

**HO TAI MOTOR COMPANY LIMITED  
AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT ACCOUNTANTS  
DECEMBER 31, 2019 AND 2018**

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For the convenience of readers and for information purposes only, the auditors' 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  
REPORT OF INDEPENDENT ACCOUNTANTS  
DECEMBER 31, 2019 AND 2018  
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HO TAI MOTOR CO., LTD. AND SUBSIDIARIES

Declaration of Consolidated Financial Statements of Affiliated Enterprises

For the year ended December 31, 2019, pursuant to “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises,” the companies that are required to be included in the consolidated financial statements of affiliates, are the same as the company required to be included in the consolidated financial statements of parent and subsidiary companies under International Financial Reporting Standard 10. And if relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies, it shall not be required to prepare separate consolidated financial statements of affiliates.

Hereby declare,

Ho Tai Motor Co., Ltd.

March 26, 2020

**REPORT OF INDEPENDENT ACCOUNTANTS**  
(TRANSLATED FROM CHINESE)

PWCR19000372

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

***Opinion***

We have audited the accompanying consolidated balance sheets of Ho Tai Motor Co., Ltd. and its subsidiaries (the “Group”) as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other independent accountants (please refer to “other matter” section), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, “Regulations Governing the Preparation of Financial and Operational Reports by Enterprises Engaging in Insurance” and the International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations Committee (IFRIC) Interpretations, and Standard Interpretations Committee (SIC) Interpretations as endorsed by the Financial Supervisory Commission.

***Basis for opinion***

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained and the reports of other independent accountants are sufficient and appropriate to provide a basis for our opinion.

## ***Key audit matters***

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

The key audit matters in our audit of the consolidated financial statements of the current period are as follows:

### ***Evaluation of provision for impairment of accounts receivable in Hotai Finance Co., Ltd., the subsidiary***

#### Description

Please refer to Note 4(11) to the consolidated financial statements for accounting policies on provision for impairment of accounts receivable; Note 5(2) D for uncertainty of accounting estimate and assumptions of provisions for impairment of accounts receivable, and Note 6(5) for the details of accounts receivable.

Hotai Finance Co., Ltd. (“Hotai Finance“), a subsidiary of Ho Tai Motor Co., Ltd., is primarily engaged in the installment sales and leases of vehicles. In the supply chain of motor vehicles, the role of Hotai Finance is to provide customers with flexible financing options and to streamline the vehicle delivery process. Therefore, Hotai Finance is responsible for the collection of accounts receivable and manages overdue accounts.

When accounts receivable are past due over 30 days, Hotai Finance already considers the collectability of those accounts in doubt. In addition to enhancing the collection process from customers, management also assesses the probability of overdue accounts becoming impaired over the past years. Impairment is provided for those doubtful accounts receivable depending on the length of overdue days and considering forward-looking factors such as the future economic conditions. Management evaluates the individual circumstances of each overdue amount to decide whether to measure the loss allowance.

The assessment above involves management’s judgement and factors on multiple factors that may be affected by the past events, current conditions, and the future economic conditions. The results will directly influence the amounts recognized. Therefore, the estimation of the loss allowance is identified as a key audit matter.

### How our audit addressed the matter

Our key audit procedures performed in respect of the above matter are summarized as follows:

1. Understood the policy of provision for impairment of accounts receivable (including relevance to macroeconomic indicators of forward-looking information) and the logic of the aging report system.
2. For those accounts past due over 30 days, Hotai Finance will estimate and recognize the impairment of account receivable based on the probability of overdue accounts becoming impaired over the past years and Hotai Finance's policy. We understood and assessed the occurrence percentage of actual impairment compared to the overdue accounts receivable over the past years, and the forward-looking information, to evaluate the reasonableness of the provision for impairment policy. In addition, we sampled and examined the group category of expected credit losses report, and checked the consistency with system information.
3. Examined and evaluated samples of the categorized group report of the loss of expected credit and compared it with the system information.

### ***Valuation of the provisions for warranty***

#### Description

Please refer to Note 4(31) to the consolidated financial statements for the accounting policies on provisions for warranty, Note 5(2) B for uncertainty of accounting estimate and assumptions of provisions for warranty, and Note 6(23) for details of the provisions for warranty.

In order to enhance customer confidence on product quality, Ho Tai Motor Co., Ltd. provides a warranty, 120,000 kilometers over a period of 4 years, free of charge for customers in Taiwan driving Toyota cars. Since the provisions for warranty involves massive historical data as well as complex calculation in respect of maintenance and repair experience, it was identified as a key audit matter.

### How our audit addressed the matter

Our key audit procedures performed in respect of the above matter are summarized as follows :

1. In terms of the agent brands, obtained the car sold information in the last four years that met the warranty items Ho Tai Motor Co., Ltd. offered, such as cars being used in the fourth year or with mileage under 120,000 kilometers, cars' maintenance details as well as registration forms, sampled and tested each car's warranty cost on maintenance records for each car model.

2. Reviewed the system information in respect of total cars sold in the last four years which qualify for the warranty scheme. Evaluated the reasonableness of provision for warranty by considering the warranty average claimed cost from each agent brand.

***Claims reserve and ceded claims reserve of Hotai Insurance Co., Ltd., the subsidiary***

Description

Please refer to Note 4(38) to the consolidated financial statements for the accounting policies on claims reserve (including ceded claims), Note 5(2) E for uncertainty of accounting estimate and assumptions of claims reserve (including ceded claims), and Note 6(9) for details of claims reserve and ceded claims reserve.

The claims reserve (including ceded claims) of Hotai Insurance Co., Ltd. (“Hotai Insurance”), the subsidiary of Ho Tai Motor Co., Ltd., is derived from the reasonable amount of ultimate claims prior and after reinsurance based on the actuarial department’s historical claims development trend and experience, etc. As of December 31, 2019, the claims reserve and ceded claims reserve of Hotai Insurance Co., Ltd. was NT\$3,091,211 thousand and NT\$707,719 thousand, respectively.

Since the calculation method and assumptions selection of claims reserve (including those ceded) involve subjective judgement and higher degree of uncertainty, and the estimation results have a material impact on the financial statements, we have thus included claims reserve and ceded claims reserve as the key audit matter in our audit.

How our audit addressed the matter

The procedures that we have conducted in response to specific aspects of the above-mentioned key audit matter are summarized as follows:

1. Understood and assessed Hotai Insurance’s policies, internal control, and operational procedures related to claims reserve (including those ceded) and sampled and inspected the effectiveness of controls related to claims reserve calculation on a sample basis.
2. Sampled and examined the consistency of financial values used in calculating claims reserve with the recorded amounts in the books in order to confirm the accuracy and completeness.
3. Used the work of actuarial expert to assists us in assessing the reasonableness of the claims reserve (including those prior to and after reinsurance). This included the following procedures:
  - (1) Examined the reasonableness of the assessment method for the reserves;

- (2) Examined the reasonableness of the assumptions used by Hotai Insurance;
  - (3) Recalculated each assumption adopted by Hotai Insurance for incurred but not report claims reserve in order to confirm the accuracy of the allowances for the reserves.
4. Examined those significant incurred but not reported cases on a sample basis and assessed the reasonableness of the estimated claims amount.

***Other matter – Using the work of other independent accountants***

We did not audit the financial statements of investments recognized under the equity method that are included in the financial statements. Investments using equity method amounted to NT\$ 5,929,129 thousand and NT\$ 5,640,440 thousand as at December 31, 2019 and 2018, constituting 2.32% and 2.46% of consolidated total assets, respectively. For the years ended December 31, 2019 and 2018, the comprehensive income amounted to NT\$ 329,241 thousand and NT\$ 180,387 thousand, constituting 2.19% and 1.68% of consolidated total comprehensive income, respectively. Those financial statements and information disclosed were audited by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein is based solely on the audit reports of the other independent accountants.

***Other matter – Parent company only financial reports***

We have audited and expressed an unqualified opinion with an other matter paragraph on the parent company only financial statements of Ho Tai Motor Co., Ltd. as of and for the years ended December 31, 2019 and 2018.

***Responsibilities of management and those charged with governance for the consolidated financial statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” “Regulations Governing the Preparation of Financial and Operational Reports by Enterprises Engaging in Insurance” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.



Those charged with governance, including the audit committee, are responsible for overseeing the Group's financial reporting process.

***Auditor's responsibilities for the audit of the consolidated financial statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but not a guarantee that an audit conducted in accordance with ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- A. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- B. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- C. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- D. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- E. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

F. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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Chin-Mu, Hsiao

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Fang-Yu, Wang

For and on behalf of PricewaterhouseCoopers, Taiwan  
March 26, 2020

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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  
DECEMBER 31, 2019 AND 2018  
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2019		December 31, 2018		
		Amount	%	Amount	%	
<b>Current Assets</b>						
1100	Cash and cash equivalents	6(1)	\$ 12,023,739	5	\$ 9,469,088	4
1120	Financial assets at fair value through profit or loss-current	6(2)	4,679,120	2	3,772,918	2
1125	Financial assets at fair value through other comprehensive income-current	6(3)	27,531	-	267,421	-
1150	Derivative financial assets for hedging-current	6(4)	81,131	-	70,038	-
1190	Other financial assets-current	6(1) and 8	1,771,190	1	2,219,628	1
1195	Contract assets-current	6(28)	19,643	-	18,780	-
1201	Notes receivable	6(5), 7 and 8	8,307,202	3	9,300,979	4
1202	Accounts receivable	6(5), 7 and 8	123,348,962	48	111,958,948	49
1203	Other receivables	7	881,921	-	1,401,834	1
1270	Inventories	6(7)	13,025,026	5	10,017,654	4
1280	Prepayments	6(8)	7,141,104	3	6,517,069	3
1290	Non-current assets held for sale (or disposal group), net		15,767	-	15,767	-
1310	Reinsurance contract assets, net	6(9)	1,286,604	1	1,225,913	-
	<b>Total current assets</b>		<u>172,608,940</u>	<u>68</u>	<u>156,256,037</u>	<u>68</u>
<b>Non-current assets</b>						
1410	Financial assets at fair value through profit or loss-non-current	6(2)	1,000,000	-	1,000,000	-
1415	Financial assets at fair value through other comprehensive income-non-current	6(3)	9,419,496	4	7,886,843	3
1470	Investments accounted for using equity method	6(10)	15,118,829	6	14,448,509	6
1480	Other financial assets-non-current	6(1)	118,925	-	60,657	-
1500	Property, plant and equipment, net	6(11)	45,743,695	18	41,852,407	18
1595	Right-of-use assets, net	6(12)	2,300,394	1	-	-
1600	Investment property, net	6(14)	1,845,315	1	1,846,459	1
1700	Intangible assets, net	6(15)	1,232,870	-	1,224,857	1
1800	Deferred income tax assets, net	6(23)	1,460,004	-	1,170,731	1
1900	Other assets	6(5)(9)(16)	4,685,587	2	3,639,205	2
	<b>Total non-current assets</b>		<u>82,925,115</u>	<u>32</u>	<u>73,129,668</u>	<u>32</u>
1XXX	<b>Total Assets</b>		<u>\$ 255,534,055</u>	<u>100</u>	<u>\$ 229,385,705</u>	<u>100</u>

(Continued)

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

(Expressed in thousands of New Taiwan dollars)

Liabilities and equity		Notes	December 31, 2019		December 31, 2018	
			Amount	%	Amount	%
<b>Current Liabilities</b>						
2110	Short-term loans	6(17)	\$ 61,183,045	24	\$ 62,900,378	27
2120	Short-term notes and bills payable	6(18)	53,735,476	21	47,871,914	21
2140	Financial liabilities at fair value through profit or loss-current	6(2)	149,572	-	19,047	-
2150	Derivative financial liabilities for hedging-current	6(4)	112,291	-	52,424	-
2165	Contract liabilities-current	6(28)	1,202,758	-	1,075,173	1
2201	Notes payable		708,449	-	633,880	-
2202	Accounts payable	7	10,447,079	4	10,482,820	5
2203	Accrued expenses	6(21) and 7	5,041,474	2	4,844,381	2
2204	Other payables	7	1,501,372	1	1,458,313	1
2250	Commissions payable	7	440,989	-	360,108	-
2260	Due to reinsurance and ceding companies		478,159	-	399,968	-
2270	Claims payable		12,231	-	13,080	-
2310	Current income tax liabilities		2,187,265	1	2,050,170	1
2320	Advance receipts		233,269	-	274,865	-
2330	Long-term liabilities-current portion	6(19)(20)	7,626,749	3	7,947,522	4
2335	Current lease liabilities		430,478	-	-	-
2350	Other current liabilities	6(9)(23)(24)	14,331,959	6	9,914,590	4
	<b>Total current liabilities</b>		<u>159,822,615</u>	<u>62</u>	<u>150,298,633</u>	<u>66</u>
<b>Non-current liabilities</b>						
2550	Long-term loans	6(20)	3,500,851	1	4,086,168	2
2600	Provisions	6(9)(23)	5,956,311	2	4,998,599	2
2620	Guarantee deposits received-non-current	6(24)	6,274,655	3	9,133,047	4
2625	Non-current lease liabilities		1,492,840	1	-	-
2630	Deferred income tax liabilities	6(33)	2,854,911	1	2,581,556	1
2660	Other liabilities		23,245	-	51,744	-
	<b>Total non-current liabilities</b>		<u>20,102,813</u>	<u>8</u>	<u>20,851,114</u>	<u>9</u>
2XXX	<b>Total liabilities</b>		<u>179,925,428</u>	<u>70</u>	<u>171,149,747</u>	<u>75</u>
<b>Equity attributable to shareholders of the parent</b>						
<b>Share capital</b>						
3110	Common stock	6(25)	5,461,792	2	5,461,792	2
<b>Capital surplus</b>						
3200	Capital surplus	6(26)	2,816,734	1	292,159	-
<b>Retained earnings</b>						
3310	Legal reserve	6(27)	11,350,835	4	10,348,282	5
3320	Special reserve		381,843	-	381,843	-
3330	Unappropriated earnings		37,362,029	15	32,983,752	14
<b>Other equity</b>						
3400	Other equity		1,213,203	1	(132,102)	-
31XX	<b>Total equity attributable to shareholders of the parent</b>		<u>58,586,436</u>	<u>23</u>	<u>49,335,726</u>	<u>21</u>
32XX	<b>Non-controlling interest</b>		<u>17,022,191</u>	<u>7</u>	<u>8,900,232</u>	<u>4</u>
3XXX	<b>Total equity</b>		<u>75,608,627</u>	<u>30</u>	<u>58,235,958</u>	<u>25</u>
	<b>Significant contingent liabilities and unrecognized contract commitments</b>	9				
	<b>Significant events after balance sheet date</b>	11				
	<b>Total liabilities and equity</b>		<u>\$ 255,534,055</u>	<u>100</u>	<u>\$ 229,385,705</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**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**

(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)

Items	Notes	2019		2018		
		Amount	%	Amount	%	
<b>Revenues</b>						
4010	Interest income	6(3)(29) and 7	\$ 9,377,005	4	\$ 8,194,392	4
4020	Premiums revenue	6(30) and 7	5,913,553	3	4,675,980	3
4040	Reinsurance commission revenue		353,929	-	253,713	-
4050	Fee income		11,327	-	11,201	-
4060	Share of profit of associates and joint ventures accounted for using equity method	6(10)	1,153,209	1	1,006,530	1
4090	Gain on financial assets (liabilities) at fair value through profit or loss	6(2)	284,513	-	-	-
4105	Realized gains on financial assets at fair value through other comprehensive income		495,322	-	146,499	-
4160	<b>Net sales revenue</b>	6(28) and 7				
4161	Sales revenue		186,106,179	87	163,665,294	88
4162	Sales returns		( 1,052,135)	-	( 1,108,867)	( 1)
4163	Sales discounts and allowances		( 3,952,257)	( 2)	( 4,335,156)	( 2)
4170	Rental revenue		12,292,084	6	11,478,288	6
4180	Service revenue	6(28) and 7	1,948,239	1	1,887,310	1
4210	Gains on disposals of property, plant and equipment		35,695	-	34,487	-
4230	Income from investment property	6(14) and 7	129,078	-	136,194	-
4260	Foreign exchange gains		362,700	-	-	-
4270	Other income		669,336	-	639,699	-
4256	Impairment loss on expected credit of investment		( 123)	-	( 4)	-
4245	Gains (losses) on using overlay approach of investment	6(2)	( 392,611)	-	328,161	-
4280	Unrealized profit from sales		( 48,845)	-	( 58,873)	-
4290	Realized profit from sales		58,873	-	72,738	-
	<b>Total revenues</b>		<u>213,745,071</u>	<u>100</u>	<u>187,027,586</u>	<u>100</u>
<b>Expenses</b>						
5010	Interest expense	7	( 2,061,794)	( 1)	( 1,840,788)	( 1)
5030	Underwriting expenses		( 409)	-	( 195)	-
5040	Commission expenses	7	( 3,148,619)	( 1)	( 2,670,441)	( 1)
5050	Claims payment	7	( 2,724,685)	( 1)	( 2,082,829)	( 1)
5070	Net changes in other insurance liabilities		( 414,257)	-	( 272,344)	-
5110	Losses on financial assets (liabilities) at fair value through profit or loss	6(2)	-	-	( 197,978)	-
5190	Cost of sales	6(7) and 7	( 161,157,643)	( 75)	( 140,189,231)	( 75)
5200	Cost of rental revenue		( 9,666,391)	( 5)	( 9,241,200)	( 5)
5210	Cost of services		( 1,319,114)	( 1)	( 1,057,052)	( 1)
5230	<b>Operating expenses</b>	6(31)(32) and 7				
5231	Selling expenses		( 8,720,567)	( 4)	( 8,652,442)	( 5)
5232	General and administrative expenses		( 5,586,386)	( 3)	( 4,519,609)	( 2)
5233	Research and development expenses		( 96,512)	-	( 60,722)	-
5287	Impairment loss on non-expected credit of investment	12(5)	2,373	-	2,675	-
5288	Expected credit impairment loss		( 1,169,760)	( 1)	( 878,508)	( 1)
5240	Loss on disposal of investments		( 3,583)	-	( 22,143)	-
5270	Expenses and losses from investment property	6(14)	( 24,296)	-	( 29,102)	-
5290	Foreign exchange loss		-	-	( 11,073)	-
5320	Other expenses		( 280,442)	-	( 109,330)	-
	<b>Total expenses</b>		<u>( 196,372,085)</u>	<u>( 92)</u>	<u>( 171,832,312)</u>	<u>( 92)</u>
6100	<b>Income before income tax from continuing operation</b>		17,372,986	8	15,195,274	8
6200	Income tax expense	6(33)	( 3,788,087)	( 2)	( 3,595,444)	( 2)
6500	<b>Profit for the year</b>		<u>\$ 13,584,899</u>	<u>6</u>	<u>\$ 11,599,830</u>	<u>6</u>

(Continued)

**HO TAI MOTOR CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**

(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)

Items	Notes	2019		2018		
		Amount	%	Amount	%	
<b>Other comprehensive income (loss) for the year</b>						
<b>Components of other comprehensive income (loss) that may not be reclassified to profit or loss</b>						
6617	Gain from investments in equity instruments measured at fair value through other comprehensive income	6(3)	\$ 1,242,303	1	(\$ 351,062)	-
6625	Share of other comprehensive loss of associates and joint ventures accounted for using equity method		160,553	-	( 32,876)	-
6610	<b>Total components of other comprehensive income that may not be reclassified to profit or loss</b>		<u>1,402,856</u>	<u>1</u>	<u>( 383,938)</u>	<u>-</u>
<b>Components of other comprehensive income (loss) that will be reclassified to profit or loss</b>						
6651	Financial statement translation differences of foreign operations		( 378,771)	-	( 126,907)	-
6659	Unrealized losses from investments in debt instruments measured at fair value through other comprehensive income	6(3)	39,459	-	41,686	-
6661	Gain on hedging instrument	6(4)	90,557	-	( 36,744)	-
6675	Other comprehensive income reclassified by using overlay approach	6(2)	392,611	-	( 328,161)	-
6665	Share of other comprehensive income of associates and joint ventures accounted for using equity method - components of other comprehensive income		( 55,641)	-	( 29,461)	-
6689	Income tax related to components of other comprehensive income	6(33)	( 26,795)	-	9,610	-
	<b>Total components of other comprehensive income (loss) that will be reclassified to profit or loss</b>		<u>61,420</u>	<u>-</u>	<u>( 469,977)</u>	<u>-</u>
6600	<b>Other comprehensive income (loss) for the year</b>		<u>\$ 1,464,276</u>	<u>1</u>	<u>(\$ 853,915)</u>	<u>-</u>
6700	<b>Total comprehensive income for the year</b>		<u>\$ 15,049,175</u>	<u>7</u>	<u>\$ 10,745,915</u>	<u>6</u>
<b>Profit attributable to:</b>						
6810	Owners of parent		\$ 11,768,815	5	\$ 10,025,535	5
6820	Non-controlling interests		1,816,084	1	1,574,295	1
			<u>\$ 13,584,899</u>	<u>6</u>	<u>\$ 11,599,830</u>	<u>6</u>
<b>Comprehensive income attributable to:</b>						
6910	Owners of parent		\$ 13,280,285	6	\$ 9,205,476	5
6920	Non-controlling interests		1,768,890	1	1,540,439	1
			<u>\$ 15,049,175</u>	<u>7</u>	<u>\$ 10,745,915</u>	<u>6</u>
<b>Earnings per share (in dollars)</b>						
	<b>Basic earnings per share</b>	6(34)	<u>\$</u>	<u>21.55</u>	<u>\$</u>	<u>18.36</u>
	<b>Diluted earnings per share</b>	6(34)	<u>\$</u>	<u>21.54</u>	<u>\$</u>	<u>18.34</u>

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

**HO TAI MOTOR CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**  
(Expressed in thousands of New Taiwan dollars)

	Equity attributable to shareholders of the parent														
	Retained earnings						Other equity						Total	Non-controlling interests	Total equity
	Share capital-common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Financial statement translation differences of foreign operations	Unrealized gain from available-for-sale financial assets	Unrealized gains on financial assets at fair value through other comprehensive income	Other comprehensive income reclassified by using overlay approach	Loss on effective portion of cash flow hedges	Gain (loss) on hedging instruments				
Notes															
<b>For the year ended December 31, 2018</b>															
Balance at January 1, 2018	\$ 5,461,792	\$ 263,060	\$ 9,336,721	\$ 381,843	\$ 30,517,783	(\$ 194,239)	\$ 909,962	\$ -	\$ -	(\$ 21,621)	\$ -	\$ 46,655,301	\$ 8,220,847	\$ 54,876,148	
Effects on modified retrospective adjustment	-	-	-	-	22,037	-	(909,962)	848,446	39,479	21,621	(21,621)	-	-	-	
Balance at January 1, 2018 after retrospective adjustment	5,461,792	263,060	9,336,721	381,843	30,539,820	(194,239)	-	848,446	39,479	-	(21,621)	46,655,301	8,220,847	54,876,148	
Profit for the year	-	-	-	-	10,025,535	-	-	-	-	-	-	10,025,535	1,574,295	11,599,830	
Other comprehensive income (loss) for the year	-	-	-	-	(15,892)	(133,744)	-	(324,202)	(327,505)	-	(18,716)	(820,059)	(33,856)	(853,915)	
Total comprehensive income (loss)	-	-	-	-	10,009,643	(133,744)	-	(324,202)	(327,505)	-	(18,716)	9,205,476	1,540,439	10,745,915	
Appropriation and distribution of retained earnings:															
Legal reserve	-	-	1,011,561	-	(1,011,561)	-	-	-	-	-	-	-	-	-	
Cash dividends	6(27)	-	-	-	(6,554,150)	-	-	-	-	-	-	(6,554,150)	(888,464)	(7,442,614)	
Changes in equity of associates and joint ventures accounted for using equity method	-	3,050	-	-	-	-	-	-	-	-	-	3,050	776	3,826	
Difference between consideration and carrying amount of subsidiaries disposed	-	26,049	-	-	-	-	-	-	-	-	-	26,049	(26,049)	-	
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	52,683	52,683	
Balance at December 31, 2018	\$ 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	
<b>For the year ended December 31, 2019</b>															
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 year	-	-	-	-	11,768,815	-	-	-	-	-	-	11,768,815	1,816,084	13,584,899	
Other comprehensive income (loss) for the year	-	-	-	-	166,165	(359,145)	-	1,267,167	390,078	-	47,205	1,511,470	(47,194)	1,464,276	
Total comprehensive income (loss)	-	-	-	-	11,934,980	(359,145)	-	1,267,167	390,078	-	47,205	13,280,285	1,768,890	15,049,175	
Appropriation and distribution of retained earnings:															
Legal reserve	-	-	1,002,553	-	(1,002,553)	-	-	-	-	-	-	-	-	-	
Cash dividends	6(27)	-	-	-	(6,554,150)	-	-	-	-	-	-	(6,554,150)	(948,715)	(7,502,865)	
Changes in equity of associates and joint ventures accounted for using equity method	-	(16)	-	-	-	-	-	-	-	-	-	(16)	-	(16)	
Difference between consideration and carrying amount of subsidiaries disposed	-	164,197	-	-	-	-	-	-	-	-	-	164,197	499,139	663,336	
Changes in ownership interests in subsidiaries	-	2,360,394	-	-	-	-	-	-	-	-	-	2,360,394	(2,360,394)	-	
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	9,163,039	9,163,039	
Balance at December 31, 2019	\$ 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	

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

HO TAI MOTOR CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2019 AND 2018  
(Expressed in thousands of New Taiwan dollars)

	Notes	2019	2018
<u>Cash flows from operating activities</u>			
Consolidated profit before income tax		\$ 17,372,986	\$ 15,195,274
Adjustments to reconcile profit before tax to net cash provided by operating activities			
Income and expenses having no effect on cash flows			
Net (gain) loss on financial assets and liabilities at fair value through profit or loss	6(2)	( 284,513 )	197,978
Expected credit loss / bad debts expense and financial guarantee expense		1,842,792	1,545,995
Expected credit impairment loss of investment		123	4
Expected credit impairment loss (gain on reversal) of non-investment		( 2,373 )	( 2,675 )
Depreciation	6(11)(12)(14)(31)	8,879,781	7,963,334
Amortization	6(31)	65,333	81,272
Share-based payments		17,743	-
Impairment loss (gain on reversal) of rental assets	6(11)	85,046	( 58,391 )
Net gain on disposal of property, plant and equipment		( 35,695 )	( 34,487 )
Share of profit of associates accounted for using equity method	6(10)	( 1,153,209 )	( 1,006,530 )
Interest expense		2,061,794	1,840,788
Interest income	6(29)	( 9,377,005 )	( 8,194,392 )
Dividend income		( 256,523 )	( 139,156 )
Unrealized profit from sales		48,845	58,873
Realized profit from sales		( 58,873 )	( 72,738 )
Changes in assets and liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Financial assets at fair value through profit or loss		( 229,078 )	( 2,040,132 )
Contract assets		( 863 )	887
Notes and accounts receivable		( 12,236,656 )	( 14,260,065 )
Other receivables		528,392	( 550,627 )
Inventories		2,795,664	1,730,539
Prepayments		( 622,173 )	( 686,970 )
Reinsurance contract assets		( 151,273 )	( 174,422 )
Net changes in liabilities relating to operating activities			
Financial liabilities at fair value through profit or loss		130,525	( 76,956 )
Contract liabilities		127,585	106,417
Notes and accounts payable		38,828	413,183
Accrued expenses		238,414	8,572
Other payables		53,201	313,215
Commission payable		80,881	83,372
Due to reinsurance and ceding companies		78,191	121,706
Claims payable		( 849 )	( 27,110 )
Advance receipts		( 41,596 )	( 48,032 )
Other current liabilities		1,027,303	1,689,369
Provisions		957,712	75,279
Other liabilities		( 28,498 )	22,863
Cash inflow generated from operations		11,951,962	4,076,237
Cash dividends received		956,888	1,143,424
Income tax paid		( 3,693,260 )	( 2,926,165 )
Interest received		9,368,526	8,198,460
Interest paid		( 2,105,421 )	( 1,801,113 )
Net cash provided by operating activities		<u>16,478,695</u>	<u>8,690,843</u>

(Continued)



HO TAI MOTOR CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2019 AND 2018  
(Expressed in thousands of New Taiwan dollars)

	Notes	2019	2018
<u>Cash flows from investing activities</u>			
Increase in financial assets at fair value through other comprehensive income		(\$ 11,123 )	(\$ 3,796,034 )
Decrease in other financial assets		390,170	680,361
Acquisition of investments accounted for using equity method	6(10)	( 102,554 )	( 11,064 )
Acquisition of property, plant and equipment	6(11)	( 18,639,170 )	( 19,156,100 )
Proceeds from disposal of property, plant and equipment		423,017	65,447
Acquisition of intangible assets	6(15)	( 62,194 )	( 55,413 )
Increase in other assets		( 1,249,868 )	( 208,121 )
Acquisition of investment property	6(14)	( 7,824 )	( 9,050 )
Acquisition of right-of-use assets		( 179,238 )	-
Net cash used in investing activities		( 19,438,784 )	( 22,489,974 )
<u>Cash flows from financing activities</u>			
Proceeds from issuance of bonds	6(19)(36)	-	2,400,000
(Decrease) increase in short-term loans	6(36)	( 1,371,792 )	18,932,720
Increase (decrease) in short-term notes and bills payable	6(36)	5,863,562	( 7,212,232 )
Proceeds from long-term loans	6(36)	1,851,093	1,992,361
Repayment of long-term loans	6(36)	( 2,750,000 )	( 1,100,000 )
Changes in non-controlling interests		9,145,296	-
Repayment of principal portion of lease liability	6(12)(36)	( 455,899 )	-
Increase in guarantee deposits received	6(36)	531,674	669,680
Cash dividends paid	6(27)(36)	( 6,554,150 )	( 6,554,150 )
Cash dividends paid from subsidiaries to non-controlling interests		( 948,715 )	( 888,464 )
Proceeds from disposal of ownership interests in subsidiaries (without losing control)		665,056	52,683
Net cash flows provided by financing activities		5,976,125	8,292,598
Net effect of changes in foreign currency exchange rates		( 461,385 )	( 66,055 )
Increase (decrease) in cash and cash equivalents		2,554,651	( 5,572,588 )
Cash and cash equivalents at beginning of year		9,469,088	15,041,676
Cash and cash equivalents at end of year		\$ 12,023,739	\$ 9,469,088

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  
YEARS ENDED DECEMBER 31, 2019 AND 2018

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

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 authorized for issuance by the Board of Directors on March 26, 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 and revised standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

<u>New and revised Standards, Interpretations and Amendments</u>	<u>Effective date issued by International Accounting Standards Board</u>
Amendments to IFRS 9, ‘Prepayment features with negative compensation’	January 1, 2019
IFRS 16, ‘Leases’	January 1, 2019
Amendments to IAS 19, ‘Plan amendment, curtailment or settlement’	January 1, 2019
Amendments to IAS 28, ‘Long-term interests in associates and joint ventures’	January 1, 2019
IFRIC 23, ‘Uncertainty over income tax treatments’	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for the following, the above standards and interpretations have no significant impact to the Group’s financial condition and financial performance based on the Group’s assessment.

## IFRS 16, 'Leases'

- A. IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognize a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.
- B. The Group has elected to apply IFRS 16 by not restating the comparative information (referred herein as the 'modified retrospective approach') when applying "IFRSs" effective in 2019 as endorsed by the FSC. Accordingly, the Group increased 'right-of-use asset' by \$2,568,254, increased 'lease liability' by \$2,274,081 and decreased property, plant and equipment, other payables and other assets by \$10,100, \$10,142 and \$294,215, respectively, with respect to the lease contracts of lessees on January 1, 2019.
- C. The Group has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:
- (a) Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.
  - (b) The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
  - (c) The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- D. The Group calculated the present value of lease liabilities by using weighted average incremental borrowing interest rate range from 0.6% to 5%.
- E. The Group recognized lease liabilities which had previously been classified as 'operating leases' under the principles of IAS 17, 'Leases'. The reconciliation between operating lease commitments under IAS 17 measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate and lease liabilities recognized as of January 1, 2019 is as follows:

Operating lease commitments disclosed by applying IAS 17 as at December 31, 2018	\$ 2,664,549
Less: Short-term leases	( 12,046)
Less: Low-value assets	( 10,022)
Add/Less: Adjustments as a result of a different treatment of extension and termination options	<u>2,341</u>
Total lease contracts amount recognized as lease liabilities by applying IFRS 16 on January 1, 2019	2,644,822
Incremental borrowing interest rate at the date of initial application	<u>0.6%~5%</u>
Present value of lease contracts amount recognized as lease liabilities by applying IFRS 16 on January 1, 2019	2,263,939
Add: Lease payable recognized by applying IAS 17 as at December 31, 2018	<u>10,142</u>
Lease liabilities recognized as at January 1, 2019 by applying IFRS 16	<u>\$ 2,274,081</u>

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

New standards, interpretations and amendments endorsed by the FSC effective from 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.

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

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

<u>New and revised Standards, Interpretations and Amendments</u>	<u>Effective date issued by International Accounting Standards Board</u>
Amendments to IFRS 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
Amendments to IAS 1, 'Classification of liabilities as current or noncurrent'	January 1, 2022

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” International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”).

##### (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 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) The consolidated financial statements are prepared based on the valuation and disclosures of the entities' financial statements audited by the independent accountants.

**B. Subsidiaries included in the consolidated financial statements:**

Investor	Investee	Main business activities	Ownership (%)		Note
			December 30, 2019	December 31, 2018	
Ho Tai Motor Co., Ltd.	Shanghai Ho-Yu (BVI) Investment Co., Ltd.	Equity investments in Mainland China (trading and repairing of vehicles and their parts)	100.00	100.00	
Ho Tai Motor Co., Ltd.	Hozan Investment Co., Ltd.	General investment	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	
Ho Tai Motor Co., Ltd.	Toyota Material Handling Taiwan Ltd.	Sales of vehicles and parts for industry use	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	Note 2
Ho Tai Motor Co., Ltd.	Carmax Co., Ltd.	Trading of vehicle products/accessories	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	
Ho Tai Motor Co., Ltd.	Smart Design Technology Co., Ltd.	Electronic parts and components manufacturing	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	
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	
Tianjin Ho Yu Investment Co., Ltd.	Tianjin Ho-Yu Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	100.00	100.00	

Investor	Investee	Main business activities	Ownership (%)		Note
			December 30, 2019	December 31, 2018	
Hotong Motor Investment Co., Ltd.	Tianjin Heling Lexus Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	100.00	100.00	
Hotong Motor Investment Co., Ltd.	Tianjin Hozhan Motor Service Co., Ltd.	Sales and repairing of vehicles	100.00	100.00	
Hotong Motor Investment Co., Ltd.	Shanghai Hoyu Motor Service Co., Ltd.	Sales and repairing of vehicles	100.00	100.00	
Hotong Motor Investment Co., Ltd.	Shanghai Heling Motor Service Co., Ltd.	Sales and repairing of vehicles	75.00	75.00	
Hotong Motor Investment Co., Ltd.	Shanghai Hozhan Motor Service Co., Ltd.	Sales and repairing of vehicles	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	
Hotong Motor Investment Co., Ltd.	Tangshan Heling Lexus Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	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	
Hotong Motor Investment Co., Ltd.	Zaozhuang Ho-Yu Toyota Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	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	
Hotong Motor Investment Co., Ltd.	Shanghai Hoxin Motor Service Consulting Co.,Ltd.	Consulting services	100.00	100.00	Note 4
Hotong Motor Investment Co., Ltd.	Shanghai HoChen Motor Technology Co.,Ltd.	Trading of vehicle products / accessories and property management	100.00	-	Note 9
Hotong Motor Investment Co., Ltd.	Shanghai Jiading Heling Lexus Motor Service Co., Ltd.	Sales and repairing of vehicles	100.00	-	Note 10
Zaozhuang Ho-Yu Toyota Motor Sales & Service Co., Ltd.	Zaozhuang Ho-Wan Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	100.00	100.00	
Shanghai Hoyu Motor Service Co., Ltd.	Shanghai Heling Motor Service Co., Ltd.	Sales and repairing of vehicles	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	Note 1
Shanghai Hoyu Motor Service Co., Ltd.	Shanghai Guangxin Cultural Media Co., Ltd.	Advertisement design and production	100.00	100.00	
Shanghai Heling Motor Service Co., Ltd.	Shanghai Hede Used Vehicle Co., Ltd.	Trading of used vehicles	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	
Shanghai Heling Motor Service Co., Ltd.	Tianjin Heyi International Trading Co., Ltd.	Sales of imported cars	100.00	100.00	Note 3
Shanghai Heling Motor Service Co., Ltd.	Shanghai Howang Financial Leasing Co., Ltd	Leasing, wholesale, retail of and support service for vehicles	-	75.00	Note 5
Shanghai Hozhan Motor Service Co., Ltd.	Shanghai Hede Used Vehicle Co., Ltd.	Trading of used vehicles	20.00	20.00	Note 1
Hozan Investment Co., Ltd.	Hotai Leasing Co., Ltd.	Leasing of vehicles	66.04	66.04	
Hozan Investment Co., Ltd.	Hotai Finance Co., Ltd.	Installment trading and leasing of various vehicles	45.39	65.77	Note 2 Note 11

Investor	Investee	Main business activities	Ownership (%)		Note
			December 30, 2019	December 31, 2018	
Hozan Investment Co., Ltd.	Hotai Insurance Co., Ltd.	Property and casualty insurance services	99.80	99.80	
Hozan Investment Co., Ltd.	Ho Tai Cyber Connection Co., Ltd.	E-commerce platform services of used vehicles	100.00	100.00	
Hozan Investment Co., Ltd.	Hoati Innovation Marketing Co., Ltd.	Retail and wholesale of collections	100.00	100.00	Note 6
Hotai Finance Co., Ltd.	Hoyun International Limited	General investment	50.50	50.50	Note 7
Hotai Leasing Co., Ltd.	Hoyun International Limited	General investment	49.50	49.50	Note 1
Hotai Leasing Co., Ltd.	Hoing Mobility Service Co., Ltd.	Leasing of vehicles	100.00	100.00	Note 6
Hoyun International Limited	Hoyun International Lease Co., Ltd.	Leasing, wholesale, retail of and support service for vehicles	100.00	100.00	Note 8
Hoyun International Lease Co., Ltd.	Hoyun (Shanghai) Commercial Factoring Co., Ltd.	Factoring services	100.00	100.00	
Ho Tai Development Co., Ltd.	Ichiban International Co., Ltd.	General investment	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	
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	
Ichiban International Co., Ltd.	Air Master International Co., Ltd.	General investment	100.00	100.00	
Air Master International Co., Ltd.	He Zhan Development Co., Ltd.	Trading of air conditioning equipment	100.00	100.00	
Carmax Co., Ltd.	Carmax Autotech (Shanghai) Co., Ltd.	Trading of vehicle products/accessories	100.00	100.00	
Carmax Co., Ltd.	Smart Design Technology Co., Ltd.	Electronic parts and components manufacturing	61.77	61.77	
Eastern Motor Co., Ltd.	Doroman Autoparts Co., Ltd.	Wholesale and retail of vehicles parts and accessories	100.00	100.00	

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

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

Note 3: The investee was newly established in the second quarter of 2018.

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

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

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

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

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



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

Note 10: The investee was newly established in the second quarter of 2019. However, the asset injection of Hotong Motor Investment Co., Ltd. was not completed.

Note 11: 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 decreased to 45.39%.

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 December 31, 2019 and 2018, the non-controlling interest amounted to \$17,022,191 and \$8,900,232 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			
		December 31, 2019		December 31, 2018	
		Amount	Ownership (%)	Amount	Ownership (%)
Hotai Finance Co., Ltd.	Taiwan	\$ 11,179,015	54.610%	\$ 3,527,813	34.233%
Hotai Leasing Co., Ltd.	Taiwan	1,289,539	33.958%	1,130,729	33.958%

Summarized financial information of the subsidiaries:

Balance sheets

	Hotai Finance Co., Ltd.	
	December 31, 2019	December 31, 2018
Current assets	\$ 128,573,629	\$ 118,680,518
Non-current assets	4,772,046	3,583,285
Current liabilities	( 110,584,126)	( 109,964,986)
Non-current liabilities	( 667,286)	( 441,569)
Total net assets	\$ 22,094,263	\$ 11,857,248

	Hotai Leasing Co., Ltd.	
	December 31, 2019	December 31, 2018
Current assets	\$ 2,945,095	\$ 2,584,181
Non-current assets	32,444,164	28,714,167
Current liabilities	( 21,174,848)	( 13,940,337)
Non-current liabilities	( 10,416,959)	( 14,028,225)
Total net assets	\$ 3,797,452	\$ 3,329,786

### Statements of comprehensive income

	<u>Hotai Finance Co., Ltd.</u>	
	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Revenue	\$ 12,116,446	\$ 11,083,472
Profit before income tax	3,061,800	2,397,615
Income tax expense	( 686,052)	( 559,526)
Profit for the year	2,375,748	1,838,089
Other comprehensive loss for the year, net of tax	( 65,557)	( 71,447)
Total comprehensive income for the year	\$ 2,310,191	\$ 1,766,642
Comprehensive income attributable to non-controlling interests	\$ 770,754	\$ 582,322

	<u>Hotai Leasing Co., Ltd.</u>	
	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Revenue	\$ 17,592,921	\$ 15,381,583
Profit before income tax	842,056	737,207
Income tax expense	( 190,954)	( 347,800)
Profit for the year	651,102	389,407
Other comprehensive loss for the year, net of tax	( 68,318)	( 20,682)
Total comprehensive income for the year	\$ 582,784	\$ 368,725
Comprehensive income attributable to non-controlling interests	\$ 197,902	\$ 125,212

### Statements of cash flows

	<u>Hotai Finance Co., Ltd.</u>	
	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Net cash used in operating activities	(\$ 7,379,605)	(\$ 10,097,253)
Net cash used in investing activities	( 784,650)	( 688,399)
Net cash provided by financing activities	8,349,472	10,565,697
Net effect of changes in foreign currency exchange rates	( 308,888)	( 78,946)
Decrease in cash and cash equivalents	( 123,671)	( 298,901)
Cash and cash equivalents, beginning of year	464,836	763,737
Cash and cash equivalents, end of year	\$ 341,165	\$ 464,836

	Hotai Leasing Co., Ltd.	
	Years ended December 31,	
	2019	2018
Net cash provided by operating activities	\$ 15,353,878	\$ 11,429,381
Net cash used in investing activities	( 16,604,304)	( 14,749,150)
Net cash provided by financing activities	<u>1,127,367</u>	<u>3,512,505</u>
(Decrease) increase in cash and cash equivalents	( 123,059)	192,736
Cash and cash equivalents, beginning of year	<u>346,127</u>	<u>153,391</u>
Cash and cash equivalents, end of year	<u>\$ 223,068</u>	<u>\$ 346,127</u>

(4) Foreign currency translation

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

A. Foreign currency transactions and balances

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

B. Translation of foreign operations

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

- (a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (b) Income and expenses for each statement of comprehensive income are translated at average

exchange rates of that period; and

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

(5) Classification of current and non-current items

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

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

- (a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realized within twelve months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

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

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

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits 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 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 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

Effective 2019

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



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

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

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

(19) Leased assets/ operating leases (lessee)

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

(a) A finance lease is recognised as an asset and a liability at the lease's commencement at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

(b) The minimum lease payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges are allocated to each period over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(c) Property, plant and equipment held under finance leases are depreciated over their estimated useful lives. If there is no reasonable certainty that the Group will obtain ownership at the end of the lease, the asset shall be depreciated over the shorter of the lease term and its useful life.

- B. Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(20) Investment property

- A. An investment property is stated initially at its cost and measured subsequently using the cost model.

B. The significant improvements, additions and betterments of an item of investment property shall be recognized as an asset if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognized. General repairs and maintenance are charged to current expenses.

C. An investment property shall be derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. When assets are derecognized, the cost and the accumulated depreciation at the time of sale or retirement are written off. Gain and loss on sale of the investment property, rental income, and relevant payment shall be recognized in gain and loss on investment property under net investment income (loss). Except for land, property (including accessory equipment)

is depreciated on a straight-line basis over its estimated useful life of 2~60 years. Each part of an item of investment property with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change.

D. Investment property of the Group's subsidiary-Hotai Insurance Co., Ltd. including the office building and land rented in the form of an operating lease are to generate rental income or capital increase or both. Investment property is recognized initially at cost plus transaction costs incurred and subsequently applies cost model measuring at cost net of accumulated depreciation and impairment. Part of the property may be held by the Group and another part generates rental income or capital increase. If the property held by the Group can be sold individually, then the accounting treatment should be made separately. IAS 16 as endorsed by FSC applies to the self-used property, and property used to generate rental income or capital increase or both is applicable for investment property set out in IAS 40 as endorsed by FSC. If each part of the property cannot be sold individually and the self-used proportion is not material, then the property is deemed as investment property in its entirety.

#### (21) Intangible assets

##### A. Computer software

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

##### B. Goodwill

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

##### C. Client relationship

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

#### (22) Impairment of non-financial assets

A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

B. The recoverable amounts of goodwill, intangible assets with an indefinite useful life and intangible assets that have not yet been available for use are evaluated periodically. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its

recoverable amount.

C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or groups of cash-generating units, that is/are expected to benefit from the synergies of the business combination.

(23) Borrowings

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

(24) Notes and accounts payable

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

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

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

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

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

(26) Derecognition of financial liabilities

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

(27) Ordinary corporate bonds

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

(28) Financial guarantee contracts

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

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

(29) Non-hedging and embedded derivatives

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

loss. They are subsequently remeasured at fair value and the gains or losses are recognized in profit or loss.

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

(30) Hedge accounting

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

B. The Group designates the hedging relationship as follows:

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

C. Cash flow hedges

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

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

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

(c) The amount that has been accumulated in the cash flow hedge reserve in accordance with item (a) is accounted for as follows:

- i. If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Group shall remove that amount from the cash flow hedge reserve and include it directly in the initial cost or other carrying amount of the asset or liability.
- ii. For cash flow hedges other than those covered by item i. above, that amount shall be

reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss.

iii. If that amount is a loss and the Group expects that all or a portion of that loss will not be recovered in one or more future periods, it shall immediately reclassify the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.

(d) When the hedging instrument expires, or is sold, terminated, exercised or when the hedging relationship ceases to meet the qualifying criteria, if the forecast transaction is still expected to occur, the amount that has been accumulated in the cash flow hedge reserve shall remain in the cash flow hedge reserve until the forecast transaction occurs; if the forecast transaction is no longer expected to occur, the amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment.

### (31) Provisions

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

### (32) Employee benefits

#### A. Short-term employee benefits

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

#### B. Pensions

##### 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.

(33) Classification of insurance contracts

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

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

(34) Direct insurance income and expenses

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

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

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

(35) Reinsurance contract

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

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

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

(36) Salvage and subrogation

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

(37) Underwriting pools and coinsurance

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

(38) Insurance liabilities

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

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

A. Unearned premium reserve

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

B. Claims reserve

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

C. Special reserve

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

on its net value after tax.

D. Premium deficiency reserve

Potential claims and expenses are estimated for effective contracts yet to mature and injury insurance contracts with a coverage period. If the assessed amount is more than unearned premium reserve and expected premium income, the insufficient amount is recognized as premium deficiency reserve by product types.

E. Liability adequacy reserve

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

F. Unqualified ceded reserve

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

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

(39) Income tax

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



deferred tax asset is realized or the deferred tax liability is settled.

- D. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.
- F. A deferred tax asset shall be recognized for the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.

(40) Share capital

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

(41) Dividends

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

(42) Revenue recognition

A. Sales of goods

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

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

#### B. Service revenue

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

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

- (a) For the revenue recognition policies on insurance and reinsurance contracts, please refer to Notes 4(34) and (35).
- (b) Commission revenue is recognized on the accrual basis of the service period.

#### D. Financing components

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

#### (43) Operating segments

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

#### 5. Critical Accounting Judgements, Estimates and Key Sources of Assumption Uncertainty

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates

concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

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

None.

(2) Critical accounting estimates and assumptions

A. Revenue recognition

The Group estimates sales discounts and returns refund liabilities for sales returns based on historical results and other known factors. Provisions for such liabilities are recorded as a deduction item to sales revenues when the sales are recognized. The Group reassesses the reasonableness of estimates of discounts and returns periodically. Please refer to Note 6(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. The calculation for reported but not paid claims are based on the experience of claim handling experts by each case and the remaining shall be incurred but not reported reserve.

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

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

- (a) Loss development factors: properly chosen loss development factors based on experience over the past few years.
- (b) Expected loss ratio for each insurance line of business and accident year: the expected loss ratio is selected based on the historical loss trends of each insurance line of business and accident years.

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

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

## 6. Details of Significant Accounts

### (1) Cash and cash equivalents

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Cash on hand and revolving funds	\$ 13,248	\$ 13,847
Checking accounts and demand deposits	7,863,543	5,653,179
Cash equivalents		
Time deposits	1,220,947	1,215,085
Short-term notes and bills	<u>2,926,001</u>	<u>2,586,977</u>
	<u>\$ 12,023,739</u>	<u>\$ 9,469,088</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 December 31, 2019 and 2018, the Group presented its long-term time deposits of \$1,783,125 and \$2,170,436, respectively, under other financial assets-current and non-current.

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

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

<u>Items</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Financial assets at fair value through profit or loss		
Current items:		
Financial assets mandatorily measured at fair value through profit or loss		
Domestic and foreign beneficiary certificates	\$ 2,376,442	\$ 1,750,167
Derivative instruments	9,346	8,484
Financial instruments	190,543	95,943
Listed stocks	703,896	902,397
Listed preference share	59,980	59,980
Exchange Traded Funds	1,160,929	1,174,890
Valuation adjustment	<u>177,984</u>	<u>(218,943)</u>

<u>Items</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
	\$ 4,679,120	\$ 3,772,918

Non-current items:

Financial assets mandatorily measured at fair value through profit or loss

Corporate bonds	\$ 1,000,000	\$ 1,000,000
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Financial liabilities at fair value through profit or loss

Current items:

Financial liabilities held for trading

Derivative instruments	\$ 149,572	\$ 19,047
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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>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Financial instruments mandatorily measured at fair value through profit or loss		
Derivative instruments	(\$ 129,663)	\$ 77,726
Domestic and foreign beneficiary certificates	139,734	( 122,961)
Listed stocks	93,278	( 161,123)
Listed preference share	2,779	3,473
Exchange Traded Funds	161,135	( 12,343)
Corporate bonds	17,250	17,250
	<u>\$ 284,513</u>	<u>(\$ 197,978)</u>

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

	<u>December 31, 2019</u>	
<u>Derivative instruments</u>	<u>Contract amount</u> <u>(Notional principal)</u> <u>(in thousands)</u>	<u>Contract period</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>	2019.11.04~2020.03.02

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

The Group entered into forward foreign exchange contracts and foreign exchange swap

contracts to buy USD to hedge exchange rate risk of import proceeds and foreign investments. In addition, Hotai Insurance Co., Ltd. entered into foreign exchange swap contracts to hedge exchange rate risk of foreign investments. However, these forward foreign exchange contracts and foreign exchange swap contracts are not accounted for under hedge accounting.

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

<u>Items</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Financial assets at fair value through profit or loss designated using overlay approach		
Listed stocks	\$ 703,896	\$ 902,397
Listed preference shares	59,980	59,980
Exchange Traded Funds	1,160,929	1,174,890
Domestic and foreign beneficiary certificates	906,494	961,300
Corporate bonds	500,000	500,000
Valuation adjustment	<u>168,683</u>	<u>(223,928)</u>
	<u>\$ 3,499,982</u>	<u>\$ 3,374,639</u>

For the years ended December 31, 2019 and 2018, the reclassifications between profit or loss and other comprehensive income of such financial assets designated using overlay approach are as follows:

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Gains recognized in profit or loss under IFRS 9	\$ 649,706	(\$ 277,173)
Less: Gains recognized in profit or loss under IAS 39	<u>(257,095)</u>	<u>(50,988)</u>
Profit reclassified under overlay approach	<u>\$ 392,611</u>	<u>(\$ 328,161)</u>
Effect from change in tax	<u>\$ 1,761</u>	<u>\$ -</u>

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

(a)

<u>Type of structured entities</u>	<u>Book value at December 31, 2019</u>	<u>Description</u>
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.

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

(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	December 31, 2019	December 31, 2018
Current items:		
Debt instrument		
Government bonds	\$ -	\$ 99,952
Financial bonds	-	200,035
Foreign financial bonds	<u>27,197</u>	<u>64,605</u>
	27,197	364,592
Valuation adjustment (including loss allowance)	334	1,029
Less: Operation bonds	<u>-</u>	<u>(98,200)</u>
	<u>\$ 27,531</u>	<u>\$ 267,421</u>
Non-current items:		
Debt instrument		
Government bonds	\$ 373,497	\$ 267,585
Corporate bonds	306,976	308,854
Financial bonds	506,614	299,248
Foreign corporate and financial bonds	<u>651,189</u>	<u>613,323</u>
	1,838,276	1,489,010
Valuation adjustment (including loss allowance)	37,239	(2,937)
Less: Operation bonds	<u>(300,300)</u>	<u>(202,100)</u>
	<u>1,575,215</u>	<u>1,283,973</u>
Equity instruments		
Listed stocks and unlisted stocks	6,442,009	6,442,572
Valuation adjustment	<u>1,402,272</u>	<u>160,298</u>
	<u>7,844,281</u>	<u>6,602,870</u>
	<u>\$ 9,419,496</u>	<u>\$ 7,886,843</u>

A. The Group has elected to classify equity instruments that are considered to be strategic investments and steady dividend income as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$7,844,281 and \$6,602,870, respectively, as at December 31, 2019 and 2018.





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:

	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
<b>Hedging instruments</b>								
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	-

December 31, 2019

Valuation on liabilities' carrying amount due to fair value hedges

Liabilities carrying amount

**Hedged items**

Cash flow hedges

Exchange rates risk and interest rate risk

Short-term borrowings

\$ 6,585,672    \$ 59,784

	December 31, 2018				Year ended December 31, 2018			
	Notional amount (in thousand dollars)	Contract period	Assets carrying amount	Liabilities carrying amount	Changes in fair value in relation to recognizing hedge ineffectiveness basis	Average exchange rates	Average interest rate	Gains (losses) on valuation of ineffective hedge that will be recognized in financial assets/liabilities at fair value through profit or loss
<b>Hedging instruments</b>								
Cash flow hedges :								
<u>Exchange rate risk and</u>								
<u>Interest rate risk</u>								
Cross currency swaps transactions	USD 5,000	2017/5/23 ~2019/5/10	\$ -	(\$ 1,486)	-	6.89	4.74	\$ -
	USD 200,000	2017/3/13 ~2021/9/17	70,038	( 50,938)	-	29.20~30.85	0.92~1.29	-

December 31, 2018

Valuation on liabilities' carrying amount due to fair value hedges

Liabilities carrying amount

**Hedged items**

Cash flow hedges

Exchange rates risk and interest rate risk

Short-term borrowings

\$ 6,208,749    \$ 94,041

C. Cash flow hedges

	<u>Years ended December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Cash flow hedge reserve</u>		
At January 1	(\$ 61,330)	(\$ 32,741)
Add: Gains (losses) on hedge effectiveness-amount recognized in other comprehensive income	( 40,302)	( 115,405)
Reclassified to profit or loss as the hedged item has affected profit or loss	129,165	77,987
Income tax relating to the hedge effectiveness-amount recognized in other comprehensive income	( 18,157)	8,829
At December 31	<u>\$ 9,376</u>	<u>(\$ 61,330)</u>

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

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Notes receivable	\$ 1,582,045	\$ 2,014,292
Installment notes receivable	6,219,543	6,637,807
Accounts receivable	6,577,888	6,249,605
Installment accounts receivable	115,005,470	101,191,658
Lease payments and notes receivable	19,556,694	18,985,922
Premiums receivable	458,737	462,779
Overdue receivable	<u>62,418</u>	<u>62,553</u>
	149,462,795	135,604,616
Less: Unrealized interest income	( 11,362,192)	( 9,551,319)
Unearned finance income	( 2,232,584)	( 2,184,823)
Allowance for doubtful accounts	<u>( 2,677,141)</u>	<u>( 2,116,783)</u>
Notes and accounts receivable, net	<u>\$ 133,190,878</u>	<u>\$ 121,751,691</u>
	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Current	<u>\$ 131,656,164</u>	<u>\$ 121,259,927</u>
Non-current (shown as other assets)	<u>\$ 1,534,714</u>	<u>\$ 491,764</u>

As of December 31, 2019 and 2018, the subsidiary - Hotai Finance Co., Ltd.'s notes receivable were pledged as collateral for loans and issuance of commercial papers to banks amounted to \$4,092,545 and \$4,519,334, respectively. Furthermore, the promissory note for installment accounts receivable pledged as collateral for loans to banks amounted to \$1,850,785 and \$2,216,836 as of December 31, 2019 and 2018, respectively. Information on the Group's notes and accounts receivable pledged as collateral is provided in Note 8.

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
	<u>Receivables</u>	<u>Receivables</u>
Not past due	\$ 147,712,605	\$ 133,508,361
Up to 30 days	46,189	129,012
31 to ~ 90 days	589,259	557,721
91 to ~ 180 days	411,053	575,339
Over 180 days	<u>703,689</u>	<u>834,183</u>
	<u>\$ 149,462,795</u>	<u>\$ 135,604,616</u>

The above aging analysis was based on past due date.

B. As of December 31, 2019, December 31, 2018 and January 1, 2018, the balances of receivables (including notes receivable) from contracts with customers amounted to \$7,999,700, \$8,184,591 and \$7,652,703, respectively.

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Up to 12 months	\$ 46,216,840	\$ 43,219,320
Over 12 months	<u>75,008,173</u>	<u>64,610,145</u>
	<u>\$ 121,225,013</u>	<u>\$ 107,829,465</u>

D. Lease payments receivable

Prior to 2019

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

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

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:

Description	December 31, 2019					
	Financial assets					
	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	\$ -

Description	December 31, 2018					
	Financial assets					
	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	\$2,586,977	\$ -	\$ 2,586,977	\$ -	\$2,586,977	\$ -

(7) Inventories

	December 31, 2019		
	Cost	Allowance for valuation loss	Book value
	Vehicles and parts	\$ 8,117,585	(\$ 89,066)
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>

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

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

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

	Years ended December 31,	
	2019	2018
Cost of goods sold	\$ 161,187,288	\$ 140,168,602
Loss on market value decline of inventories	( 29,645)	20,629
	<u>\$ 161,157,643</u>	<u>\$ 140,189,231</u>

(8) Prepayments

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Prepayments to commissions	\$ 3,060,537	\$ 2,820,471
Prepayments to suppliers	2,108,374	1,891,184
Offset against business tax payable	853,909	1,047,110
Prepaid insurance premiums	391,733	442,283
Other prepayments	<u>726,551</u>	<u>316,021</u>
	<u>\$ 7,141,104</u>	<u>\$ 6,517,069</u>

(9) Reinsurance contract assets and insurance liabilities

A. Details of reinsurance contract assets are as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Claims recoverable from reinsurers	\$ 99,868	\$ 158,967
Due from reinsurance and ceding companies	77,019	115,112
Reinsurance reserve assets		
-Ceded unearned premium reserve	899,632	727,955
-Ceded claims reserve	707,719	634,445
Due from reinsurance and ceding companies - overdue	<u>24,155</u>	<u>17,981</u>
	1,808,393	1,654,460
Less: Loss allowance	<u>(14,258)</u>	<u>(11,598)</u>
	<u>\$ 1,794,135</u>	<u>\$ 1,642,862</u>

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Current	<u>\$ 1,286,604</u>	<u>\$ 1,225,913</u>
Non-current (shown as other assets)	<u>\$ 507,531</u>	<u>\$ 416,949</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>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
At January 1	\$ 11,598	\$ 8,681
Provision during the period	<u>2,660</u>	<u>2,917</u>
At December 31	<u>\$ 14,258</u>	<u>\$ 11,598</u>

C. Details of insurance liabilities are as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Unearned premium reserve	\$ 4,393,809	\$ 3,567,154
Claims reserve	3,091,211	2,601,984
Special reserve	<u>1,913,192</u>	<u>1,914,888</u>
	<u>\$ 9,398,212</u>	<u>\$ 8,084,026</u>

  

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Current (shown as other current liabilities)	<u>\$ 5,966,415</u>	<u>\$ 4,798,754</u>
Non-current (shown as provisions)	<u>3,431,797</u>	<u>\$ 3,285,272</u>

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

	Year ended December 31, 2019		
	<u>Gross amount</u>	<u>Ceded amount</u>	<u>Net amount</u>
At January 1	\$ 3,567,154	\$ 727,955	\$ 2,839,199
Provision during the period	4,393,809	899,632	3,494,177
Recovery during the period	( 3,567,154)	( 727,955)	( 2,839,199)
At December 31	<u>\$ 4,393,809</u>	<u>\$ 899,632</u>	<u>\$ 3,494,177</u>

	Year ended December 31, 2018		
	<u>Gross amount</u>	<u>Ceded amount</u>	<u>Net amount</u>
At January 1	\$ 2,850,169	\$ 618,021	\$ 2,232,148
Provision during the period	3,567,154	727,955	2,839,199
Recovery during the period	( 2,850,169)	( 618,021)	( 2,232,148)
At December 31	<u>\$ 3,567,154</u>	<u>\$ 727,955</u>	<u>\$ 2,839,199</u>

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

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

	December 31, 2019		
	<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>

	December 31, 2018		
	<u>Gross amount</u>	<u>Ceded amount</u>	<u>Net amount</u>
Reported but not paid	\$ 1,544,389	\$ 335,373	\$ 1,209,016
Incurred but not reported	<u>1,057,595</u>	<u>299,072</u>	<u>758,523</u>
	<u>\$ 2,601,984</u>	<u>\$ 634,445</u>	<u>\$ 1,967,539</u>

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

	Year ended December 31, 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	3,091,211	707,719	2,383,492
Recovery during the period	( 2,601,984)	( 634,445)	( 1,967,539)
At December 31	<u>\$ 3,091,211</u>	<u>\$ 707,719</u>	<u>\$ 2,383,492</u>

	<u>Year ended December 31, 2018</u>		
	<u>Gross amount</u>	<u>Ceded amount</u>	<u>Net amount</u>
At January 1	\$ 2,398,727	\$ 684,194	\$ 1,714,533
Provision during the period	2,601,984	634,445	1,967,539
Recovery during the period	( 2,398,727)	( 684,194)	( 1,714,533)
At December 31	<u>\$ 2,601,984</u>	<u>\$ 634,445</u>	<u>\$ 1,967,539</u>

F. Movement of special reserve is as follows:

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
At January 1	\$ 1,914,888	\$ 1,895,550
Provision during the period	-	20,931
Recovery during the period	( 1,696)	( 1,593)
At December 31	<u>\$ 1,913,192</u>	<u>\$ 1,914,888</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>December 31, 2019</u>	<u>December 31, 2018</u>
Decrease in special reserve under liability	\$ 382,576	\$ 384,169
Increase in special reserve under retained earnings	317,634	318,908

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Increase in net loss (income) before tax	\$ 1,593	\$ 1,593
Increase in losses (earnings) per share before tax	0.08	0.08

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 December 31, 2019 and 2018.

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



	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Decrease in special reserve under liability	\$ 223,894	\$ 223,894
Increase in special reserve under retained earnings	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 years ended December 31, 2019 and 2018.

(10) Investments accounted for using equity method

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Kuozui Motors, Ltd.	\$ 4,315,317	\$ 4,286,842
Central Motor Co., Ltd.	2,528,177	2,444,355
Tau Miau Motor Co., Ltd.	1,501,798	1,428,177
Kau Du Automobile Co., Ltd.	1,361,522	1,321,898
Kuotu Motor Co., Ltd.	1,124,145	1,018,969
Taipei Toyota Motor Co., Ltd.	1,078,783	980,767
Nan Du Motor Co., Ltd.	1,009,110	938,419
Lang Yang Toyota Motor Co., Ltd.	293,845	284,740
Formosa Flexible Packaging Corp.	357,798	272,434
Shi-Ho Screw Industrial Co., Ltd.	124,467	132,677
Yokohama Tire Taiwan Co., Ltd., etc.	1,423,867	1,339,231
	<u>\$ 15,118,829</u>	<u>\$ 14,448,509</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 December 31, 2019 and 2018, the carrying amount of the Group's individually immaterial associates amounted to \$15,118,929 and \$14,448,509, respectively.

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Comprehensive income for the period	<u>\$ 1,258,121</u>	<u>\$ 944,194</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 \$1,153,209 and \$1,006,530 for the years ended December 31, 2019, and 2018, respectively, and were valued based on the investees' financial statements audited by independent accountants.

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

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

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

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

(11) Property, plant and equipment

	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	615,887	26,165	58,429	634	-	359,432	194,091	42,937	16,896,525	58,563	386,507	18,639,170
Disposals	-	-	( 154)	-	-	( 105,519)	( 24,203)	( 265)	( 236,681)	( 20,500)	-	( 387,322)
Reclassifications	88,000	( 88,000)	( 24,178)	-	-	25,962	31,022	41,257	( 5,834,058)	-	( 68,737)	( 5,828,732)
Depreciation	-	-	( 148,953)	( 974)	( 44)	( 194,586)	( 203,028)	( 39,577)	( 7,682,465)	( 60,219)	-	( 8,329,846)
Impairment loss	-	-	-	-	-	-	11,800	-	( 96,846)	-	-	( 85,046)
Net exchange differences	-	-	( 58,112)	( 21)	-	( 12,282)	( 1,827)	( 5,704)	( 37,965)	( 375)	( 650)	( 116,936)
Closing net book amount as of December 31	<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>At December 31, 2019</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>

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.

	<u>Land</u>	<u>Prepayment for real estate</u>	<u>Buildings and structures</u>	<u>Utility equipment</u>	<u>Office equipment</u>	<u>Machinery and equipment</u>	<u>Rental assets (Note)</u>	<u>Leasehold improvements</u>	<u>Construction in progress</u>	<u>Total</u>
<u>At January 1, 2018</u>										
Cost	\$ 4,628,014	\$ -	\$ 4,301,177	\$ 138,212	\$ 1,501,043	\$ 366,066	\$ 39,032,620	\$ 655,849	\$ 77,433	\$ 50,700,414
Revaluation gain	1,345,967	-	12,079	-	-	-	-	-	-	1,358,046
Accumulated depreciation and impairment	( 26,850)	-	( 1,709,052)	( 133,351)	( 1,026,030)	( 233,905)	( 13,522,622)	( 412,891)	-	( 17,064,701)
	<u>\$ 5,947,131</u>	<u>\$ -</u>	<u>\$ 2,604,204</u>	<u>\$ 4,861</u>	<u>\$ 475,013</u>	<u>\$ 132,161</u>	<u>\$ 25,509,998</u>	<u>\$ 242,958</u>	<u>\$ 77,433</u>	<u>\$ 34,993,759</u>
<u>2018</u>										
Opening net book amount as of January 1	\$ 5,947,131	\$ -	\$ 2,604,204	\$ 4,861	\$ 475,013	\$ 132,161	\$ 25,509,998	\$ 242,958	\$ 77,433	\$ 34,993,759
Additions	3,773,518	88,000	965,321	628	278,361	125,520	13,706,540	52,914	165,298	19,156,100
Disposals	-	-	( 4,262)	-	( 21,287)	( 2,353)	( 3,797)	( 1,943)	( 1,115)	( 34,757)
Reclassifications	158,891	-	55,132	( 598)	25,095	( 92)	( 4,466,700)	1,539	( 85,288)	( 4,312,021)
Depreciation	-	-	( 150,233)	( 924)	( 168,807)	( 29,892)	( 7,529,519)	( 66,719)	-	( 7,946,094)
Impairment loss recognized on rental assets	-	-	-	-	-	-	58,391	-	-	58,391
Net exchange differences	-	-	( 29,683)	( 10)	( 5,068)	( 2,724)	( 24,941)	( 243)	( 302)	( 62,971)
Closing net book amount as of December 31	<u>\$ 9,879,540</u>	<u>\$ 88,000</u>	<u>\$ 3,440,479</u>	<u>\$ 3,957</u>	<u>\$ 583,307</u>	<u>\$ 222,620</u>	<u>\$ 27,249,972</u>	<u>\$ 228,506</u>	<u>\$ 156,026</u>	<u>\$ 41,852,407</u>
<u>At December 31, 2018</u>										
Cost	\$ 8,560,423	\$ 88,000	\$ 5,299,693	\$ 138,177	\$ 1,662,102	\$ 461,420	\$ 40,830,138	\$ 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)	( 1,078,795)	( 238,800)	( 13,580,166)	( 445,318)	-	( 17,375,442)
	<u>\$ 9,879,540</u>	<u>\$ 88,000</u>	<u>\$ 3,440,479</u>	<u>\$ 3,957</u>	<u>\$ 583,307</u>	<u>\$ 222,620</u>	<u>\$ 27,249,972</u>	<u>\$ 228,506</u>	<u>\$ 156,026</u>	<u>\$ 41,852,407</u>

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

(12) Leasing arrangements - lessee

Effective 2019

A. The Group leases various assets including land, buildings and structures and office equipment. Rental contracts are typically made for periods of 1 to 13 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>December 31, 2019</u>	<u>Year ended December 31, 2019</u>
	<u>Carrying amount</u>	<u>Depreciation charge</u>
Land	\$ 797,637	\$ 145,773
Buildings and structures	1,498,544	386,561
Office equipment	<u>4,213</u>	<u>4,336</u>
	<u>\$ 2,300,394</u>	<u>\$ 536,670</u>

C. For the year ended December 31, 2019, the additions to right-of-use assets amounted to \$374,344.

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

	<u>Year ended December 31, 2019</u>
<u>Items affecting profit or loss</u>	
Interest expense on lease liabilities	\$ 50,761
Expense on short-term lease contracts and leases of low-value assets	123,892

E. For the year ended December 31, 2019, the Group's total cash outflow for lease (including short-term lease contracts and leases of low-value assets) amounted to \$630,552.

(13) Leasing arrangements - lessor

Effective 2019

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

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

	<u>Year ended December 31, 2019</u>
Finance income from the net investment in the finance lease	\$ 2,452,665

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

	<u>December 31, 2019</u>
Less than 1 year	\$ 12,766,789
Between 1 and 2 years	5,256,626
Between 2 and 3 years	1,325,712
Between 3 to 4 years	169,648
Between 4 to 5 years	37,795
More than 6 years	<u>124</u>
	<u>\$ 19,556,694</u>

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

	<u>December 31, 2019</u>
	<u>Non-current</u>
Undiscounted lease payments	\$ 19,556,694
Unearned finance income	( <u>2,232,584</u> )
Net investment in the lease	<u>\$ 17,324,110</u>

E. For the year ended December 31, 2019, the Group recognized rent income in the amount of \$18,544 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>December 31, 2019</u>
Less than 1 year	\$ 9,505,592
Between 1 and 2 years	5,899,366
Between 2 and 3 years	2,670,459
Between 3 to 4 years	729,099
More than 5 years	<u>255,479</u>
	<u>\$ 19,059,995</u>

(14) Investment property

	2019		
	<u>Land</u>	<u>Buildings and structures</u>	<u>Total</u>
<u>At January 1</u>			
Cost	\$ 1,212,157	\$ 590,202	\$ 1,802,359
Revaluation gain	327,794	-	327,794
Accumulated depreciation	-	( 283,694)	( 283,694)
	<u>\$ 1,539,951</u>	<u>\$ 306,508</u>	<u>\$ 1,846,459</u>
<u>2019</u>			
Opening net book amount as of January 1	\$ 1,539,951	\$ 306,508	\$ 1,846,459
Additions	-	7,824	7,824
Reclassifications	-	4,297	4,297
Depreciation	-	( 13,265)	( 13,265)
Closing net book amount as of December 31	<u>\$ 1,539,951</u>	<u>\$ 305,364</u>	<u>\$ 1,845,315</u>
<u>At December 31</u>			
Cost	\$ 1,212,157	\$ 600,882	\$ 1,813,039
Revaluation gain	327,794	-	327,794
Accumulated depreciation	-	( 295,518)	( 295,518)
	<u>\$ 1,539,951</u>	<u>\$ 305,364</u>	<u>\$ 1,845,315</u>
	2018		
	<u>Land</u>	<u>Buildings and structures</u>	<u>Total</u>
<u>At January 1</u>			
Cost	\$ 1,212,157	\$ 634,963	\$ 1,847,120
Revaluation gain	327,794	-	327,794
Accumulated depreciation	-	( 317,192)	( 317,192)
	<u>\$ 1,539,951</u>	<u>\$ 317,771</u>	<u>\$ 1,857,722</u>
Opening net book amount as of January 1	\$ 1,539,951	\$ 317,771	\$ 1,857,722
Additions	-	9,050	9,050
Reclassifications	-	( 3,073)	( 3,073)
Depreciation	-	( 17,240)	( 17,240)
Closing net book amount as of December 31	<u>\$ 1,539,951</u>	<u>\$ 306,508</u>	<u>\$ 1,846,459</u>
<u>At December 31</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>

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

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Rental income from investment property	\$ 129,078	\$ 136,194
Direct operating expenses arising from the investment property that generated rental income during the period (including depreciation)	<u>\$ 24,296</u>	<u>\$ 29,102</u>

B. The fair value of the investment property held by the Group was \$2,249,864 and \$2,208,554 as of December 31, 2019 and 2018, respectively, based on the market value method, except for Hotai Insurance Co., Ltd., who appoints external independent appraisers to calculate and estimate the price of investment property every three years using at least two appraisal techniques among income approach, comparison method and cost approach, basing on observable price in an active market as well as according to the nature, location and situation of individual asset under “Regulations on Real Estate Appraisal”. It also prepares an internal assessment every year, and if a significant difference has been identified, the Company will engage an external independent appraiser revaluing the fair values of investment property under “Regulations on Real Estate Appraisal” and take the result as the basis of the adjustments for financial statement disclosures. The valuations based on the aforementioned method were categorized within Level 3 in the fair value hierarchy as assessed and its main input was capitalization rate.

(15) Intangible assets

	<u>2019</u>			
	<u>Goodwill</u>	<u>Client relationship</u>	<u>Computer software</u>	<u>Total</u>
<u>At January 1</u>				
Cost	\$ 662,323	\$ 527,106	\$ 144,315	\$ 1,333,744
Accumulated amortization and impairment	-	( 34,408)	( 74,479)	( 108,887)
	<u>\$ 662,323</u>	<u>\$ 492,698</u>	<u>\$ 69,836</u>	<u>\$ 1,224,857</u>
<u>2019</u>				
Opening net book amount as of January 1	\$ 662,323	\$ 492,698	\$ 69,836	\$ 1,224,857
Additions-acquired separately	-	-	62,194	62,194
Amortization	-	( 17,571)	( 36,610)	( 54,181)
Closing net book amount as of December 31	<u>\$ 662,323</u>	<u>\$ 475,127</u>	<u>\$ 95,420</u>	<u>\$ 1,232,870</u>
<u>At December 31</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>

	2019			
	Goodwill	Client relationship	Computer software	Total
<u>At January 1</u>				
Cost	\$ 662,323	\$ 527,106	\$ 100,141	\$ 1,289,570
Accumulated amortization and impairment	-	( 16,838)	( 63,740)	( 80,578)
	<u>\$ 662,323</u>	<u>\$ 510,268</u>	<u>\$ 36,401</u>	<u>\$ 1,208,992</u>
<u>2018</u>				
Opening net book amount as of January 1	\$ 662,323	\$ 510,268	\$ 36,401	\$ 1,208,992
Additions-acquired separately	-	-	55,413	55,413
Amortization	-	( 17,570)	( 21,978)	( 39,548)
Closing net book amount as of December 31	<u>\$ 662,323</u>	<u>\$ 492,698</u>	<u>\$ 69,836</u>	<u>\$ 1,224,857</u>
<u>At December 31</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>

Details of amortization on intangible assets are as follows:

	Years ended December 31,	
	2019	2018
Administrative expenses	\$ 54,181	\$ 39,548
(16) <u>Other assets</u>		
	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Long-term accounts receivable (Including long-term notes and accounts receivable)	\$ 2,044,790	\$ 950,331
Reinsurance contract assets	507,531	416,949
Land use right	-	294,215
Operation bonds	300,300	300,300
Guarantee deposits paid	358,442	308,228
Prepayments for business facilities	58,471	29,839
Others	1,416,053	1,339,343
	<u>\$ 4,685,587</u>	<u>\$ 3,639,205</u>
(17) <u>Short-term loans</u>		
<u>Type of loans</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Bank loans		
Unsecured loans	\$ 56,245,258	\$ 54,879,055
Mortgage loans	3,600,000	6,389,345
Mid-term syndicated loans for working capital	1,337,787	1,631,978
	<u>\$ 61,183,045</u>	<u>\$ 62,900,378</u>
Annual interest rate	<u>0.78%~5.30%</u>	<u>0.76%~5.49%</u>

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

A. The subsidiary, Hotai Finance Co., Ltd., has entered into a mid-term syndicated contract for a credit line of \$3.32 billion with 8 financial institutions including Japan Bank for International Cooperation, in order to fulfill its working capital. The duration is 35 months (from September



25, 2015 to September 18, 2018). The loan can be drawn several times but is non-revolving. The payment term is to repay the full amount drawn at the maturity date. This loan has been settled at maturity.

B. 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.

C. 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

D. 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>December 31, 2019</u>	<u>December 31, 2018</u>
Commercial paper payable	\$ 53,770,000	\$ 47,920,000
Less: Unamortized discount	( 34,524)	( 48,086)
	<u>\$ 53,735,476</u>	<u>\$ 47,871,914</u>
Annual interest rate	<u>0.68%~1.19%</u>	<u>0.67%~1.3%</u>

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

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

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

- A. The first unsecured ordinary corporate bonds was issued in 2018. The total amount was \$2,400,000, the coupon rate was 0.73% with a 3-year period, the outstanding period was from July 6, 2018 to July 6, 2021, and the bonds would be repaid at face value in a lump sum with cash on the due date.
- B. The first unsecured ordinary corporate bonds was issued in 2016. The total amount was \$2,800,000, the coupon rate was 0.93% with a 3-year period, the outstanding period was from January 11, 2017 to January 11, 2020, and the bonds would be repaid at face value in a lump sum with cash on the due date.

(20) Long-term loans

<u>Type of borrowings</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate range</u>	<u>Collateral</u>	<u>December 31, 2019</u>	<u>December 31, 2018</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 seasonally	3.10%~3.99%	None.	\$ 89,852	\$ 91,722
	USD 3,500 thousand; borrowing period is from June 2019 to October 2021; interest is repayable seasonally	3.33%	None	104,828	-
	USD 1,300 thousand; borrowing period is from June 2019 to October 2021; interest is repayable seasonally	3.33%	None	38,936	-
Secured borrowings	From December 2019 to December 2024	1.20%	Land (please refer to Note 8)	250,000	
	From January 2019 to January 2022		Notes receivable for lease payments (please refer to Note 8)	150,000	-
Commercial papers payable	From January 2017 to January 2022	0.96%~1.06%	"	5,300,000	-
	From January 2016 to August 2021	0.92%~1.22%	"	-	6,750,000
Less: unamortized discounts				( 6,016)	( 8,032)
Less: long-term liabilities, current portion				5,927,600	6,833,690
				( 2,426,749)	( 2,747,522)
				<u>\$ 3,500,851</u>	<u>\$ 4,086,168</u>
Interest rate range				<u>0.96%~3.33%</u>	<u>0.92%~3.99%</u>

As of December 31, 2019, the maturities of long-term loans are as follows:

<u>Duration of maturity</u>	<u>Loans amount</u>
Up to 1 year	\$ 2,430,000
1 to 2 years	2,863,616
2 to 3 years	480,000
3 to 4 years	30,000
4 to 5 years	130,000
	<u>\$ 5,933,616</u>

(21) Accrued expenses

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Wages and salaries payable	\$ 1,898,455	\$ 1,697,687
Dealer bonus payable	578,644	486,265
Remuneration payable to employees	641,497	517,590
Remuneration payable to directors	283,244	246,033
Interest payable	152,648	193,969
Others	1,486,986	1,702,837
	<u>\$ 5,041,474</u>	<u>\$ 4,844,381</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 years ended December 31, 2019 and 2018, were \$275,825 and \$281,871, respectively.

(23) Provisions

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
At January 1,	\$ 2,584,955	\$ 2,328,294
Additional provisions during the period	1,640,539	1,479,206
Used during the period	( 824,432)	( 1,188,937)
Unused amounts reversed	( 7,995)	( 33,608)
At December 31, 2019	<u>\$ 3,393,067</u>	<u>\$ 2,584,955</u>

Analysis of provision for warranty is as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Current (shown as other current liabilities)	<u>\$ 868,555</u>	<u>\$ 871,630</u>
Non-current	<u>\$ 2,524,512</u>	<u>\$ 1,713,325</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>December 31, 2019</u>	<u>December 31, 2018</u>
Deposits received for car rentals	\$ 13,036,277	\$ 12,503,258
Others	<u>23,687</u>	<u>25,032</u>
	<u>\$ 13,059,964</u>	<u>\$ 12,528,290</u>

Analysis of guarantee deposits received for warranty is as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Current (shown as other current liabilities)	<u>\$ 6,785,309</u>	<u>\$ 3,395,243</u>
Non-current	<u>\$ 6,274,655</u>	<u>\$ 9,133,047</u>

(25) Share capital

As of December 31, 2019, the Company’s authorized capital was \$6,000,000, consisting of 600,000,000 shares of ordinary stock and the paid-in capital was \$5,461,792 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected. The number of the

Company's ordinary shares outstanding at January 1, 2019 and December 31, 2019 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>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Goods category:		
Sales of goods	\$ 181,101,787	\$ 158,221,271
Others	<u>1,948,239</u>	<u>1,887,310</u>
	<u>\$ 183,050,026</u>	<u>\$ 160,108,581</u>
Timing of revenue recognition		
At a point in time	\$ 181,955,421	\$ 158,956,746
Over time	<u>1,094,605</u>	<u>1,151,835</u>
	<u>\$ 183,050,026</u>	<u>\$ 160,108,581</u>

#### B. Contract assets and liabilities

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>January 1, 2018</u>
Contract assets:			
Contract assets- construction contracts	<u>\$ 19,643</u>	<u>\$ 18,780</u>	<u>\$ 23,787</u>
Contract liabilities:			
Contract liabilities- sales of goods	\$ 1,194,976	\$ 1,066,673	\$ 880,597
Contract liabilities-customer loyalty programmers	<u>7,782</u>	<u>8,500</u>	<u>7,950</u>
	<u>\$ 1,202,758</u>	<u>\$ 1,075,173</u>	<u>\$ 888,547</u>

For the years ended December 31, 2019 and 2018, revenue recognized that was included in the contract liability balance at the beginning of the period amounted to \$957,632 and \$788,898, respectively.

#### (29) Interest income

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Installment revenue	\$ 6,699,550	\$ 5,759,235
Finance leasing revenue	2,443,229	2,191,035
Interest from deposits and short-term notes	156,370	170,571
Other interest income	<u>77,856</u>	<u>73,551</u>
	<u>\$ 9,377,005</u>	<u>\$ 8,194,392</u>

#### (30) Premium

Details of premium are as follows:

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Written premium	\$ 8,162,626	\$ 6,314,671
Reinsurance premium	337,946	364,514
Less: Reinsurance expense	( 1,932,041)	( 1,396,155)
Net change in unearned premiums reserve	<u>( 654,978)</u>	<u>( 607,050)</u>
	<u>\$ 5,913,553</u>	<u>\$ 4,675,980</u>

(31) Expenses by nature

	Years ended December 31,	
	2019	2018
Employee benefit expense	\$ 7,891,468	\$ 7,520,854
Depreciation	8,879,781	7,963,334
Amortization	65,333	81,272
	<u>\$ 16,836,582</u>	<u>\$ 15,565,460</u>

(32) Employee benefit expense

	Years ended December 31,	
	2019	2018
Wages and salaries	\$ 6,749,454	\$ 6,404,064
Labor and health insurance fees	486,111	452,374
Pension costs	275,825	281,871
Other personnel expenses	380,078	382,545
	<u>\$ 7,891,468</u>	<u>\$ 7,520,854</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 years ended December 31, 2019 and 2018, employees' remuneration was accrued at \$141,622 and \$123,016, respectively; while directors' remuneration was accrued at \$283,244 and \$246,033, 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 year ended December 31, 2019. The employees' remuneration and directors' remuneration resolved by the Board of Directors were \$141,622 and \$283,244 on March 26, 2020, and the employees' remuneration will be distributed in cash.

Employees' compensation and directors' remuneration of 2018 as resolved by the Board of Directors were in agreement with those amounts recognized in the 2018 financial statements. The employees' compensation will be distributed in cash.

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

(33) Income tax

A. Income tax expense

(a) Components of income tax expense:

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Current tax:		
Current tax expense recognized in the current period	\$ 3,560,042	\$ 2,953,909
Tax on undistributed surplus earnings	206,956	349,319
Prior year income tax overestimation	( 19,631)	25,914
Total current tax	<u>3,747,367</u>	<u>3,329,142</u>
Deferred tax:		
Origination and reversal of temporary differences	40,720	151,506
Impact of change in tax rate	-	114,796
Total deferred tax	<u>40,720</u>	<u>266,302</u>
Income tax expense	<u>\$ 3,788,087</u>	<u>\$ 3,595,444</u>

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

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Cash flow hedges	(\$ 16,951)	(\$ 7,248)
Changes in fair value of financial assets at fair value through other comprehensive income	(\$ 8,083)	(\$ 1,261)
Changes in fair value of financial assets designated using overlay approach	(\$ 1,761)	\$ -
Impact of change in tax rate	\$ -	(\$ 1,101)

B. Reconciliation between income tax expense and accounting profit

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Income tax expense at the statutory rate (Note)	\$ 4,948,235	\$ 4,439,397
Effects from adjustments based on regulation	( 1,308,973)	( 1,333,982)
Additional 10% surtax on undistributed earnings	168,456	349,319
Prior year income tax overestimation	( 19,631)	25,914
Effect from changes in tax regulation	-	114,796
Income tax expense	<u>\$ 3,788,087</u>	<u>\$ 3,595,444</u>

Note: The basis for computing the applicable tax rate are the rates applicable in the respective countries where the Group entities operate.

C. Amounts of deferred tax assets or liabilities as a result of temporary differences are as follows:

	Year ended December 31, 2019				
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	Acquired from business combinations	December 31
Temporary differences:					
-Deferred tax assets:					
Allowance for inventory obsolescence	\$ 93,375	\$ 4,581	\$ -	\$ -	\$ 97,656
Provision for after-sales service	348,442	123,680	-	-	472,122
Bad debt expense	364,298	130,501	-	-	494,799
Provision of allowance for loss on rental assets	42,482	17,009	-	-	59,491
Loss carryforward	72,050	( 978)	-	-	71,072
Others	<u>250,084</u>	<u>32,097</u>	<u>( 17,617)</u>	<u>-</u>	<u>264,564</u>
	<u>1,170,731</u>	<u>306,890</u>	<u>( 17,617)</u>	<u>-</u>	<u>1,460,004</u>
-Deferred tax liabilities:					
Land value increment tax	( 709,097)	-	-	-	( 709,097)
Gain on investments accounted for using equity method	( 748,368)	( 246,494)	-	-	( 994,862)
Difference between finance and tax due to depreciation	( 1,120,015)	2,719	-	-	( 1,117,296)
Others	<u>( 4,076)</u>	<u>( 22,395)</u>	<u>( 9,178)</u>	<u>1,993</u>	<u>( 33,656)</u>
	<u>( 2,581,556)</u>	<u>( 266,170)</u>	<u>( 9,178)</u>	<u>1,993</u>	<u>( 2,854,911)</u>
	<u>(\$1,410,825)</u>	<u>(\$ 40,720)</u>	<u>(\$ 26,795)</u>	<u>\$ 1,993</u>	<u>(\$ 1,394,907)</u>

	Year ended December 31, 2018				
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	Acquired from business combinations	December 31
Temporary differences:					
-Deferred tax assets:					
Allowance for inventory obsolescence	\$ 76,246	\$ 17,129	\$ -	\$ -	\$ 93,375
Provision for after-sales service	257,636	90,806	-	-	348,442
Bad debt expense	316,327	47,971	-	-	364,298
Provision of allowance for loss on rental assets	45,160	( 2,678)	-	-	42,482
Loss carryforward	83,910	( 11,860)	-	-	72,050
Others	<u>219,809</u>	<u>20,665</u>	<u>9,610</u>	<u>-</u>	<u>250,084</u>
	<u>999,088</u>	<u>162,033</u>	<u>9,610</u>	<u>-</u>	<u>1,170,731</u>
-Deferred tax liabilities:					
Land value increment tax	( 716,331)	-	-	7,234	( 709,097)
Gain on investments accounted for using equity method	( 456,732)	( 291,636)	-	-	( 748,368)
Difference between finance and tax due to depreciation	( 969,529)	( 150,486)	-	-	( 1,120,015)
Others	<u>( 17,863)</u>	<u>13,787</u>	<u>-</u>	<u>-</u>	<u>( 4,076)</u>
	<u>( 2,160,455)</u>	<u>( 428,335)</u>	<u>-</u>	<u>7,234</u>	<u>( 2,581,556)</u>
	<u>(\$1,161,367)</u>	<u>(\$ 266,302)</u>	<u>\$ 9,610</u>	<u>\$ 7,234</u>	<u>(\$ 1,410,825)</u>



D. Expiration dates of unused loss carryforward amounts of unrecognized deferred tax assets of the Group's subsidiaries are as follows:

December 31, 2019				
Year incurred	Amount filed/assessed	Unused amount	Unrecognized deferred tax assets	Usable until
2016	\$ 359,487	\$ 227,182	\$ -	2026
2017	127,576	127,576	4,167	2027
2018	90,814	90,814	90,814	2028
2019	100,754	100,754	100,754	2029

  

December 31, 2018				
Year incurred	Amount filed/assessed	Unused amount	Unrecognized deferred tax assets	Usable until
2015	\$ 9,180	\$ -	\$ -	2025
2016	359,487	230,564	-	2026
2017	127,576	127,576	4,167	2027
2018	97,794	97,794	91,515	2028

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

F. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China on February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(34) Earnings per share

	Year ended December 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	\$ 11,768,815	546,179	\$ 21.55
<u>Diluted earnings per share</u>			
Profit attributable to common shareholders of the parent	\$ 11,768,515	546,179	
Assumed conversion of all dilutive potential common shares			
Employees' compensation	-	287	
Profit attributable to common shareholders of the parent plus assumed conversion of all dilutive potential common shares	\$ 11,768,815	546,466	\$ 21.54

	Year ended December 31, 2018		
	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	\$ 10,025,535	546,179	\$ 18.36
<u>Diluted earnings per share</u>			
Profit attributable to common shareholders of the parent	\$ 10,025,535	546,179	
Assumed conversion of all dilutive potential common shares			
Employees' compensation	-	578	
Profit attributable to common shareholders of the parent plus assumed conversion of all dilutive potential common shares	\$ 10,025,535	546,757	\$ 18.34

(35) Operating leases

Prior to 2018

A. Lessor

- (a) The subsidiaries, Hotai Finance Co., Ltd. and Hotai Leasing Co., Ltd., engage in vehicles rental services. Partial collection is advance receipts of notes for rents which expire based on payment terms. As of December 31, 2018, the notes receivable collected in advance amounted to \$7,696,961. The notes receivable and advance rents are presented at net amount and are not shown in the balance sheet. As of December 31, 2018, the amounts of \$5,646,350 of notes receivable have been pledged as collateral for long-term and short-term bank loans and issuance of commercial papers.

Total future notes receivable for rents are as follows:

	December 31, 2018
Up to 1 year	\$ 4,542,187
1 to 5 years	3,154,774
	<u>\$ 7,696,961</u>

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

	December 31, 2018
Up to 1 year	\$ 122,816
1 to 5 years	130,806
Over 5 years	3,765
	<u>\$ 257,387</u>

B. Lessee

The Group leases buildings for operation under operating lease agreements. The lease terms are between 1 and 10 years, and all these lease agreements are renewable at the end of the lease period. The Group recognized rental expense of \$668,864 for the year ended December 31, 2018. The future aggregate minimum lease payments under non-cancellable operating leases agreements are as follows:

	<u>December 31, 2018</u>
Up to 1 year	\$ 528,924
1 to 5 years	1,138,491
Over 5 years	<u>997,134</u>
	<u>\$ 2,664,549</u>

(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, 2019	\$ 62,900,378	\$ 47,871,914	\$ 7,947,522	\$ 4,086,168	\$12,528,290	\$2,274,081	\$ 7,456	\$ 137,615,809
Changes in cash flow from financing activities	( 1,371,792)	5,863,562	-	( 898,907)	531,674	( 455,899)	( 6,554,150)	( 2,885,512)
Impact of changes in foreign exchange rate	-	-	-	( 7,183)	-	( 42,574)	-	( 49,757)
Changes in other non-cash items	( 345,541)	-	( 320,773)	320,773	-	147,710	6,553,945	6,356,114
December 31, 2019	<u>\$ 61,183,045</u>	<u>\$ 53,735,476</u>	<u>\$ 7,626,749</u>	<u>\$ 3,500,851</u>	<u>\$13,059,964</u>	<u>\$1,923,318</u>	<u>\$ 7,251</u>	<u>\$ 141,036,654</u>

	Short-term loans	Short-term notes and bills payable	Long-term liabilities- current portion	Long-term loans	Guarantee deposits received	Dividend payable	Liabilities from financing activities-gross
January 1, 2018	\$ 43,509,601	\$ 55,084,146	\$ 3,899,034	\$ 4,844,412	\$ 11,858,610	\$ 9,753	\$ 119,205,556
Changes in cash flow from financing activities	18,932,720	( 7,212,232)	2,400,000	892,361	669,680	( 6,554,150)	9,128,379
Impact of changes in foreign exchange rate	-	-	-	( 2,117)	-	-	( 2,117)
Changes in other non-cash items	458,057	-	1,648,488	( 1,648,488)	-	6,551,853	7,009,910
December 31, 2018	<u>\$ 62,900,378</u>	<u>\$ 47,871,914</u>	<u>\$ 7,947,522</u>	<u>\$ 4,086,168</u>	<u>\$ 12,528,290</u>	<u>\$ 7,456</u>	<u>\$ 135,341,728</u>

7. Related Party Transactions

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

<u>Names of related parties</u>	<u>Relationship with the Group</u>
Toyota Industries Corporation	Entities controlled by key management
Toyota Motor Asia Pacific Pte Ltd. (TMAP)	Entities controlled by key management
Toyota Motor Manufacturing Turkey Inc.	Entities controlled by key management
Toyota Motor Philippines Corp.	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 Auto Body Co., Ltd.	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

Names of related parties	Relationship with the Group
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
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
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
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

Names of related parties	Relationship with the Group
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

	Years ended December 31,	
	2019	2018
(a) Interest income:		
-Associates	\$ 55,014	\$ 47,966
-Entities controlled by key management	<u>10</u>	<u>5</u>
	<u>\$ 55,024</u>	<u>\$ 47,951</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%.

	Years ended December 31,	
	2019	2018
(b) Premium:		
-Associates	\$ 43,267	\$ 38,350
-Entities controlled by key management	<u>1,306</u>	<u>1,504</u>
	<u>\$ 44,573</u>	<u>\$ 39,854</u>

	Years ended December 31,	
	2019	2018
(c) Sales revenue:		
-Associates		
Central Motor	\$ 24,759,682	\$ 21,866,118
Tau Miao	22,596,968	19,982,922
Kuotu	19,629,150	15,072,330
Taipei Motor	18,441,045	16,570,774
Others	37,694,012	33,161,679
-Entities controlled by key management	<u>229,463</u>	<u>131,965</u>
	<u>\$ 123,350,320</u>	<u>\$ 106,785,788</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>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
(d) Rental revenue:		
-Associates	\$ 108,388	\$ 118,648
-Entities controlled by key management	<u>10,122</u>	<u>6,963</u>
	<u>\$ 118,510</u>	<u>\$ 125,611</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>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
(e) Service revenue:		
Service sales:		
-Associates	\$ 41,378	\$ 41,367
-Entities controlled by key management	26,538	19,648
Contracted operating revenue:		
-Associates	<u>15,814</u>	<u>19,167</u>
	<u>\$ 83,730</u>	<u>\$ 80,182</u>

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
(f) Subsidy income for price difference from installments:		
-Associates	<u>\$ 238,803</u>	<u>\$ 308,700</u>

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
(g) Warranty revenue (shown as deductions to cost of sales):		
-Associates		
Kuozui	\$ 192,830	\$ 164,505
-Entities controlled by key management		
TMAP	605,492	686,945
Others	<u>2,095</u>	<u>2,243</u>
	<u>\$ 800,417</u>	<u>\$ 853,693</u>

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
(h) Advertisement subsidy and sales promotion revenue (shown as deductions to advertisement expense):		
-Associates	\$ 167,713	\$ 143,156
-Entities controlled by key management	<u>61,820</u>	<u>80,845</u>
	<u>\$ 229,533</u>	<u>\$ 224,001</u>

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
(i) Distribution income (shown as deductions to freight):		
-Associates	\$ 21,359	\$ 25,914
-Entities controlled by key management	<u>45</u>	<u>15</u>
	<u>\$ 21,404</u>	<u>\$ 25,929</u>

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
(j) Miscellaneous income:		
-Associates		
Kuotu	\$ 94,069	\$ 105,744
Kuozui	73,509	80,166
Others	88,359	89,467
-Entities controlled by key management	<u>105,375</u>	<u>77,304</u>
	<u>\$ 361,312</u>	<u>\$ 352,681</u>

#### B. Expenditures

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
(a) Interest expense:		
-Associates	\$ 15,604	\$ 15,629
-Entities controlled by key management	<u>906</u>	<u>-</u>
	<u>\$ 16,510</u>	<u>\$ 15,629</u>

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

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
(b) Purchases of goods:		
-Associates		
Kuozui	\$ 42,625,684	\$ 44,220,103
Others	1,026,119	1,076,717
-Entities controlled by key management		
TMC	50,513,418	35,713,057
Others	<u>18,591,182</u>	<u>18,371,785</u>
	<u>\$ 112,756,403</u>	<u>\$ 99,381,662</u>

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

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
(c) Warranty cost:		
-Associates		
Central Motor	\$ 145,011	\$ 160,162
Tau Miao	113,497	145,385
Kuotu	102,682	135,692
Kau Du	81,691	100,904
Nan Du	81,599	100,960
Others	85,962	101,672
-Entities controlled by key management	<u>351</u>	<u>685</u>
	<u>\$ 610,793</u>	<u>\$ 745,460</u>
	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
(d) Advertisement expense:		
-Associates	\$ 14,690	\$ 27,725
-Entities controlled by key management	<u>18,561</u>	<u>9,163</u>
	<u>\$ 33,251</u>	<u>\$ 36,888</u>
	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
(e) Freight:		
-Associates		
Fan Tai	\$ 207,050	\$ 158,171
Yi Tai	109,797	70,825
Others	<u>4,167</u>	<u>3,584</u>
	<u>\$ 321,014</u>	<u>\$ 232,580</u>
	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
(f) Insurance claim payment:		
-Associates	\$ 12,448	\$ 23,545
-Entities controlled by key management	<u>233</u>	<u>5</u>
	<u>\$ 12,681</u>	<u>\$ 23,550</u>
	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
(g) Commission expense:		
-Entities controlled by key management		
Ho An	<u>\$ 718,130</u>	<u>\$ 507,927</u>



	Years ended December 31,	
	2019	2018
(h) Others:		
-Associates		
Central Motor	\$ 5,954,803	\$ 6,725,755
Kuotu	5,443,416	5,061,053
Kau Du	5,252,154	5,075,517
Tau Miao	4,870,355	4,997,564
Taipei Motor	4,476,212	4,184,138
Nan Du	4,035,189	4,035,044
Others	649,570	743,248
	<u>\$ 30,681,699</u>	<u>\$ 30,822,319</u>

As described in Note 4(42), Hotai Finance Co., Ltd. receives only interest income rather than gross profit from the instalment sales with related parties. Therefore, sales revenue and cost of sales are presented in net amount and movable properties arising from the transaction are all pledged as collateral. Terms of purchases from related parties are in agreement with third parties. Terms are shown in table 6 of Note 13(1) significant transactions information.

C. Receivables from (payables to) related parties

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
(a) Receivables from related parties:		
-Associates	\$ 2,729,614	\$ 2,864,138
-Entities controlled by key management	<u>13,142</u>	<u>32,045</u>
	<u>\$ 2,742,756</u>	<u>\$ 2,896,183</u>
(b) Other receivables from related parties:		
-Associates	\$ 133,499	\$ 396,426
-Entities controlled by key management	<u>5,343</u>	<u>4,574</u>
	<u>\$ 138,842</u>	<u>\$ 401,000</u>
(c) Accounts payable:		
-Associates		
Kuozui	\$ 1,191,910	\$ 529,296
Others	517,784	624,089
-Entities controlled by key management		
TMC	4,786,371	3,942,992
Others	<u>340,089</u>	<u>1,007,277</u>
	<u>\$ 6,836,154</u>	<u>\$ 6,103,654</u>

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
(d) Accrued expenses and other payables:		
-Associates	\$ 543,966	\$ 561,794
-Entities controlled by key management	<u>217</u>	<u>2,098</u>
	<u>\$ 544,213</u>	<u>\$ 563,892</u>

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
(e) Commissions payable:		
-Entities controlled by key management		
Ho An	<u>\$ 60,553</u>	<u>\$ 40,590</u>

D. Prepayments to suppliers

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Entities controlled by key management	<u>\$ 244,497</u>	<u>\$ 170,967</u>

E. Property transactions

Acquisition of rental assets and equipment

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
-Associates		
Kuotu	\$ 2,667,926	\$ 2,291,006
Taipei Motor	1,143,432	1,396,678
Central Motor	954,635	845,629
Tau Miao	867,297	838,761
Others	1,337,834	1,227,853
-Entities controlled by key management	<u>19,238</u>	<u>12,851</u>
	<u>\$ 6,990,362</u>	<u>\$ 6,612,778</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>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Rental expense:		
- Associates	\$ 7,013	\$ 7,068
- Entities controlled by key management		
Ho Yu	<u>15,083</u>	<u>9,766</u>
	<u>\$ 22,096</u>	<u>\$ 16,834</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>December 31, 2019</u>
Lease liability:	
- Entities controlled by key management	
Ho Yu	\$ 104,709
- Associates	<u>7,928</u>
	<u>\$ 112,637</u>

(3) Key management remuneration

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Salaries and other short-term employee benefits	\$ 383,304	\$ 323,361
Post-employment benefits	<u>3,126</u>	<u>-</u>
Total	<u>\$ 386,430</u>	<u>\$ 323,361</u>

8. Pledged Assets

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

<u>Pledged asset</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>Purpose</u>
Notes and accounts receivable	\$ 5,943,330	\$ 6,736,170	Short-term borrowings and commercial papers payable
Financial assets at fair value through other comprehensive income (Note 1)	300,300	300,300	Operation bonds
Restricted assets (Note 2)			
-Demand and time deposits	240,826	601,580	Short-term borrowings, performance guarantee and issuance of L/C (Note 3)
-Land	<u>543,133</u>	<u>-</u>	
	<u>\$ 7,027,589</u>	<u>\$ 7,638,050</u>	
Transactions not listed in the balance sheet			
-Notes receivable for rent	<u>\$ 4,981,325</u>	<u>\$ 5,646,350</u>	Long-term and short-term borrowings and commercial papers payable

Note 1: Shown as 'other assets'.

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

Note 3: As of December 31, 2019 and 2018 the certificates of deposits amounting to \$6,107 and \$6,147, 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 March 26, 2020, the outstanding payments amounted to \$155,928.

(2) Details of operating lease agreements are shown in Note 6(35)2.

(3) Significant contracts signed by the Group as of December 31, 2019 are summarized as follows:

<u>Type of contracts</u>	<u>Party involved</u>	<u>Contract period</u>	<u>Main contents</u>
<u>The Company</u>			
Distributor agreement	Toyota Motor Corporation	January 1, 2019 to December 31, 2021	Sales of imported or domestic models, parts and accessories of Toyota and Hino in Taiwan.

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

#### 10. Significant Disaster Loss

None.

#### 11. Significant Events after the Balance Sheet Date

- (1) For the appropriation of retained earnings of 2019, please refer to Note 6(27).
- (2) On March 18, 2020, the Board of Directors of the subsidiary, Hotai Finance Co., Ltd., resolved the issuance of unsecured corporate bonds in an amount not exceeding \$8 billion.

#### 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>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Financial assets</u>		
Financial assets at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	\$ 5,679,120	\$ 4,772,918
Financial assets at fair value through other comprehensive income		
Designation of equity instrument	7,844,281	6,602,870
Qualifying equity instrument	1,602,746	1,551,394
Financial assets at amortized cost/Loans and receivables		
Cash and cash equivalents	12,023,739	9,469,088
Notes receivable	8,307,202	9,300,979
Accounts receivable	123,348,962	111,958,948
Long-term notes and accounts receivable	1,534,714	491,764
Other receivables	881,921	1,401,834
Guarantee deposits paid	658,742	608,528
Other financial assets	1,890,115	2,280,285
	<u>\$ 163,771,542</u>	<u>\$ 148,508,645</u>
Derivative financial assets for hedging	<u>\$ 81,131</u>	<u>\$ 70,038</u>

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Financial liabilities</u>		
Financial liabilities at fair value through profit or loss		
Financial liabilities held for trading	\$ 149,572	\$ 19,047
Financial liabilities at amortized cost		
Short-term loans	61,183,045	62,900,378
Short-term notes and bills payable	53,735,476	47,871,914
Notes payable	708,449	633,880
Accounts payable	10,447,079	10,482,820
Accrued expenses	5,041,474	4,844,381
Other payables	1,501,372	1,458,313
Commission payable	440,989	360,108
Corporate bonds payable (including current portion)	5,200,000	5,200,000
Long-term borrowings (including current portion)	5,927,600	6,833,690
Guarantee deposits received	13,059,964	12,528,290
Other financial liabilities	81,187	81,738
	<u>\$ 157,476,207</u>	<u>\$ 153,214,559</u>
Lease liabilities	<u>\$ 1,923,318</u>	<u>\$ -</u>
Financial liabilities for hedging	<u>\$ 112,291</u>	<u>\$ 52,424</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:

	December 31, 2019			December 31, 2018				
	Foreign currency amount		Exchange rate	Book value	Foreign currency amount		Exchange rate	Book value
	(In thousands)				(In thousands)			
(Foreign currency: functional currency)								
<u>Financial assets</u>								
<u>Monetary items</u>								
USD:NTD	USD	52,504	29.9800	\$ 1,574,068	USD	23,463	30.7150	\$ 720,666
JPY:NTD	JPY	198,379	0.2760	54,753	JPY	216,215	0.2782	60,151
RMB:NTD	CNY	2,016	4.2933	8,657	CNY	11,446	4.4736	51,205
<u>Financial liabilities</u>								
<u>Monetary items</u>								
USD:NTD	USD	439,309	29.9800	\$ 13,170,477	USD	191,949	30.7150	\$ 5,895,714
JPY:NTD	JPY	14,558	0.2760	4,018	JPY	65,352	0.2782	18,181
USD:RMB	USD	84,750	6.9830	2,540,805	USD	134,950	6.8658	4,144,989

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

- v. The total exchange gain (loss), including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2019 and 2018, amounted to \$362,700 and (\$11,073), 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:

	Year ended December 31, 2019			Year ended December 31, 2018		
	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%	\$ 15,741	\$ -	1%	\$ 7,207	\$ -
JPY:NTD	1%	548	-	1%	602	-
RMB:NTD	1%	87	-	1%	512	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	1%	131,705	-	1%	58,957	-
JPY:NTD	1%	40	-	1%	182	-
USD:RMB (Note)	1%	25,408	-	1%	41,450	-

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 years ended December 31, 2019 and 2018 would have increased/decreased by \$62,838 and \$89,887, 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 December 31, 2019 and 2018, HFC has financial instruments with off-balance-sheet credit risk amounting to \$8,360,262 and \$9,358,523, respectively, and HFC has collected notes for installment payment on behalf of the banks amounting to \$296,378 and \$367,181, 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 \$29,751.
- 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 December 31, 2019 and 2018, the provision matrix is as follows:

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	\$ 138,636,663	\$ 403,011	\$ 170,399	\$ 156,666	\$ 124,677	\$ 758,881	\$ 140,250,297
Loss allowance	\$ 1,453,645	\$ 176,595	\$ 122,457	\$ 131,784	\$ 115,194	\$ 633,465	\$ 2,633,140

December 31, 2018	Not past due	Later than 31 to 60 days	Later than 61 to 90 days	Later than 91 to 120 days	Later than 121 to 150 days	Over 151 days	Total
Total book value	\$ 124,626,193	\$ 372,786	\$ 157,360	\$ 149,195	\$ 128,573	\$ 855,549	\$ 126,289,656
Loss allowance	\$ 900,231	\$ 100,816	\$ 98,606	\$ 128,111	\$ 120,222	\$ 730,036	\$ 2,078,022

- viii. Credit risk information of subsidiary, Hotai Insurance Co., Ltd., as of December 31, 2019 and 2018 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):

	Year ended <u>December 31, 2019</u> <u>Receivables</u>
At January 1	\$ 2,116,783
Provision for impairment	1,733,475
Write-offs	( 1,028,631)
Others	( 144,486)
At December 31	<u>\$ 2,677,141</u>

  

	Year ended <u>December 31, 2019</u> <u>Receivables</u>
At January 1_IAS 39	\$ 1,658,679
Adjustments under new standards	-
At January 1_IFRS 9	1,658,679
Provision for impairment	1,387,798
Write-offs	( 925,148)
Others	( 4,546)
At December 31	<u>\$ 2,116,783</u>

Note : Including all the Group's consolidated entities.

For the years ended December 31, 2019 and 2018, gain on recoverable bad debts amounted to \$563,715 and \$506,373, 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 December 31, 2019 and 2018, the Group's unused credit line amounted to \$73,319,879 and \$46,613,280, 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:

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:

December 31, 2018

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

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:

December 31, 2018

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

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>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)	-	1,602,746	-	1,602,746
Equity securities	<u>7,525,714</u>	<u>-</u>	<u>318,567</u>	<u>7,844,281</u>
	<u>\$ 11,666,645</u>	<u>\$ 2,884,159</u>	<u>\$ 656,474</u>	<u>\$ 15,207,278</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	-	112,291	-	112,291
	<u>\$ -</u>	<u>\$ 261,863</u>	<u>\$ -</u>	<u>\$ 261,863</u>

Note: Including operation bonds.

<u>December 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Domestic and foreign beneficiary certificates	\$ 1,328,515	\$ -	\$ 302,104	\$ 1,630,619
Forward exchange contracts	-	4,171	-	4,171
Foreign exchange swap contracts	-	4,313	-	4,313
Bond investment	-	1,000,000	-	1,000,000
Equity securities	884,515	-	-	884,515
Exchange traded funds	1,153,253	-	-	1,153,253
Financial instruments	-	96,047	-	96,047
Derivative financial assets for hedging	-	70,038	-	70,038
Financial assets at fair value through other comprehensive income				
Bond investment (Note)	-	1,551,394	-	1,551,394
Equity securities	<u>6,313,093</u>	<u>-</u>	<u>289,777</u>	<u>6,602,870</u>
	<u>\$ 9,679,376</u>	<u>\$ 2,725,963</u>	<u>\$ 591,881</u>	<u>\$ 12,997,220</u>
<u>Liabilities</u>				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Forward exchange contracts	\$ -	\$ 19,047	\$ -	\$ 19,047
Derivative financial liabilities for hedging	<u>-</u>	<u>52,424</u>	<u>-</u>	<u>52,424</u>
	<u>\$ -</u>	<u>\$ 71,471</u>	<u>\$ -</u>	<u>\$ 71,471</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 years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2019</u>
	Beneficiary certificates	Equity securities
At January 1	\$ 302,104	\$ 289,777
Recorded as unrealized gains on valuation of investments in equity instruments measured at fair value through other comprehensive income	-	28,790
Recorded as gains on financial assets at fair value through profit or loss	( 1,997)	-
Acquired during the period	<u>37,800</u>	<u>-</u>
At December 31	<u>\$ 337,907</u>	<u>\$ 318,567</u>
	<u>2018</u>	<u>2018</u>
	Beneficiary certificates	Equity securities
At January 1	\$ -	\$ 281,388
Acquisition of Level 3 financial assets	291,300	-
Recorded as unrealized losses on valuation of investments in equity instruments measured at fair value through other comprehensive income	-	8,389
Recorded as gains on financial assets at fair value through profit or loss	<u>10,804</u>	<u>-</u>
At December 31	<u>\$ 302,104</u>	<u>\$ 289,777</u>

F. For the years ended December 31, 2019 and 2018, there was no transfer between Level 1, Level 2, and Level 3.

G. Treasury department is in charge of valuation procedures for fair value measurements being

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

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

	<u>Fair value at 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 December 31, 2018</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Non-derivative equity instrument:					
Unlisted shares	\$ 289,777	Asset liability method, Market comparable companies method	Net asset value, price to earnings ratio multiple	-	The higher the multiple and control premium, the higher the fair value.
Infrastructure fund	302,104	Net asset value	Not applicable	Not applicable	Not applicable

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 December 31, 2019 and 2018.

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

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

(a) Risk Governance Structure and Responsibilities

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

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

i. Protect the subsidiary's capital by not taking risks beyond the subsidiary's risk



tolerance.

- ii. Enhance value creation and achieve an optimal risk-return profile by efficiently deploying capital.
- iii. Support decision making processes by providing consistent, reliable and timely risk information.
- iv. Protect the subsidiary's brand and reputation by fostering the subsidiary's core values and promoting a sound culture of risk awareness.

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

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

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

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

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

#### (b) Risk Reporting and Measurement System

##### i. Risk Reporting

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

Risk management department consolidates risk information, reviews and follows up improvement actions. In the quarterly RCC meeting, Integrated Assessment and Assurance Reporting will be presented in accordance with the meeting agenda. After the CEO signs off quarterly RCC meeting minutes as a formal risk report, the report will be submitted to RCC and the Board of Directors for monitoring and verifying the soundness of the risk management framework.

##### ii. Measurement System

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

#### (c) Insurance Risk and Underwriting Guidelines

Insurance risk management includes product development, pricing, underwriting, reinsurance, natural/man-made catastrophes, claims and reserve related risks. All of these risks are managed by the front-line responsible functions, such as underwriting, claims,

technical management, product development and actuarial departments. According to the “Risk Management Policy,” related functional policies and procedures, and local regulations, the Risk management framework and mechanism are designed and embedded into day-to-day operations, which includes authorization, operational process and risk-type limit monitoring, etc. The Risk Policy adherence self-assessment checklist and Risk Management Practice Rules for Insurance Industry checklist should be filled in by risk-type owners annually, in order to comply with the requirements of “Risk Management Policy” and “Risk Management Practice Rules for Insurance Industry”.

(d) Total Risk Profiling and Insurance Risk Management

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

(e) Concentration Exposures on Insurance Risk

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

Line of Business	December 31, 2019	December 31, 2018
Fire insurance	\$ 50,000	\$ 50,000
Fire & A.P. insurance	50,000	50,000
Long-term residential fire insurance	50,000	50,000
Residential fire insurance	50,000	50,000
Marine cargo insurance	20,000	20,000
Inland marine insurance	20,000	20,000
Automobile insurance	Nil	Nil
General liability insurance	50,000	50,000
Engineering insurance	50,000	50,000
Fidelity insurance	60,000	60,000
Other property insurance	50,000	50,000
Personal accident insurance	50,000	50,000

In addition to control the own-retention limit per risk/catastrophe for confining risk exposures, the subsidiary, in accordance with the characteristics of each line of insurance business and to align with operational strategies, arranges reinsurance contracts or arranges facultative reinsurance to appropriately spread the subsidiary’s endured risk. For the credit

risk of main reinsurers, the subsidiary considers their credit rating, financial status, and location to ensure that the subsidiary has a stable and appropriate reinsurance coverage.

(f) Asset/Liability Management

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

(g) Capital Adequacy Management

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

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

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

A. Credit risk

- (a) Credit risk refers to the risk of financial loss to the subsidiary, Hotai Insurance Co., Ltd., arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable 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 Group will continue executing the recourse procedures to secure their rights.

(e) On December 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:

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

	December 31, 2018		
	12 months	Significant increase in credit risk	Impairment of credit
	Not past due or not over 30 days	Over 30 days	Over 90 days
	0%	0%	100%
Expected loss rate	0%	0%	100%
Total book value	\$ 681,769	\$ -	\$ 160
Loss allowance	-	-	160

The provision of allowance for loss referred to the “Regulation of the Procedure for Asset Assessment and Collection of Overdue Debts”. For the years ended December 31, 2019 and 2018, the movement of allowance for loss are as follows:

	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
At January 1	\$ -	\$ -	\$ 160	\$ 16,526	\$ 16,686
Amounts reversed	-	-	-	(2,373)	(2,373)
At December 31	-	-	\$ 160	\$ 14,153	\$ 14,313

	2018				
	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
At January 1	\$ -	\$ -	\$ 160	\$ 19,201	\$ 19,361
Amounts reversed	-	-	-	(2,675)	(2,675)
At December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 160</u>	<u>\$ 16,526</u>	<u>\$ 16,686</u>

As of December 31, 2019 and 2018, the allowance for loss of abovementioned financial assets was \$14,313 and \$16,686, respectively, and the maximum exposure to credit risk was \$751,509 and \$665,243, respectively.

- (f) As of December 31, 2019 and 2018, the subsidiary, Hotai Insurance Co., Ltd., has financial assets at fair value through other comprehensive income (including operating bonds), interest receivables from bonds, non-short term time deposits (excluding valuation adjustment) and interest receivables from time deposits amounting to \$3,507,857 and \$3,426,852, respectively, and are all classified as investment grade. The external credit risk rating are as follows:

<u>Credit risk rating</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
tw AAA	\$ 940,489	\$ 962,874
tw AA+	335,331	365,422
tw AA	302,988	598,326
tw AA-	990,444	828,788
tw A+	347,795	303,574
tw A	477,224	355,224
tw A-	<u>113,586</u>	<u>12,644</u>
	<u>\$ 3,507,857</u>	<u>\$ 3,426,852</u>

The probable expected loss rates of abovementioned financial assets within 12 months were 0%~0.07% and 0%~0.08%, respectively, the amounts of allowance for loss were \$633 and \$510, respectively, and the maximum exposure amounts were \$3,507,224 and \$3,426,342, 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 years ended December 31, 2019 and 2018, the movements of allowance for loss are as follows:

	<u>2019</u>	<u>2018</u>
At January 1	\$ 510	\$ 506
Provisions during the period	<u>123</u>	<u>4</u>
At December 31	<u>\$ 633</u>	<u>\$ 510</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 years ended December 31, 2019 and 2018, the reinsurance companies reinsurance premiums ceded and credit rating levels are as follows (if the reinsurance companies' reinsurance transactions is through reinsurance brokers, then the credit rating levels as follows is based on the reinsurance broker):

Year ended December 31, 2019

Credit rating levels (S&P)	Reinsurance premiums ceded	Percentage
AA+	\$ 1,697	0.10
AA	3,934	0.23
AA-	438,882	26.05
A++	921	0.06
A+	621,583	36.89
A	66,599	3.95
A-	1,735	0.10
Unrated	549,527	32.62
Total	\$ 1,684,878	100.00

Year ended December 31, 2018

Credit rating levels (S&P)	Reinsurance premiums ceded	Percentage
AA+	\$ 1,449	0.13
AA	2,351	0.20
AA-	325,221	27.81
A+	428,656	36.67
A	44,585	3.81
A-	15,186	1.30
BBB+	1,211	0.10
Unrated	350,423	29.98
Total	\$ 1,169,082	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

<u>December 31, 2019</u>	<u>Contractual undiscounted cash flows</u>			
	<u>Less than 1 year</u>	<u>Between 1 and 5 years</u>	<u>Between 5 and 10 years</u>	<u>Over 10 years</u>
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	-	-

<u>December 31, 2018</u>	<u>Contractual undiscounted cash flows</u>			
	<u>Less than 1 year</u>	<u>Between 1 and 5 years</u>	<u>Between 5 and 10 years</u>	<u>Over 10 years</u>
Insurance liabilities	\$ 4,798,754	\$ 1,256,846	\$ 108,635	\$ 1,919,791
Payables	942,876	-	-	-
Deposits-in	2,733	1,607	390	-

ii. Derivatives

On December 31, 2019, the subsidiary, Hotai Insurance Co., Ltd., has derivative instruments at net settlement whose duration are all within 3 months from reporting period-end to the due date of contract.

C. Market risk

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

- Equity market prices
- Interest rate and credit spreads

- Currency exchange rates

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

(a) Price risk

The price risk is arising from the uncertainty of the prices of beneficiary certificates. However, the subsidiary Hotai Insurance Co., Ltd. has appropriately spread the price risk through diversified portfolio to decrease the risk of investments centralised in any specific industry or issuance institution.

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

	December 31, 2019			Change in other comprehensive income
	Change of variables			
Listed stocks, ETF and domestic and foreign beneficiary certificates	Increase in price	10%	\$	299,998
	Decrease in price	10%	(	299,998)
	December 31, 2018			Change in other comprehensive Income
	Change of variables			Income
Listed stocks, ETF and domestic and foreign beneficiary certificates	Increase in price	10%	\$	287,464
	Decrease in price	10%	(	287,464)

(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>December 31, 2019</u>		
	<u>Change of variables</u>		<u>Change in fair value</u>
Fixed-income investments	Increase in interest rate	100 basis point	(\$ 110,576)
	Decrease in interest rate	100 basis point	110,576

	<u>December 31, 2018</u>		
	<u>Change of variables</u>		<u>Change in fair value</u>
Fixed-income investments	Increase in interest rate	100 basis point	(\$ 97,574)
	Decrease in interest rate	100 basis point	97,574

(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>December 31, 2019</u>	<u>December 31, 2018</u>
Foreign exchange rate	29.99	30.74

The US dollar assets and liabilities are shown as below:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
USD Assets	USD 40,276 thousand	USD 33,886 thousand
USD Liabilities	USD 1,205 thousand	USD 639 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>December 31, 2019</u>	
	<u>Change on variable</u>	<u>Impact on net (loss) income</u>
USD assets, net	Appreciate 5% against NTD	(\$ 24,560)
	Depreciate 5% against NTD	24,560

	<u>December 31, 2018</u>	
	<u>Change on variable</u>	<u>Impact on net (loss) income</u>
USD assets, net	Appreciate 5% against NTD	(\$ 20,980)
	Depreciate 5% against NTD	20,980

(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 years ended December 31, 2019 and 2018, the insurance risk concentration degree of premiums income and self-retained premiums from effective insurance contracts of fire insurance and engineering insurance are listed below:

	<u>Year ended December 31, 2019</u>	
<u>Line of Business</u>	<u>Premiums revenue</u>	<u>Retention premiums</u>
Fire insurance	\$ 1,185,414	\$ 499,752
Engineering insurance	185,158	44,016

	<u>Year ended December 31, 2018</u>	
<u>Line of Business</u>	<u>Premiums revenue</u>	<u>Retention premiums</u>
Fire insurance	\$ 1,105,923	\$ 523,467
Engineering insurance	43,542	10,924

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 years ended December 31, 2019 and 2018 and the result is shown below:

<u>Line of Business</u>	<u>Year ended December 31, 2019</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	\$ 136,009	\$ 118,492	\$ 136,009	\$ 118,492
Automobile third party liability insurance	63,039	56,047	63,039	56,047
Personal property insurance	6,419	4,429	6,419	4,429
Commercial property insurance	49,204	19,186	49,204	19,186
Liability insurance	33,677	24,376	33,677	24,376
Marine cargo insurance	9,678	7,486	9,678	7,486
Engineering insurance	3,885	915	3,885	915
Personal accident insurance	50,783	47,961	50,783	47,961
Health insurance	7,602	6,407	7,602	6,407
Foreign inward reinsurance	1,581	1,455	1,581	1,455

Line of Business	Year ended December 31, 2018			
	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	\$ 100,422	\$ 89,253	\$ 100,422	\$ 89,253
Automobile third party liability insurance	48,388	44,471	48,388	44,471
Personal property insurance	6,673	4,005	6,673	4,005
Commercial property insurance	41,109	16,569	41,109	16,569
Liability insurance	22,903	17,295	22,903	17,295
Marine cargo insurance	8,861	7,056	8,861	7,056
Engineering insurance	3,908	745	3,908	745
Personal accident insurance	42,953	40,353	42,953	40,353
Health insurance	6,897	5,821	6,897	5,821
Foreign inward reinsurance	1,323	1,304	1,323	1,304

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 years ended December 31, 2019 and 2018.

### C. Loss development pattern

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

#### (a) Direct business

December 31, 2019 Development Year	Accident Year					Total	Unit:NTD
	≤2015	2016	2017	2018	2019		
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	

December 31, 2018 Development Year	Accident Year					Total
	≤2014	2015	2016	2017	2018	
End of underwriting year	\$ 19,944,293	\$ 1,399,479	\$ 2,644,742	\$ 1,788,662	\$ 2,584,648	
One year after underwriting year	19,836,286	1,401,087	2,344,556	1,806,176	-	
Two years after underwriting year	19,902,165	1,395,084	2,297,738	-	-	
Three years after underwriting year	19,925,398	1,321,887	-	-	-	
Four years after underwriting year	19,870,451	-	-	-	-	
Estimated ultimate losses	19,870,451	1,321,887	2,297,738	1,806,176	2,584,648	
Paid losses	( 19,484,894)	( 1,130,313)	( 2,070,452)	( 1,263,860)	( 1,574,267)	
Total reserve	<u>\$ 385,557</u>	<u>\$ 191,574</u>	<u>\$ 227,286</u>	<u>\$ 542,316</u>	<u>\$ 1,010,381</u>	\$ 2,357,114
Adjustment item (Note)						244,870
Realized amount in balance sheet (Shown as claims reserve for insurance liabilities)						<u>\$ 2,601,984</u>

(b) Retention business

December 31, 2019 Development Year	Accident Year					Total	Unit: NTD
	≤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)							225,026
Realized amount in balance sheet (Shown as claims reserve for insurance liabilities)							<u>\$ 2,383,492</u>

December 31, 2018 Development Year	Accident Year					Total
	≤2014	2015	2016	2017	2018	
End of underwriting year	\$ 13,034,142	\$ 1,197,810	\$ 1,100,469	\$ 1,351,056	\$ 2,301,559	
One year after underwriting year	13,003,762	1,216,337	1,112,765	1,375,530	-	
Two years after underwriting year	12,979,752	1,225,395	1,069,063	-	-	
Three years after underwriting year	13,006,010	1,181,837	-	-	-	
Four years after underwriting year	12,969,819	-	-	-	-	
Estimated ultimate losses	12,969,819	1,181,837	1,069,063	1,375,530	2,301,559	
Paid losses	( 12,692,504)	( 1,015,999)	( 923,829)	( 1,051,392)	( 1,436,083)	
Total reserve	<u>\$ 277,315</u>	<u>\$ 165,838</u>	<u>\$ 145,234</u>	<u>\$ 324,138</u>	<u>\$ 865,476</u>	\$ 1,778,001
Adjustment item (Note)						189,537
Realized amount in balance sheet (Shown as claims reserve for insurance liabilities)						<u>\$ 1,967,538</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>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	1,286,604	507,531
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>December 31, 2018</u>			
<u>Assets</u>			
Cash and cash equivalents	\$ 1,564,420	\$ 1,564,420	\$ -
Receivables	605,870	605,870	-
Current income tax assets	13,777	-	13,777
Assets held for sale	15,767	15,767	-
Financial assets at fair value through profit or loss	3,378,952	2,878,952	500,000
Financial assets at fair value through other comprehensive income	1,551,395	267,421	1,283,974
Other financial assets	1,550,443	1,493,201	57,242
Investment property	325,567	-	325,567
Reinsurance contract assets	1,642,862	1,225,913	416,949
Property and equipment	2,594,886	-	2,594,886
Intangible assets	66,412	-	66,412
Other assets	443,865	31,870	411,995

<u>December 31, 2018</u>	<u>Book value</u>	<u>Within 12 months</u>	<u>Over 12 months</u>
<u>Liabilities</u>			
Payables	\$ 942,876	\$ 942,876	\$ -
Insurance liabilities	8,084,026	4,798,754	3,285,272
Other liabilities	96,040	94,043	1,997

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

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

Year ended December 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	\$ 193,070	\$ 140,537	\$ 137,267	\$ 196,340	\$ 14,706	\$ 181,634
Elective insurance	7,969,543	197,409	1,794,774	6,372,178	640,272	5,731,906
	8,162,613	337,946	1,932,041	6,568,518	654,978	5,913,540
Discount	13	-	-	13	-	13
	<u>\$ 8,162,626</u>	<u>\$ 337,946</u>	<u>\$ 1,932,041</u>	<u>\$ 6,568,531</u>	<u>\$ 654,978</u>	<u>\$ 5,913,553</u>

Year ended December 31, 2018						
Category of Insurance	Written premiums (1)	Reinsurance premiums (2)	Reinsurance premiums ceded (3)	Retention premiums (4)=(1)+(2)-(3)	Net change in unearned premium (5)	Retention earned premiums (6)=(4)-(5)
Compulsory insurance	\$ 135,298	\$ 126,083	\$ 114,422	\$ 146,959	\$ 10,692	\$ 136,267
Elective insurance	6,179,371	238,431	1,281,733	5,136,069	596,358	4,539,711
	6,314,669	364,514	1,396,155	5,283,028	607,050	4,675,978
Discount	2	-	-	2	-	2
	<u>\$ 6,314,671</u>	<u>\$ 364,514</u>	<u>\$ 1,396,155</u>	<u>\$ 5,283,030</u>	<u>\$ 607,050</u>	<u>\$ 4,675,980</u>



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

Year ended December 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	\$ 197,492	\$ 121,160	\$ 116,151	\$ 202,501
Elective insurance	<u>2,914,856</u>	<u>43,749</u>	<u>321,453</u>	<u>2,637,152</u>
	<u>\$ 3,112,348</u>	<u>\$ 164,909</u>	<u>\$ 437,604</u>	<u>\$ 2,839,653</u>

Year ended December 31, 2018				
Category of insurance	Claim expenditures (1)	Reinsurance claim expenditures (2)	Reinsurance claims recovery (3)	Retention claim expenditures (4)=(1)+(2)-(3)
Compulsory insurance	\$ 130,428	\$ 113,033	\$ 77,927	\$ 165,534
Elective insurance	<u>2,245,524</u>	<u>33,765</u>	<u>299,721</u>	<u>1,979,568</u>
	<u>\$ 2,375,952</u>	<u>\$ 146,798</u>	<u>\$ 377,648</u>	<u>\$ 2,145,102</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>December 31, 2019</u>	<u>December 31, 2018</u>
Assets		
Cash and cash equivalents	\$ 1,583,915	\$ 1,548,083
Notes receivable	1,399	1,822
Premiums receivable	7,924	8,010
Claims recoverable from reinsurers	12,285	2,686
Due from reinsurance and ceding companies	23,052	20,830
Ceded unearned premium reserve	72,949	61,729
Ceded claim reserve	86,986	60,779
Temporary payments and suspense accounts	<u>52</u>	<u>423</u>
Total assets	<u>\$ 1,788,562</u>	<u>\$ 1,704,362</u>
Liabilities		
Claims payable	\$ 705	\$ 227
Due to reinsurance and ceding companies	24,805	21,617
Unearned premium reserve	201,404	175,478
Claims reserve	254,754	200,079
Special reserve	1,306,722	1,306,825
Temporary payments and suspense accounts	<u>172</u>	<u>136</u>
Total liabilities	<u>\$ 1,788,562</u>	<u>\$ 1,704,362</u>

As of December 31, 2019 and 2018, the subsidiary, Hotai Insurance Co., Ltd., has long-term time deposits amounting to \$1,484,913 and \$1,420,263, respectively, shown as other financial assets in the balance sheets.

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

	Years ended December 31,	
	2019	2018
Operating revenues		
Written premiums	\$ 228,778	\$ 190,698
Reinsurance premiums	140,537	126,083
Less: Reinsurance premiums ceded	( 137,267)	( 114,422)
Net change in unearned premium reserve	( 14,706)	( 10,692)
Retention earned premiums	217,342	191,667
Interest income	13,525	13,309
	<u>\$ 230,867</u>	<u>\$ 204,976</u>
Operating costs		
Claim expenditures	\$ 197,492	\$ 130,428
Reinsurance claim expenditures	121,160	113,033
Less: Reinsurance claims recovery	( 116,151)	( 77,927)
Retention claim expenditures	202,501	165,534
Net change in claims reserve	28,468	18,511
Net change in special reserve	( 102)	20,931
	<u>\$ 230,867</u>	<u>\$ 204,976</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. Under the amendments to the "Regulations Governing Capital Adequacy of Insurance Enterprises" which will be effective recently, 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.

Net worth ratio is calculated as the owner's equity divided by total assets excluding separate accounts for investment-linked insurance. In 2019, the net worth ratio of the Subsidiary, Hotai Insurance Co., Ltd., was 32.64%.

- (13) The total amount of current assets and liabilities of the subsidiary, Hotai Finance Co., Ltd., that are expected to be recovered and repaid within or over 12 months

<u>December 31, 2019</u>	<u>Book value</u>	<u>Within 12 months</u>	<u>Over 12 months</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 341,165	\$ 341,165	\$ -
Current financial assets for hedging	81,131	-	81,131
Accounts and notes receivable, net	122,636,168	51,370,621	71,265,547
Other receivables	79,839	79,839	-
Inventories	2,587	2,587	-
Prepayments	5,358,141	3,761,403	1,596,738
Other current financial assets	74,598	74,598	-
<u>Liabilities</u>			
Current borrowings	\$ 51,469,638	\$ 43,235,968	\$ 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
Accounts and notes payable	1,391,753	1,391,753	-
Other payables	1,382,654	1,382,654	-
Current income tax liabilities	426,353	426,353	-
Lease liabilities-current	64,884	64,884	-
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	125,420	125,420	-

<u>December 31, 2018</u>	<u>Book value</u>	<u>Within 12 months</u>	<u>Over 12 months</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 464,836	\$ 464,836	\$ -
Current financial assets for hedging	70,038	-	70,038
Accounts and notes receivable, net	112,114,777	41,617,727	70,497,050
Other receivables	56,385	56,385	-
Inventories	13,029	13,029	-
Prepayments	5,407,985	3,977,144	1,430,841
Other current financial assets	553,468	553,468	-
<u>Liabilities</u>			
Current borrowings	\$ 53,911,741	\$ 41,120,217	\$ 12,791,524
Short-term notes and bills payable	44,424,835	33,192,647	11,232,188
Current financial liabilities for hedging	52,424	1,486	50,938
Accounts and notes payable	1,204,492	1,204,492	-
Other payables	1,216,024	1,216,024	-
Current tax liabilities	390,619	390,619	-
Financial guarantee liabilities-current	81,738	81,738	-
Bonds payable	5,200,000	-	5,200,000
Guarantee deposits received - current	3,392,510	1,539,177	1,853,333
Other current liabilities, others	90,603	90,603	-

### 13. Supplementary Disclosures

Related information of significant transactions are as follows:

#### (1) Significant transactions information

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

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

The table below listed the derivative instruments undertaken but not yet expired as of December 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 404,846	2020/1/7~2020/5/14	(\$ 149,572)	(\$ 149,572)
Hotai Insurance Co., Ltd.	Foreign exchange swap contracts	USD 21,950	2020/1/6~2020/3/2	9,346	9,346
Hotai Finance Co., Ltd.	Cross currency swaps	USD 200,000	2020/3/13~2021/9/17	( 36,509)	( 36,509)
Hoyun International Lease Co., Ltd.	Cross currency swaps	USD 18,000	2021/6/18	5,349	5,349

(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 9.

(3) Information on investments in Mainland China

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

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

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

14. Segment Information

(1) General information

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

- A. Distributor of Toyota and Hino products segments: distributor for sale of Toyota and Hino vehicles, parts and other products to dealers. This segment refers to Ho Tai Motor Co., Ltd. As of December 31, 2019, the Company's self-owned capital ratio was 77%.
- 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	Year ended December 31, 2019					
	Distributor of Toyota and Hino products segments	Installment trading segments	Leasing segments	Other segments	Reconciliation and elimination	Total
Revenue from external customers	\$ 121,411,772	\$ 8,558,651	\$ 20,133,244	\$ 63,651,404	\$ -	\$ 213,745,071
Inter-segment revenue (Note)	12,427,869	163,048	52,210	10,750,071	( 23,393,198)	-
Total segment revenue	<u>\$ 133,839,641</u>	<u>\$ 8,721,699</u>	<u>\$ 20,175,454</u>	<u>\$ 74,401,475</u>	<u>(\$ 23,393,198)</u>	<u>\$ 213,745,071</u>
Segment income (loss) (Note)	<u>\$ 13,737,315</u>	<u>\$ 2,823,044</u>	<u>\$ 1,080,679</u>	<u>\$ 8,866,396</u>	<u>(\$ 9,134,448)</u>	<u>\$ 17,372,986</u>
Depreciation and amortization	<u>\$ 97,423</u>	<u>\$ 224,327</u>	<u>\$ 7,586,110</u>	<u>\$ 429,215</u>	<u>\$ 608,039</u>	<u>\$ 8,945,114</u>
Income expense	<u>\$ 1,968,501</u>	<u>\$ 587,458</u>	<u>\$ 289,415</u>	<u>\$ 942,713</u>	<u>\$ -</u>	<u>\$ 3,788,087</u>
Gain on investments accounted for using equity method	<u>\$ 5,376,506</u>	<u>\$ 142,994</u>	<u>\$ 140,698</u>	<u>\$ 4,683,445</u>	<u>(\$ 9,190,434)</u>	<u>\$ 1,153,209</u>
Segment assets	<u>\$ 76,469,958</u>	<u>\$114,720,710</u>	<u>\$ 51,284,995</u>	<u>\$ 84,333,907</u>	<u>(\$ 71,275,515)</u>	<u>\$ 255,534,055</u>
Segment liabilities	<u>\$ 17,883,522</u>	<u>\$ 94,250,073</u>	<u>\$ 45,863,918</u>	<u>\$ 22,506,610</u>	<u>(\$ 578,695)</u>	<u>\$ 179,925,428</u>

Items	Year ended December 31, 2018					
	Distributor of Toyota and Hino products segments	Installment trading segments	Leasing segments	Other segments	Reconciliation and elimination	Total
Revenue from external customers	\$ 105,195,659	\$ 7,724,486	\$ 18,681,090	\$ 55,426,351	\$ -	\$ 187,027,586
Inter-segment revenue (Note)	9,431,436	328,093	332,491	8,466,915	( 18,558,935)	-
Total segment revenue	<u>\$ 114,627,095</u>	<u>\$ 8,052,579</u>	<u>\$ 19,013,581</u>	<u>\$ 63,893,266</u>	<u>(\$ 18,558,935)</u>	<u>\$ 187,027,586</u>
Segment income (loss) (Note)	<u>\$ 11,932,596</u>	<u>\$ 2,251,361</u>	<u>\$ 956,542</u>	<u>\$ 9,059,510</u>	<u>(\$ 9,004,735)</u>	<u>\$ 15,195,274</u>
Depreciation and amortization	<u>\$ 89,916</u>	<u>\$ 223,661</u>	<u>\$ 7,319,073</u>	<u>\$ 407,993</u>	<u>\$ 3,963</u>	<u>\$ 8,044,606</u>
Income tax expense	<u>\$ 1,907,061</u>	<u>\$ 489,846</u>	<u>\$ 412,440</u>	<u>\$ 786,097</u>	<u>\$ -</u>	<u>\$ 3,595,444</u>
Gain on investments accounted for using equity method	<u>\$ 4,500,124</u>	<u>\$ 78,121</u>	<u>\$ 91,161</u>	<u>\$ 3,640,460</u>	<u>(\$ 7,303,336)</u>	<u>\$ 1,006,530</u>
Segment assets	<u>\$ 66,132,309</u>	<u>\$103,043,040</u>	<u>\$ 51,840,019</u>	<u>\$ 70,889,740</u>	<u>(\$ 62,519,403)</u>	<u>\$ 229,385,705</u>
Segment liabilities	<u>\$ 16,796,583</u>	<u>\$ 92,737,741</u>	<u>\$ 45,374,986</u>	<u>\$ 17,949,485</u>	<u>(\$ 1,709,048)</u>	<u>\$ 171,149,747</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.

(5) Information on products and services

Revenue from external customers is primarily derived from the exclusive agent of Toyota and Hino products segment and leasing segment.

Details of revenue balance are as follows:

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Sales revenue	\$ 181,101,787	\$ 158,221,271
Rental revenue	12,421,162	11,614,482
Interest revenue	9,377,005	8,194,392
Premium	5,913,553	4,675,980
Others	<u>4,931,564</u>	<u>4,321,461</u>
	<u>\$ 213,745,071</u>	<u>\$ 187,027,586</u>

(6)Geographical information

Geographical information for the years ended December 31, 2019 and 2018 is as follows:

	<u>Year ended December 31, 2019</u>		<u>Year ended December 31, 2018</u>	
	<u>Revenue (Note)</u>	<u>Non-current assets</u>	<u>Revenue (Note)</u>	<u>Non-current assets</u>
Taiwan	\$ 187,848,759	\$ 64,807,616	\$ 164,360,899	\$ 58,905,070
Mainland China	<u>25,896,312</u>	<u>6,119,074</u>	<u>22,666,687</u>	<u>4,106,367</u>
	<u>\$ 213,745,071</u>	<u>\$ 70,926,690</u>	<u>\$ 187,027,586</u>	<u>\$ 63,011,437</u>

Note: Revenue is categorized based on the locations of customers.

(7)Major customer information

Major customer information of the Group for the years ended December 31, 2019 and 2018 is as follows:

	<u>Year ended December 31, 2019</u>		<u>Year ended December 31, 2018</u>	
	<u>Revenue</u>	<u>Segment</u>	<u>Revenue</u>	<u>Segment</u>
A	\$24,759,682	Distributor of Toyota and Hino products	\$21,866,118	Distributor of Toyota and Hino products
B	22,596,968	"	19,982,922	"
C	19,629,150	"	15,072,330	"
D	18,441,045	"	16,570,774	"



Ho Tai Motor Co., Ltd.  
Loans to others  
Year ended December 31, 2019  
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Table 1

Number	Creditor	Borrower	General ledger account	Related party	Maximum outstanding balance during the year ended December 31, 2019	Balance at December 31, 2019	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts		Collateral		Limit on loans granted to a single party	Ceiling on total loans granted	Footnote
														Item	Value			
1	Shanghai Hoyu Motor Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	Other receivables	Y	\$ 206,388	\$ 193,198	\$ 21,466	2.15%	Short-term financing	-	Operations	\$ -	None	\$ -	\$ 289,942	\$ 289,942	Note 2	
2	Shanghai Heling Motor Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	412,777	386,396	72,986	2.15%	"	-	"	-	"	-	609,951	609,951	Note 2	
3	Shanghai Hozhan Motor Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	137,592	128,799	-	2.15%	"	-	"	-	"	-	165,023	165,023	Note 2	
4	Shanghai Yangpu Heling Lexus Motor Sales & Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	169,697	158,851	111,196	2.15%	"	-	"	-	"	-	434,459	434,459	Note 2	
5	Chongqing Heling Lexus Motor Sales & Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	299,185	279,063	191,480	2.15%	"	-	"	-	"	-	392,874	392,874	Note 2	
6	Tianjin Ho-Yu Motor Sales & Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	91,728	85,866	18,032	2.15%	"	-	"	-	"	-	179,359	179,359	Note 2	
7	Tangshan Heling Lexus Motor Sales & Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	238,493	223,251	114,201	2.15%	"	-	"	-	"	-	311,690	311,690	Note 2	
8	Nanchang Heling Lexus Motor Sales & Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	238,493	223,251	130,086	2.15%	"	-	"	-	"	-	340,740	340,740	Note 2	
9	Zaozhuang Ho-Yu Toyota Motor Sales & Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	115,071	107,332	37,352	2.15%	"	-	"	-	"	-	210,222	210,222	Note 2	
10	Tianjin Hozhan Motor Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	137,592	128,799	85,866	2.15%	"	-	"	-	"	-	272,257	272,257	Note 2	
11	Tianjin Heling Lexus Motor Sales & Service Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	206,388	193,198	117,207	2.15%	"	-	"	-	"	-	408,518	408,518	Note 2	
12	Shanghai Ho-Mian Motor Technology Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	596,233	558,127	-	2.15%	"	-	"	-	"	-	974,614	974,614	Note 2	
13	Shanghai Guangxin Cultural Media Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	5,984	5,152	-	2.15%	"	-	"	-	"	-	8,782	8,782	Note 2	
14	Shanghai Ho-Qian Logistics Equipment Trading Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	91,728	85,866	51,949	2.15%	"	-	"	-	"	-	152,862	152,862	Note 2	
15	Shanghai Hoxin Motor Service Consulting Co.,Ltd.	Hotong Motor Investment Co., Ltd.	"	"	3,669	3,435	-	2.15%	"	-	"	-	"	-	4,525	4,525	Note 2	
16	Tianjin Heyi International Trading Co., Ltd.	Hotong Motor Investment Co., Ltd.	"	"	22,015	20,608	-	2.15%	"	-	"	-	"	-	87,125	87,125	Note 2	
17	ZaoZhuang Ho-Wan Motor Sales & Service Co.,Ltd	Hotong Motor Investment Co., Ltd.	"	"	10,090	9,445	-	2.15%	"	-	"	-	"	-	42,382	42,382	Note 2	
18	Hotong Motor Investment Co., Ltd.	Shanghai Hozhan Motor Service Co., Ltd.	"	"	128,419	120,212	75,304	3.35%	"	-	"	-	"	-	5,673,713	11,347,425	Note 3	
18	Hotong Motor Investment Co., Ltd.	Nanchang Heling Lexus Motors Sales & Service Co., Ltd.	"	"	192,629	180,318	-	3.35%	"	-	"	-	"	-	5,673,713	11,347,425	Note 3	
18	Hotong Motor Investment Co., Ltd.	Tianjin Ho-Yu Motor Sales & Service Co., Ltd.	"	"	160,524	150,265	-	3.35%	"	-	"	-	"	-	5,673,713	11,347,425	Note 3	
18	Hotong Motor Investment Co., Ltd.	Tianjin Hozhan Motor Service Co., Ltd.	"	"	128,419	120,212	-	3.35%	"	-	"	-	"	-	5,673,713	11,347,425	Note 3	
18	Hotong Motor Investment Co., Ltd.	Shanghai Hoyu Motor Service Co., Ltd.	"	"	146,765	137,385	-	3.35%	"	-	"	-	"	-	5,673,713	11,347,425	Note 3	
18	Hotong Motor Investment Co., Ltd.	Shanghai Heling Motor Service Co., Ltd.	"	"	481,573	450,795	-	3.35%	"	-	"	-	"	-	5,673,713	11,347,425	Note 3	
18	Hotong Motor Investment Co., Ltd.	Chongqing Heling Lexus Motor Sales & Service Co., Ltd.	"	"	399,017	373,516	-	3.35%	"	-	"	-	"	-	5,673,713	11,347,425	Note 3	
18	Hotong Motor Investment Co., Ltd.	Tangshan Heling Lexus Motor Sales & Service Co., Ltd.	"	"	299,185	279,063	-	3.35%	"	-	"	-	"	-	5,673,713	11,347,425	Note 3	
18	Hotong Motor Investment Co., Ltd.	Zaozhuang Ho-Yu Toyota Motor Sales & Service Co., Ltd.	"	"	128,419	120,212	-	3.35%	"	-	"	-	"	-	5,673,713	11,347,425	Note 3	
18	Hotong Motor Investment Co., Ltd.	Tianjin Heling Lexus Motor Sales & Service Co., Ltd.	"	"	307,289	287,650	-	3.35%	"	-	"	-	"	-	5,673,713	11,347,425	Note 3	
18	Hotong Motor Investment Co., Ltd.	Shanghai Ho-Qian Logistics Equipment Trading Co., Ltd.	"	"	23,014	21,466	-	3.35%	"	-	"	-	"	-	5,673,713	11,347,425	Note 3	
18	Hotong Motor Investment Co., Ltd.	Shanghai Yangpu Heling Lexus Motor Sales & Service Co., Ltd.	"	"	197,216	184,611	-	3.35%	"	-	"	-	"	-	5,673,713	11,347,425	Note 3	

Number	Creditor	Borrower	General ledger account	Related party	Maximum outstanding	Balance at	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
					balance during the year ended December 31, 2019	December 31, 2019							Item	Value			
18	Hotong Motor Investment Co., Ltd.	Shanghai Ho-Mian Motor Technology Co., Ltd.	Other receivables	Y	\$ 138,085	\$ 128,799	\$ 28,808	3.35%	Short-term financing	-	Operations	\$ -	None	\$ -	\$ 5,673,713	\$ 11,347,425	Note 3
18	Hotong Motor Investment Co., Ltd.	Shanghai HoChen Motor Technology Co., Ltd.	"	"	268,763	251,586	-	3.35%	"	-	"	-	"	-	5,673,713	11,347,425	Note 3
18	Hotong Motor Investment Co., Ltd.	Shanghai Guangxin Cultural Media Co., Ltd.	"	"	4,586	4,293	-	3.35%	"	-	"	-	"	-	5,673,713	11,347,425	Note 3
18	Hotong Motor Investment Co., Ltd.	Shanghai Hoxin Motor Service Consulting Co.,Ltd.	"	"	4,586	4,293	-	3.35%	"	-	"	-	"	-	5,673,713	11,347,425	Note 3
18	Hotong Motor Investment Co., Ltd.	Tianjin Heyi International Trading Co., Ltd.	"	"	91,728	85,866	-	3.35%	"	-	"	-	"	-	5,673,713	11,347,425	Note 3
18	Hotong Motor Investment Co., Ltd.	ZaoZhuang Ho-Wan Motor Sales & Service Co.,Ltd	"	"	22,932	21,466	-	3.35%	"	-	"	-	"	-	5,673,713	11,347,425	Note 3
18	Hotong Motor Investment Co., Ltd.	Hoyun International Lease Co., Ltd.	"	"	230,142	-	-	3.85%	"	-	"	-	"	-	5,673,713	11,347,425	Note 3
19	Hoyun International Lease Co., Ltd.	Hoyun (Shanghai) Commerical Factoring Co., Ltd.	"	"	223,681	-	-	5.44%	"	-	"	-	"	-	3,280,049	6,560,098	Note 4

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.

Note 4: For Hoyun International Lease Co., Ltd., the limit on total loans to foreign companies whose voting rights are 100% owned directly and indirectly by Hotai Finance Co., Ltd. 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  
Year ended December 31, 2019

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

Table 2

Number	Endorser/ guarantor	Party being endorsed/guaranteed  Company name	Relationship with the endorser/guarantor	Limit on endorsements/ guarantees provided for a single party	Maximum outstanding endorsement/ guarantee amount as of December 31, 2019	Outstanding endorsement/ guarantee amount at December 31, 2019	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in Mainland China	Footnote
0	Ho Tai Motor Co., Ltd.	Shanghai Ho-Qian Logistics Equipment Trading Co., Ltd.	Note 5.b	\$ 17,559,561	\$ 47,400	\$ 44,970	\$ -	\$ -	0.08%	\$ 29,265,936	Y	N	Y	Note 1
0	Ho Tai Motor Co., Ltd.	Tianjin Hozhan Motor Service Co., Ltd.	"	17,559,561	142,200	-	-	-	0.00%	29,265,936	Y	N	Y	"
0	Ho Tai Motor Co., Ltd.	Shanghai Hozhan Motor Service Co., Ltd.	"	17,559,561	142,200	-	-	-	0.00%	29,265,936	Y	N	Y	"
0	Ho Tai Motor Co., Ltd.	Shanghai Hoyu Motor Service Co., Ltd.	"	17,559,561	173,800	-	-	-	0.00%	29,265,936	Y	N	Y	"
0	Ho Tai Motor Co., Ltd.	Tianjin Ho-Yu Motor Sales & Service Co., Ltd.	"	17,559,561	189,600	-	-	-	0.00%	29,265,936	Y	N	Y	"
0	Ho Tai Motor Co., Ltd.	Zaozhuang Ho-Yu Toyota Motor Sales & Service Co., Ltd.	"	17,559,561	142,200	-	-	-	0.00%	29,265,936	Y	N	Y	"
1	Hotai Finance Co., Ltd.	Hoyun International Lease Co., Ltd.	"	20,470,639	3,682,274	3,434,627	1,337,787	-	16.78%	20,470,639	Y	N	Y	Note 2
1	Hotai Finance Co., Ltd.	Hoyun (Shanghai) Commerical Factoring Co., Ltd.	"	20,470,639	522,077	321,631	219,141	-	1.57%	20,470,639	Y	N	Y	"
2	Toyota Material Handling Taiwan Ltd.	Shanghai Ho-Quian Logistics Equipment Trading Co., Ltd.	"	293,252	31,600	29,980	-	-	3.07%	488,753	Y	N	Y	Note 3
3	Hotai Leasing Co., Ltd.	Hoing Mobility Service Corporation	"	2,848,089	1,600,000	1,600,000	930,000	-	42.13%	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. Net assets value is based on the amount included in the latest filing of financial statements and report of independent accounts.

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

Note 4 : For Hotai Leasing Co., Ltd., the limit on total endorsement is no more than 80% of the company's total equity; the limit on endorsement for any single entity is no more than 75% of the Company's total equity.

Note 5 : Relationship between the endorser/guarantor:

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

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

Ho Tai Motor Co., Ltd.  
Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)  
Year ended December 31, 2019  
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Table 3

Securities held by	Type and name of securities	Relationship with the securities issuer	General ledger account	As of December 31, 2019				Footnote
				Number of shares	Book value	Ownership (%)	Fair value	
Ho Tai Motor Co., Ltd.	Stock - Mega Financial Holding Company	None	Financial assets at fair value through other comprehensive income - non-current	20,617,157	\$ 630,885	0.15%	\$ 630,885	
	- Toyota Motor Corporation	-	"	3,191,200	6,794,269	0.10%	6,794,269	
	- Shihlin Electric & Engineering Corporation Etc.	None	"	-	99,124	0.00%~0.42%	99,124	
	Taian Insurance Co., Ltd. Etc.	-	"	-	280,276	0.42%~3.10%	280,276	
	Nan Shan Life Insurance Perpetual Subordinated Bonds	None	Financial assets at fair value through profit or loss - non-current	-	500,000	-	500,000	
			Valuation adjustment of financial assets		-		-	
			Total		\$ 500,000		\$ 500,000	
Hozan Investment Co., Ltd.	Ho An Insurance Agency Co., Ltd. Etc.	-	Financial assets at fair value through other comprehensive income - non-current	-	\$ 2,982	0.50%	\$ 2,982	
	Beneficiary certificates	Not applicable	Financial assets at fair value through profit or loss - current	29,391,924	\$ 305,000	-	\$ 305,062	
	- Franklin Templeton Sinoam Money Market Fund		"	22,482,807	\$ 357,000	-	\$ 357,065	
	- Prudential Financial Money Market Fund	"	"		\$ 127			
			Valuation adjustment of financial assets		\$ 662,127		\$ 662,127	
			Total		\$ 476,728	-	\$ 483,620	
Toyota Material Handling Taiwan Ltd.	Beneficiary certificates		Financial assets at fair value through profit or loss - current	46,595,533	\$ 476,728	-	\$ 483,620	
	- Franklin Templeton Sinoam Money Market Fund	Not applicable	Financial assets at fair value through profit or loss - current		6,892		-	
			Valuation adjustment of financial assets		\$ 483,620		\$ 483,620	
			Total		\$ 3,203	0.01%~0.50%	\$ 3,203	
Carmax Co., Ltd.	Ho An Insurance Agency Co., Ltd. Etc.	-	Financial assets at fair value through other comprehensive income - non-current	-	\$ 3,203	0.01%~0.50%	\$ 3,203	
	Beneficiary certificates		Financial assets at fair value through profit or loss - current	11,642,842	120,000	-	120,842	
	- Franklin Templeton Sinoam Money Market Fund	Not applicable	Financial assets at fair value through profit or loss - current		100,220	-	100,377	
	- CTBC Hwa-win Money Market Fund	"	"	9,073,865	999		-	
			Valuation adjustment of financial assets		\$ 221,219		\$ 221,219	
			Total		\$ 1,436	-	\$ 1,436	
Ho Tai Development Co., Ltd.	Stock - First Financial Holding Co. Ltd. Etc.	-	Financial assets at fair value through other comprehensive income - non-current	-	\$ 1,436	-	\$ 1,436	
	Ho An Insurance Agency Co., Ltd. Etc.	-	"	-	3,203	0.01%~0.51%	3,203	
	President securites Corp-PGNW0085	Not applicable	Financial assets at fair value through profit or loss - current	-	190,543	-	190,936	
			Valuation adjustment of financial assets		393		-	
			Total		\$ 190,936		\$ 190,936	
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		Financial assets at fair value through profit or loss - current	2,527,891	30,000	-	30,378	
	- BOT Money Market Fund	Not applicable	Financial assets at fair value through profit or loss - current		378			
			Valuation adjustment of financial assets		\$ 30,378		\$ 30,378	
			Total		\$ 2,982	0.50%	\$ 2,982	
Hotai Finance Co., Ltd.	Ho An Insurance Agency Co., Ltd. Etc.	-	Financial assets at fair value through other comprehensive income - non-current	-	\$ 2,982	0.50%	\$ 2,982	
Hotai Leasing Co., Ltd.	Ho An Insurance Agency Co., Ltd. Etc.	-	"	-	\$ 2,982	0.50%	\$ 2,982	
Ho Tai Cyber Connection Co., Ltd	Beneficiary certificates	Not applicable	Financial assets at fair value through profit or loss - current	3,025,660	\$ 31,000	-	\$ 31,404	
	- Franklin Templeton Sinoam Money Market Fund		Financial assets at fair value through profit or loss - current		404		-	
			Valuation adjustment of financial assets		\$ 31,404		\$ 31,404	
			Total		\$ 31,404		\$ 31,404	

Securities held by	Type and name of securities	Relationship with the securities issuer	General ledger account	As of December 31, 2019				Footnote
				Number of shares	Book value	Ownership (%)	Fair value	
Hotai Innovation marketing corporation	Beneficiary certificates - Franklin Templeton Sinoam Money Market Fund	Not applicable	Financial assets at fair value through profit or loss - non-current	4,827,821	\$ 50,000	-	\$ 50,108	
			Valuation adjustment of financial assets		108		-	
			Total		\$ 50,108		\$ 50,108	
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	-	\$ 22,939	10.48%	\$ 22,939	

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  
Year ended December 31, 2019

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

Table 4

Investor	Marketable securities	General ledger account	Counterparty	Relationship with the investor	Balance as at January 1, 2019		Addition		Disposal			Balance as at December 31, 2019		
					Number of shares	Amount	Number of shares	Amount	Number of shares	Selling price	Book value	Gain (loss) on disposal	Number of shares	Amount
Ho Tai Development Co., Ltd.	President Securities Corp.-PGNW0085	Financial assets at fair value through profit or loss - current	Not applicable	Not applicable	-	\$ 95,943	-	\$ 728,331	-	\$ 636,073	\$ 633,731	\$ 2,342	-	\$ 190,543
Hoan Investment Co., Ltd.	Franklin Templeton Sinoam Money Market Fund	Financial assets at fair value through profit or loss - current	Not applicable	Not applicable	10,886,345	\$ 112,140	32,290,447	\$ 335,000	13,784,868	\$ 142,724	\$ 142,140	\$ 584	29,391,924	\$ 305,000
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	\$ 357,000
Ho Tai Motor Co., Ltd.	Shanghai Ho-Yu (BVI) Investment Co., Ltd.	Investments accounted for using equity method	Shanghai Ho-Yu (BVI) Investment Co., Ltd.	Subsidiary	-	\$ -	-	\$ -	-	\$ -	\$ -	\$ -	-	\$ -

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

Ho Tai Motor Co., Ltd.  
Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more  
Year ended December 31, 2019  
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Table 5

Real estate acquired by	Real estate acquired	Date of the event	Transaction amount	Status of payment	Counterparty	Relationship with the counterparty	Prior transaction of related counterparty				Basis or reference used in setting the price	Reason for acquisition of real estate and status of the real estate	Other commitments
							Owner	Relationship	Transfer date	Amount			
Ho Tai Service & Marketing Co., Ltd.	No. 24, 34 and 34-1, Peipo Section, Tucheng Dist., New Taipei City	2019.8.2	\$540,000	\$540,000	Three Shine Trading Co., Ltd.	The third party	-	-	-	-	Evaluated by professional appraisal institute and active market price	Operation purpose	None

Note 1: The appraisal result should be presented in the 'Basis or reference used in setting the price' column if the real estate acquired should be appraised

Note 2: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT\$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

Note 3: Date of the event referred to herein is the date of contract signing, date of payment, date of execution of a trading order, date of title transfer, date of board resolution, or other date that can confirm the counterparty and the monetary amount of the transaction, whichever is earlier.

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  
Year ended December 31, 2019  
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Table 6

Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)		Percentage of total purchases (sales)	Transaction	Differences in transaction terms		Notes/accounts receivable (payable)		Footnote
			Sales	Amount			Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
Ho Tai Motor Co., Ltd.	Central Motor Co., Ltd.	Associates	Sales	\$ 24,687,620	20%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	Normal	Normal	\$ 448,873	20%	
Ho Tai Motor Co., Ltd.	Tau Miau Motor Co., Ltd.	"	"	22,529,225	18%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	340,243	15%	
Ho Tai Motor Co., Ltd.	Kuotu Motor Co., Ltd.	"	"	19,528,719	16%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	255,694	12%	
Ho Tai Motor Co., Ltd.	Taipei Toyota Motor Co., Ltd.	"	"	18,390,880	15%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	324,251	15%	
Ho Tai Motor Co., Ltd.	Kau Du Automobile Co., Ltd.	"	"	16,496,040	13%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	264,540	12%	
Ho Tai Motor Co., Ltd.	Nan Du Motor Co., Ltd.	"	"	14,464,154	12%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	248,266	11%	
Ho Tai Motor Co., Ltd.	Chang Yuan Motor Co., Ltd.	Subsidiary	"	2,663,928	2%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	Not applicable	"	181,879	8%	
Ho Tai Motor Co., Ltd.	Lang Yang Toyota Motor Co., Ltd.	Associates	"	2,576,511	2%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	Normal	"	36,973	2%	
Ho Tai Motor Co., Ltd.	Eastern Motor Co., Ltd.	Subsidiary	"	2,187,417	2%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	41,472	2%	
Ho Tai Motor Co., Ltd.	Hotai Leasing Co., Ltd.	"	"	1,015,101	1%	Collection at sight	"	"	51,183	2%	
Ho Tai Motor Co., Ltd.	Hoing Mobility Service Corporation	"	"	512,354	-	Collection at sight	"	"	-	-	
Ho Tai Motor Co., Ltd.	Carmax Co., Ltd.	"	"	124,227	-	Collection at sight	"	"	12,919	1%	
Ho Tai Motor Co., Ltd.	Toyota Motor Corporation	Entity controlled by the Company's key management	Purchases	50,513,418	43%	Closes its accounts 15 days after the end of each month	Not applicable	"	( 4,786,371)	58%	
Ho Tai Motor Co., Ltd.	Kuozui Motors, Ltd.	Associates	"	32,390,170	28%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	( 1,137,609)	14%	
Ho Tai Motor Co., Ltd.	Toyota Motor Asia Pacific Pte Ltd.	Entity controlled by the Company's key management	"	3,104,647	3%	Closes its accounts 15 days after the end of each month	"	"	( 254,522)	3%	
Ho Tai Motor Co., Ltd.	Carmax Co., Ltd.	Subsidiary	"	2,139,978	2%	Closes its accounts 16 days after the end of each month	"	"	( 250,172)	3%	
Ho Tai Motor Co., Ltd.	Toyota Motor Europe - NV/SA	Entity controlled by the Company's key management	"	1,951,519	2%	Closes its accounts 15 days after the end of each month	"	"	( 41,134)	-	
Ho Tai Motor Co., Ltd.	Yokohama Tire Taiwan Co., Ltd.	Associates	"	828,352	1%	Closes its accounts 16 days after the end of each month	"	"	( 93,426)	1%	
Ho Tai Motor Co., Ltd.	Hino Motors, Ltd.	Entity controlled by the Company's key management	"	313,764	-	Closes its accounts 15 days after the end of each month	"	"	( 1,263)	-	
Ho Tai Motor Co., Ltd.	Toyota Motor Sales-USA	"	"	152,573	-	Closes its accounts 15 days after the end of each month	"	"	-	-	
Chang Yuan Motor Co., Ltd.	Hozao Enterprise Co., Ltd.	Associates	Sales	640,044	4%	14 days after invoice date	Normal	"	31,054	2%	
Chang Yuan Motor Co., Ltd.	Hotai Leasing Co., Ltd.	"	"	484,796	3%	Collection at sight	"	"	-	-	
Chang Yuan Motor Co., Ltd.	Lang Yang Toyota Motor Co., Ltd.	"	"	213,172	1%	7 days after invoice date	"	"	11,991	1%	
Chang Yuan Motor Co., Ltd.	Kuozui Motors, Ltd.	"	"	10,235,502	73%	7 days after invoice date	Not applicable	Not applicable	( 54,301)	13%	
Chang Yuan Motor Co., Ltd.	Ho Tai Motor Co., Ltd.	Ultimate parent company	"	2,663,928	19%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	( 181,879)	42%	
Carmax Co., Ltd.	Ho Tai Motor Co., Ltd.	"	"	2,139,978	32%	Closes its accounts 16 days after the end of each month	Normal	Normal	250,172	22%	
Carmax Co., Ltd.	Kuozui Motors, Ltd.	Associates	"	612,671	9%	Closes its accounts 10 days after the end of each month	"	"	144,901	13%	
Carmax Co., Ltd.	Zhongyang Motor Co., Ltd.	"	"	553,305	8%	Closes its accounts 35 days after the end of each month	"	"	126,401	11%	
Carmax Co., Ltd.	Wang Fu Co., Ltd.	"	"	499,035	8%	Closes its accounts 35 days after the end of each month	"	"	102,875	9%	
Carmax Co., Ltd.	Innovation AUTO Parts Co., Ltd.	"	"	443,681	7%	Closes its accounts 25 days after the end of each month	"	"	76,721	7%	
Carmax Co., Ltd.	Nan I Motor Co., Ltd.	"	"	340,014	5%	Closes its accounts 40 days after the end of each month	"	"	77,135	7%	
Carmax Co., Ltd.	Chang Guan Logistics Co., Ltd.	"	"	290,584	4%	Closes its accounts 40 days after the end of each month	"	"	64,797	6%	
Carmax Co., Ltd.	Tung Yu Motor Co., Ltd.	"	"	245,099	4%	Closes its accounts 40 days after the end of each month	"	"	62,141	6%	
Carmax Co., Ltd.	Toyota South Africa Motors (Pty) Ltd.	Entity controlled by the Company's key management	"	147,392	2%	Closes its accounts 15 days after the end of each month	"	"	246	-	
Carmax Co., Ltd.	Smart Design Technology Co., Ltd.	Subsidiary	Purchases	473,711	9%	Closes its accounts 10 days after the end of each month	"	"	( 64,276)	9%	
Carmax Co., Ltd.	Ho Tai Motor Co., Ltd.	Ultimate parent company	"	124,227	2%	Closes its accounts 10 days after the end of each month	"	"	( 12,919)	2%	
Hotai Finance Co., Ltd.	Central Motor Co., Ltd.	Associates	"	5,954,803	12%	Payment at sight	"	"	( 25,690)	5%	Note 1
Hotai Finance Co., Ltd.	Kuotu Motor Co., Ltd.	"	"	5,443,416	11%	Payment at sight	"	"	( 113,940)	20%	"
Hotai Finance Co., Ltd.	Kau Du Automobile Co., Ltd.	"	"	5,252,153	11%	Payment at sight	"	"	( 117,372)	21%	"
Hotai Finance Co., Ltd.	Tau Miau Motor Co., Ltd.	"	"	4,870,355	10%	Payment at sight	"	"	( 550)	-	"
Hotai Finance Co., Ltd.	Nan Du Motor Co., Ltd.	"	"	4,035,189	8%	Payment at sight	"	"	( 21,380)	4%	"
Hotai Finance Co., Ltd.	Taipei Toyota Motor Co., Ltd.	"	"	4,476,212	9%	Payment at sight	"	"	( 122,580)	22%	"
Hotai Finance Co., Ltd.	Lang Yang Toyota Motor Co., Ltd.	"	"	647,094	1%	Payment at sight	"	"	( 2,600)	-	"



		Transaction		Differences in transaction terms		Notes/accounts receivable (payable)					
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote
Hotai Finance Co., Ltd.	Eastern Motor Co., Ltd.	Associates	Purchases	646,339	1%	Payment at sight	Normal	Normal	( 3,620)	1%	Note 1
Hotai Leasing Co., Ltd.	Hoing Mobility Service Corporation	Subsidiary	Sales	1,513,927	24%	Collection at sight	"	"	14,976	1%	Note 2
Hotai Leasing Co., Ltd.	Central Motor Co., Ltd.	Associates	Purchases	2,465,817	18%	Payment at sight	"	"	( 10,223)	9%	"
Hotai Leasing Co., Ltd.	Taipei Toyota Motor Co., Ltd.	"	"	1,059,314	8%	Payment at sight	"	"	-	-	"
Hotai Leasing Co., Ltd.	Ho Tai Motor Co., Ltd.	Ultimate parent company	"	1,015,101	7%	Payment at sight	"	"	( 51,183)	43%	"
Hotai Leasing Co., Ltd.	Central Motor Co., Ltd.	Associates	"	896,924	7%	Payment at sight	"	"	-	-	"
Hotai Leasing Co., Ltd.	Tau Miau Motor Co., Ltd.	"	"	811,856	6%	Payment at sight	"	"	-	-	"
Hotai Leasing Co., Ltd.	Kau Du Automobile Co., Ltd.	"	"	641,482	5%	Payment at sight	"	"	-	-	"
Hotai Leasing Co., Ltd.	Chang Yuan Motor Co., Ltd.	"	"	484,796	4%	Payment at sight	"	"	-	-	"
Hotai Leasing Co., Ltd.	Nan Du Motor Co., Ltd.	"	"	467,180	3%	Payment at sight	"	"	( 3,026)	3%	"
Hotai Leasing Co., Ltd.	Lang Yang Toyota Motor Co., Ltd.	"	"	122,340	1%	Payment at sight	"	"	-	-	"
Hoing Mobility Service Corporation	Hotai Leasing Co., Ltd.	Parent company	"	1,513,927	53%	Payment at sight	"	"	( 14,976)	39%	"
Hoing Mobility Service Corporation	Ho Tai Motor Co., Ltd.	Ultimate parent company	"	512,354	18%	Payment at sight	"	"	-	-	"
Eastern Motor Co., Ltd.	Ho Tai Motor Co., Ltd.	"	"	2,187,417	89%	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	"	"	( 41,472)	89%	"
Eastern Motor Co., Ltd.	Hotai Finance Co., Ltd.	Associates	Sales	646,339	24%	Collection at sight	"	"	3,620	7%	"
Toyota Material Handling Taiwan Ltd.	Toyota Industries Corporation	Entity controlled by the Company's key management	Purchases	285,749	43%	Closes its accounts 15 days after the end of each month	Not applicable	"	( 4,409)	7%	"
Smart Design Technology Co., Ltd.	Carmax Co., Ltd.	Parent company	Sales	473,711	97%	Closes its accounts 10 days after the end of each month	Normal	"	64,276	92%	"
Ho Tai Development Co., Ltd.	Ho Tai Service & Marketing Co., Ltd.	Subsidiary	Purchases	192,332	2%	Closes its accounts 60 days after the end of each month	"	"	( 35,425)	12%	"
Ho Tai Service & Marketing Co., Ltd.	Ho Tai Development Co., Ltd.	Parent company	Sales	192,332	34%	Closes its accounts 60 days after the end of each month	"	"	35,425	67%	"
Shanghai Heling Motor Service Co., Ltd.	Toyota Motor (China) Investment Co., Ltd.	Entity controlled by the Company's key management	Purchases	3,141,820	90%	Payment in advance	"	"	-	-	"
Chongqing Heling Lexus Motor Sales & Service Co., Ltd.	Toyota Motor (China) Investment Co., Ltd.	"	"	2,205,456	90%	Payment in advance	"	"	-	-	"
Nanchang Heling Lexus Motors Sales & Service Co., Ltd.	Toyota Motor (China) Investment Co., Ltd.	"	"	2,141,363	97%	Payment in advance	"	"	-	-	"
Shanghai Yangpu Heling Lexus Motor Sale & Service Co., Ltd.	Toyota Motor (China) Investment Co., Ltd.	"	"	2,091,864	98%	Payment in advance	"	"	-	-	"
Tangshan Heling Lexus Motor Sales & Service Co., Ltd.	Toyota Motor (China) Investment Co., Ltd.	"	"	1,467,123	100%	Payment in advance	"	"	-	-	"
Tianjin Heling Lexus Motor Sales & Service Co., Ltd.	Toyota Motor (China) Investment Co., Ltd.	"	"	1,519,248	100%	Payment in advance	"	"	-	-	"
Tianjin Hozhan Motor Service Co., Ltd.	Toyota Motor (China) Investment Co., Ltd.	"	"	117,196	11%	Payment in advance	"	"	-	-	"
Carmax Autotech (Shanghai) Co., Ltd.	Hotong Motor Investment Co., Ltd.	Associates	Sales	136,392	51%	Closes its accounts 30 days after the end of each month	"	"	14,745	31%	"
Hotong Motor Investment Co., Ltd.	Carmax Autotech (Shanghai) Co., Ltd.	"	Purchases	136,392	89%	Closes its accounts 30 days after the end of each month	"	"	( 14,745)	2%	"

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

Note2: Hotai Leasing Co., Ltd. and Hoing Mobility Service Corporation purchase vehicles for renting services, the related assets are reported under property, plant, and equipment.

Ho Tai Motor Co., Ltd.  
Receivables from related parties reaching \$100 million or 20% of paid-in capital or more  
December 31, 2019  
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Table 7

Creditor	Counterparty	Relationship with the counterparty	Balance as at		Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
			December 31, 2019			Amount	Action taken		
Ho Tai Motor Co., Ltd.	Central Motor Co., Ltd.	Associates	Accounts receivable	\$ 448,873	55.60	-	-	448,873	-
			Other receivables	\$ 13,314		-	-	13,314	-
Ho Tai Motor Co., Ltd.	Tau Miao Motor Co., Ltd.	"	Accounts receivable	\$ 340,243	64.72	-	-	340,243	-
			Other receivables	\$ 12,082		-	-	12,082	-
Ho Tai Motor Co., Ltd.	Chang Yuan Motor Co., Ltd.	Subsidiary	Accounts receivable	\$ 181,879	12.25	-	-	181,879	-
			Other receivables	\$ 18,917		-	-	18,917	-
Ho Tai Motor Co., Ltd.	Taipei Toyota Motor Co., Ltd.	Associates	Accounts receivable	\$ 324,251	54.50	-	-	324,251	-
			Other receivables	\$ 7,702		-	-	7,702	-
Ho Tai Motor Co., Ltd.	Kau Du Automobile Co., Ltd.	"	Accounts receivable	\$ 264,540	59.11	-	-	264,540	-
			Other receivables	\$ 9,689		-	-	9,689	-
Ho Tai Motor Co., Ltd.	Kuotu Motor Co., Ltd.	"	Accounts receivable	\$ 255,694	52.43	-	-	255,694	-
			Other receivables	\$ 35,799		-	-	35,799	-
Ho Tai Motor Co., Ltd.	Nan Du Motor Co., Ltd.	"	Accounts receivable	\$ 248,266	57.90	-	-	248,266	-
			Other receivables	\$ 9,297		-	-	9,297	-
Carmax Co., Ltd.	Ho Tai Motor Co., Ltd.	Ultimate parent company	Accounts receivable	\$ 250,172	7.87	-	-	250,172	-
Carmax Co., Ltd.	Kuozui Motors, Ltd.	Associates	"	\$ 144,901	6.06	-	-	144,901	-
Carmax Co., Ltd.	Wang Fu Co., Ltd.	"	"	\$ 102,875	4.61	-	-	102,875	-
Carmax Co., Ltd.	Zhongyang Motor Co., Ltd.	"	"	\$ 126,401	4.44	-	-	126,401	-

Ho Tai Motor Co., Ltd.  
Significant inter-company transactions during the reporting periods  
Year ended December 31, 2019  
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Table 8

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of total operating revenues or total assets
				General ledger account	Amount	Transaction terms	
0	Ho Tai Motor Co., Ltd.	Chang Yuan Motor Co., Ltd.	1	Sales revenue	\$ 2,663,928	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	1%
0	Ho Tai Motor Co., Ltd.	Chang Yuan Motor Co., Ltd.	1	Service revenue	1,419,432	Closes its accounts 16 days after the end of following two months	1%
0	Ho Tai Motor Co., Ltd.	Chang Yuan Motor Co., Ltd.	1	Compensation expense	154,810		-
0	Ho Tai Motor Co., Ltd.	Chang Yuan Motor Co., Ltd.	1	Accounts receivable	181,879	Closes its accounts 7 days after the end of each week, interest bearing from transaction date	-
0	Ho Tai Motor Co., Ltd.	Chang Yuan Motor Co., Ltd.	1	Other income	123,650		-
0	Ho Tai Motor Co., Ltd.	Chang Yuan Motor Co., Ltd.	1	Rental income	71,283		-
0	Ho Tai Motor Co., Ltd.	Eastern Motor Co., Ltd.	1	Sales revenue	2,187,417	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	41,472	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	250,172	Closes its accounts 16 days after the end of each month	-
0	Ho Tai Motor Co., Ltd.	Carmax Co., Ltd.	1	Sales revenue	124,227	Collection at sign	-
0	Ho Tai Motor Co., Ltd.	Hotai Leasing Co., Ltd.	1	Sales revenue	1,015,101	Collection at sight	-
0	Ho Tai Motor Co., Ltd.	Hotai Leasing Co., Ltd.	1	Accounts receivable	51,183		-
0	Ho Tai Motor Co., Ltd.	Hoing Mobility Service Co., Ltd.	1	Sales revenue	512,354	Collection at sight	-
0	Ho Tai Motor Co., Ltd.	Hotai Finance Co., Ltd.	1	Sales discounts and allowances	179,777	Closes its accounts 16 days after the end of each month	-
1	Chang Yuan Motor Co., Ltd.	Eastern Motor Co., Ltd.	3	Sales revenue	92,868		-
1	Chang Yuan Motor Co., Ltd.	Hotai Leasing Co., Ltd.	3	Sales revenue	484,796	Collection at sight	-
1	Chang Yuan Motor Co., Ltd.	Hotai Finance Co., Ltd.	3	Sales revenue	31,250		-
2	Eastern Motor Co., Ltd.	Hotai Leasing Co., Ltd.	3	Sales revenue	56,697	Collection at sight	-
2	Eastern Motor Co., Ltd.	Hotai Finance Co., Ltd.	3	Sales revenue	646,339	Collection at sight	-
3	Carmax Co., Ltd.	Doroman Autoparts Co., Ltd.	3	Sales revenue	44,763		-
3	Carmax Co., Ltd.	Ho Tai Motor Co., Ltd.	2	Sales revenue	2,139,978	Closes its accounts 16 days after the end of each month	1%
3	Carmax Co., Ltd.	Chang Yuan Motor Co., Ltd.	3	Sales revenue	30,772		-

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of total operating revenues or total assets
				General ledger account	Amount	Transaction terms	
4	Carmax Autotech (Shanghai) Co., Ltd.	Hotong Motor Investment Co., Ltd.	3	Sales revenue	136,392	Closes its accounts 30 days after the end of each month	-
4	Carmax Autotech (Shanghai) Co., Ltd.	Carmax Co., Ltd.	3	Sales revenue	42,139		-
5	Smart Design Technology Co., Ltd.	Carmax Co., Ltd.	3	Sales revenue	473,711	Closes its accounts 10 days after the end of each month	-
5	Smart Design Technology Co., Ltd.	Carmax Co., Ltd.	3	Accounts receivable	64,276	Closes its accounts 10 days after the end of each month	-
6	Hotai Leasing Co., Ltd.	Hoing Mobility Service Co., Ltd.	3	Internal - rental income	62,675		-
6	Hotai Leasing Co., Ltd.	Hoing Mobility Service Co., Ltd.	3	Sales revenue	1,513,927	Collection at sight	-
7	Hotong Motor Investment Co., Ltd.	Tangshan Heling Lexus Motor Sales & Service Co., Ltd.	3	Sales revenue	31,616		-
7	Hotong Motor Investment Co., Ltd.	Tangshan Heling Lexus Motor Sales & Service Co., Ltd.	3	Other payables	114,201		-
7	Hotong Motor Investment Co., Ltd.	Chongqing Heling Lexus Motor Sales & Service Co., Ltd.	3	Sales revenue	44,936		-
7	Hotong Motor Investment Co., Ltd.	Chongqing Heling Lexus Motor Sales & Service Co., Ltd.	3	Other payables	191,480		-
7	Hotong Motor Investment Co., Ltd.	Tianjin Hozhan Motor Service Co., Ltd.	3	Other payables	85,866		-
7	Hotong Motor Investment Co., Ltd.	Tianjin Heling Lexus Motor Sales & Service Co., Ltd.	3	Other payables	117,207		-
7	Hotong Motor Investment Co., Ltd.	Shanghai Heling Lexus Motor Sales & Service Co., Ltd.	3	Sales revenue	76,769		-
7	Hotong Motor Investment Co., Ltd.	Shanghai Heling Lexus Motor Sales & Service Co., Ltd.	3	Other payables	72,986		-
7	Hotong Motor Investment Co., Ltd.	Shanghai Yangpu Heling Lexus Motor Sales & Service Co., Ltd.	3	Sales revenue	39,137		-
7	Hotong Motor Investment Co., Ltd.	Shanghai Yangpu Heling Lexus Motor Sales & Service Co., Ltd.	3	Other payables	111,196		-
7	Hotong Motor Investment Co., Ltd.	Nanchang Heling Lexus Motors Sales & Service Co., Ltd.	3	Sales revenue	37,070		-
7	Hotong Motor Investment Co., Ltd.	Nanchang Heling Lexus Motors Sales & Service Co., Ltd.	3	Other payables	130,086		-
7	Hotong Motor Investment Co., Ltd.	Shanghai Hozhan Motor Service Co., Ltd.	3	Sales revenue	32,606		-
7	Hotong Motor Investment Co., Ltd.	Shanghai Hozhan Motor Service Co., Ltd.	3	Other receivables	75,304		-
7	Hotong Motor Investment Co., Ltd.	Zaozhuang Ho-Yu Toyota Motor Sales & Service Co., Ltd.	3	Other payables	37,352		-
7	Hotong Motor Investment Co., Ltd.	Shanghai Ho-Qian Logistics Equipment Trading Co., Ltd.	3	Other payables	51,949		-
8	Ho Tai Service & Marketing Co., Ltd.	Ho Tai Development Co., Ltd.	3	Sales revenue	192,332	Closes its accounts 60 days after the end of each month	-
8	Ho Tai Service & Marketing Co., Ltd.	Ho Tai Development Co., Ltd.	3	Accounts receivable	35,425	Closes its accounts 60 days after the end of each month	-
9	Hotai Insurance Co., Ltd	Hotai Leasing Co., Ltd.	3	Insurance premium	135,497		-

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

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

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

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

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

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

Ho Tai Motor Co., Ltd.

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

Year ended December 31, 2019

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

Table 9

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2019			Net profit (loss) of the investee for the year ended December 31, 2019	Investment income (loss) recognized by the Company for the year ended December 31, 2019	Footnote
				Balance at December 31, 2019	Balance as at December 31, 2018	Number of shares	Ownership (%)	Book value			
Ho Tai Motor Co., Ltd.	Hozan Investment Co., Ltd.	Taiwan	General investment	\$ 7,780,182	\$ 7,780,182	-	100.00	\$ 20,714,779	\$ 2,199,949	\$ 2,199,949	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	4,315,317	812,159	243,292	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	2,380,333	1,765,743	79,397,360	100.00	5,834,220	877,941	877,941	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	4,150,614	411,819	411,819	"
Ho Tai Motor Co., Ltd.	Central Motor Co., Ltd.	"	"	2,098,966	2,098,966	15,000,000	20.00	2,528,177	754,811	147,888	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	2,616,032	675,638	303,730	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	1,501,798	547,498	104,826	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	1,361,522	333,425	60,482	"
Ho Tai Motor Co., Ltd.	Carmax Co., Ltd.	"	Trading of vehicle products/accessories	153,030	153,030	22,950,000	51.00	1,284,584	854,804	435,950	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	1,078,674	409,127	142,417	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	1,124,145	597,525	119,804	"
Ho Tai Motor Co., Ltd.	Nan Du Motor Co., Ltd.	"	"	186,851	186,851	14,806,073	23.67	1,009,110	512,590	121,330	"
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	977,506	134,711	134,711	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	378,068	20,071	20,071	"
Ho Tai Motor Co., Ltd.	Lang Yang Toyota Motor Co., Ltd.	"	"	256,000	256,000	2,000,000	20.00	293,845	78,797	15,077	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	357,798	5,614	2,512	"
Ho Tai Motor Co., Ltd.	Shi-Ho Screw Industrial Co., Ltd.	"	Manufacturing and sales of precision screws	7,400	7,400	211,433	21.14	124,467	29,346	6,204	"
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	111,996	96,599	24,150	"
Ho Tai Motor Co., Ltd.	Smart Design Technology Co., Ltd.	"	Electronic parts and components manufacturing	10,763	10,763	960,961	20.00	16,636	21,772	4,354	Subsidiary
Shanghai Ho-Yu (BVI) Investment Co., Ltd.	Tienjin Ho Yu Investment Co., Ltd.	British Virgin Islands	General investment	104,930	104,930	3,500,000	70.00	125,552	22,676	-	An indirect wholly-owned subsidiary

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2019			Net profit (loss) of the investee for the year ended December 31, 2019	Investment income (loss) recognized by the Company for the year ended December 31, 2019	Footnote
				Balance at December 31, 2019	Balance as at December 31, 2018	Number of shares	Ownership (%)	Book value			
Shanghai Ho-Yu (BVI) Investment Co., Ltd.	Beijing Ho-Yu (BVI) Investment Co., Ltd.	British Virgin Islands	General investment	35,976	35,976	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	9,313,192	2,235,585	-	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	2,528,492	651,102	-	"
Hozan Investment Co., Ltd.	Hozao Enterprise Co., Ltd.	"	Installment trading of various vehicles	34,756	34,756	3,823,128	18.29	330,318	74,569	-	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	109	409,127	-	"
Hozan Investment Co., Ltd.	Hotai Insurance Co., Ltd.	"	Property and casualty insurance services	6,831,887	6,831,887	19,960,531	99.80	7,423,832	327,478	-	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	335,909	139,623	-	Subsidiary's investee company accounted for using the equity method
Hozan Investment Co., Ltd.	Ho Tai Cyber Connection Co., Ltd.	"	E-commerce platform services of used vehicles	230,000	230,000	23,000,000	100.00	31,196 (	100,381)	-	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	116,079	106,247	-	"
Hotai Finance Co., Ltd.	Hoyun International Limited	British Virgin Islands	General investment	1,211,192	1,211,192	40,400,000	50.50	1,657,052	283,157	-	"
Hotai Leasing Co., Ltd.	Hoyun International Limited	"	"	1,187,208	1,187,208	39,600,000	49.50	1,623,400	283,157	-	"
Hotai Leasing Co., Ltd.	Hoing Mobility Service Co., Ltd.	Taiwan	Leasing of vehicles	300,000	300,000	30,000,000	100.00	274,393	536	-	"
Ho Tai Development Co., Ltd.	Ichiban International Co., Ltd.	Samoa	General investment	89,940	89,940	3,000,000	100.00	104,779 (	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	106,929	-	"
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	9,309	-	"
Ho Tai Service & Marketing Co., Ltd.	Kashiwabara Hotai Taiwan Co., Ltd.	"	"	8,820	8,820	882,000	24.50	11,101	9,309	-	An indirect wholly-owned subsidiary
Carmax Co., Ltd.	Smart Design Technology Co., Ltd.	"	Electronic parts and components manufacturing	33,242	33,242	2,968,016	61.77	51,201	21,772	-	Subsidiary
Eastern Motor Co., Ltd.	Doroman Autoparts Co., Ltd.	"	Wholesale and retail of vehicles parts and accessories	500	500	138,718	100.00	16,837	10,754	-	An indirect wholly-owned subsidiary
Ichiban International Co., Ltd.	Air Master International Co., Ltd.	Samoa	General investment	89,940	89,940	3,000,000	100.00	104,745 (	8,356)	-	"

Ho Tai Motor Co., Ltd.  
Information on investments in Mainland China-Basic information  
Year ended December 31, 2019  
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Table 10

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2019			Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2019	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019	Net income of investee for the year ended December 31, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the year ended December 31, 2019	Book value of investment in Mainland China as of December 31, 2019	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2019	Footnote
				Remitted to Mainland China	Remitted back to Taiwan									
Hotong Motor Investment Co., Ltd.	Operation decision making, capital using and financial management, information services, employee trainings and other services	2,954,379	Note 2	343,271	614,590	-	957,861	897,404	100.00	897,404	5,673,713	-	Note 2.1	
Shanghai Hoyu Motor Service Co., Ltd.	Sales and repairing of vehicles	101,033	"	101,033	-	-	101,033	99,600	100.00	99,600	289,942	-	"	
ChongQing Yuou Toyota Automobile Sales & Service Co., Ltd.	"	128,799	"	11,018	-	-	11,018	-	10.48	-	11,018	-	Note 2.2	
Beijing Hoyu Toyota Motor Sales & Service Co., Ltd.	"	89,940	"	29,980	-	-	29,980	-	40.00	-	-	-	"	
Chongqing Heling Lexus Motor Sales & Service Co., Ltd.	"	179,880	"	179,880	-	-	179,880	117,345	100.00	117,345	392,874	-	Note 2.1	
Shanghai Hozhan Motor Service Co., Ltd.	"	89,940	"	89,940	-	-	89,940	47,315	100.00	47,315	165,023	-	"	
Tianjin Ho-Yu Motor Sales & Service Co., Ltd.	"	149,900	"	104,930	-	-	104,930	22,676	70.00	15,873	125,552	-	"	
Shanghai Heling Motor Service Co., Ltd.	"	104,930	Note 3	78,698	-	-	78,698	321,036	100.00	321,036	609,951	-	"	
ChongQing Yurun Toyota Automobile Service Co., Ltd.	"	128,799	Note 2	11,805	-	-	11,805	-	10.48	-	11,805	26,106	Note 2.2	
Shanghai Ho-Qian Logistics Equipment Trading Co., Ltd.	Sales of vehicles and parts for industry use	179,880	"	179,880	-	-	179,880	9,016	100.00	9,016	152,863	-	Note 2.1	
Zaozhuang Ho-Yu Toyota Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	409,227	"	278,814	-	-	278,814	4,486	100.00	4,486	210,222	-	"	
Zaozhong Ho-Wan Motor Sales & Service Co., Ltd.	"	42,933	Note 3	-	-	-	( 351)	351	100.00	( 351)	42,382	-	"	
Tangshan Heling Lexus Motor Sales & Service Co., Ltd.	"	173,884	Note 2	173,884	-	-	173,884	101,070	100.00	101,070	311,690	-	"	
Nanchang Heling Lexus Motors Sales & Service Co., Ltd.	"	194,870	"	194,870	-	-	194,870	131,465	100.00	131,465	340,740	-	"	
Hoyun International Lease Co., Ltd.	Leasing, wholesale, retail of and support service for vehicles	2,398,400	"	2,398,400	-	-	2,398,400	283,157	55.61	157,471	1,824,262	-	"	
Hoyun (Shanghai) Commercial Factoring Co., Ltd.	Factoring services	214,665	Note 3	-	-	-	-	3,830	55.61	2,130	133,464	-	"	
He Zhan Development Co., Ltd.	Trading of air conditioning equipment	89,940	Note 2	89,940	-	-	89,940	( 8,356)	45.01	( 3,761)	47,144	-	Note 2.2	
Tianjin Heling Lexus Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	359,760	Note 3	-	-	-	-	86,145	100.00	86,145	408,518	-	Note 2.1	
Tianjin Hozhan Motor Service Co., Ltd.	"	294,520	"	-	-	-	-	26,948	100.00	26,948	272,257	-	"	
Linyi Hoyu Toyota Motor Sales & Service Co., Ltd.	"	359,760	"	-	-	-	( 1,214)	1,214	35.00	( 425)	58,284	-	Note 2.2	
Carmax Autotech (Shanghai) Co., Ltd.	Trading of vehicle products/accessories	39,873	Note 1	39,873	-	-	39,873	36,338	51.00	18,532	107,286	-	"	
Guangzhou Gac Changho Autotech Corporation	"	95,736	"	43,081	-	-	43,081	107,570	22.95	24,687	49,305	91,074	"	
Linyi Heling Lexus Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	299,800	Note 3	-	-	-	-	35,929	35.00	12,575	89,251	-	"	



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 year ended December 31, 2019			Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2019	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019	Net income of investee for the year ended December 31, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the year ended December 31, 2019	Book value of investment in Mainland China as of December 31, 2019	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2019	Footnote
				Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2019										
				Remitted to Mainland China	Remitted back to Taiwan									
Taizhou Zhongdu Lexus Motor Sales & Service Co.,Ltd.	Sales and repairing of vehicles	449,700	Note 3	-	-	-	-	44,084	35.00	15,429	152,301	-	Note 2.3	
Beijing Heling Lexus Motor Sales & Service Co., Ltd.	"	359,760	"	-	-	-	-	91,341	35.00	31,969	149,964	-	Note 2.2	
Jinzhong Central Toyota Motor Sales & Service Co., Ltd.	"	419,720	"	-	-	-	(	27,496)	35.00	( 9,624)	59,845	-	Note 2.3	
Shanghai Hede Used Vehicle Co., Ltd.	Trading of used vehicles	12,880	"	-	-	-	-	11,364	60.00	6,818	22,106	-	Note 2.1	
Shanghai Guangxin Cultural Media Co., Ltd.	Design and production of advertisements	4,293	"	-	-	-	-	1,795	100.00	1,795	8,782	-	"	
Shanghai Yangpu Heling Lexus Motor Sales & Service Co., Ltd.	Sales and repairing of vehicles	458,957	"	-	-	-	-	84,650	100.00	80,429	434,459	-	"	
Shanghai Ho-Mian Motor Technology Co., Ltd.	Trading of vehicle products/accessories and property management	987,459	"	-	-	-	(	6,043)	100.00	( 6,043)	974,614	-	"	
Shanghai Hoxin Motor Service Consulting Co.,Ltd.	Consulting service and property management	8,587	"	-	-	-	(	1,320)	100.00	( 1,320)	4,525	-	"	
Tianjin Heyi International Trading Co., Ltd.	Sales of imported vehicles	85,866	"	-	-	-	-	641	100.00	641	87,125	-	"	
Chongqing Taikang Heling Lexus Motor Sales & Service Co.,Ltd.	Sales and repairing of vehicles	42,933	"	-	-	-	(	4,991)	50.00	( 2,496)	18,533	-	"	
Shanghai HoChen Motor Technology Co., Ltd.	Trading of vehicle products/accessories and property management	299,800	"	-	-	-	(	1,360)	100.00	( 1,360)	300,558	-	Note 2.1	
Shanghai Jiading Heling Lexus Motor Service Co., Ltd.	Sales and repairing of vehicles	314,790	"	-	-	-	-	-	100.00	-	314,790	-	Note 2.1	
Tianjin Binhai Heling LEXUS Motor Service Co.,Ltd.	Sales and repairing of vehicles	8,587	"	-	-	-	-	-	35.00	-	3,005	-	Note 2.2	

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 year ended December 31, 2019 is based on:

- (1) The financial statements were audited by R.O.C parent company's CPA.
- (2) The financial statements were audited by other independent accountants in PricewaterhouseCoopers, Taiwan.
- (3) Others.

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

Note 4: It was established in the second quarter of 2019. However, capital injection from Hotong Motor Investment Co., Ltd. has not been completed.

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
Ho Tai Motor Co., Ltd.	\$ 2,228,260	\$ 5,662,729	\$ 45,365,176