------------------------|----------------------|
| | <u>2020</u> | <u>2019</u> |
| Goods category: | | |
| Sales of goods | \$ 48,750,154 | \$ 35,436,362 |
| Others | <u>460,929</u> | <u>460,891</u> |
| | <u>\$ 49,211,083</u> | <u>\$ 35,897,253</u> |
| Timing of revenue recognition | | |
| At a point in time | \$ 48,645,727 | \$ 35,338,719 |
| Over time | <u>565,356</u> | <u>558,534</u> |
| | <u>\$ 49,211,083</u> | <u>\$ 35,897,253</u> |

B. Contract assets and liabilities

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

| | <u>March 31, 2010</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|--|-----------------------|--------------------------|-----------------------|
| Contract assets: | | | |
| Contract assets- construction contracts | <u>\$ 9,767</u> | <u>\$ 19,643</u> | <u>\$ 18,378</u> |
| Contract liabilities: | | | |
| Contract liabilities- sales of goods | \$ 1,258,161 | \$ 1,194,976 | \$ 1,180,343 |
| Contract liabilities-customer loyalty programmers | <u>7,161</u> | <u>7,782</u> | <u>8,310</u> |
| | <u>\$ 1,265,322</u> | <u>\$ 1,202,758</u> | <u>\$ 1,188,653</u> |

For the three months ended March 31, 2020 and 2019, revenue recognized that was included in the contract liability balance at the beginning of the period amounted to \$475,801 and \$470,802, respectively.

(29) Interest income

| | Three months ended March 31, | |
|---|------------------------------|---------------------|
| | 2020 | 2019 |
| Installment revenue | \$ 1,773,391 | \$ 1,576,223 |
| Finance leasing revenue | 575,499 | 580,352 |
| Interest from deposits and short-term notes | 44,345 | 32,512 |
| Other interest income | 16,484 | 11,470 |
| | <u>\$ 2,409,719</u> | <u>\$ 2,200,557</u> |

(30) Premium

Details of premium are as follows:

| | Three months ended March 31, | |
|---|------------------------------|---------------------|
| | 2020 | 2019 |
| Written premium | \$ 2,456,472 | \$ 1,939,837 |
| Reinsurance premium | 93,681 | 77,094 |
| Less: Reinsurance expense | (667,589) | (584,633) |
| Net change in unearned premiums reserve | (215,203) | (155,261) |
| | <u>\$ 1,667,361</u> | <u>\$ 1,277,037</u> |

(31) Expenses by nature

| | Three months ended March 31, | |
|--------------------------|------------------------------|---------------------|
| | 2020 | 2019 |
| Employee benefit expense | \$ 2,174,624 | \$ 1,907,453 |
| Depreciation | 2,328,351 | 2,215,057 |
| Amortization | 19,895 | 24,711 |
| | <u>\$ 4,522,870</u> | <u>\$ 4,147,221</u> |

(32) Employee benefit expense

| | Three months ended March 31, | |
|---------------------------------|------------------------------|---------------------|
| | 2020 | 2019 |
| Wages and salaries | \$ 1,857,491 | \$ 1,613,293 |
| Labor and health insurance fees | 133,550 | 127,095 |
| Pension costs | 76,324 | 71,648 |
| Other personnel expenses | 107,259 | 95,417 |
| | <u>\$ 2,174,624</u> | <u>\$ 1,907,453</u> |

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

B. For the three months ended March 31, 2020 and 2019, employees' remuneration was accrued at \$42,133 and \$30,091, respectively; while directors' remuneration was accrued at \$84,266 and \$60,183, 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 three months ended March 31, 2020.

Employees' compensation and directors' remuneration of 2019 as resolved by the Board of

Directors were in agreement with those amounts recognized in the 2019 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.

(33) Income tax

A. Income tax expense

(a) Components of income tax expense:

| | <u>Three months ended March 31,</u> | |
|--|-------------------------------------|-------------------|
| | <u>2020</u> | <u>2019</u> |
| Current tax: | | |
| Current tax expense recognized in the current period | \$ 1,081,124 | \$ 870,128 |
| Prior year income tax overestimation | - | 5,919 |
| Total current tax | <u>1,081,124</u> | <u>876,047</u> |
| Deferred tax: | | |
| Origination and reversal of temporary differences | 19,894 | (49,859) |
| Total deferred tax | <u>19,894</u> | <u>(49,859)</u> |
| Income tax expense | <u>\$ 1,101,018</u> | <u>\$ 826,188</u> |

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

| | <u>Three months ended March 31,</u> | |
|--|-------------------------------------|-------------|
| | <u>2020</u> | <u>2019</u> |
| Cash flow hedges | (\$ 2,284) | \$ 16,575 |
| Changes in fair value of financial assets at fair value through other comprehensive income | (\$ 5,941) | \$ 4,000 |
| Changes in fair value of financial assets designated using overlay approach | (\$ 2,071) | - |

B. The Company's income tax returns through 2017 have been assessed and approved by the Tax Authority.

(34) Earnings per share

| | <u>Three months ended March 31, 2020</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 | \$ 3,466,923 | 546,179 | \$ 6.35 |
| <u>Diluted earnings per share</u> | | | |
| Profit attributable to common shareholders of the parent | \$ 3,466,923 | 546,179 | |
| Assumed conversion of all dilutive potential common shares | | | |
| Employees' compensation | - | 393 | |
| Profit attributable to common shareholders of the parent plus assumed conversion of all dilutive potential common shares | <u>\$ 3,466,923</u> | <u>546,572</u> | <u>\$ 6.34</u> |

| | Three months ended March 31, 2019 | | |
|---|-----------------------------------|---|---------------------------------------|
| | Amount after tax | Weighted average number of ordinary shares outstanding (shares in thousands) | Earnings per share (in dollars) |
| <u>Basic earnings per share</u> | | | |
| Profit attributable to common shareholders of the parent | \$ 2,503,564 | 546,179 | \$ 4.58 |
| <u>Diluted earnings per share</u> | | | |
| Profit attributable to common shareholders of the parent | \$ 2,503,564 | 546,179 | |
| Assumed conversion of all dilutive potential common shares | | | |
| Employees' compensation | - | 398 | |
| Profit attributable to common shareholders of the parent plus assumed conversion of all dilutive potential common shares | \$ 2,503,564 | 546,577 | \$ 4.58 |

(35) Transactions with non-controlling interest

The Group did not participate in the capital increase raised by a subsidiary proportionally to its interest to the subsidiary

A. Subsidiary, Hoing Mobility Service Co., Ltd., of the Group increased its capital by issuing new shares on March 18, 2020. The Group did not acquire shares proportionally to its interest. As a result, the Group decreased its share interest by 10.49%. This transaction resulted in a decrease in the non-controlling interest by \$1,270 and an increase in the equity attributable to owners of the parent by \$1,270.

B. The Group did not conduct any transaction with non-controlling interest in 2019.

(36) Changes in liabilities from financing activities

| | Short-term loans | Short-term notes and bills payable | Long-term liabilities- current portion | Long-term loans | Guarantee deposits received | Lease liabilities | Dividend payable | Liabilities from financing activities-gross |
|---|---------------------|---------------------------------------|--|--------------------|-----------------------------------|----------------------|---------------------|---|
| January 1, 2020 | \$ 61,183,045 | \$ 53,735,476 | \$ 7,626,749 | \$ 3,500,851 | \$13,059,964 | \$1,923,318 | \$ 7,251 | \$ 141,036,654 |
| Changes in cash flow from financing activities | 1,965,884 | 1,034,415 | (2,800,000) | (307,297) | (24,330) | (109,744) | - | (241,072) |
| Impact of changes in foreign exchange rate | (5,189) | - | - | 1,785 | - | (7,635) | - | (11,039) |
| Changes in other non-cash items | 68,090 | - | 199,590 | (199,590) | - | 74,679 | (1) | 142,768 |
| March 31, 2020 | \$ 63,211,830 | \$ 54,769,891 | \$ 5,026,339 | \$ 2,995,749 | \$13,035,634 | \$1,880,618 | \$ 7,250 | \$ 140,927,311 |

| | 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 | (3,456,564) | 3,240,898 | - | 349,749 | 200,013 | (126,685) | - | (207,411) |
| Impact of changes in foreign exchange rate | 97,257 | - | - | 738 | - | 26,034 | - | 124,029 |
| Changes in other non-cash items | 3,378 | - | 799,036 | (799,036) | - | (497) | (26) | 2,855 |
| March 31, 2019 | \$ 59,544,449 | \$ 51,112,812 | \$ 8,746,558 | \$ 3,637,619 | \$12,728,303 | \$2,172,933 | \$ 7,430 | \$ 137,950,104 |

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> |
|---|---------------------------------------|
| Toyota Industries Corporation | Entities controlled by key management |
| Toyota Motor Asia Pacific Pte Ltd. (TMAP) | Entities controlled by key management |
| Toyota New Zealand Ltd. | Entities controlled by key management |
| Toyota South Africa Motors (Pty) Ltd. | Entities controlled by key management |
| Toyota-Motor-Europe-Nv/Sa(TME) | Entities controlled by key management |
| Toyota-Motor-Sales-USA(TMS) | Entities controlled by key management |
| Toyota Daihatsu Engineering & Manufacturing Co., Ltd. | Entities controlled by key management |
| San Xing (Shanghai) Business Management Consulting Co., Ltd. | Entities controlled by key management |
| Triple S Digital Co.,Ltd. | Entities controlled by key management |
| Hino Motors, Ltd. (Hino) | Entities controlled by key management |
| Toyota Motor Corporation (TMC) | Entities controlled by key management |
| Ho Chuang Insurance Agency Co., Ltd. | Entities controlled by key management |
| Ho An Insurance Agency Co., Ltd. (Ho An) | Entities controlled by key management |
| Ho Yu Investment Co., Ltd. (Ho Yu) | Entities controlled by key management |
| Toyota Motor (China) Investment Co., Ltd. (Toyota China) | Entities controlled by key management |
| Formosa Flexible Packaging Corp. | Associates |
| Zhongyang Motor Co., Ltd. | Associates |
| Beijing Heling Lexus Motor Sales & Service Co., Ltd. | Associates |
| Beijing Hoyu Toyota Motor Sales and Service Co., Ltd. | Associates |
| Kashiwabara Hotai Taiwan Co., Ltd. | Associates |
| Yokohama Tire Taiwan Co., Ltd. | Associates |
| Shi-Ho Screw Industrial Co., Ltd. | Associates |
| Kuai Shun Transportation Co., Ltd. | Associates |
| Wang Fu Co., Ltd. | Associates |
| Nan I Motor Co., Ltd. | Associates |
| Chang Guan Logistics Co., Ltd. | Associates |
| ChongQing Yuou Toyota Automobile Sales and Service Co., Ltd. | Associates |
| ChongQing Yurun Toyota Automobile Service Co., Ltd. | Associates |
| Jinzhong Central Toyota Motor Sale Service Co., Ltd. | Associates |

| Names of related parties | Relationship with the Group |
|---|-----------------------------|
| Taizhou Zhongdu Lexus Motor Sale & Service Co., Ltd. | Associates |
| Tung Tai Asset Management Co., Ltd. | Associates |
| Tung Yu Motor Co., Ltd. | Associates |
| Innovation Auto Parts Co., Ltd | Associates |
| Guangzhou Gac Changho Autotech Corporation | Associates |
| Linyi Heling Lexus Motor Sales & Service Co., Ltd. | Associates |
| Linyi Ho-Yu Toyota Motor Sales And Service Co., Ltd. | Associates |
| Chang Guan Logistics Co., Ltd. | Associates |
| Kuozui Motors, Ltd. (Kuozui) | Associates |
| Kuotu Motor Co., Ltd. (Kuotu) | Associates |
| Taipei Toyota Motor Co., Ltd. (Taipei Motor) | Associates |
| Tau Miao Motor Co., Ltd. (Tau Miao) | Associates |
| Central Motor Co., Ltd. (Central Motor) | Associates |
| Nan Du Motor Co., Ltd. (Nan Du) | Associates |
| Kau Du Automobile Co., Ltd. (Kau Du) | Associates |
| Lang Yang Toyota Motor Co., Ltd. | Associates |
| Ho Cheng Auto Parts Co., Ltd. | Associates |
| Hozao Enterprise Co., Ltd. | Associates |
| Hohung Motors Co., Ltd. | Associates |
| Horung Motors Co., Ltd. | Associates |
| Zhong Cheng 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 |
| The Company's Directors, president, vice president and others | Key management |

(2) Significant related party transactions and balances

A. Revenue

| | Three months ended March 31, | |
|--|------------------------------|------------------|
| | 2020 | 2019 |
| (a) Interest income: | | |
| -Associates | \$ 15,839 | \$ 10,240 |
| -Entities controlled by key management | <u>2</u> | <u>2</u> |
| | <u>\$ 15,841</u> | <u>\$ 10,242</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 March 31,</u> | |
|--|-------------------------------------|------------------|
| | <u>2020</u> | <u>2019</u> |
| (b) Premium: | | |
| -Associates | \$ 11,502 | \$ 12,323 |
| -Entities controlled by key management | <u>76</u> | <u>760</u> |
| | <u>\$ 11,578</u> | <u>\$ 13,083</u> |

| | <u>Three months ended March 31,</u> | |
|--|-------------------------------------|----------------------|
| | <u>2020</u> | <u>2019</u> |
| (c) Sales revenue: | | |
| -Associates | | |
| Central Motor | \$ 7,448,814 | \$ 4,566,535 |
| Tau Miao | 6,764,026 | 4,161,772 |
| Kuotu | 5,508,392 | 3,864,012 |
| Taipei Motor | 5,456,951 | 3,451,584 |
| Others | 10,880,695 | 6,877,431 |
| -Entities controlled by key management | <u>26,626</u> | <u>100,844</u> |
| | <u>\$ 36,085,504</u> | <u>\$ 23,022,178</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 March 31,</u> | |
|--|-------------------------------------|------------------|
| | <u>2020</u> | <u>2019</u> |
| (d) Rental revenue: | | |
| -Associates | \$ 26,932 | \$ 27,234 |
| -Entities controlled by key management | <u>2,435</u> | <u>1,400</u> |
| | <u>\$ 29,367</u> | <u>\$ 28,634</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 March 31,</u> | |
|--|-------------------------------------|------------------|
| | <u>2020</u> | <u>2019</u> |
| (e) Service revenue: | | |
| Service sales: | | |
| -Associates | \$ 9,900 | \$ 7,054 |
| -Entities controlled by key management | 6,915 | 4,914 |
| Contracted operating revenue: | | |
| -Associates | <u>3,805</u> | <u>2,631</u> |
| | <u>\$ 20,620</u> | <u>\$ 14,599</u> |

| | <u>Three months ended March 31,</u> | |
|---|-------------------------------------|-------------------|
| | <u>2020</u> | <u>2019</u> |
| (f) Subsidy income for price difference from installments: | | |
| -Associates | \$ <u>59,676</u> | \$ <u>56,477</u> |
| | | |
| | <u>Three months ended March 31,</u> | |
| | <u>2020</u> | <u>2019</u> |
| (g) Warranty revenue (shown as deductions to cost of sales): | | |
| -Associates | | |
| Kuozui | \$ 47,943 | \$ 63,620 |
| -Entities controlled by key management | | |
| TMAP | 79,944 | 183,340 |
| Others | <u>346</u> | <u>753</u> |
| | <u>\$ 128,233</u> | <u>\$ 247,713</u> |
| | | |
| | <u>Three months ended March 31,</u> | |
| | <u>2020</u> | <u>2019</u> |
| (h) Advertisement subsidy and sales promotion revenue (shown as deductions to advertisement expense): | | |
| -Associates | | |
| Kuotu | \$ 24,690 | \$ 7,726 |
| Others | 30,791 | 18,996 |
| -Entities controlled by key management | | |
| TMC | <u>53,263</u> | <u>19,783</u> |
| | <u>\$ 108,744</u> | <u>\$ 46,505</u> |
| | | |
| | <u>Three months ended March 31,</u> | |
| | <u>2020</u> | <u>2019</u> |
| (i) Distribution income (shown as deductions to freight): | | |
| -Associates | \$ 5,086 | \$ 3,696 |
| -Entities controlled by key management | <u>-</u> | <u>45</u> |
| | <u>\$ 5,086</u> | <u>\$ 3,741</u> |
| | | |
| | <u>Three months ended March 31,</u> | |
| | <u>2020</u> | <u>2019</u> |
| (j) Miscellaneous income: | | |
| -Associates | | |
| Kuotu | \$ 21,720 | 16,267 |
| Kuozui | 13,180 | 19,810 |
| Others | 17,311 | 15,535 |
| -Entities controlled by key management | <u>23,490</u> | <u>24,466</u> |
| | <u>\$ 75,701</u> | <u>\$ 76,078</u> |

B. Expenditures

| | Three months ended March 31, | |
|--|------------------------------|-----------------|
| | 2020 | 2019 |
| (a) Interest expense: | | |
| -Associates | | |
| Kuozui | \$ 5,109 | \$ 3,887 |
| Others | 2 | 1 |
| -Entities controlled by key management | <u>213</u> | <u>234</u> |
| | <u>\$ 5,324</u> | <u>\$ 4,122</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%.

| | Three months ended March 31, | |
|--|------------------------------|----------------------|
| | 2020 | 2019 |
| (b) Purchases of goods: | | |
| -Associates | | |
| Kuozui | \$ 10,702,859 | \$ 9,783,102 |
| Others | 240,341 | 212,602 |
| -Entities controlled by key management | | |
| TMC | 12,114,583 | 8,836,392 |
| Others | <u>4,189,268</u> | <u>4,359,497</u> |
| | <u>\$ 27,247,051</u> | <u>\$ 23,191,593</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.

| | Three months ended March 31, | |
|--|------------------------------|-------------------|
| | 2020 | 2019 |
| (c) Warranty cost: | | |
| -Associates | | |
| Central Motor | \$ 21,596 | \$ 33,207 |
| Kuotu | 16,637 | 22,081 |
| Tau Miao | 16,471 | 26,758 |
| Kau Du | 13,216 | 21,054 |
| Nan Du | 11,587 | 20,667 |
| Others | 12,707 | 17,484 |
| -Entities controlled by key management | <u>200</u> | <u>56</u> |
| | <u>\$ 92,414</u> | <u>\$ 141,307</u> |

| | Three months ended March 31, | |
|--|------------------------------|-----------------|
| | 2020 | 2019 |
| (d) Advertisement expense: | | |
| -Associates | \$ 3,091 | \$ 931 |
| -Entities controlled by key management | <u>-</u> | <u>1,843</u> |
| | <u>\$ 3,091</u> | <u>\$ 2,774</u> |

| | <u>Three months ended March 31,</u> | |
|--|-------------------------------------|---------------------|
| | <u>2020</u> | <u>2019</u> |
| (e) Freight: | | |
| -Associates | | |
| Fan Tai | \$ 45,032 | \$ 33,127 |
| Yi Tai | 34,119 | 24,924 |
| Others | <u>658</u> | <u>1,232</u> |
| | <u>\$ 79,809</u> | <u>\$ 59,283</u> |
| | | |
| | <u>Three months ended March 31,</u> | |
| | <u>2020</u> | <u>2019</u> |
| (f) Insurance claim payment: | | |
| -Associates | \$ 3,661 | \$ 4,125 |
| -Entities controlled by key management | <u>17</u> | <u>48</u> |
| | <u>\$ 3,678</u> | <u>\$ 4,173</u> |
| | | |
| | <u>Three months ended March 31,</u> | |
| | <u>2020</u> | <u>2019</u> |
| (g) Commission expense: | | |
| -Entities controlled by key management | | |
| Ho An | <u>\$ 217,762</u> | <u>\$ 151,960</u> |
| | | |
| | <u>Three months ended March 31,</u> | |
| | <u>2020</u> | <u>2019</u> |
| (h) Others: | | |
| -Associates | | |
| Kuotu | \$ 1,808,311 | \$ 1,041,910 |
| Central Motor | 1,526,935 | 1,384,449 |
| Kau Du | 1,329,139 | 1,189,809 |
| Tau Miao | 1,193,816 | 1,348,727 |
| Taipei Motor | 1,084,699 | 927,164 |
| Nan Du | 1,032,563 | 979,709 |
| Others | <u>163,164</u> | <u>139,923</u> |
| | <u>\$ 8,138,627</u> | <u>\$ 7,011,691</u> |

As described in Note 4(41), 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>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|--|-----------------------|--------------------------|-----------------------|
| (a) Receivables from related parties: | | | |
| -Associates | \$ 3,536,030 | \$ 2,729,614 | \$ 2,919,012 |
| -Entities controlled by key management | <u>6,599</u> | <u>13,142</u> | <u>204,524</u> |
| | <u>\$ 3,542,589</u> | <u>\$ 2,742,756</u> | <u>\$ 3,123,536</u> |

| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|---|-----------------------|--------------------------|-----------------------|
| (b) Other receivables from related parties: | | | |
| -Associates | \$ 129,137 | \$ 133,499 | \$ 120,050 |
| -Entities controlled by key management | <u>5,290</u> | <u>5,343</u> | <u>3,107</u> |
| | <u>\$ 134,427</u> | <u>\$ 138,842</u> | <u>\$ 123,157</u> |

| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|--|-----------------------|--------------------------|-----------------------|
| (c) Accounts payable: | | | |
| -Associates | | | |
| Kuozui | \$ 1,246,443 | \$ 1,191,910 | \$ 747,707 |
| Others | 479,697 | 517,784 | 394,020 |
| -Entities controlled by key management | | | |
| TMC | 4,155,677 | 4,786,371 | 3,386,871 |
| Others | <u>430,182</u> | <u>340,089</u> | <u>581,505</u> |
| | <u>\$ 6,311,999</u> | <u>\$ 6,836,154</u> | <u>\$ 5,110,103</u> |

| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|--|-----------------------|--------------------------|-----------------------|
| (d) Accrued expenses: | | | |
| -Associates | \$ 328,211 | \$ 543,996 | \$ 255,496 |
| -Entities controlled by key management | <u>-</u> | <u>217</u> | <u>500</u> |
| | <u>\$ 328,211</u> | <u>\$ 544,213</u> | <u>\$ 255,996</u> |

| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|--|-----------------------|--------------------------|-----------------------|
| (e) Commissions payable: | | | |
| -Entities controlled by key management | | | |
| Ho An | <u>\$ 64,331</u> | <u>\$ 60,553</u> | <u>\$ 46,082</u> |

D. Prepayments to suppliers

| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|---------------------------------------|-----------------------|--------------------------|-----------------------|
| Entities controlled by key management | <u>\$ 368,541</u> | <u>\$ 244,497</u> | <u>4 275,432</u> |

E. Property transactions

Acquisition of rental assets and equipment

| | <u>Three months ended March 31,</u> | |
|--|-------------------------------------|---------------------|
| | <u>2020</u> | <u>2019</u> |
| -Associates | | |
| Kuotu | \$ 516,887 | \$ 568,218 |
| Taipei Motor | 246,343 | 257,215 |
| Central Motor | 234,322 | 241,805 |
| Kau Du | 143,356 | 142,901 |
| Tau Miao | 137,964 | 218,236 |
| Others | 125,276 | 165,245 |
| -Entities controlled by key management | <u>-</u> | <u>2,768</u> |
| | <u>\$ 1,404,148</u> | <u>\$ 1,596,388</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 March 31,</u> | |
|---|-------------------------------------|-----------------|
| | <u>2020</u> | <u>2019</u> |
| Rental expense: | | |
| - Associates | \$ 1,537 | \$ 1,555 |
| - Entities controlled by key management | | |
| Ho Yu | <u>3,775</u> | <u>3,757</u> |
| | <u>\$ 5,312</u> | <u>\$ 5,312</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>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|---|-----------------------|--------------------------|-----------------------|
| - Entities controlled by key management | | | |
| Ho Yu | \$ 99,977 | \$ 104,709 | \$ 118,481 |
| - Associates | <u>6,269</u> | <u>7,928</u> | <u>13,228</u> |
| | <u>\$ 106,246</u> | <u>\$ 112,637</u> | <u>\$ 131,709</u> |

(3) Key management remuneration

| | <u>Three months ended March 31,</u> | |
|---|-------------------------------------|------------------|
| | <u>2020</u> | <u>2019</u> |
| Salaries and other short-term employee benefits | \$ 106,398 | \$ 84,280 |
| Post-employment benefits | <u>30</u> | <u>-</u> |
| Total | <u>\$ 106,428</u> | <u>\$ 84,280</u> |

8. Pledged Assets

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

| Pledged asset | March 31, 2020 | December 31, 2019 | March 31, 2019 | Purpose |
|--|----------------|-------------------|----------------|---|
| Notes and accounts receivable | \$ 5,817,913 | \$ 5,943,330 | \$ 6,472,642 | 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 | 272,086 | 186,996 | 409,566 | Short-term borrowings, performance guarantee and issuance of L/C (Note 3) |
| -Land | 543,133 | 543,133 | - | Long-term borrowings |
| | \$ 6,933,432 | \$ 6,973,759 | \$ 7,182,508 | |
| Transactions not listed in the balance sheet | | | | |
| -Notes receivable for rent | \$ 4,634,507 | \$ 4,981,325 | \$ 5,367,225 | Long-term and short-term borrowings and commercial papers payable |

Note 1: Shown as 'other assets'.

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

Note 3: As of March 31, 2020, December 31, 2019 and March 31, 2019 the certificates of deposit amounting to \$6,151, \$6,107 and \$6,168, 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 May 13, 2020, the outstanding payments amounted to \$103,952.

(2) Details of operating lease agreements are shown in Note 6(13)5.

(3) Significant contracts signed by the Group as of March 31, 2020 are summarized as follows:

| Type of contracts | Party involved | Contract period | Main contents |
|--|---|--|---|
| <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 (the contract was renewed in February 2020; the new contract period is from April 1, 2020 to March 31, 2023) | 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 April 13, 2020, the registration for the issuance of unsecured corporate bonds amounting to \$7 billion by the subsidiary, Hotai Finance Co., Ltd. became effective.

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. Information on the capital management policy that the Group's subsidiary, Hotai Insurance Co., Ltd., made based on the Insurance Law of the Republic of China is provided in Note 12(12).

(2) Financial instruments

A. Financial instruments by category

| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</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 | \$ 5,074,720 | \$ 5,679,120 | \$ 4,695,259 |
| Financial assets at fair value through other comprehensive income | | | |
| Designation of equity instrument | 6,833,445 | 7,844,281 | 6,707,405 |
| Qualifying equity instrument | 1,604,268 | 1,602,746 | 1,571,553 |
| Financial assets at amortized cost/Loans and receivables | | | |
| Cash and cash equivalents | 16,616,572 | 12,023,739 | 8,298,540 |
| Notes receivable | 8,501,027 | 8,307,202 | 9,288,306 |
| Accounts receivable | 126,281,442 | 123,348,962 | 113,745,058 |
| Long-term notes and accounts receivable | 1,745,769 | 1,534,714 | 646,242 |
| Other receivables | 940,710 | 881,921 | 1,285,360 |
| Guarantee deposits paid | 667,952 | 658,742 | 624,731 |
| Other financial assets | 1,895,610 | 1,890,115 | 2,094,907 |
| | <u>\$ 170,161,515</u> | <u>\$ 163,771,542</u> | <u>\$ 148,957,361</u> |
| Derivative financial assets for hedging | <u>\$ 106,689</u> | <u>\$ 81,131</u> | <u>\$ 124,538</u> |
| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
| <u>Financial liabilities</u> | | | |
| Financial liabilities at fair value through profit or loss | | | |
| Financial liabilities held for trading | \$ 9,117 | \$ 149,572 | \$ 3,074 |
| Financial liabilities at amortized cost | | | |
| Short-term loans | 63,211,830 | 61,183,045 | 59,544,449 |
| Short-term notes and bills payable | 54,769,891 | 53,735,476 | 51,112,812 |
| Notes payable | 526,620 | 708,449 | 581,734 |
| Accounts payable | 10,589,335 | 10,447,079 | 8,764,049 |
| Accrued expenses | 4,881,460 | 5,041,474 | 4,444,245 |
| Other payables | 1,003,852 | 1,501,372 | 1,074,991 |
| Commission payable | 419,010 | 440,989 | 291,694 |
| Corporate bonds payable (including current portion) | 2,400,000 | 5,200,000 | 5,200,000 |
| Long-term borrowings (including current portion) | 5,622,088 | 5,927,600 | 7,184,177 |
| Guarantee deposits received | 13,035,634 | 13,059,964 | 12,728,304 |
| Other financial liabilities | 78,337 | 81,187 | 84,812 |
| | <u>\$ 156,547,174</u> | <u>\$ 157,476,207</u> | <u>\$ 151,014,341</u> |
| Lease liabilities | <u>\$ 1,880,618</u> | <u>\$ 1,923,318</u> | <u>\$ 2,172,933</u> |
| Financial liabilities for hedging | <u>\$ 96,434</u> | <u>\$ 112,291</u> | <u>\$ 24,441</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) Information on the additional risk management policy of the Company's subsidiary, Hotai Insurance Co., Ltd., is provided in Note 12(4).

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:

| | March 31, 2020 | | | December 31, 2019 | | | | |
|---|-------------------------|---------------|------------|-------------------------|---------------|------------|---------|---------------|
| | 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 | 58,597 | 30.2250 | \$ 1,771,094 | USD | 52,504 | 29.9800 | \$ 1,574,068 |
| JPY:NTD | JPY | 258,580 | 0.2788 | 72,092 | JPY | 198,379 | 0.2760 | 54,753 |
| RMB:NTD | CNY | 2,631 | 4.2596 | 11,207 | CNY | 2,016 | 4.2933 | 8,657 |
| <u>Financial liabilities</u> | | | | | | | | |
| <u>Monetary items</u> | | | | | | | | |
| USD:NTD | USD | 358,883 | 30.2550 | \$ 10,847,239 | USD | 439,309 | 29.9800 | \$ 13,170,477 |
| JPY:NTD | JPY | 111,749 | 0.2788 | 31,156 | JPY | 14,558 | 0.2760 | 4,018 |
| USD:RMB | USD | 76,654 | 7.0957 | 2,316,867 | USD | 84,750 | 6.9830 | 2,540,805 |

| | March 31, 2019 | | | |
|---|-------------------------|---------------|------------|--------------|
| | Foreign currency amount | Exchange rate | Book value | |
| | (In thousands) | | (NTD) | |
| (Foreign currency: functional currency) | | | | |
| <u>Financial assets</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD:NTD | USD | 17,561 | 30.8200 | \$ 541,230 |
| JPY:NTD | JPY | 392,383 | 0.2783 | 109,200 |
| RMB:NTD | CNY | 10,095 | 4.5771 | 46,206 |
| <u>Financial liabilities</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD:NTD | USD | 164,858 | 30.8200 | \$ 5,080,924 |
| JPY:NTD | JPY | 24,725 | 0.2783 | 6,881 |
| USD:RMB | USD | 134,950 | 6.7335 | 4,159,159 |

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

- v. The total exchange (loss) gain, including realized and unrealized, arising from significant foreign exchange variation on the monetary items held by the Group for the three months ended March 31, 2020 and 2019, amounted to (\$65,841) and \$130,039, 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:

| | Three months ended March 31, 2020 | | | Three months ended March 31, 2019 | | |
|---|-----------------------------------|--------------------------|--------------------------------------|-----------------------------------|--------------------------|--------------------------------------|
| | Sensitivity analysis | | | Sensitivity analysis | | |
| | Degree of variation | Effect on profit or loss | Effect on other comprehensive income | Degree of variation | Effect on profit or loss | Effect on other comprehensive income |
| (Foreign currency: functional currency) | | | | | | |
| <u>Financial assets</u> | | | | | | |
| <u>Monetary items</u> | | | | | | |
| USD:NTD | 1% | \$ 17,711 | \$ - | 1% | \$ 5,412 | \$ - |
| JPY:NTD | 1% | 721 | - | 1% | 1,092 | - |
| RMB:NTD | 1% | 112 | - | 1% | 462 | - |
| <u>Financial liabilities</u> | | | | | | |
| <u>Monetary items</u> | | | | | | |
| USD:NTD | 1% | 108,472 | - | 1% | 50,809 | - |
| JPY:NTD | 1% | 312 | - | 1% | 69 | - |
| USD:RMB (Note) | 1% | 23,169 | - | 1% | 41,592 | - |

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 three months ended March 31, 2020 and 2019 would have increased/decreased by \$59,534 and \$78,316, 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 March 31, 2020, December 31, 2019 and March 31, 2019, HFC has financial instruments with off-balance-sheet credit risk amounting to \$8,182,939, \$8,360,262 and \$9,192,633, respectively, and HFC has collected notes for installment payment on behalf of the banks amounting to \$257,061, \$296,378 and \$342,587, 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 past due over 90 days and are not expected to be recovered, the default has occurred.

vi. The Group classified accounts receivable and contract assets based on customers' default and used the forecastability of Taiwan Institute of Economic Research boom observation report to adjust historical and timely information to assess the default possibility of accounts receivable and contract assets. Not including the subsidiaries, Hotai Finance Co., Ltd., Hoyun International Lease Co., Ltd. and Hotai Insurance Co., Ltd., estimated loss allowance arising from accounts receivable and contract assets amounted to \$40,451.

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. As of March 31, 2020, December 31, 2019 and March 31, 2019, the provision matrix is as follows:

| March 31, 2020 | 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 | \$ 140,436,238 | \$ 657,553 | \$ 246,795 | \$ 181,593 | \$ 144,240 | \$ 630,412 | \$ 142,296,831 |
| Loss allowance | \$ 1,435,680 | \$ 287,218 | \$ 183,960 | \$ 153,648 | \$ 134,224 | \$ 504,947 | \$ 2,699,677 |

| December 31, 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 | \$ 138,679,287 | \$ 403,011 | \$ 170,399 | \$ 156,666 | \$ 124,677 | \$ 758,881 | \$ 140,292,921 |
| Loss allowance | \$ 1,453,645 | \$ 176,595 | \$ 122,457 | \$ 131,784 | \$ 115,194 | \$ 633,465 | \$ 2,633,140 |

| March 31, 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 | \$ 125,975,615 | \$ 361,197 | \$ 149,094 | \$ 120,705 | 130,117 | \$ 878,134 | \$ 127,614,862 |
| Loss allowance | \$ 1,126,345 | \$ 124,973 | \$ 96,772 | \$ 100,195 | \$ 120,643 | \$ 754,493 | \$ 2,323,421 |

viii. Credit risk information of subsidiary, Hotai Insurance Co., Ltd., as of March 31, 2020, December 31, 2019 and March 31, 2019 is provided in Note 12(5)A.

ix. Movements in relation to the Group applying the simplified approach to provide loss allowance are as follows (Note):

| | 2020 | 2019 |
|--------------------------|--------------|--------------|
| | Receivables | Receivables |
| At January 1 | \$ 2,677,141 | \$ 2,116,783 |
| Provision for impairment | 521,288 | 442,822 |
| Write-offs | (377,569) | (209,133) |
| Others | (66,071) | 15,963 |
| At March 31 | \$ 2,754,789 | \$ 2,366,435 |

Note : Including all the Group's consolidated entities.

For the three months ended March 31, 2020 and 2019, gain on recoverable bad debts amounted to 150,816 and \$177,271, respectively, presented as a deduction item to 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 March 31, 2020, December 31, 2019 and March 31, 2018, the Group's unused credit line amounted to \$74,221,378, \$73,319,879 and \$58,130,458, 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:

March 31, 2020

| | <u>Up to 1 year</u> | <u>1 to 2 years</u> | <u>2 to 3 years</u> |
|---|---------------------|---------------------|---------------------|
| Short-term loans | \$ 52,610,942 | \$ 9,810,188 | \$ 2,585,303 |
| Short-term notes and bills payable | 43,182,372 | 4,693,781 | 6,893,738 |
| Notes payable | 526,620 | - | - |
| Accounts payable | 10,589,335 | - | - |
| Accrued expenses | 4,881,460 | - | - |
| Other payables | 1,003,852 | - | - |
| Commission payable | 419,010 | - | - |
| Lease liabilities | 460,261 | 302,817 | 1,387,299 |
| Bonds payable | - | 2,400,000 | - |
| Long-term loans (including current portion) | 2,630,000 | 2,415,403 | 582,500 |

Non-derivative financial liabilities:

December 31, 2019

| | <u>Up to 1 year</u> | <u>1 to 2 years</u> | <u>2 to 3 years</u> |
|---|---------------------|---------------------|---------------------|
| Short-term loans | \$ 61,527,869 | \$ 100,871 | \$ 17,329 |
| Short-term notes and bills payable | 39,553,442 | 10,087,847 | 4,094,187 |
| Notes payable | 708,449 | - | - |
| Accounts payable | 10,447,079 | - | - |
| Accrued expenses | 5,041,474 | - | - |
| Other payables | 1,501,372 | - | - |
| Commission payable | 440,989 | - | - |
| Lease liabilities | 464,670 | 326,782 | 1,409,408 |
| Bonds payable | 2,800,000 | 2,400,000 | - |
| Long-term loans (including current portion) | 2,430,000 | 2,863,616 | 640,000 |

Non-derivative financial liabilities:

March 31, 2019

| | <u>Up to 1 year</u> | <u>1 to 2 years</u> | <u>2 to 3 years</u> |
|---|---------------------|---------------------|---------------------|
| Short-term loans | \$ 47,251,196 | \$ 4,775,548 | \$ 7,517,795 |
| Short-term notes and bills payable | 37,381,073 | 10,236,970 | 3,494,769 |
| Notes payable | 581,734 | - | - |
| Accounts payable | 8,764,049 | - | - |
| Accrued expenses | 4,444,245 | - | - |
| Other payables | 1,074,991 | - | - |
| Lease liabilities | 472,850 | 406,027 | 1,418,290 |
| Bonds payable | 2,800,000 | - | 2,400,000 |
| Long-term loans (including current portion) | 3,550,000 | 2,600,000 | 1,042,460 |

Derivative financial liabilities:

March 31, 2020

| | <u>Up to 1 year</u> | <u>1 to 2 years</u> | <u>2 to 3 years</u> |
|----------------------------|---------------------|---------------------|---------------------|
| Cross currency swaps | \$ - | \$ 96,434 | \$ - |
| Forward exchange contracts | 9,117 | - | - |

Derivative financial liabilities:

December 31, 2019

| | <u>Up to 1 year</u> | <u>1 to 2 years</u> | <u>2 to 3 years</u> |
|----------------------------|---------------------|---------------------|---------------------|
| Cross currency swaps | \$ 26,674 | \$ 85,617 | \$ - |
| Forward exchange contracts | 149,572 | - | - |

Derivative financial liabilities:

March 31, 2019

| | <u>Up to 1 year</u> | <u>1 to 2 years</u> | <u>2 to 3 years</u> |
|----------------------------|---------------------|---------------------|---------------------|
| Cross currency swaps | \$ 9,149 | \$ - | \$ 15,292 |
| Forward exchange contracts | 3,074 | - | - |

iv. Information on insurance contracts risk of the Company's subsidiary, Hotai Insurance Co., Ltd., is provided in Note 12(5).

(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>March 31, 2020</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 | \$ 1,612,597 | \$ - | \$ 356,613 | \$ 1,969,210 |
| Forward exchange contracts | - | 68,522 | - | 68,522 |
| Foreign exchange swap contracts | - | 223 | - | 223 |
| Bond investment | 588,861 | 1,000,000 | - | 1,000,000 |
| Equity securities | 1,257,052 | - | - | 588,861 |
| Exchange traded funds | - | - | - | 1,257,052 |
| Financial instruments | - | 190,852 | - | 190,852 |
| Derivative financial assets for hedging | - | 106,689 | - | 106,689 |
| Financial assets at fair value through other comprehensive income | | | | |
| Bond investment (Note) | - | 1,904,568 | - | 1,904,568 |
| Equity securities | <u>6,458,729</u> | <u>-</u> | <u>374,716</u> | <u>6,833,455</u> |
| | <u>\$ 9,917,239</u> | <u>\$ 3,270,854</u> | <u>\$ 731,329</u> | <u>\$ 13,919,422</u> |
| <u>Liabilities</u> | | | | |
| <u>Recurring fair value measurements</u> | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Forward exchange contracts | \$ - | \$ 6,211 | \$ - | \$ 6,211 |
| Foreign exchange swap contracts | - | 2,906 | - | 2,906 |
| Derivative financial liabilities for hedging | - | 96,434 | - | 96,434 |
| | <u>\$ -</u> | <u>\$ 105,551</u> | <u>\$ -</u> | <u>\$ 105,551</u> |

*Note: Including operation bonds.

| <u>December 31, 2019</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 | \$ 2,058,432 | \$ - | \$ 337,907 | \$ 2,396,339 |
| Bond investment | - | 1,000,000 | - | 1,000,000 |
| Foreign exchange swap contracts | - | 9,346 | - | 9,346 |
| Equity securities | 782,071 | - | - | 782,071 |
| Exchange traded funds | 1,300,428 | - | - | 1,300,428 |
| Financial instruments | - | 190,936 | - | 190,936 |
| Derivative financial assets for hedging | - | 81,131 | - | 81,131 |
| Financial assets at fair value through other comprehensive income | | | | |
| Bond investment (Note) | - | 1,903,046 | - | 1,903,046 |
| Equity securities | <u>7,525,714</u> | <u>-</u> | <u>318,567</u> | <u>7,844,281</u> |
| | <u>\$ 11,666,645</u> | <u>\$ 3,184,459</u> | <u>\$ 656,474</u> | <u>\$ 15,507,578</u> |
| <u>Liabilities</u> | | | | |
| <u>Recurring fair value measurements</u> | | | | |
| Financial liabilities at fair value | | | | |
| through profit or loss | | | | |
| Forward exchange contracts | \$ - | \$ 149,572 | \$ - | \$ 149,572 |
| Derivative financial liabilities for hedging | - | <u>112,291</u> | - | <u>112,291</u> |
| | <u>\$ -</u> | <u>\$ 261,863</u> | <u>\$ -</u> | <u>\$ 261,863</u> |
| Note: Including operation bonds. | | | | |

| <u>March 31, 2019</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 | \$ 1,556,419 | \$ - | \$ 306,490 | \$ 1,862,909 |
| Forward exchange contracts | - | 18,271 | - | 18,271 |
| Bond investment | - | 1,000,000 | - | 1,000,000 |
| Equity securities | 895,016 | - | - | 895,016 |
| Exchange traded funds | 822,711 | - | - | 822,711 |
| Financial instruments | - | 96,352 | - | 96,352 |
| Derivative financial assets for hedging | - | 124,538 | - | 124,538 |
| Financial assets at fair value through other comprehensive income | | | | |
| Bond investment (Note) | - | 1,871,853 | - | 1,871,853 |
| Equity securities | <u>6,432,768</u> | <u>-</u> | <u>274,637</u> | <u>6,707,405</u> |
| | <u>\$ 9,706,914</u> | <u>\$ 3,111,014</u> | <u>\$ 581,127</u> | <u>\$ 13,399,055</u> |
| <u>Liabilities</u> | | | | |
| <u>Recurring fair value measurements</u> | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Forward exchange contracts | \$ - | \$ 2,222 | \$ - | \$ 2,222 |
| Forward exchange swap contracts | - | 852 | - | 852 |
| Derivative financial liabilities for hedging | <u>-</u> | <u>24,441</u> | <u>-</u> | <u>24,441</u> |
| | <u>\$ -</u> | <u>\$ 27,515</u> | <u>\$ -</u> | <u>\$ 27,515</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 three months ended March 31, 2020 and 2019:

| | <u>2020</u> | <u>2019</u> |
|---|-------------------------------------|--------------------------|
| | <u>Beneficiary certificates</u> | <u>Equity securities</u> |
| At January 1 | \$ 337,907 | \$ 318,567 |
| Recorded as unrealized gains on valuation of investments in equity instruments measured at fair value through other comprehensive income | - | 56,149 |
| Recorded as gains on financial assets at fair value through profit or loss | 8,352 | - |
| Acquired during the period | <u>10,354</u> | <u>-</u> |
| At March 31 | <u>\$ 356,613</u> | <u>\$ 374,716</u> |
| | <u>2019</u> | <u>2019</u> |
| | <u>Beneficiary certificates</u> | <u>Equity securities</u> |
| At January 1 | \$ 302,104 | \$ 289,777 |
| Recorded as unrealized losses on valuation of investments in equity instruments measured at fair value through other comprehensive income | - | (15,140) |
| Recorded as gains on financial assets at fair value through profit or loss | <u>4,386</u> | <u>-</u> |
| At March 31 | <u>\$ 306,490</u> | <u>\$ 274,637</u> |

F. For the three months ended March 31, 2020 and 2019, 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 March 31, 2020</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 | \$ 374,716 | 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 | 356,613 | Net assets value | Not applicable | Not applicable | Not applicable |

| | <u>Fair value at December 31, 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 | \$ 318,567 | 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 | 337,907 | Net assets value | Not applicable | Not applicable | Not applicable |

| | <u>Fair value at March 31, 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 | \$ 274,637 | 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 | 306,490 | 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 March 31, 2020, December 31, 2019 and March 31, 2019.

(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>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</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 Company 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 and other financial assets 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 subsidiary, Hotai Insurance Co., Ltd. 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 Company will continue executing the recourse procedures to secure their rights.
- (e) As of March 31, 2020, December 31, 2019 and March 31, 2019, 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 and restricted time deposits) into the group whose impairment should be assessed and the expected loss rates are as follows:

| | March 31, 2020 | | |
|--------------------|-------------------------------------|---|-------------------------|
| | 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 | \$ 926,555 | \$ - | \$ 160 |
| Loss allowance | - | - | 160 |

| | December 31, 2019 | | |
|--------------------|--|---|--------------|
| | 12 months Not past due or not over 30 days | Significant increase in credit risk | |
| | | Impairment of credit | |
| | | Over 30 days | Over 90 days |
| Expected loss rate | 0% | 0% | 100% |
| Total book value | \$ 765,662 | \$ - | \$ 160 |
| Loss allowance | - | - | 160 |

| | March 31, 2019 | | |
|--------------------|--|---|--------------|
| | 12 months Not past due or not over 30 days | Significant increase in credit risk | |
| | | Impairment of credit | |
| | | Over 30 days | Over 90 days |
| Expected loss rate | 0% | 0% | 0% |
| Total book value | \$ 867,717 | \$ - | \$ 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 three months ended March 31, 2020 and 2019, the movement of allowance for loss are as follows:

| | 2020 | | | | |
|------------------|-----------|---|-------------------------|--|-----------|
| | 12 months | Significant increase in credit risk | Impairment of credit | Amount of provision in line with the “Regulation of the Procedure for Asset Assessment and Collection of Overdue Debts” | |
| | | | | Total | |
| | | | | Total | Total |
| At January 1 | \$ - | \$ - | \$ 160 | \$ 14,153 | \$ 14,313 |
| Amounts reversed | - | - | - | 435 | 435 |
| At March 31 | \$ - | \$ - | \$ 160 | \$ 14,588 | \$ 14,748 |

| | 2019 | | | | |
|------------------|-----------|---|-------------------------|--|-----------|
| | 12 months | Significant increase in credit risk | Impairment of credit | Amount of provision in line with the “Regulation of the Procedure for Asset Assessment and Collection of Overdue Debts” | |
| | | | | Total | |
| | | | | Total | Total |
| At January 1 | \$ - | \$ - | \$ 160 | \$ 16,526 | \$ 16,686 |
| Amounts reversed | - | - | - | (1,483) | (1,483) |
| At March 31 | \$ - | \$ - | \$ 160 | \$ 15,043 | \$ 15,203 |

As of March 31, 2020, December 31, 2019 and March 31, 2019, the allowance for loss of abovementioned financial assets was \$14,748, \$14,313 and \$15,203, respectively, and the

maximum exposure to credit risk was \$911,967, \$751,509 and \$852,674, respectively.

- (f) As of March 31, 2020, December 31, 2019 and March 31, 2019, 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 \$3,491,720, \$3,507,857 and \$3,436,929, respectively, and are all classified as investment grade. The external credit risk rating are as follows:

| <u>Credit risk rating</u> | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|---------------------------|-----------------------|--------------------------|-----------------------|
| tw AAA | \$ 829,520 | \$ 940,489 | \$ 1,048,445 |
| tw AA+ | 441,262 | 335,331 | 363,014 |
| tw AA | 397,003 | 302,988 | 443,513 |
| tw AA- | 888,816 | 990,444 | 914,251 |
| tw A+ | 345,757 | 347,795 | 252,223 |
| tw A | 490,604 | 477,224 | 372,000 |
| tw A- | 98,758 | 113,586 | 43,483 |
| | <u>\$ 3,491,720</u> | <u>\$ 3,507,857</u> | <u>\$ 3,436,929</u> |

The probable expected loss rates of abovementioned financial assets within 12 months were 0%~0.07%, 0%~0.07% and 0%~0.08%, respectively, the amounts of allowance for loss were \$632, \$633 and \$541, respectively, and the maximum exposure amounts were \$3,491,088, \$3,507,224 and \$3,436,388, 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 three months ended March 31, 2020 and 2019, the movements of allowance for loss are as follows:

| | <u>2020</u> | <u>2019</u> |
|---|---------------|---------------|
| At January 1 | \$ 633 | \$ 510 |
| (Amounts reversed) provisions during the period | (1) | 31 |
| At March 31 | <u>\$ 632</u> | <u>\$ 541</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 three months ended March 31, 2020 and 2019, 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):

Three months ended March 31, 2020

| Credit rating levels (S&P) | Reinsurance premiums ceded | Percentage |
|----------------------------|----------------------------|------------|
| AA- | \$ 266,037 | 43.98 |
| A++ | 1,685 | 0.28 |
| A+ | 193,239 | 31.95 |
| A | 9,423 | 1.56 |
| A- | 4,229 | 0.70 |
| Unrated | 130,239 | 21.53 |
| Total | \$ 604,852 | 100.00 |

Three months ended March 31, 2019

| Credit rating levels (S&P) | Reinsurance premiums ceded | Percentage |
|----------------------------|----------------------------|------------|
| AA | \$ 1,730 | 0.33 |
| AA- | 265,389 | 50.29 |
| A+ | 138,401 | 26.22 |
| A | 19,147 | 3.63 |
| A- | 1,733 | 0.33 |
| Unrated | 101,331 | 19.20 |
| Total | \$ 527,731 | 100.00 |

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>March 31, 2020</u> | | | | |
| Insurance liabilities | \$ 6,341,219 | \$ 1,358,067 | \$ 178,525 | \$ 1,907,304 |
| Payables | 1,220,941 | - | - | - |
| Deposits-in | 3,634 | 1,056 | 100 | - |
| Lease liabilities | 56,546 | 96,947 | - | - |

| | Contractual undiscounted cash flows | | | |
|--------------------------|-------------------------------------|--------------------------|---------------------------|---------------|
| | Less than 1 year | Between 1 and 5 years | Between 5 and 10 years | Over 10 years |
| <u>December 31, 2019</u> | | | | |
| Insurance liabilities | \$ 5,966,415 | \$ 1,343,109 | \$ 171,546 | \$ 1,917,142 |
| Payables | 1,189,663 | - | - | - |
| Deposits-in | 4,300 | 390 | 100 | - |
| Lease liabilities | 55,447 | 107,065 | - | - |

| | Contractual undiscounted cash flows | | | |
|-----------------------|-------------------------------------|--------------------------|---------------------------|---------------|
| | Less than 1 year | Between 1 and 5 years | Between 5 and 10 years | Over 10 years |
| <u>March 31, 2019</u> | | | | |
| Insurance liabilities | \$ 5,100,089 | \$ 1,269,947 | \$ 112,364 | \$ 1,911,841 |
| Payables | 1,105,954 | - | - | - |
| Deposits-in | 3,709 | 571 | 261 | - |
| Lease liabilities | 52,198 | 131,452 | - | - |

ii. Derivatives

On March 31, 2020, 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:

| | March 31, 2020 | | Change in other comprehensive income |
|---|---------------------|-----|--|
| | Change of variables | | |
| Listed stocks, ETF and domestic and foreign beneficiary certificates | Increase in price | 10% | \$ 286,331 |
| | Decrease in price | 10% | (286,331) |
| | March 31, 2018 | | Change in other comprehensive Income |
| | Change of variables | | |
| Listed stocks, ETF and domestic and foreign beneficiary certificates | Increase in price | 10% | \$ 270,575 |
| | Decrease in price | 10% | (270,575) |

(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:

| | <u>March 31, 2020</u> | | |
|--------------------------|----------------------------|-----------------|-----------------------------|
| | <u>Change of variables</u> | | <u>Change in fair value</u> |
| Fixed-income investments | Increase in interest rate | 100 basis point | (\$ 113,955) |
| | Decrease in interest rate | 100 basis point | 113,955 |

| | <u>March 31, 2019</u> | | |
|--------------------------|----------------------------|-----------------|-----------------------------|
| | <u>Change of variables</u> | | <u>Change in fair value</u> |
| Fixed-income investments | Increase in interest rate | 100 basis point | (\$ 117,649) |
| | Decrease in interest rate | 100 basis point | 117,649 |

(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>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|-----------------------|-----------------------|--------------------------|-----------------------|
| Foreign exchange rate | 30.21 | 29.99 | 30.84 |

The US dollar assets and liabilities are shown as below:

| | <u>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|-----------------|-----------------------|--------------------------|-----------------------|
| USD Assets | USD 43,960 thousand | USD 40,276 thousand | USD 34,535 thousand |
| USD Liabilities | USD 2,828 thousand | USD 1,205 thousand | USD 2,693 thousand |

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>March 31, 2020</u> | |
|-----------------|---------------------------|------------------------------------|
| | <u>Change on variable</u> | <u>Impact on net (loss) income</u> |
| USD assets, net | Appreciate 5% against NTD | (\$ 27,553) |
| | Depreciate 5% against NTD | 27,553 |

| | <u>March 31, 2019</u> | |
|-----------------|---------------------------|------------------------------------|
| | <u>Change on variable</u> | <u>Impact on net (loss) income</u> |
| USD assets, net | Appreciate 5% against NTD | (\$ 17,656) |
| | Depreciate 5% against NTD | 17,656 |

(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 three months ended March 31, 2020 and 2019, 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>Three months ended March 31, 2020</u> | |
|-------------------------|--|---------------------------|
| <u>Line of Business</u> | <u>Premiums revenue</u> | <u>Retention premiums</u> |
| Fire insurance | \$ 454,901 | \$ 126,766 |
| Engineering insurance | 55,494 | 20,244 |

| | <u>Three months ended March 31, 2019</u> | |
|-------------------------|--|---------------------------|
| <u>Line of Business</u> | <u>Premiums revenue</u> | <u>Retention premiums</u> |
| Fire insurance | \$ 401,418 | \$ 106,505 |
| Engineering insurance | 11,906 | 3,911 |

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 three months ended March 31, 2020 and 2019 and the result is shown below:

| <u>Line of Business</u> | <u>Three months ended March 31, 2020</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 | \$ 41,065 | \$ 35,671 | \$ 41,065 | \$ 35,671 |
| Automobile third party liability insurance | 18,454 | 16,401 | 18,454 | 16,401 |
| Personal property insurance | 1,367 | 981 | 1,367 | 981 |
| Commercial property insurance | 12,532 | 4,920 | 12,532 | 4,920 |
| Liability insurance | 9,150 | 6,768 | 9,150 | 6,768 |
| Marine cargo insurance | 2,709 | 1,978 | 2,709 | 1,978 |
| Engineering insurance | 1,119 | 298 | 1,119 | 298 |
| Personal accident insurance | 12,286 | 11,344 | 12,286 | 11,344 |
| Health insurance | 2,145 | 1,420 | 2,145 | 1,420 |
| Foreign inward reinsurance | 384 | 340 | 384 | 340 |

| Line of Business | Three months ended March 31, 2019 | | | |
|--|--|---|--|---|
| | Expected loss ratio increased by 5% | | Expected loss ratio decreased by 5% | |
| | Increase in claim reserve before reinsurance | Increase in claim reserve after reinsurance | Decrease in claim reserve before reinsurance | Decrease in claim reserve after reinsurance |
| Automobile property damage insurance | \$ 29,592 | \$ 25,809 | \$ 29,592 | \$ 25,809 |
| Automobile third party liability insurance | 14,206 | 12,663 | 14,206 | 12,663 |
| Personal property insurance | 1,615 | 1,022 | 1,615 | 1,022 |
| Commercial property insurance | 11,287 | 3,974 | 11,287 | 3,974 |
| Liability insurance | 7,448 | 5,196 | 7,448 | 5,196 |
| Marine cargo insurance | 2,287 | 1,788 | 2,287 | 1,788 |
| Engineering insurance | 810 | 163 | 810 | 163 |
| Personal accident insurance | 10,780 | 9,851 | 10,780 | 9,851 |
| Health insurance | 1,976 | 1,531 | 1,976 | 1,531 |
| Foreign inward reinsurance | 393 | 389 | 393 | 389 |

Sensitivity test determines the impact on profit and loss based on before-reinsurance and after-reinsurance calculation from the increase or decrease by 5% in the expected loss ratio for the three months ended March 31, 2020 and 2019.

C. Loss development pattern

As of March 31, 2020, December 31, 2019 and March 31, 2019, the loss development pattern of the subsidiary, Hotai Insurance Co., Ltd., are as follows :

(a) Direct business

| March 31, 2020 | Accident Year | | | | | Three months ended March 31, 2020 | Total |
|--|---------------|--------------|--------------|--------------|--------------|--------------------------------------|------------------|
| | ≤2016 | 2017 | 2018 | 2019 | | | |
| Development Year | | | | | | | |
| End of underwriting year | \$23,947,995 | \$ 1,788,662 | \$ 2,584,648 | \$ 3,732,983 | \$ 1,052,321 | | |
| One year after underwriting year | 23,665,037 | 1,806,176 | 2,563,399 | 3,754,829 | - | | |
| Two years after underwriting year | 23,490,076 | 1,602,243 | 2,538,595 | - | - | | |
| Three years after underwriting year | 23,366,414 | 1,604,809 | - | - | - | | |
| Four years after underwriting year | 23,231,683 | - | - | - | - | | |
| Estimated ultimate losses | 23,231,683 | 1,604,809 | 2,538,595 | 3,754,829 | 1,052,321 | | |
| Paid losses | (22,761,335) | (1,344,668) | (2,165,991) | (2,862,309) | (278,511) | | |
| Total reserve | \$ 470,348 | \$ 260,141 | \$ 372,604 | \$ 892,520 | \$ 773,810 | \$ | 2,769,423 |
| Adjustment item (Note) | | | | | | | 322,995 |
| Realized amount in balance sheet (Shown as claims reserve for insurance liabilities) | | | | | | \$ | <u>3,092,418</u> |

Unit: NTD

| December 31, 2019 | Accident Year | | | | | Total |
|--|---------------|--------------|--------------|--------------|--------------|--------------|
| | ≤2015 | 2016 | 2017 | 2018 | 2019 | |
| Development Year | | | | | | |
| End of underwriting year | \$21,235,766 | \$ 2,644,742 | \$ 1,788,662 | \$ 2,584,648 | \$ 3,732,983 | |
| One year after underwriting year | 21,303,252 | 2,344,556 | 1,806,176 | 2,563,399 | - | |
| Two years after underwriting year | 21,320,482 | 2,297,738 | 1,602,243 | - | - | |
| Three years after underwriting year | 21,192,337 | 2,241,054 | - | - | - | |
| Four years after underwriting year | 21,125,360 | - | - | - | - | |
| Estimated ultimate losses | 21,125,360 | 2,241,054 | 1,602,243 | 2,563,399 | 3,732,983 | |
| Paid losses | (20,633,235) | (2,122,922) | (1,331,121) | (2,148,063) | (2,257,525) | |
| Total reserve | \$ 492,125 | \$ 118,132 | \$ 271,122 | \$ 415,336 | \$ 1,475,458 | \$ 2,772,173 |
| Adjustment item (Note) | | | | | | 319,038 |
| Realized amount in balance sheet (Shown as claims reserve for insurance liabilities) | | | | | | \$ 3,091,211 |

| March 31, 2019 | Accident Year | | | | | Total |
|-------------------------------------|---------------|--------------|--------------|--------------|--------------------------------------|--------------|
| | ≤2015 | 2016 | 2017 | 2018 | Three months ended March 31, 2019 | |
| Development Year | | | | | | |
| End of underwriting year | \$21,235,766 | \$ 2,644,742 | \$ 1,788,662 | \$ 2,584,648 | \$ 772,201 | |
| One year after underwriting year | 21,303,252 | 2,344,556 | 1,806,176 | 2,609,949 | - | |
| Two years after underwriting year | 21,320,482 | 2,297,738 | 1,668,730 | - | - | |
| Three years after underwriting year | 21,192,337 | 2,292,469 | - | - | - | |
| Four years after underwriting year | 21,164,303 | - | - | - | - | |
| Estimated ultimate losses | 21,164,303 | 2,292,469 | 1,668,730 | 2,609,949 | 772,201 | |
| Paid losses | (20,616,418) | (2,089,400) | (1,295,398) | (1,954,847) | (212,599) | |
| Total reserve | \$ 547,885 | \$ 203,069 | \$ 373,332 | \$ 655,102 | \$ 559,602 | \$ 2,338,990 |
| Adjustment item (Note) | | | | | | 268,217 |
| Realized amount in balance sheet | | | | | | \$ 2,607,207 |

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

(b) Retention business

Unit: NTD

| March 31, 2020 | Accident Year | | | | | Total |
|-------------------------------------|---------------|--------------|--------------|--------------|--------------------------------------|--------------|
| | ≤2016 | 2017 | 2018 | 2019 | Three months ended March 31, 2020 | |
| Development Year | | | | | | |
| End of underwriting year | \$ 15,296,560 | \$ 1,351,056 | \$ 2,301,559 | \$ 3,215,297 | \$ 901,424 | |
| One year after underwriting year | 15,344,171 | 1,375,530 | 2,293,058 | 3,238,619 | - | |
| Two years after underwriting year | 15,220,719 | 1,282,986 | 2,274,740 | - | - | |
| Three years after underwriting year | 15,126,086 | 1,284,705 | - | - | - | |
| Four years after underwriting year | 15,002,641 | - | - | - | - | |
| Estimated ultimate losses | 15,002,641 | 1,284,705 | 2,274,740 | 3,238,619 | 901,424 | |
| Paid losses | (14,704,504) | (1,117,290) | (1,970,494) | (2,548,704) | (245,500) | |
| Total reserve | \$ 298,137 | \$ 167,415 | \$ 304,246 | \$ 689,915 | \$ 655,924 | \$ 2,115,637 |
| Adjustment item (Note) | | | | | | 219,626 |
| | | | | | | \$ 2,335,263 |

| December 31, 2019 Development Year | Accident Year | | | | | Total |
|---------------------------------------|-------------------|------------------|-------------------|-------------------|---------------------|---------------------|
| | ≤ 2015 | 2016 | 2017 | 2018 | 2019 | |
| End of underwriting year | \$ 14,201,574 | \$ 1,100,469 | \$ 1,351,056 | \$ 2,301,559 | \$ 3,215,297 | |
| One year after underwriting year | 14,196,090 | 1,112,765 | 1,375,530 | 2,293,058 | - | |
| Two years after underwriting year | 14,231,405 | 1,069,063 | 1,282,986 | - | - | |
| Three years after underwriting year | 14,151,656 | 1,027,182 | - | - | - | |
| Four years after underwriting year | 14,098,904 | - | - | - | - | |
| Estimated ultimate losses | 14,098,904 | 1,027,182 | 1,282,986 | 2,293,058 | 3,215,297 | |
| Paid losses | (13,725,918) | (973,411) | (1,106,042) | (1,953,806) | (1,999,784) | |
| Total reserve | <u>\$ 372,986</u> | <u>\$ 53,771</u> | <u>\$ 176,944</u> | <u>\$ 339,252</u> | <u>\$ 1,215,513</u> | \$ 2,158,466 |
| Adjustment item (Note) | | | | | | <u>225,026</u> |
| | | | | | | <u>\$ 2,383,492</u> |

| March 31, 2019 Development Year | Accident Year | | | | | Total |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|--------------------------------------|---------------------|
| | ≤ 2015 | 2016 | 2017 | 2018 | Three months ended March 31, 2019 | |
| End of underwriting year | \$ 14,201,574 | \$ 1,100,469 | \$ 1,351,056 | \$ 2,301,559 | \$ 658,754 | |
| One year after underwriting year | 14,196,090 | 1,112,765 | 1,375,530 | 2,322,271 | - | |
| Two years after underwriting year | 14,231,405 | 1,069,063 | 1,345,087 | - | - | |
| Three years after underwriting year | 14,151,656 | 1,069,769 | - | - | - | |
| Four years after underwriting year | 14,135,579 | - | - | - | - | |
| Estimated ultimate losses | 14,135,579 | 1,069,769 | 1,345,087 | 2,322,271 | 658,754 | |
| Paid losses | (13,709,657) | (942,757) | (1,076,473) | (1,772,743) | (186,672) | |
| Total reserve | <u>\$ 425,922</u> | <u>\$ 127,012</u> | <u>\$ 268,614</u> | <u>\$ 549,528</u> | <u>\$ 472,082</u> | \$ 1,843,158 |
| Adjustment item (Note) | | | | | | <u>199,970</u> |
| | | | | | | <u>\$ 2,043,128</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>March 31, 2020</u> | | | |
| <u>Assets</u> | | | |
| Cash and cash equivalents | \$ 3,020,216 | \$ 3,020,216 | \$ - |
| Receivables | 832,397 | 832,397 | - |
| Current tax assets | 9,244 | - | 9,244 |
| Assets held for sale | 15,767 | 15,767 | - |
| Financial assets at fair value through profit or loss | 3,363,532 | 2,863,532 | 500,000 |
| Financial assets at fair value through other comprehensive income | 1,604,268 | 6,193 | 1,598,075 |
| Other financial assets | 1,590,667 | 1,497,682 | 92,985 |
| Right-of-use assets | 149,406 | - | 149,406 |
| Investment property | 331,142 | - | 331,142 |
| Reinsurance contract assets | 2,053,679 | 1,488,345 | 565,334 |
| Property and equipment | 2,772,998 | - | 2,772,998 |
| Intangible assets | 87,013 | - | 87,013 |
| Other assets | 531,724 | 84,116 | 447,608 |
| <u>Liabilities</u> | | | |
| Payables | \$ 1,220,941 | \$ 1,220,941 | \$ - |
| Current income tax liabilities | 30,657 | 30,657 | - |
| Financial liabilities at fair value through profit or loss | 2,906 | 2,906 | - |
| Insurance liabilities | 9,785,115 | 6,341,219 | 3,443,896 |
| Lease liabilities | 151,219 | 56,546 | 94,673 |
| Other liabilities | 114,784 | 113,628 | 1,156 |

| | <u>Book value</u> | <u>Within 12 months</u> | <u>Over 12 months</u> |
|--|-------------------|-----------------------------|---------------------------|
| <u>December 31, 2019</u> | | | |
| <u>Assets</u> | | | |
| Cash and cash equivalents | \$ 3,329,144 | \$ 3,329,144 | \$ - |
| Receivables | 678,361 | 678,361 | - |
| Current tax assets | 7,633 | - | 7,633 |
| Assets held for sale | 15,767 | 15,767 | - |
| Financial assets at fair value through profit or loss | 3,509,328 | 3,009,328 | 500,000 |
| Financial assets at fair value through other comprehensive income | 1,602,746 | 27,531 | 1,575,215 |
| Other financial assets | 1,610,125 | 1,509,696 | 100,429 |
| Right-of-use assets | 157,978 | - | 157,978 |
| Investment property | 331,784 | - | 331,784 |
| Reinsurance contract assets | 1,794,135 | 1,286,605 | 507,530 |
| Property and equipment | 2,632,995 | - | 2,632,995 |
| Intangible assets | 89,563 | - | 89,563 |
| Other assets | 524,967 | 75,853 | 449,114 |
| <u>Liabilities</u> | | | |
| Payables | \$ 1,189,663 | \$ 1,189,663 | \$ - |
| Current income tax liabilities | 30,657 | 30,657 | - |
| Insurance liabilities | 9,398,212 | 5,966,415 | 3,431,797 |
| Lease liabilities | 159,562 | 55,447 | 104,115 |
| Other liabilities | 116,552 | 116,062 | 490 |

| | <u>Book value</u> | <u>Within 12 months</u> | <u>Over 12 months</u> |
|---|-------------------|-----------------------------|---------------------------|
| <u>March 31, 2019</u> | | | |
| <u>Assets</u> | | | |
| Cash and cash equivalents | \$ 2,325,072 | \$ 2,325,072 | \$ - |
| Receivables | 748,784 | 748,784 | - |
| Current tax assets | 15,084 | - | 15,084 |
| Assets held for sale | 15,767 | 15,767 | - |
| Financial assets at fair value through profit or loss | 3,205,750 | 2,705,750 | 500,000 |
| Financial assets at fair value through other comprehensive income | 1,571,553 | 171,848 | 1,399,705 |
| Other financial assets | 1,579,452 | 1,510,127 | 69,325 |
| Right-of-use assets | 179,812 | - | 179,812 |
| Investment property | 331,781 | - | 331,781 |
| Reinsurance contract assets | 1,612,534 | 1,198,219 | 414,315 |
| Property and equipment | 2,601,673 | - | 2,601,673 |
| Intangible assets | 64,745 | - | 64,745 |
| Other assets | 468,994 | 17,437 | 451,557 |
| <u>Liabilities</u> | | | |
| Payables | \$ 1,105,954 | \$ 1,105,954 | \$ - |
| Financial liabilities at fair value through profit or loss | 852 | 852 | - |
| Insurance liabilities | 8,394,241 | 5,100,089 | 3,294,152 |
| Lease liabilities | 180,266 | 52,198 | 128,068 |
| Other liabilities | 63,080 | 62,248 | 832 |

(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. However, the subsidiary, Hotai Insurance Co., Ltd. adjusted the commissioned investment amounts in Uni-President Assets Management Corp. to \$800,000, in November 2019.

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 subsidiary, Hotai Insurance Co., Ltd. adjusted the commissioned investment amounts in Yuanta Funds and FSITC to \$700,000 and \$800,000, respectively, in November 2018. The subsidiary, Hotai Insurance Co., Ltd. adjusted the commissioned investment amounts in Yuanta Funds to \$890,778, in November 2019. The subsidiary, Hotai Insurance Co., Ltd., terminated the discretionary investment management contract signed with FSITC starting from December 31, 2019.

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 March 31, 2020 | | | | | | |
|-----------------------------------|-------------------------|-----------------------------|-----------------------------------|---------------------------------------|---------------------------------------|--|
| 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 | \$ 87,954 | \$ 37,591 | \$ 34,870 | \$ 90,675 | \$ 1,886 | \$ 88,809 |
| Elective insurance | 2,398,155 | 56,090 | 632,719 | 1,821,526 | 213,337 | 1,608,189 |
| | 2,486,109 | 93,681 | 667,589 | 1,912,201 | 215,203 | 1,696,998 |
| Discount | 2 | - | - | 2 | - | 2 |
| | <u>\$ 2,486,111</u> | <u>\$ 93,681</u> | <u>\$ 667,589</u> | <u>\$ 1,912,203</u> | <u>\$ 215,203</u> | <u>\$ 1,697,000</u> |

| Three months ended March 31, 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 | \$ 789,399 | \$ 35,663 | \$ 31,807 | \$ 82,255 | \$ 3,821 | \$ 78,434 |
| Elective insurance | 1,915,174 | 41,432 | 552,826 | 1,403,780 | 151,440 | 1,252,340 |
| | 1,993,573 | 77,095 | 584,633 | 1,486,035 | 155,261 | 1,330,774 |
| Discount | 3 | - | - | 3 | - | 3 |
| | <u>\$ 1,993,576</u> | <u>\$ 77,095</u> | <u>\$ 584,633</u> | <u>\$ 1,486,038</u> | <u>\$ 155,261</u> | <u>\$ 1,330,777</u> |

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

| Three months ended March 31, 2020 | | | | |
|-----------------------------------|---------------------------|---------------------------------------|------------------------------------|---|
| Category of insurance | Claim expenditures (1) | Reinsurance claim expenditures (2) | Reinsurance claims recovery (3) | Retention claim expenditures (4)=(1)+(2)-(3) |
| Compulsory insurance | \$ 71,048 | \$ 50,293 | \$ 41,955 | \$ 79,386 |
| Elective insurance | 916,194 | 3,667 | 92,416 | 827,445 |
| | <u>\$ 987,242</u> | <u>\$ 53,960</u> | <u>\$ 134,371</u> | <u>\$ 906,831</u> |

| Three months ended March 31, 2019 | | | | |
|-----------------------------------|---------------------------|---------------------------------------|------------------------------------|---|
| Category of insurance | Claim expenditures (1) | Reinsurance claim expenditures (2) | Reinsurance claims recovery (3) | Retention claim expenditures (4)=(1)+(2)-(3) |
| Compulsory insurance | \$ 59,664 | \$ 29,333 | \$ 34,598 | \$ 54,399 |
| Elective insurance | 621,635 | 11,297 | 67,932 | 565,000 |
| | <u>\$ 681,299</u> | <u>\$ 40,630</u> | <u>\$ 102,530</u> | <u>\$ 619,399</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>March 31, 2020</u> | <u>December 31, 2019</u> | <u>March 31, 2019</u> |
|---|-----------------------|--------------------------|-----------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 1,567,127 | \$ 1,583,915 | \$ 1,553,652 |
| Notes receivable | 2,001 | 1,399 | 2,240 |
| Premiums receivable | 5,299 | 7,924 | 5,361 |
| Claims recoverable from reinsurers | 11,458 | 12,285 | 26,827 |
| Due from reinsurance and ceding companies | 11,923 | 23,052 | 21,425 |
| Ceded unearned premium reserve | 74,439 | 72,949 | 64,384 |
| Ceded claim reserve | 96,339 | 86,986 | 74,209 |
| Temporary payments and suspense accounts | <u>1</u> | <u>52</u> | <u>196</u> |
| Total assets | <u>\$ 1,768,587</u> | <u>\$ 1,788,562</u> | <u>\$ 1,748,294</u> |
| Liabilities | | | |
| Claims payable | \$ 283 | \$ 705 | \$ 25,422 |
| Due to reinsurance and ceding companies | 9,708 | 24,805 | 18,428 |
| Unearned premium reserve | 204,760 | 201,404 | 181,954 |
| Claims reserve | 256,867 | 254,754 | 223,519 |
| Special reserve | 1,296,929 | 1,306,722 | 1,298,844 |
| Temporary payments and suspense accounts | <u>40</u> | <u>172</u> | <u>127</u> |
| Total liabilities | <u>\$ 1,768,587</u> | <u>\$ 1,788,562</u> | <u>\$ 1,748,294</u> |

As of March 31, 2020, December 31, 2019 and March 31, 2019, the subsidiary, Hotai Insurance Co., Ltd., has long-term time deposits amounting to \$1,468,413, \$1,484,913 and \$1,465,113, respectively, shown as other financial assets in the balance sheets.

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

| | Three months ended March 31, | |
|--|------------------------------|------------------|
| | 2020 | 2019 |
| Operating revenues | | |
| Written premiums | \$ 58,116 | \$ 53,012 |
| Reinsurance premiums | 37,591 | 35,663 |
| Less: Reinsurance premiums ceded | (34,870) | (31,807) |
| Net change in unearned premium reserve | (1,866) | (3,821) |
| Retention earned premiums | 58,971 | 53,047 |
| Interest income | 3,382 | 3,382 |
| | <u>\$ 62,353</u> | <u>\$ 56,429</u> |
| Operating costs | | |
| Claim expenditures | \$ 71,048 | \$ 59,664 |
| Reinsurance claim expenditures | 50,293 | 29,333 |
| Less: Reinsurance claims recovery | (41,955) | (34,598) |
| Retention claim expenditures | 79,386 | 54,399 |
| Net change in claims reserve | (7,240) | 10,010 |
| Net change in special reserve | (9,793) | (7,980) |
| | <u>\$ 62,353</u> | <u>\$ 56,429</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 half year in accordance with "Regulations Governing Capital Adequacy of Insurance Enterprises" to ensure that it can continuously meet the statutory capital requirement. In addition, net worth ratio will be included in the monitor indicators of capital adequacy ratio.

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.

Under Article 15 of "Regulations Governing the Preparation of Financial Reports by Enterprises Engaging in Insurance", the net worth ratios of the subsidiary, Hotai Insurance Co., Ltd., as of March 31, 2020 and December 31, 2019 were 30.34% and 32.64%, respectively.

(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>March 31, 2020</u> | <u>Book value</u> | <u>Within 12 months</u> | <u>Over 12 months</u> |
|--|-------------------|-----------------------------|---------------------------|
| <u>Assets</u> | | | |
| Cash and cash equivalents | \$ 618,068 | \$ 618,068 | \$ - |
| Current financial assets for hedging | 106,689 | - | 106,689 |
| Accounts and notes receivable, net | 124,256,084 | 51,130,282 | 73,125,802 |
| Other receivables | 72,700 | 72,700 | - |
| Inventories | 3,115 | 3,115 | - |
| Prepayments | 4,946,240 | 3,314,395 | 1,631,845 |
| Other current financial assets | 211,939 | 211,939 | - |
| <u>Liabilities</u> | | | |
| Short-term borrowings | \$ 57,337,483 | \$ 45,066,326 | \$ 12,271,157 |
| Short-term notes and bills payable | 47,915,498 | 36,327,979 | 11,587,519 |
| Current financial liabilities for hedging | 96,434 | - | 96,434 |
| Notes payable | 420,024 | 420,024 | - |
| Accounts payable (including related parties) | 729,404 | 729,404 | - |
| Other payables | 1,500,673 | 1,500,673 | - |
| Current income tax liabilities | 590,758 | 590,758 | - |
| Lease liabilities-current | 148,698 | 148,698 | - |
| Financial guarantee liabilities-current | 78,337 | 78,337 | - |
| Bonds payable | 2,400,000 | - | 2,400,000 |
| Guarantee deposits received - current | 2,956,734 | 1,241,164 | 1,715,570 |
| Other current liabilities, others | 103,637 | 103,637 | - |
| | | | |
| <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 | \$ 373,909 | \$ 373,909 | \$ - |
| Current financial assets for hedging | 81,131 | - | 81,131 |
| Accounts and notes receivable, net | 122,678,792 | 51,414,245 | 71,264,547 |
| Other receivables | 80,056 | 80,056 | - |
| Inventories | 2,587 | 2,587 | - |
| Prepayments | 5,412,308 | 3,815,570 | 1,596,738 |
| Other current financial assets | 118,322 | 118,322 | - |
| <u>Liabilities</u> | | | |
| Short-term borrowings | 53,899,638 | \$ 45,665,968 | \$ 8,233,670 |
| Short-term notes and bills payable | 47,187,967 | 33,005,933 | 14,182,034 |
| Current financial liabilities for hedging | 112,291 | 26,674 | 85,617 |
| Notes payable | 609,105 | 609,105 | - |
| Accounts payable (including related parties) | 820,854 | 820,854 | - |
| Other payables | 1,462,939 | 1,462,939 | - |
| Current income tax liabilities | 426,947 | 426,947 | - |
| Lease liabilities-current | 152,336 | 152,336 | - |
| Financial guarantee liabilities-current | 81,187 | 81,187 | - |
| Bonds payable | 5,200,000 | 2,800,000 | 2,400,000 |
| Guarantee deposits received - current | 3,141,979 | 1,295,105 | 1,846,874 |
| Other current liabilities, others | 138,342 | 138,342 | - |

| <u>March 31, 2019</u> | <u>Book value</u> | <u>Within 12 months</u> | <u>Over 12 months</u> |
|--|-------------------|-----------------------------|---------------------------|
| <u>Assets</u> | | | |
| Cash and cash equivalents | \$ 943,758 | \$ 943,758 | \$ - |
| Current financial assets for hedging | 124,538 | - | 124,538 |
| Accounts and notes receivable, net | 112,973,815 | 49,115,453 | 63,858,362 |
| Other receivables | 106,776 | 106,776 | - |
| Inventories | 17,314 | 17,314 | - |
| Prepayments | 5,079,269 | 3,651,838 | 1,427,431 |
| Other current financial assets | 349,230 | 349,230 | - |
| <u>Liabilities</u> | | | |
| Short-term borrowings | \$ 52,974,055 | \$ 40,680,802 | \$ 12,293,253 |
| Short-term notes and bills payable | 47,264,821 | 33,533,082 | 13,731,739 |
| Current financial liabilities for hedging | 24,441 | 9,149 | 15,292 |
| Notes payable | 498,106 | 498,106 | - |
| Accounts payable (including related parties) | 560,151 | 560,151 | - |
| Other payables | 1,224,918 | 1,224,918 | - |
| Current income tax liabilities | 525,648 | 525,648 | - |
| Lease liabilities-current | 153,968 | 153,968 | - |
| Financial guarantee liabilities-current | 84,812 | 84,812 | - |
| Bonds payable | 5,200,000 | 2,800,000 | 2,400,000 |
| Guarantee deposits received - current | 3,424,897 | 1,539,981 | 1,844,916 |
| Other current liabilities, others | 87,249 | 87,249 | - |

13. Supplementary Disclosures

During the first quarter of 2020, information about major transactions related to the Company are as follows. The Company will disclose the entities which we invested in, except Hozan Investment Co.,Ltd., Hotai Finance Co., Ltd., Hotai Leasing Co., Ltd., Hotai Insurance Co., Ltd., Hoyun International Limited, and Hoyun International Lease Co., Ltd. These entities were the only companies reviewed by accountants through their respective 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: None.
- (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 5.
- (h) Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 6.

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

The table below listed the derivative instruments undertaken but not yet expired as of March 31, 2019:

| Company Name | Derivative Instruments | Contract Amount (in thousands) | Maturity Date | Book Value | Fair Value |
|-------------------------------------|---------------------------------|--------------------------------|---------------------|------------|------------|
| Ho Tai Motor Co., Ltd. | Forward exchange contracts | USD 334,286 | 2020/4/14~2020/6/12 | \$ 62,311 | \$ 62,311 |
| Hotai Insurance Co., Ltd. | Foreign exchange swap contracts | USD 22,600 | 2020/4/9~2020/6/8 | (2,683) | (2,683) |
| Hotai Finance Co., Ltd. | Cross currency swaps | USD 165,000 | 2021/4/16~2021/9/17 | 4,120 | 4,120 |
| Hoyun International Lease Co., Ltd. | Cross currency swaps | USD 18,000 | 2021/6/18 | 6,135 | 6,135 |

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

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 8.

(3) Information on investments in Mainland China

(a) Basic information: Please refer to table 9.

(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.

(4) Major shareholders information

Major shareholders information: Please refer to table 10.

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 an 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 March 31, 2020, the Company's self-owned capital ratio was 78%.

- 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 | Three months ended March 31, 2020 | | | | | |
|---------------------------------|--|------------------------------|----------------------|----------------------|--------------------------------|-----------------------|
| | Distributor of Toyota and Hino products segments | Installment trading segments | Leasing segments | Other segments | Reconciliation and elimination | Total |
| Revenue from external customers | \$ 35,565,012 | \$ 2,203,304 | \$ 5,234,244 | \$ 14,435,364 | \$ - | \$ 57,437,924 |
| Inter-segment revenue (Note) | 3,083,107 | 96,685 | 260,387 | 2,365,169 | (5,805,348) | - |
| Total segment revenue | <u>\$ 38,648,119</u> | <u>\$ 2,299,989</u> | <u>\$ 5,494,631</u> | <u>\$ 16,800,533</u> | <u>(\$ 6,805,348)</u> | <u>\$ 57,437,924</u> |
| Segment income (loss) (Note) | <u>\$ 4,086,903</u> | <u>\$ 768,617</u> | <u>\$ 374,687</u> | <u>\$ 2,028,942</u> | <u>(\$ 2,080,716)</u> | <u>\$ 5,178,433</u> |
| Segment assets | <u>\$ 78,032,391</u> | <u>\$118,705,497</u> | <u>\$ 53,558,902</u> | <u>\$ 90,007,798</u> | <u>(\$ 81,023,945)</u> | <u>\$ 259,280,643</u> |

| Items | Three months ended March 31, 2019 | | | | | |
|---------------------------------|--|------------------------------|----------------------|----------------------|--------------------------------|-----------------------|
| | Distributor of Toyota and Hino products segments | Installment trading segments | Leasing segments | Other segments | Reconciliation and elimination | Total |
| Revenue from external customers | \$ 22,156,758 | \$ 2,039,524 | \$ 4,849,750 | \$ 13,914,491 | \$ - | \$ 42,960,523 |
| Inter-segment revenue (Note) | 2,975,198 | 93,793 | 175,395 | 1,866,328 | (5,110,714) | - |
| Total segment revenue | <u>\$ 25,131,956</u> | <u>\$ 2,133,317</u> | <u>\$ 5,025,145</u> | <u>\$ 15,780,819</u> | <u>(\$ 5,110,714)</u> | <u>\$ 42,960,523</u> |
| Segment income (loss) (Note) | <u>\$ 2,918,868</u> | <u>\$ 693,849</u> | <u>\$ 315,067</u> | <u>\$ 2,492,677</u> | <u>(\$ 2,684,098)</u> | <u>\$ 3,736,363</u> |
| Segment assets | <u>\$ 67,193,847</u> | <u>\$104,180,333</u> | <u>\$ 53,241,470</u> | <u>\$ 78,098,620</u> | <u>(\$ 68,065,950)</u> | <u>\$ 234,648,320</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
Three months ended March 31, 2020
(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 three months ended March 31, 2020 | Balance at March 31, 2020 | 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 | \$ 194,576 | \$ 191,683 | \$ 21,128 | 2.15% | Short-term financing | - | Operations | \$ - | None | \$ - | \$ 287,669 | \$ 287,669 | Note 2 | |
| 2 | Shanghai Heling Motor Service Co., Ltd. | Hotong Motor Investment Co., Ltd. | " | " | 389,152 | 383,366 | 16,187 | 2.15% | " | - | " | - | " | - | 605,168 | 605,168 | Note 2 | |
| 3 | Shanghai Hozhan Motor Service Co., Ltd. | Hotong Motor Investment Co., Ltd. | " | " | 129,717 | 127,789 | - | 2.15% | " | - | " | - | " | - | 163,729 | 163,729 | Note 2 | |
| 4 | Shanghai Yangpu Heling Lexus Motor Sales & Service Co., Ltd. | Hotong Motor Investment Co., Ltd. | " | " | 159,985 | 157,606 | 47,069 | 2.15% | " | - | " | - | " | - | 431,053 | 431,053 | Note 2 | |
| 5 | Chongqing Heling Lexus Motor Sales & Service Co., Ltd. | Hotong Motor Investment Co., Ltd. | " | " | 281,054 | 276,875 | 191,001 | 2.15% | " | - | " | - | " | - | 389,794 | 389,794 | Note 2 | |
| 6 | Tianjin Ho-Yu Motor Sales & Service Co., Ltd. | Hotong Motor Investment Co., Ltd. | " | " | 86,478 | 85,192 | 9,584 | 2.15% | " | - | " | - | " | - | 177,953 | 177,953 | Note 2 | |
| 7 | Tangshan Heling Lexus Motor Sales & Service Co., Ltd. | Hotong Motor Investment Co., Ltd. | " | " | 224,844 | 221,500 | 114,767 | 2.15% | " | - | " | - | " | - | 309,246 | 309,246 | Note 2 | |
| 8 | Nanchang Heling Lexus Motor Sales & Service Co., Ltd. | Hotong Motor Investment Co., Ltd. | " | " | 224,844 | 221,500 | 87,152 | 2.15% | " | - | " | - | " | - | 338,068 | 338,068 | Note 2 | |
| 9 | Zaozhuang Ho-Yu Toyota Motor Sales & Service Co., Ltd. | Hotong Motor Investment Co., Ltd. | " | " | 108,098 | 106,491 | 15,335 | 2.15% | " | - | " | - | " | - | 208,573 | 208,573 | Note 2 | |
| 10 | Tianjin Hozhan Motor Service Co., Ltd. | Hotong Motor Investment Co., Ltd. | " | " | 129,717 | 127,789 | 99,675 | 2.15% | " | - | " | - | " | - | 270,122 | 270,122 | Note 2 | |
| 11 | Tianjin Heling Lexus Motor Sales & Service Co., Ltd. | Hotong Motor Investment Co., Ltd. | " | " | 194,576 | 191,683 | 129,620 | 2.15% | " | - | " | - | " | - | 405,315 | 405,315 | Note 2 | |
| 12 | Shanghai Ho-Mian Motor Technology Co., Ltd. | Hotong Motor Investment Co., Ltd. | " | " | 562,109 | 553,751 | - | 2.15% | " | - | " | - | " | - | 966,972 | 966,972 | Note 2 | |
| 13 | Shanghai Guangxin Cultural Media Co., Ltd. | Hotong Motor Investment Co., Ltd. | " | " | 5,189 | 5,112 | - | 2.15% | " | - | " | - | " | - | 8,713 | 8,713 | Note 2 | |
| 14 | Shanghai Ho-Qian Logistics Equipment Trading Co., Ltd. | Hotong Motor Investment Co., Ltd. | " | " | 86,478 | 85,192 | 60,018 | 2.15% | " | - | " | - | " | - | 151,663 | 151,663 | Note 2 | |
| 15 | Shanghai Hoxin Motor Service Consulting Co., Ltd. | Hotong Motor Investment Co., Ltd. | " | " | 3,459 | 3,408 | - | 2.15% | " | - | " | - | " | - | 4,489 | 4,489 | Note 2 | |
| 16 | Tianjin Heyi International Trading Co., Ltd. | Hotong Motor Investment Co., Ltd. | " | " | 20,755 | 20,446 | - | 2.15% | " | - | " | - | " | - | 86,442 | 86,442 | Note 2 | |
| 17 | ZaoZhuang Ho-Wan Motor Sales & Service Co., Ltd. | Hotong Motor Investment Co., Ltd. | " | " | 9,513 | 9,371 | - | 2.15% | " | - | " | - | " | - | 42,049 | 42,049 | Note 2 | |
| 18 | Hotong Motor Investment Co., Ltd. | Shanghai Hozhan Motor Service Co., Ltd. | " | " | 121,070 | 119,269 | 45,365 | 3.35% | " | - | " | - | " | - | 5,629,228 | 11,258,455 | Note 3 | |
| 18 | Hotong Motor Investment Co., Ltd. | Nanchang Heling Lexus Motors Sales & Service Co., Ltd. | " | " | 181,604 | 178,904 | - | 3.35% | " | - | " | - | " | - | 5,629,228 | 11,258,455 | Note 3 | |
| 18 | Hotong Motor Investment Co., Ltd. | Tianjin Ho-Yu Motor Sales & Service Co., Ltd. | " | " | 151,337 | 149,087 | - | 3.35% | " | - | " | - | " | - | 5,629,228 | 11,258,455 | Note 3 | |
| 18 | Hotong Motor Investment Co., Ltd. | Tianjin Hozhan Motor Service Co., Ltd. | " | " | 121,070 | 119,269 | - | 3.35% | " | - | " | - | " | - | 5,629,228 | 11,258,455 | Note 3 | |
| 18 | Hotong Motor Investment Co., Ltd. | Shanghai Hoyu Motor Service Co., Ltd. | " | " | 138,365 | 136,308 | - | 3.35% | " | - | " | - | " | - | 5,629,228 | 11,258,455 | Note 3 | |
| 18 | Hotong Motor Investment Co., Ltd. | Shanghai Heling Motor Service Co., Ltd. | " | " | 454,011 | 447,260 | - | 3.35% | " | - | " | - | " | - | 5,629,228 | 11,258,455 | Note 3 | |
| 18 | Hotong Motor Investment Co., Ltd. | Chongqing Heling Lexus Motor Sales & Service Co., Ltd. | " | " | 376,181 | 370,587 | - | 3.35% | " | - | " | - | " | - | 5,629,228 | 11,258,455 | Note 3 | |
| 18 | Hotong Motor Investment Co., Ltd. | Tangshan Heling Lexus Motor Sales & Service Co., Ltd. | " | " | 281,054 | 276,875 | - | 3.35% | " | - | " | - | " | - | 5,629,228 | 11,258,455 | Note 3 | |
| 18 | Hotong Motor Investment Co., Ltd. | Zaozhuang Ho-Yu Toyota Motor Sales & Service Co., Ltd. | " | " | 121,070 | 119,269 | - | 3.35% | " | - | " | - | " | - | 5,629,228 | 11,258,455 | Note 3 | |
| 18 | Hotong Motor Investment Co., Ltd. | Tianjin Heling Lexus Motor Sales & Service Co., Ltd. | " | " | 289,702 | 285,395 | - | 3.35% | " | - | " | - | " | - | 5,629,228 | 11,258,455 | Note 3 | |
| 18 | Hotong Motor Investment Co., Ltd. | Shanghai Ho-Qian Logistics Equipment Trading Co., Ltd. | " | " | 21,620 | 21,298 | - | 3.35% | " | - | " | - | " | - | 5,629,228 | 11,258,455 | Note 3 | |
| 18 | Hotong Motor Investment Co., Ltd. | Shanghai Yangpu Heling Lexus Motor Sales & Service Co., Ltd. | " | " | 185,928 | 183,164 | - | 3.35% | " | - | " | - | " | - | 5,629,228 | 11,258,455 | Note 3 | |

| Number | Creditor | Borrower | General ledger account | Related party | Maximum outstanding balance during the three months ended | | 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 |
|--------|-----------------------------------|--|------------------------|---------------|---|---------------------------|--------------------------|---------------|----------------------|--|---------------------------------|---------------------------------|------------|-------|--|--------------------------------|----------|
| | | | | | March 31, 2020 | Balance at March 31, 2020 | | | | | | | Item | Value | | | |
| 18 | Hotong Motor Investment Co., Ltd. | Shanghai Ho-Mian Motor Technology Co., Ltd. | Other receivables | Y | \$ 129,717 | \$ 127,789 | \$ 25,771 | 3.35% | Short-term financing | - | Operations | \$ - | None | \$ - | \$ 5,629,228 | \$ 11,258,455 | Note 3 |
| 18 | Hotong Motor Investment Co., Ltd. | Shanghai HoChen Motor Technology Co., Ltd. | " | " | 121,070 | 119,269 | - | 3.35% | " | - | " | - | " | - | 5,629,228 | 11,258,455 | Note 3 |
| 18 | Hotong Motor Investment Co., Ltd. | Shanghai Guangxin Cultural Media Co., Ltd. | " | " | 4,324 | 4,260 | - | 3.35% | " | - | " | - | " | - | 5,629,228 | 11,258,455 | Note 3 |
| 18 | Hotong Motor Investment Co., Ltd. | Shanghai Hoxin Motor Service Consulting Co.,Ltd. | " | " | 4,324 | 4,260 | - | 3.35% | " | - | " | - | " | - | 5,629,228 | 11,258,455 | Note 3 |
| 18 | Hotong Motor Investment Co., Ltd. | Tianjin Heyi International Trading Co., Ltd. | " | " | 86,478 | 85,192 | - | 3.35% | " | - | " | - | " | - | 5,629,228 | 11,258,455 | Note 3 |
| 18 | Hotong Motor Investment Co., Ltd. | ZaoZhuang Ho-Wan Motor Sales & Service Co.,Ltd | " | " | 21,620 | 21,298 | - | 3.35% | " | - | " | - | " | - | 5,629,228 | 11,258,455 | Note 3 |

Note 1: The limit on total loans to others is no more than 20% of the Company's total equity; the limit on loans to any single entity is no more than 10% of the Company's total equity.

Note 2: The limit on total loans to the borrower and creditor whose voting rights are both 100% owned directly and indirectly by the Company is 100% of the creditor's net value.

Note 3: For Hotong Motor Investment Co., Ltd., the limit on total loans to foreign companies whose voting rights are 100% owned directly and indirectly by the same parent company is 200% of the company's total equity. The limit on loans to a single entity is 100% of the company's total equity.

Ho Tai Motor Co., Ltd.
Provision of endorsements and guarantees to others
Three months ended March 31, 2020

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

Table 2

| Number | Endorser/ guarantor | Party being endorsed/guaranteed | | Limit on endorsements/ guarantees provided for a single party | Maximum outstanding endorsement/ guarantee amount as of March 31, 2020 | Outstanding endorsement/ guarantee amount at March 31, 2020 | 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 |
|--------|--|--|---|---|---|---|-----------------------------|--|--|--|---|---|--|----------|
| | | Company name | Relationship with the endorser/guarantor | | | | | | | | | | | |
| 0 | Ho Tai Motor Co., Ltd. | Shanghai Ho-Qian Logistics Equipment Trading Co., Ltd. | Note 5.b | \$ 18,166,983 | \$ 43,375 | \$ 45,338 | \$ - | \$ - | 0.07% | \$ 30,278,305 | Y | N | Y | Note 1 |
| 1 | Hotai Finance Co., Ltd. | Hoyun International Lease Co., Ltd. | Note 5.a | 21,045,858 | 3,459,131 | 3,407,698 | 1,327,298 | - | 16.19% | 21,045,858 | Y | N | Y | Note 2 |
| 1 | Hotai Finance Co., Ltd. | Hoyun (Shanghai) Commerical Factoring Co., Ltd. | " | 21,045,858 | 323,959 | 321,510 | 153,599 | - | 1.53% | 21,045,858 | Y | N | Y | " |
| 2 | Toyota Material Handling Taiwan Ltd. | Shanghai Ho-Quian Logistics Equipment Trading Co., Ltd. | Note 5, b | 293,252 | 30,250 | 30,225 | - | - | 3.09% | 488,753 | Y | N | Y | Note 3 |
| 3 | Hotai Leasing Co., Ltd. | Hoing Mobility Service Corporation | " | 2,848,090 | 1,600,000 | - | - | - | - | 3,037,962 | 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.

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)
Three months ended March 31, 2020
(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 March 31, 2020 | | | | 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 | \$ 586,558 | 0.15% | \$ 586,558 | |
| | - Toyota Motor Corporation | - | " | 3,191,200 | 5,783,982 | 0.10% | 5,783,982 | |
| | - Shihlin Electric & Engineering Corporation Etc. | None | " | - | 86,949 | 0.00%~0.42% | 86,949 | |
| | Taian Insurance Co., Ltd. Etc. | - | " | - | 334,042 | 0.42%~3.10% | 334,042 | |
| | Nan Shan Life Insurance Perpetual Subordinated Bonds | None | Financial assets at fair value through profit or loss - non-current | - | 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 | - | \$ 3,418 | 0.50% | \$ 3,418 | |
| | Beneficiary certificates | Not applicable | Financial assets at fair value through profit or loss - current | 6,009,903 | \$ 62,365 | - | \$ 62,464 | |
| | - Franklin Templeton Sinoam Money Market Fund | | Valuation adjustment of financial assets | | \$ 99 | | | |
| Toyota Material Handling Taiwan Ltd. | Beneficiary certificates | | Total | | \$ 62,464 | | \$ 62,464 | |
| | - Franklin Templeton Sinoam Money Market Fund | Not applicable | Financial assets at fair value through profit or loss - current | 46,595,533 | \$ 476,728 | - | \$ 484,287 | |
| | | | Valuation adjustment of financial assets | | 7,559 | | - | |
| Carmax Co., Ltd. | Ho An Insurance Agency Co., Ltd. Etc. | - | Financial assets at fair value through other comprehensive income - non-current | - | \$ 3,646 | 0.01%~0.50% | \$ 3,646 | |
| | Beneficiary certificates | | Total | 16,455,440 | 170,000 | - | 171,028 | |
| | - Franklin Templeton Sinoam Money Market Fund | Not applicable | Financial assets at fair value through profit or loss - current | | | | | |
| | - CTBC Hwa-win Money Market Fund | " | " | 13,589,557 | 150,220 | - | 150,523 | |
| | | | Valuation adjustment of financial assets | | 1,331 | | - | |
| Ho Tai Development Co., Ltd. | Stock - First Financial Holding Co. Ltd. Etc. | - | Financial assets at fair value through other comprehensive income - non-current | - | \$ 1,240 | - | \$ 1,240 | |
| | Ho An Insurance Agency Co., Ltd. Etc. | - | " | - | 3,646 | 0.01%~0.51% | 3,646 | |
| | President securites Corp-PGNW0085 | Not applicable | Financial assets at fair value through profit or loss - current | - | 190,543 | - | 190,851 | |
| | | | Valuation adjustment of financial assets | | 308 | | - | |
| | | | Total | | \$ 190,851 | | \$ 190,851 | |
| 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 | | Total | 2,527,891 | 30,000 | - | 30,415 | |
| | - BOT Money Market Fund | Not applicable | Financial assets at fair value through profit or loss - current | | | | | |
| Hotai Finance Co., Ltd. | | | Valuation adjustment of financial assets | | 415 | | | |
| | | | Total | | \$ 30,415 | | \$ 30,415 | |
| | Ho An Insurance Agency Co., Ltd. Etc. | - | Financial assets at fair value through other comprehensive income - non-current | - | \$ 3,418 | 0.50% | \$ 3,418 | |
| Hotai Leasing Co., Ltd. | Ho An Insurance Agency Co., Ltd. Etc. | - | " | - | \$ 3,418 | 0.50% | \$ 3,418 | |
| Ho Tai Cyber Connection Co., Ltd | Beneficiary certificates | Not applicable | Financial assets at fair value through profit or loss - current | 281,007 | \$ 2,500 | - | \$ 2,921 | |
| | - Franklin Templeton Sinoam Money Market Fund | | Valuation adjustment of financial assets | | 421 | | - | |
| | | | Total | | \$ 2,921 | | \$ 2,921 | |

| Securities held by | Type and name of securities | Relationship with the securities issuer | General ledger account | As of March 31, 2020 | | | | 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 | 4,827,821 | \$ 50,000 | - | \$ 50,177 | |
| | | | Valuation adjustment of financial assets | | 177 | | - | |
| | | | Total | | \$ 50,177 | | \$ 50,177 | |
| 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 | - | \$ 23,128 | 10.48% | \$ 23,128 | |

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
Three months ended March 31, 2020

(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, 2020 | | Addition | | Disposal | | | Balance as at March 31, 2020 | | |
|---------------------------|--|---|------------------------------------|--------------------------------|-------------------------------|------------|------------------|--------|------------------|---------------|------------|------------------------------|------------------|--------|
| | | | | | Number of shares | Amount | Number of shares | Amount | Number of shares | Selling price | Book value | Gain (loss) on disposal | Number of shares | Amount |
| Hoan Investment Co., Ltd. | Prudential Financial Money Market Fund | Financial assets at fair value through profit or loss - current | Not applicable | Not applicable | 22,482,807 | \$ 357,000 | - | \$ - | 22,482,807 | \$ 357,524 | \$ 357,000 | \$ 524 | - | \$ - |
| Hotai Finance Co., Ltd. | Hoing Mobility Service Corporation | Investments accounted for using equity method | Hoing Mobility Service Corporation | Subsidiary | - | \$ - | - | \$ - | - | \$ - | \$ - | \$ - | - | \$ - |

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

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
Three months ended March 31, 2020
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Table 5

| Purchaser/seller | Counterparty | Relationship with the counterparty | Purchases | | 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 | \$ 7,429,925 | 20% | Closes its accounts 7 days after the end of each week, interest bearing from transaction date | Normal | Normal | \$ 616,249 | 17% | |
| Ho Tai Motor Co., Ltd. | Tau Miau Motor Co., Ltd. | " | " | 6,748,051 | 18% | Closes its accounts 7 days after the end of each week, interest bearing from transaction date | " | " | 556,490 | 16% | |
| Ho Tai Motor Co., Ltd. | Kuotu Motor Co., Ltd. | " | " | 5,484,012 | 15% | Closes its accounts 7 days after the end of each week, interest bearing from transaction date | " | " | 399,367 | 11% | |
| Ho Tai Motor Co., Ltd. | Taipei Toyota Motor Co., Ltd. | " | " | 5,444,573 | 15% | Closes its accounts 7 days after the end of each week, interest bearing from transaction date | " | " | 477,582 | 13% | |
| Ho Tai Motor Co., Ltd. | Kau Du Automobile Co., Ltd. | " | " | 4,846,619 | 13% | Closes its accounts 7 days after the end of each week, interest bearing from transaction date | " | " | 422,698 | 12% | |
| Ho Tai Motor Co., Ltd. | Nan Du Motor Co., Ltd. | " | " | 4,258,840 | 12% | Closes its accounts 7 days after the end of each week, interest bearing from transaction date | " | " | 375,705 | 10% | |
| Ho Tai Motor Co., Ltd. | Chang Yuan Motor Co., Ltd. | Subsidiary | " | 670,769 | 2% | Closes its accounts 7 days after the end of each week, interest bearing from transaction date | Not applicable | " | 407,758 | 11% | |
| Ho Tai Motor Co., Ltd. | Lang Yang Toyota Motor Co., Ltd. | Associates | " | 785,347 | 2% | Closes its accounts 7 days after the end of each week, interest bearing from transaction date | Normal | " | 69,175 | 2% | |
| Ho Tai Motor Co., Ltd. | Eastern Motor Co., Ltd. | Subsidiary | " | 654,545 | 2% | Closes its accounts 7 days after the end of each week, interest bearing from transaction date | " | " | 67,520 | 2% | |
| Ho Tai Motor Co., Ltd. | Hotai Leasing Co., Ltd. | " | " | 148,229 | - | Collection at sight | " | " | 25,205 | 1% | |
| Ho Tai Motor Co., Ltd. | Hoing Mobility Service Co., Ltd | " | " | 130,010 | - | Collection at sight | " | " | 107,918 | 3% | |
| Ho Tai Motor Co., Ltd. | Toyota Motor Corporation | Entity controlled by the Company's key management | Purchases | 12,114,583 | 40% | Closes its accounts 15 days after the end of each month | Not applicable | " | (4,155,677) | 49% | |
| Ho Tai Motor Co., Ltd. | Kuozui Motors, Ltd. | Associates | " | 8,151,876 | 27% | Closes its accounts 7 days after the end of each week, interest bearing from transaction date | " | " | (1,013,305) | 12% | |
| Ho Tai Motor Co., Ltd. | Toyota Motor Asia Pacific Pte Ltd. | Entity controlled by the Company's key management | " | 1,026,680 | 3% | Closes its accounts 15 days after the end of each month | " | " | (227,983) | 3% | |
| Ho Tai Motor Co., Ltd. | Carmax Co., Ltd. | Subsidiary | " | 604,696 | 2% | Closes its accounts 16 days after the end of each month | " | " | (176,956) | 2% | |
| Ho Tai Motor Co., Ltd. | Toyota Motor Europe - NV/SA | Entity controlled by the Company's key management | " | 562,318 | 2% | Closes its accounts 15 days after the end of each month | " | " | (76,576) | 1% | |
| Ho Tai Motor Co., Ltd. | Yokohama Tire Taiwan Co., Ltd. | Associates | " | 191,011 | 1% | Closes its accounts 16 days after the end of each month | " | " | (70,256) | 1% | |
| Chang Yuan Motor Co., Ltd. | Hozao Enterprise Co., Ltd. | Associates | Sales | 129,213 | 3% | 14 days after invoice date | Normal | " | 23,316 | 1% | |
| Chang Yuan Motor Co., Ltd. | Hotai Leasing Co., Ltd. | " | " | 107,296 | 3% | Collection at sight | " | " | 19 | - | |
| Chang Yuan Motor Co., Ltd. | Kuozui Motors, Ltd. | " | Purchases | 2,550,981 | 70% | 7 days after invoice date | Not applicable | Not applicable | (233,136) | 28% | |
| Chang Yuan Motor Co., Ltd. | Ho Tai Motor Co., Ltd. | Ultimate parent company | " | 670,769 | 18% | Closes its accounts 7 days after the end of each week, interest bearing from transaction date | " | " | (407,758) | 49% | |
| Carmax Co., Ltd. | Ho Tai Motor Co., Ltd. | " | Sales | 604,696 | 36% | Closes its accounts 16 days after the end of each month | Normal | Normal | 176,956 | 22% | |
| Carmax Co., Ltd. | Kuozui Motors, Ltd. | Associates | " | 163,273 | 10% | Closes its accounts 10 days after the end of each month | " | " | 118,169 | 15% | |
| Carmax Co., Ltd. | Zhongyang Motor Co., Ltd. | " | " | 134,564 | 8% | Closes its accounts 35 days after the end of each month | " | " | 79,738 | 10% | |
| Carmax Co., Ltd. | Wang Fu Co., Ltd. | " | " | 134,581 | 8% | Closes its accounts 35 days after the end of each month | " | " | 80,880 | 10% | |
| Carmax Co., Ltd. | Innovation AUTO Parts Co., Ltd. | " | " | 110,974 | 7% | Closes its accounts 25 days after the end of each month | " | " | 68,652 | 8% | |
| Carmax Co., Ltd. | Smart Design Technology Co., Ltd. | Subsidiary | Purchases | 147,164 | 11% | Closes its accounts 10 days after the end of each month | " | " | (47,903) | 10% | |
| Hotai Leasing Co., Ltd. | Kuotu Motor Co., Ltd. | Associates | " | 516,887 | 17% | Payment at sight | " | " | (7,978) | 9% | Note 1 |
| Hotai Leasing Co., Ltd. | Taipei Toyota Motor Co., Ltd. | " | " | 246,343 | 8% | Payment at sight | " | " | - | - | |
| Hotai Leasing Co., Ltd. | Ho Tai Motor Co., Ltd. | Ultimate parent company | " | 148,229 | 5% | Payment at sight | " | " | (25,205) | 27% | " |
| Hotai Leasing Co., Ltd. | Central Motor Co., Ltd. | Associates | " | 234,322 | 8% | Payment at sight | " | " | - | - | " |
| Hotai Leasing Co., Ltd. | Tau Miau Motor Co., Ltd. | " | " | 137,964 | 5% | Payment at sight | " | " | - | - | " |
| Hotai Leasing Co., Ltd. | Kau Du Automobile Co., Ltd. | " | " | 143,356 | 5% | Payment at sight | " | " | - | - | " |
| Hotai Leasing Co., Ltd. | Chang Yuan Motor Co., Ltd. | " | " | 107,296 | 4% | Payment at sight | " | " | (19) | - | " |
| Hoing Mobility Service Co., Ltd. | Ho Tai Motor Co., Ltd. | Ultimate parent company | " | 130,010 | 5% | Payment at sight | " | " | (107,918) | 93% | " |
| Eastern Motor Co., Ltd. | Ho Tai Motor Co., Ltd. | " | " | 645,545 | 98% | Closes its accounts 7 days after the end of each week, interest bearing from transaction date | " | " | (67,520) | 89% | |
| Smart Design Technology Co., Ltd. | Carmax Co., Ltd. | Parent company | Sales | 147,164 | 98% | Closes its accounts 10 days after the end of each month | " | " | 47,903 | 97% | |
| Shanghai Heling Motor Service Co., Ltd. | Toyota Motor (China) Investment Co., Ltd. | Entity controlled by the Company's key management | Purchases | 569,034 | 86% | Payment in advance | " | " | - | - | |
| Chongqing Heling Lexus Motor Sales & Service Co., Ltd. | Toyota Motor (China) Investment Co., Ltd. | " | " | 416,689 | 100% | Payment in advance | " | " | - | - | |
| Nanchang Heling Lexus Motors Sales & Service Co., Ltd. | Toyota Motor (China) Investment Co., Ltd. | " | " | 358,137 | 93% | Payment in advance | " | " | - | - | |

| Purchaser/seller | Counterparty | Relationship with the counterparty | Transaction | | Percentage of total purchases (sales) | Credit term | Differences in transaction terms | | Notes/accounts receivable (payable) | | Footnote |
|--|---|---|-------------------|---------|---------------------------------------|--------------------|----------------------------------|-------------|-------------------------------------|---|----------|
| | | | Purchases (sales) | Amount | | | Unit price | Credit term | Balance | Percentage of total notes/accounts receivable (payable) | |
| Shanghai Yangpu Heling Lexus Motor Sales & Service Co., Ltd. | Toyota Motor (China) Investment Co., Ltd. | Entity controlled by the Company's key management | Purchases | 405,021 | 100% | Payment in advance | Normal | Normal | - | - | |
| Tangshan Heling Lexus Motor Sales & Service Co., Ltd. | Toyota Motor (China) Investment Co., Ltd. | " | " | 268,722 | 100% | Payment in advance | " | " | - | - | |
| Tianjin Heling Lexus Motor Sales & Service Co., Ltd. | Toyota Motor (China) Investment Co., Ltd. | " | " | 264,386 | 100% | Payment in advance | " | " | - | - | |

Note1: 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
Three months ended March 31, 2020
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Table 6

| Creditor | Counterparty | Relationship with the counterparty | Balance as at March 31, 2020 | | Turnover rate | Overdue receivables | | Amount collected subsequent to the balance sheet date | Allowance for doubtful accounts |
|------------------------|----------------------------------|---------------------------------------|---------------------------------|------------|---------------|---------------------|--------------|---|------------------------------------|
| | | | | | | Amount | Action taken | | |
| Ho Tai Motor Co., Ltd. | Central Motor Co., Ltd. | Associates | Accounts receivable | \$ 616,249 | 55.80 | - | - | 616,249 | - |
| | | | Other receivables | \$ 10,040 | | - | - | 10,040 | - |
| Ho Tai Motor Co., Ltd. | Tau Miao Motor Co., Ltd. | " | Accounts receivable | \$ 556,490 | 60.20 | - | - | 556,490 | - |
| | | | Other receivables | \$ 7,449 | | - | - | 7,449 | - |
| Ho Tai Motor Co., Ltd. | Chang Yuan Motor Co., Ltd. | Subsidiary | Accounts receivable | \$ 407,758 | 9.10 | - | - | 407,758 | - |
| | | | Other receivables | \$ 18,818 | | - | - | 18,818 | - |
| Ho Tai Motor Co., Ltd. | Taipei Toyota Motor Co., Ltd. | Associates | Accounts receivable | \$ 477,582 | 54.32 | - | - | 477,582 | - |
| | | | Other receivables | \$ 4,427 | | - | - | 4,427 | - |
| Ho Tai Motor Co., Ltd. | Kau Du Automobile Co., Ltd. | " | Accounts receivable | \$ 422,698 | 56.42 | - | - | 422,698 | - |
| | | | Other receivables | \$ 5,931 | | - | - | 5,931 | - |
| Ho Tai Motor Co., Ltd. | Kuotu Motor Co., Ltd. | " | Accounts receivable | \$ 399,367 | 66.97 | - | - | 399,367 | - |
| | | | Other receivables | \$ 52,355 | | - | - | 52,355 | - |
| Ho Tai Motor Co., Ltd. | Nan Du Motor Co., Ltd. | " | Accounts receivable | \$ 375,705 | 54.60 | - | - | 375,705 | - |
| | | | Other receivables | \$ 4,908 | | - | - | 4,908 | - |
| Ho Tai Motor Co., Ltd. | Hoing Mobility Service Co., Ltd. | Subsidiary | Accounts receivable | \$ 107,918 | 9.64 | - | - | 107,918 | - |
| | | | Other receivables | \$ 13 | | - | - | 13 | - |
| Carmax Co., Ltd. | Ho Tai Motor Co., Ltd. | Ultimate parent company | Accounts receivable | \$ 176,956 | 11.33 | - | - | 176,956 | - |
| Carmax Co., Ltd. | Kuozui Motors, Ltd. | Associates | " | \$ 118,169 | 4.97 | - | - | 118,169 | - |

Ho Tai Motor Co., Ltd.
Significant inter-company transactions during the reporting periods
Three months ended March 31, 2020
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Table 7

| 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 | \$ 670,769 | 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 | 429,925 | Closes its accounts 16 days after the end of following two months | 1% |
| 0 | Ho Tai Motor Co., Ltd. | Chang Yuan Motor Co., Ltd. | 1 | Accounts receivable | 407,758 | Closes its accounts 7 days after the end of each week, interest bearing from transaction date | - |
| 0 | Ho Tai Motor Co., Ltd. | Eastern Motor Co., Ltd. | 1 | Sales revenue | 654,545 | 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 | 67,520 | 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 | 176,956 | Closes its accounts 16 days after the end of each month | - |
| 0 | Ho Tai Motor Co., Ltd. | Hotai Leasing Co., Ltd. | 1 | Sales revenue | 148,229 | Collection at sight | - |
| 0 | Ho Tai Motor Co., Ltd. | Hoing Mobility Service Co., Ltd. | 1 | Sales revenue | 130,010 | Collection at sight | - |
| 0 | Ho Tai Motor Co., Ltd. | Hoing Mobility Service Co., Ltd. | 1 | Accounts receivable | 107,918 | Collection at sight | - |
| 0 | Ho Tai Motor Co., Ltd. | Hotai Finance Co., Ltd. | 1 | Sales discounts and allowances | 43,557 | Closes its accounts 16 days after the end of each month | - |
| 1 | Chang Yuan Motor Co., Ltd. | Hotai Leasing Co., Ltd. | 3 | Sales revenue | 107,296 | Collection at sight | - |
| 2 | Eastern Motor Co., Ltd. | Hotai Finance Co., Ltd. | 3 | " | 217,858 | Collection at sight | - |
| 3 | Carmax Co., Ltd. | Ho Tai Motor Co., Ltd. | 2 | " | 604,696 | Closes its accounts 16 days after the end of each month | 1% |
| 4 | Smart Design Technology Co., Ltd. | Carmax Co., Ltd. | 3 | Sales revenue | 147,164 | Closes its accounts 10 days after the end of each month | - |
| 4 | Smart Design Technology Co., Ltd. | Carmax Co., Ltd. | 3 | Accounts receivable | 47,903 | Closes its accounts 10 days after the end of each month | - |
| 5 | Shanghai Heling Motor Service Co., Ltd. | Hoyun International Lease Co., Ltd. | 3 | Sales revenue | 61,633 | Collection at sight | - |
| 6 | Hotong Motor Investment Co., Ltd. | Tangshan Heling Lexus Motor Sales & Service Co., Ltd. | 3 | Other payables | 114,767 | | - |
| 6 | Hotong Motor Investment Co., Ltd. | Chongqing Heling Lexus Motor Sales & Service Co., Ltd. | 3 | " | 191,001 | | - |
| 6 | Hotong Motor Investment Co., Ltd. | Tianjin Hozhan Motor Service Co., Ltd. | 3 | " | 99,675 | | - |

| Number (Note 1) | Company name | Counterparty | Relationship (Note 2) | Transaction | | | Percentage of total operating revenues or total assets |
|--------------------|--------------------------------------|--|--------------------------|------------------------|---------|---|---|
| | | | | General ledger account | Amount | Transaction terms | |
| 6 | Hotong Motor Investment Co., Ltd. | Tianjin Heling Lexus Motor Sales & Service Co., Ltd. | 3 | Other payables | 129,620 | | - |
| 6 | Hotong Motor Investment Co., Ltd. | Shanghai Yangpu Heling Lexus Motor Sales & Service Co., Ltd. | 3 | " | 47,069 | | - |
| 6 | Hotong Motor Investment Co., Ltd. | Nanchang Heling Lexus Motors Sales & Service Co., Ltd. | 3 | " | 87,152 | | - |
| 6 | Hotong Motor Investment Co., Ltd. | Shanghai Hozhan Motor Service Co., Ltd. | 3 | " | 45,365 | | - |
| 6 | Hotong Motor Investment Co., Ltd. | Shanghai Ho-Qian Logistics Equipment Trading Co., Ltd. | 3 | " | 60,018 | | - |
| 7 | Ho Tai Service & Marketing Co., Ltd. | Ho Tai Development Co., Ltd. | 3 | Sales revenue | 52,365 | Closes its accounts 60 days after the end of each month | - |
| 7 | Ho Tai Service & Marketing Co., Ltd. | Ho Tai Development Co., Ltd. | 3 | Accounts receivable | 41,384 | Closes its accounts 60 days after the end of each month | - |

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 ending 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)

Three months ended March 31, 2020

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

Table 8

| Investor | Investee | Location | Main business activities | Initial investment amount | | Shares held as at March 31, 2020 | | | Net profit (loss) | Investment income (loss) | Footnote |
|---|---|------------------------|---|---------------------------|---------------------------------|----------------------------------|---------------|---------------|---|---|--|
| | | | | Balance at March 31, 2020 | Balance as at December 31, 2019 | Number of shares | Ownership (%) | Book value | of the investee for the three months ended March 31, 2020 | recognized by the Company for the three months ended March 31, 2020 | |
| Ho Tai Motor Co., Ltd. | Hozan Investment Co., Ltd. | Taiwan | General investment | \$ 7,780,182 | \$ 7,780,182 | - | 100.00 | \$ 20,754,121 | \$ 475,333 | \$ 475,333 | 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 | 4,244,797 | (246,531) | (70,520) | 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 | 2,399,785 | 2,399,785 | 79,397,360 | 100.00 | 5,984,622 | 198,136 | 198,136 | 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 | 4,179,594 | 98,212 | 98,212 | " |
| Ho Tai Motor Co., Ltd. | Central Motor Co., Ltd. | " | " | 2,098,966 | 2,098,966 | 15,000,000 | 20.00 | 2,580,193 | 304,253 | 60,082 | 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 | 2,687,198 | 158,321 | 71,168 | 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 | 1,531,263 | 203,789 | 39,589 | 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 | 1,377,526 | 113,832 | 21,216 | " |
| Ho Tai Motor Co., Ltd. | Carmax Co., Ltd. | " | Trading of vehicle products/accessories | 153,030 | 153,030 | 22,950,000 | 51.00 | 1,406,954 | 239,942 | 122,371 | 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 | 1,101,096 | 113,048 | 39,352 | 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 | 1,159,171 | 200,395 | 40,179 | " |
| Ho Tai Motor Co., Ltd. | Nan Du Motor Co., Ltd. | " | " | 186,851 | 186,851 | 14,806,073 | 23.67 | 1,045,525 | 174,058 | 41,199 | " |
| Ho Tai Motor Co., Ltd. | Toyota Material Handling Taiwan Ltd. | " | Sales of vehicles and parts for industry use | 50,000 | 50,000 | 70,597,690 | 100.00 | 996,098 | 18,591 | 18,591 | 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 | 390,946 | 14,998 | 14,998 | " |
| Ho Tai Motor Co., Ltd. | Lang Yang Toyota Motor Co., Ltd. | " | " | 256,000 | 256,000 | 2,000,000 | 20.00 | 297,410 | 22,024 | 4,234 | 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 | 360,005 | 4,966 | 2,207 | " |
| Ho Tai Motor Co., Ltd. | Shi-Ho Screw Industrial Co., Ltd. | " | Manufacturing and sales of precision screws | 7,400 | 7,400 | 211,433 | 21.14 | 125,532 | 5,043 | 1,066 | " |
| 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 | 118,415 | 25,676 | 6,419 | " |
| Ho Tai Motor Co., Ltd. | Smart Design Technology Co., Ltd. | " | Electronic parts and components manufacturing | 10,763 | 10,763 | 960,961 | 20.00 | 17,941 | 6,525 | 1,305 | Subsidiary |
| Shanghai Ho-Yu (BVI) Investment Co., Ltd. | Tienjin Ho Yu Investment Co., Ltd. | British Virgin Islands | General investment | 105,788 | 105,788 | 3,500,000 | 70.00 | 128,099 | 5,108 | - | An indirect wholly-owned subsidiary |

| Investor | Investee | Location | Main business activities | Initial investment amount | | Shares held as at March 31, 2020 | | | Net profit (loss) | Investment income (loss) | Footnote |
|---|--|------------------------|--|---------------------------|---------------------------------|----------------------------------|---------------|------------|---|---|---|
| | | | | Balance at March 31, 2020 | Balance as at December 31, 2019 | Number of shares | Ownership (%) | Book value | of the investee for the three months ended March 31, 2020 | recognized by the Company for the three months ended March 31, 2020 | |
| Shanghai Ho-Yu (BVI) Investment Co., Ltd. | Beijing Ho-Yu (BVI) Investment Co., Ltd. | British Virgin Islands | General investment | 36,270 | 6,270 | 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 | 62,003 | 727,060 | 233,782,831 | 45.39 | 9,574,285 | 612,277 | - | An indirect wholly-owned subsidiary |
| Hozan Investment Co., Ltd. | Hotai Leasing Co., Ltd. | " | Leasing of vehicles | 181,907 | 181,907 | 83,629,381 | 66.04 | 2,658,615 | 207,488 | - | " |
| Hozan Investment Co., Ltd. | Hozao Enterprise Co., Ltd. | " | Installment trading of various vehicles | 34,756 | 34,756 | 3,823,128 | 18.29 | 330,605 | 1,570 | - | 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 | 112 | 113,047 | - | " |
| Hozan Investment Co., Ltd. | Hotai Insurance Co., Ltd. | " | Property and casualty insurance services | 6,831,887 | 6,831,887 | 19,960,531 | 99.80 | 7,056,485 | 49,399 | - | 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 | 347,358 | 31,539 | - | 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 | 830,000 | 230,000 | 83,000,000 | 100.00 | 612,597 (| 18,880) | - | 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 | 137,174 | 21,095 | - | " |
| Hotai Finance Co., Ltd. | Hoyun International Limited | British Virgin Islands | General investment | 1,221,090 | 1,221,090 | 40,400,000 | 50.50 | 1,687,708 | 95,132 | - | " |
| Hotai Leasing Co., Ltd. | Hoyun International Limited | " | " | 1,196,910 | 1,196,910 | 39,600,000 | 49.50 | 1,653,449 | 95,132 | - | " |
| Hotai Finance Co., Ltd. | Hoing Mobility Service Co., Ltd. | Taiwan | Leasing of vehicles | 310,000 | - | 31,000,000 | 50.82 | 302,539 (| 14,689) | - | " |
| Hotai Leasing Co., Ltd. | Hoing Mobility Service Co., Ltd. | Taiwan | Leasing of vehicles | 300,000 | 300,000 | 30,000,000 | 49.18 | 273,077 (| 14,689) | - | " |
| Ho Tai Development Co., Ltd. | Ichiban International Co., Ltd. | Samoa | General investment | 90,675 | 90,675 | 3,000,000 | 100.00 | 102,326 (| 8,428) | - | " |
| Ho Tai Development Co., Ltd. | Ho Tai Service & Marketing Co., Ltd. | Taiwan | Repairing of air conditioning equipment and trading of their parts | 100,000 | 50,000 | 12,652,898 | 100.00 | 586,465 | 18,053 | - | " |
| 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 | 9,690 | - | - | " |
| Ho Tai Development Co., Ltd. | Ho Tai Parts & Accessories Co., Ltd. | " | Trading of air conditioning equipment and their parts | 50,000 | - | 5,000,000 | 100.00 | 49,915 (| 85) | - | An indirect wholly-owned subsidiary |
| Ho Tai Service & Marketing Co., Ltd. | Kashiwabara Hotai Taiwan Co., Ltd. | " | Wholesale and retail of paints and coating | 8,820 | 8,820 | 882,000 | 24.50 | 11,101 | - | - | Subsidiary's investee company accounted for using the equity method |
| Carmax Co., Ltd. | Smart Design Technology Co., Ltd. | " | Electronic parts and components manufacturing | 33,242 | 33,242 | 2,968,016 | 61.77 | 57,830 | 6,525 | - | Subsidiary |
| Eastern Motor Co., Ltd. | Doroman Autoparts Co., Ltd. | " | Wholesale and retail of vehicles parts and accessories | 500 | 500 | 138,718 | 100.00 | 20,217 | 3,380 | - | An indirect wholly-owned subsidiary |
| Ichiban International Co., Ltd. | Air Master International Co., Ltd. | Samoa | General investment | 90,675 | 90,675 | 3,000,000 | 100.00 | 102,326 (| 1,653) | - | " |

Ho Tai Motor Co., Ltd.

Information on investments in Mainland China-Basic information

Three months ended March 31, 2020

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

Table 9

| 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 three months ended March 31, 2020 | | | Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2020 | Accumulated amount of remittance from Taiwan to Mainland China as of March 31, 2020 | Net income of investee for the three months ended March 31, 2020 | Ownership held by the Company (direct or indirect) | Investment income (loss) recognized by the Company for the three months ended March 31, 2020 | Book value of investment in Mainland China as of March 31, 2020 | Accumulated amount of investment income remitted back to Taiwan as of March 31, 2020 | Footnote |
|--|--|-----------------|----------------------------|---|-------------------------|---|--|---|--|--|--|---|--|----------|
| | | | | Remitted to Mainland China | Remitted back to Taiwan | | | | | | | | | |
| Hotong Motor Investment Co., Ltd. | Operation decision making, capital using and financial management, information services, employee trainings and other services | 2,978,523 | Note 2 | 965,689 | - | - | 965,689 | 194,629 | 100.00 | 194,629 | 5,821,428 | - | Note 2.3 | |
| Shanghai Hoyu Motor Service Co., Ltd. | Sales and repairing of vehicles | 101,858 | " | 101,858 | - | - | 101,858 | 26,877 | 100.00 | 26,877 | 314,211 | - | " | |
| ChongQing Yuou Toyota Automobile Sales & Service Co., Ltd. | " | 127,788 | " | 11,108 | - | - | 11,018 | - | 10.48 | - | 11,108 | - | " | |
| Beijing Hoyu Toyota Motor Sales & Service Co., Ltd. | " | 90,675 | " | 30,225 | - | - | 30,225 | - | 40.00 | - | - | - | " | |
| Chongqing Heling Lexus Motor Sales & Service Co., Ltd. | " | 181,350 | " | 181,350 | - | - | 181,350 | 27,902 | 100.00 | 27,902 | 417,348 | - | " | |
| Shanghai Hozhan Motor Service Co., Ltd. | " | 90,675 | " | 90,675 | - | - | 90,675 | 6,944 | 100.00 | 6,944 | 170,587 | - | " | |
| Tianjin Ho-Yu Motor Sales & Service Co., Ltd. | " | 151,125 | " | 105,788 | - | - | 105,788 | 7,308 | 70.00 | 5,116 | 128,104 | - | " | |
| Shanghai Heling Motor Service Co., Ltd. | " | 105,788 | Note 3 | 79,341 | - | - | 79,341 | 87,464 | 100.00 | 87,464 | 691,541 | - | " | |
| ChongQing Yurun Toyota Automobile Service Co., Ltd. | " | 127,788 | Note 2 | 11,901 | - | - | 11,901 | - | 10.48 | - | 11,901 | 26,106 | " | |
| Shanghai Ho-Qian Logistics Equipment Trading Co., Ltd. | Sales of vehicles and parts for industry use | 181,350 | " | 181,350 | - | - | 181,350 | 1,731 | 100.00 | 1,731 | 154,594 | - | " | |
| Zaozhuang Ho-Yu Toyota Motor Sales & Service Co., Ltd. | Sales and repairing of vehicles | 412,571 | " | 281,093 | - | - | 281,093 | 3,378 | 100.00 | 3,378 | 211,909 | - | " | |
| Zaozhong Ho-Wan Motor Sales & Service Co., Ltd. | " | 42,596 | Note 3 | - | - | - | - | 154 | 100.00 | 154 | 42,201 | - | " | |
| Tangshan Heling Lexus Motor Sales & Service Co., Ltd. | " | 175,305 | Note 2 | 175,305 | - | - | 175,305 | 12,682 | 100.00 | 12,682 | 321,770 | - | " | |
| Nanchang Heling Lexus Motors Sales & Service Co., Ltd. | " | 196,463 | " | 196,463 | - | - | 196,463 | 37,399 | 100.00 | 37,399 | 375,000 | - | " | |
| Hoyun International Lease Co., Ltd. | Leasing, wholesale, retail of and support service for vehicles | 2,418,000 | " | 2,418,000 | - | - | 2,418,000 | 95,132 | 55.61 | 52,905 | 1,995,344 | - | " | |
| Hoyun (Shanghai) Commercial Factoring Co., Ltd. | Factoring services | 212,981 | Note 3 | - | - | - | - (883) | 883 | 55.61 (| 491) | 131,933 | - | " | |
| He Zhan Development Co., Ltd. | Trading of air conditioning equipment | 90,675 | Note 2 | 90,675 | - | - | 90,675 (| 1,653) | 45.01 (| 744) | 47,529 | - | " | |
| Tianjin Heling Lexus Motor Sales & Service Co., Ltd. | Sales and repairing of vehicles | 362,700 | Note 3 | - | - | - | - | 25,275 | 100.00 | 25,275 | 430,274 | - | " | |
| Tianjin Hozhan Motor Service Co., Ltd. | " | 292,209 | " | - | - | - | - | 1,759 | 100.00 | 1,759 | 271,859 | - | " | |
| Linyi Hoyu Toyota Motor Sales & Service Co., Ltd. | " | 362,700 | " | - | - | - | - (412) | 412 | 35.00 (| 144) | 57,777 | - | " | |
| Carmax Autotech (Shanghai) Co., Ltd. | Trading of vehicle products/accessories | 40,199 | Note 1 | 40,199 | - | - | 40,199 | 5,222 | 51.00 | 2,663 | 109,074 | - | " | |
| Guangzhou Gac Changho Autotech Corporation | " | 96,519 | " | 43,433 | - | - | 43,433 | 30,676 | 22.95 | 7,040 | 55,900 | 91,074 | " | |
| Linyi Heling Lexus Motor Sales & Service Co., Ltd. | Sales and repairing of vehicles | 302,250 | Note 3 | - | - | - | - | 29,698 | 35.00 | 10,394 | 92,143 | - | Note 2.3 | |

| 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 three months ended March 31, 2020 | | | Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2020 | Accumulated amount of remittance from Taiwan to Mainland China as of March 31, 2020 | Net income of investee for the three months ended March 31, 2020 | Ownership held by the Company (direct or indirect) | Investment income (loss) recognized by the Company for the three months ended March 31, 2020 | Book value of investment in Mainland China as of March 31, 2020 | Accumulated amount of investment income remitted back to Taiwan as of March 31, 2020 | Footnote |
|---|---|-----------------|----------------------------|---|-------------------------|---|--|---|--|--|--|---|--|----------|
| | | | | Remitted to Mainland China | Remitted back to Taiwan | | | | | | | | | |
| | | | | | | | | | | | | | | |
| Taizhou Zhongdu Lexus Motor Sales & Service Co.,Ltd. | Sales and repairing of vehicles | 453,375 | Note 3 | - | - | - | - | 31,842 | 35.00 | 11,145 | 154,959 | - | Note 2.3 | |
| Beijing Heling Lexus Motor Sales & Service Co., Ltd. | " | 362,700 | " | - | - | - | - | 33,422 | 35.00 | 11,698 | 152,831 | - | " | |
| Jinzhong Central Toyota Motor Sales & Service Co., Ltd. | " | 423,150 | " | - | - | - | (| 11,570) | 35.00 | (4,050) | 57,976 | - | " | |
| Shanghai Hede Used Vehicle Co., Ltd. | Trading of used vehicles | 12,779 | " | - | - | - | (| 6,946) | 60.00 | (4,168) | 19,463 | - | " | |
| Shanghai Guangxin Cultural Media Co., Ltd. | Design and production of advertisements | 4,260 | " | - | - | - | (| 771) | 100.00 | (771) | 7,951 | - | " | |
| Shanghai Yangpu Heling Lexus Motor Sales & Service Co., Ltd. | Sales and repairing of vehicles | 455,355 | " | - | - | - | - | 26,753 | 100.00 | 25,730 | 456,462 | - | " | |
| Shanghai Ho-Mian Motor Technology Co., Ltd. | Trading of vehicle products/accessories and property management | 979,708 | " | - | - | - | (| 1,252) | 100.00 | (1,252) | 965,736 | - | " | |
| Shanghai Hoxin Motor Service Consulting Co.,Ltd. | Consulting service and property management | 8,519 | " | - | - | - | (| 1,786) | 100.00 | (1,786) | 2,726 | - | " | |
| Tianjin Heyi International Trading Co., Ltd. | Sales of imported vehicles | 85,192 | " | - | - | - | - | 47 | 100.00 | 47 | 86,488 | - | " | |
| Chongqing Taikang Heling Lexus Motor Sales & Service Co.,Ltd. | Sales and repairing of vehicles | 42,596 | " | - | - | - | (| 2,119) | 50.00 | (1,060) | 17,865 | - | " | |
| Shanghai HoChen Motor Technology Co., Ltd. | Trading of vehicle products/accessories and property management | 302,250 | " | - | - | - | (| 392) | 100.00 | (392) | 297,814 | - | " | |
| Shanghai Jiading Heling Lexus Motor Service Co., Ltd. | Sales and repairing of vehicles | 317,363 | " | - | - | - | (| 122) | 100.00 | (122) | 306,985 | - | " | |
| Tianjin Binhai Heling LEXUS Motor Service Co.,Ltd. | Sales and repairing of vehicles | 85,192 | " | - | - | - | (| 12) | 35.00 | (4) | 29,816 | - | " | |
| Tianjin Yongda Communication Technology Co., LTD. | Trading of vehicle products / accessories and property management | 431,157 | " | - | - | - | (| 10,820) | 35.00 | (3,787) | 149,597 | - | " | |
| Nanjing HoZhan Motor Sales and Service Co.,LTD. | Sales and repairing of vehicles | 42,596 | " | - | - | - | (| 586) | 70.00 | (410) | 29,534 | - | | |

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 three months ended March 31, 2020 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 - the self-prepared financial statements that were not reviewed by independent accountants.

Note 3: Related amounts in the following table are expressed in NTS.

| Company name | Accumulated amount of remittance from Taiwan to Mainland China as of March 31, 2020 | 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. | \$ 2,246,469 | \$ 6,014,429 | \$ 46,908,067 |

Ho Tai Motor Co., Ltd.
Major shareholders information
Three months ended March 31, 2020

Table 10

| Name of major shareholders | Shares | |
|------------------------------------|-----------------------|---------------|
| | Number of shares held | Ownership (%) |
| Ho Yu Investment Co., Ltd. | 48,267,625 | 8.83% |
| Toyota Motor Corporation | 44,406,112 | 8.13% |
| Li Gang Enterprise Co., Ltd. | 40,569,353 | 7.42% |
| Jin Yuan Shan Investment Co., Ltd. | 36,071,520 | 6.60% |